CHICOPEE BANCORP, INC.
Form 10-K
March 16, 2011

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, 2010
OR

o 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)

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

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 o NO x

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 o NO x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES x NO o

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. o

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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a 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 o NO x

On June 30, 2010, the aggregate market value of the voting and non-voting common equity held by non-affiliates was $75,078,009.

The number of shares of Common Stock outstanding as of March 3, 2011 was 5,979,878.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for our Annual Meeting of Stockholders, to be held on May 25, 2011, are incorporated by reference in Parts I and III of this Annual Report on Form 10-K.

INDEX

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 is a full-service, community oriented financial institution offering products and services to individuals and businesses through nine offices located in western Massachusetts. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") and Depositor's Insurance Fund ("DIF") of Massachusetts. The Bank is also a member of the Federal Home Loan Bank of Boston ("FHLB"). 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, residential investment, commercial real estate, commercial business, construction and development and consumer loans, including home equity lines of credit and automobile loans. The Bank also sells one- to four-family residential loans to the secondary market to reduce interest rate risk. 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 FHLB and proceeds from loan sales. The Bank also provides access to insurance and investment products through its Financial Services Division.

Available Information

The Company's website is 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

Chicopee Savings Bank is headquartered in Chicopee, Massachusetts. The Bank's primary lending and deposit market areas include Hampden and Hampshire Counties in Western Massachusetts. Chicopee is located at the "Crossroads of New England", the intersection of Interstate 91 and the Massachusetts Turnpike. Interstate 91 is the major north-south highway and Interstate 90 is the major east-west highway that crosses Massachusetts. The city is also bisected by several secondary highways, which include Routes 391, 116, 33 and 141. These roadways provide good access to major highways and centers of employment. Chicopee is located approximately 90 miles west of Boston, Massachusetts, 80 miles southeast of Albany, New York and 30 miles north of Hartford, Connecticut.

Chicopee is an urban community, which serves as the home of the Westover Air Force Base. Westover Air Force Base is the nation's largest Air Force Reserve Base and is a key part of the local economy. More than 2,700 military and civilian workers are assigned to Westover's 439th Military Airlift Wing. A diversified mix of industry groups also operate within Hampden and Hampshire County, including manufacturing, health care, higher education, whole sale retail trade and service. The economy of our primary market area has benefited from the presence of large employers such as Baystate Health, Big Y Supermarkets, University of Massachusetts, Mass Mutual Financial Group, Hasbro Games, Peter Pan Bus Lines, Friendly's Ice Cream Corporation, Sisters of Providence Health Systems, Westover Air Force Base, Smith & Wesson, Yankee Candle and Verizon. Other employment and economic activity is provided by financial institutions, nine other colleges and universities, eight other hospitals, and a variety of wholesale and retail trade business. Our market also enjoys a strong tourism business with attractions such as the Eastern States Exposition called the Big E, the largest fair in the northeast, the Basketball Hall of Fame and Six Flags New England.

Competition

We face significant competition in attracting deposits and 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 depositors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2010, which is the most recent date for which data is available from the FDIC, we held approximately 4.64% of the deposits in Hampden County, which was the 9th 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, New Alliance Bancshares, Inc., and TD Bank, 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 Company's loan portfolio totaled $433.8 million at December 31, 2010 compared to $427.8 million at December 31, 2009, representing 75.6% and 78.6% of total assets, respectively. In its lending activity, the Company originates residential real estate loans secured by one-to-four family residences, commercial real estate loans, residential and commercial construction loans, commercial and industrial loans, home equity lines-of-credit, fixed rate home equity loans and other consumer loans. The Company does not originate "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios). While the Company makes loans throughout Massachusetts, most of its lending activities are concentrated in Hampden and Hampshire counties. Loans originated totaled $156.4 million in fiscal year 2010 and $147.0 million in 2009, including residential mortgage loans sold to the secondary market of $18.2 million and $37.0 million, respectively. Servicing rights are retained on all loans originated and sold into the secondary market.

Residential Real Estate Loans. At December 31, 2010 and 2009, the residential real estate loan portfolio totaled $132.7 million and $139.9 million, or 30.6% and 32.7%, of the total loan portfolio with an average yield of 5.28% and 5.49%, respectively. This yield calculation includes residential construction loan balances and interest income. Residential real estate loans originated totaled $40.3 million in 2010 and $56.6 million in 2009, including loans sold to the secondary market. Of the residential real estate loans outstanding at December 31, 2010, $98.5 million were adjustable rate loans, or 74.2% of the total residential real estate loan portfolio. Total loans serviced for others as of December 31, 2010 and 2009 are $75.8 million and $71.4 million, respectively. Residential real estate loans 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 3.50 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 3.50 percentage points above the three- and five-year constant maturity Treasury index.

The largest owner-occupied residential real estate loan was $1.7 million and was performing according to its original terms as of December 31, 2010.

All adjustable-rate mortgage loans are underwritten taking the indexed rate into consideration at each adjustment period until the full cap is reached. A Mass Attorney General Important Disclosure (MA Chapter 93A-Determining Affordability of ARM Loans) is completed for each adjustable rate mortgage request, which calculates the overall debt to income based on the initial principal and interest payment along with real estate taxes, insurance, and other monthly payments due from the borrower and also includes the repricing of these payments at each adjustment up to the maximum caps allowed under the note. This process minimizes the risk of qualification at the time the loan reaches the maximum rate for that product.

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.

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. We offer mortgage loans through this program to qualified individuals and originate the loans using underwriting guidelines as set forth by MHFA.

Commercial Real Estate Loans. At December 31, 2010 and 2009, commercial real estate loans totaled $162.1 million and $147.3 million, or 37.4% and 34.4%, of the total loan portfolio with an average yield of 5.99% and 6.16%, respectively. This yield calculation includes commercial construction and residential investment loan balances and interest income. Our commercial real estate and residential investment loans are generally secured by apartment buildings and properties used for business purposes such as office buildings, industrial facilities and retail facilities. 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 residential investment 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 residential investment 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, 2010, our largest residential investment real estate loan was $634,000 and was secured by a rental property located in West Springfield, Massachusetts. At December 31, 2010, our largest commercial real estate loan was $4.9 million and was secured by an office building in Chicopee, Massachusetts. These loans were both performing according to their original terms at December 31, 2010.

At December 31, 2010, our exposure to commercial real estate and commercial business loan participations purchased and sold totaled $17.6 million and $12.2 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, 2010, we had 13 land loans totaling $1.9 million.

Construction Loans. At December 31, 2010 and 2009, the Company had $33.1 million and $38.3 million of construction loans outstanding, representing 7.6% and 9.0% of the total loan portfolio, respectively. 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 to 36 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, 2010, our largest outstanding residential construction loan was $500,000, of which $240,000 was outstanding. At December 31, 2010, our largest outstanding commercial construction loan was $5.0 million, of which $4.0 million was outstanding. This loan is for the development of condominiums. These loans were performing in accordance with their original terms at December 31, 2010.

Commercial and Industrial Loans. The Company originated $54.0 million and $54.1 million in commercial loans in 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Company had $72.8 million and $68.6 million in commercial loans, representing 16.8% and 16.0% of the total loan portfolio, with an average yield of 4.59% and 4.70%, respectively. 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, 2010, our largest commercial term loan was a $2.0 million loan secured by real estate and all assets in Springfield, Massachusetts. Our largest commercial relationship at December 31, 2010 was $14.1 million. This relationship includes a commercial real estate loan, of which $8.9 million was outstanding at December 31, 2010. All of these loans are secured by assets of the borrower and were performing according to their original terms at December 31, 2010.

Consumer Loans. The Company originated $10.3 million and $14.8 million of consumer loans, including home equity loans, respectively, in 2010 and 2009. Consumer loans outstanding at December 31, 2010 and 2009 totaled $33.1 million and $33.7 million, or 7.6% and 7.9%, of the total loan portfolio, with an average yield of 4.85% and 5.15%, respectively. 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 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. Loans secured by commercial real estate and residential investment 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 residential investment 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 residential investment loans. In reaching a decision on whether to make a commercial real estate and residential investment loan, we consider 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 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, secured consumer loans, and secured and unsecured commercial loans; and $100,000 for unsecured consumer loans.) must be authorized by the President and the Executive Vice President of Lending 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.

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, 2010, our general regulatory limit on loans to one borrower was $17.3 million. At December 31, 2010, our internal lending limit to one borrower was $8.0 million, unless approved in excess of this amount by the executive committee of the Board of Directors. On December 31, 2010, our largest lending relationship, as approved by the executive committee, was a $14.1 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, 2010.

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 FHLB and certificates of deposit of federally insured institutions. We also are required to maintain an investment in FHLB 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, 2010.

At December 31, 2010, our investment portfolio consisted primarily of short-term U.S Treasury securities, investment-grade corporate and industrial revenue bonds, certificates of deposit, collateralized mortgage obligations, and investment-grade marketable equity securities.

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 Chief Financial Officer and Treasurer is responsible for ensuring that the investment policy is followed and that all securities are considered prudent for investment. The Chief Financial Officer is authorized to execute transactions up to $3.0 million. All transactions exceeding $3.0 million, and up to $5.0 million maximum, must also be approved by the President and Chief Executive Officer. Any transaction exceeding $5.0 million will require the approval of the Executive Committee.

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, 2010, $37.4 million, or 9.6% of our total deposits, were municipal deposits, consisting of five individual municipalities. At December 31, 2010, 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. The Bank chose not to participate in the FDIC's Transaction Account Guarantee Program. Customers of the Bank with non interest-bearing transaction accounts will continue to be insured through December 31, 2012 for up to $250,000 under the FDIC's general deposit insurance rules. In addition, all of the Bank's deposits above the FDIC limit are insured in full by the Depositors Insurance Fund ("DIF"). The combination of the FDIC and DIF insurance provides customers of Massachusetts-chartered savings banks with full deposit insurance on all their deposit accounts. No depositor has ever lost a penny in a bank insured by both FDIC and DIF.

Borrowed Funds. We may utilize advances from the FHLB to supplement our supply of investable funds. The FHLB 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 FHLB and are authorized to apply for advances on the security of such stock and certain of our whole first real estate loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided 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 FHLB's assessment of the institution's creditworthiness.

Securities sold under agreements to repurchase are customer deposits that are invested overnight in U.S. Treasury 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. 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, 2010, 2009 and 2008, we received fees of $183,000, $142,000 and $396,000, 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, 2010, CSB Colts had total assets of $24.1 million consisting primarily of industrial revenue bonds. CSB Colts' net income for the year ended December 31, 2010 was $976,000. 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, 2010, CSB Investment had total assets of $20.8 million consisting primarily of certificates of deposit, U.S. Treasury securities, collateralized mortgage obligations, and marketable equity securities. CSB Investment's net income for the year ended December 31, 2010 was $308,000. 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. At December 31, 2010, Cabot Realty had total assets of $497,000 consisting primarily of cash and cash equivalents of $129,000 and other real estate owned of $286,000. Cabot Realty's net loss for the year ended December 31, 2010 was $46,000. 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, 2010 had total assets of $17,000.

Personnel

As of December 31, 2010, we had approximately 119 full-time employees and 13 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 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 FDIC and by the DIF of Massachusetts for amounts in excess of the FDIC insurance limits. Chicopee Savings Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks, as its chartering agency, and by the FDIC, as its primary federal regulator and deposit insurer. Chicopee Savings Bank is required to file reports with, and is periodically examined by, the FDIC 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. As a registered bank holding company, Chicopee Bancorp is regulated by the Federal Reserve Board. 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 the deposit insurance funds, rather than for the protection of stockholders and creditors. 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 establishment of deposit insurance assessment fees, 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 FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the financial condition and results of operations of Chicopee Bancorp and Chicopee Savings Bank. As further described below under "The Dodd-Frank Act", the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies.

Set forth below is a brief description of certain regulatory requirements applicable to Chicopee Bancorp and Chicopee Savings Bank. The description below is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Chicopee Bancorp and Chicopee Savings Bank.

The Dodd-Frank Act

The Dodd-Frank Act will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act will eliminate the Office of Thrift Supervision and require that federal savings associations be regulated by the Office of the Comptroller of the Currency (the primary federal regulator for national banks). The Dodd-Frank Act also authorizes the Federal Reserve Board to supervise and regulate all savings and loan holding companies.

The Dodd-Frank Act requires the Federal Reserve Board to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository institutions, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months. These new leverage and capital requirements must take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives the state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd Frank Act also broadens the base for FDIC insurance assessments. The FDIC must promulgate rules under which assessments will be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. Lastly, the Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate and solicit votes for their own candidates using a company’s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

It is difficult to predict at this time what impact the new legislation and implementing regulations will have on community banks such as Chicopee Savings Bank, including the lending and credit practices of such banks. Moreover, many of the provisions of the Dodd-Frank Act are not yet in effect, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau and mutual holding company dividend waivers, will increase our operating and compliance costs and restrict our ability to pay dividends in the future.

Massachusetts Banking Laws and Supervision

General. As a Massachusetts-chartered stock 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.

Massachusetts regulations 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. Dividends from Chicopee Bancorp, Inc. may depend, in part, upon receipt of dividends from the Bank. The payment of dividends from the Bank to the Company may be additionally restricted if the payment of such dividends resulted in the Bank failing to meet regulatory capital requirements. At December 31, 2010, the Bank's levels of capitalization were comfortably above the standards to be rated "well-capitalized" by regulatory authorities. A total of $8.0 million in dividends was declared in 2010 from the Bank to the Company.

Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations to one borrower may not exceed 20 percent of the total of the bank's capital and reserves.

Loans to a Bank's Insiders. The Massachusetts banking laws prohibit any executive officer, director or trustee of a bank from borrowing or guaranteeing extensions of credit by such bank except for any of the following loans or extensions of credit with the approval of a majority of the Board of Directors: (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. 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. Federal law imposes additional restrictions on Chicopee Savings Bank's investment activities. See "—Federal Regulations—Investment Activities".

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 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. 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. In addition, 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 DIF, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The DIF is authorized to charge savings banks an annual assessment fee on deposit balances in excess of amounts insured by the FDIC. Assessment rates are based on the institution's risk category, similar to the method currently used to determine assessments by the FDIC discussed below under "—Federal Regulations—Insurance of Deposit Accounts."

Protection of Personal Information. Massachusetts has adopted regulatory requirements intended to protect personal information. The requirements, which become effective March 1, 2010, are similar to existing federal laws such as the Gramm-Leach-Bliley Act, discussed below under "—Federal Regulations—Privacy Regulations", that require organizations to establish written information security programs to prevent identity theft. However, unlike federal regulations, the Massachusetts regulation also contains technology system requirements, especially for the encryption of personal information sent over wireless or public networks or stored on portable devices.

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

Federal Regulations

Capital Requirements. Under the FDIC'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 FDIC 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.

In addition, FDIC regulations require state non-member banks to maintain certain ratios of regulatory capital to regulatory risk-weighted assets, or "risk-based capital ratios." Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0.0% to 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.

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 FDIC-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 FDIC regulations permit exceptions to these limitations. For example, state chartered banks may, with FDIC 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 investment is 100.0% of Tier 1 Capital, as specified by the FDIC's regulations, or the maximum amount permitted by Massachusetts law, whichever is less. Chicopee Savings Bank received approval from the FDIC to retain and acquire such equity instruments equal to the lesser of 100% of Chicopee Savings Banks' Tier 1 capital or the maximum permissible amount specified by Massachusetts law. Any such grandfathered authority may be terminated upon the FDIC'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 FDIC is authorized to permit such institutions to engage in state authorized activities or investments not permissible for national banks (other than non-subsidiary 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 FDIC 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 FDIC 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 FDIC 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.

14

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. 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 FDIC 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 FDIC has authority under federal law to appoint a conservator or receiver for an insured bank under limited circumstances. The FDIC 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 FDIC 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.

Federal Insurance of Deposit Accounts. The FDIC insures deposits at FDIC insured financial institutions such as Chicopee Savings Bank. Deposit accounts in Chicopee Savings Bank are insured by the FDIC generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund.

Under the FDIC's current risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. The rates for nearly all of the financial institutions industry vary between five and seven cents for every $100 of domestic deposits.

As part of its plan to restore the Deposit Insurance Fund in the wake of the large number of bank failures following the financial crisis, the FDIC imposed a special assessment of 5 basis points for the second quarter of 2009. In addition, the FDIC has required all insured institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. As part of this prepayment, the FDIC assumed a 5% annual growth in the assessment base and applied a 3 basis point increase in assessment rates effective January 1, 2011.

In February 2011, the FDIC published a final rule under the Dodd-Frank Act to reform the deposit insurance assessment system. The rule redefines the assessment base used for calculating deposit insurance assessments effective April 1, 2011. Under the new rule, assessments will be based on an institution's average consolidated total assets minus average tangible equity as opposed to total deposits. Since the new base will be much larger than the current base, the FDIC also lowered assessment rates so that the total amount of revenue collected from the industry will not be significantly altered. The new rule is expected to benefit smaller financial institutions, which typically rely more on deposits for funding, and shift more of the burden for supporting the insurance fund to larger institutions, which have greater access to non-deposit sources of funding.

The Dodd-Frank Act also extended the unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012. Unlike the FDIC's Temporary Liquidity Guarantee Program, the insurance provided under the Dodd-Frank Act does not extend to low-interest NOW accounts, and there is no separate assessment on covered accounts.

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. During the year ended December 31, 2010, Chicopee Savings Bank paid $146,000 in fees related to the FICO.

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.

Privacy Regulations. Pursuant to the Gramm-Leach-Bliley Act, the FDIC 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 FDIC 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 FDIC, 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 FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Chicopee Savings Bank's latest FDIC CRA rating was "Outstanding."

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 "Outstanding."

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 $58.8 million; a 10% reserve ratio is applied above $58.8 million. The first $10.7 million of otherwise reservable balances are exempt 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. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Boston, Chicopee Savings Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of December 31, 2010, Chicopee Savings Bank was in compliance with this requirement.

The Federal Home Loan Bank of Boston suspended its dividend payment for the first quarter of 2009 and has not paid a dividend since that time. In addition, the Federal Home Loan Bank of Boston declared a moratorium on excess stock repurchases in December 2008, which continues.

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.

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 FDIC 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 FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC 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.

Executive Officers of the Registrant

Name	Principal Position
William J. Wagner	President and Chief Executive Officer of Chicopee Bancorp and Chicopee Savings Bank
Guida R. Sajdak	Senior Vice President, Chief Financial Officer and Treasurer of Chicopee Bancorp and Senior Vice President and Treasurer of Chicopee Savings Bank
Russell J. Omer	Executive Vice President of Chicopee Bancorp and Executive 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, 2010.

Russell J. Omer has served as Executive Vice President of Chicopee Bancorp since December 2008, and Executive Vice President of Chicopee Bancorp since 2006, and Senior Vice President, Lending, since 1998. Age 60.

Guida R. Sajdak was appointed Senior Vice President, Chief Financial Officer and Treasurer of the Company and Bank effective July 1, 2010. Ms. Sajdak has been employed by the Bank since 1989. Prior to her most recent appointment, Ms. Sajdak held the title of Senior Vice President of Finance. Age 37.

Item 1A. Risk Factors.

Our increased emphasis on commercial real estate and commercial business lending may expose us to increased lending risks. At December 31, 2010, our loan portfolio consisted of $162.1 million, or 37.4%, of commercial real estate loans and $72.8 million, or 16.8%, of commercial business loans. We have grown these loan portfolios in recent years and intend to continue to grow commercial real estate and commercial loans. 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 and the income stream of the borrowers. 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 credit losses associated with the growth of such loans. Also, many of our commercial 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.

Financial reform legislation recently enacted by Congress will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

The recently enacted Dodd-Frank Act will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires the Federal Reserve Board to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository institutions, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Chicopee Savings Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The Dodd-Frank Act also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

In addition, the Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate and solicit votes for their own candidates using a company’s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

It is difficult to predict at this time what impact the new legislation and implementing regulations will have on community banks, including the lending and credit practices of such banks. Moreover, many of the provisions of the Dodd-Frank Act are not yet in effect, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau and mutual holding company dividend waivers, will increase our operating and compliance costs and restrict our ability to pay dividends, respectively. Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

The United States economy remains weak and unemployment levels are high. The prolonged economic downturn will adversely affect our business and financial results. The United States experienced a severe economic downturn in 2008 and 2009, which continued into 2010. While economic growth has resumed recently, the rate of growth has been slow and unemployment remains at very high levels and is not expected to improve in the near future. Loan portfolio quality has deteriorated at many financial institutions reflecting, in part, the weak U.S. economy and high unemployment. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. The real estate downturn also has resulted in reduced demand for the construction of new housing and increased delinquencies in construction, residential and commercial mortgage loans. Bank and bank holding company stock prices have declined, and it is significantly more difficult for banks and bank holding companies to raise capital or borrow in the debt markets.

Negative developments in the financial services industry and the domestic and international credit markets may significantly affect the markets in which we do business, the market for and value of our loans and investments, and our ongoing operations, costs and profitability. Moreover, declines in the stock market in general, or stock values of financial institutions and their holding companies specifically, could adversely affect our stock performance.

A downturn in the local economy or a decline in real estate values could decrease 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 decrease 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 continued 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.

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 2009 we opened a new branch in Ware, Massachusetts. 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 rates could adversely affect our results of operations and financial condition. Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-earning assets generally reprice or mature more quickly than our interest-bearing liabilities, an increase in interest rates generally would tend to result in an increase in net interest income.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. 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 to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed-rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates.

Additionally, a majority of our single-family mortgage loans held for investment are adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable rate mortgage loans, increasing the possibility of default.

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."

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 losses in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 1.02% of total loans at December 31, 2010, 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.

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, 2010, we held 4.64% of the deposits in Hampden County, which was the 9th 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.

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, 2010, our return on average equity was 0.49%.

If dividends paid on our investment in the Federal Home Loan Bank of Boston continue to be suspended our earnings could decrease. We own common stock of the Federal Home Loan Bank of Boston ("FHLBB") to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLBB's advance program. As a result of losses, the FHLBB has not paid a dividend since the fourth quarter of 2008, which has decreased our earnings. In addition, future dividend levels paid by the FHLBB may be different from past levels, and a reduction or elimination of this dividend would reduce our earnings. Based on redemption provisions of the FHLBB common stock, the stock has no quoted market value and is carried at cost. We review our FHLBB common stock for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of December 31, 2010, no impairment has been recognized on the FHLBB common stock.

Our contribution to Chicopee Savings Charitable Foundation may not be fully tax deductible, which could decrease our profits. We made a contribution to the Chicopee Savings Charitable Foundation ("the Foundation") valued at $5.5 million, pre-tax, at the time of our initial public offering. The Internal Revenue Service has granted tax-exempt status to the Foundation. The amount of the tax deduction related to the Foundation is limited to 10% of taxable income each year, but can be carried forward until 2011. We may not have sufficient income to be able to fully deduct the contribution. As a result of our analysis of whether it is "more likely than not" we will be unable to fully deduct the contribution; we have established a valuation allowance of $1.7 million, or $1.8 million, including a capital loss carry forward valuation allowance. At December 31, 2010, our contribution carry forward, net of the related allowance and tax effected is $62,000.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We conduct our business through our main office in Chicopee, Massachusetts, eight full service branch offices and our lending and operation center. Of our nine locations, we own six and lease three of the buildings. We also own the land for the five of the six buildings we own. For one of our branches we own the building and lease the land. The net book value of our land, buildings, and improvements was $9.2 million at December 31, 2010. The following table sets forth ownership and lease information for the Company's offices as of December 31, 2010:

		Location	Year Opened	Lease Expires
Owned				
	Main Office:			
		70 Center Street Chicopee, MA 01013	1973	
	Branch Offices:			
		39 Morgan Road West Springfield, MA 01089	2005	
		569 East Street Chicopee, MA 01020	1976	
		435 Burnett Road Chicopee, MA 01020	1990	
		219/229 Exchange Street Chicopee, MA 01013	2009/1998	
Leased				
		599 Memorial Drive Chicopee, MA 01020	1977	2012 (1)
		477A Center Street Ludlow, MA 01056	2002	2022
		350 Palmer Road Ware, MA 01082	2009	2027

32 Willimansett Street South Hadley, MA 01075	2008	2027 (2)

(1) Chicopee Savings Bank has an option to renew for five years.
(2) The lease is for the land only, the building is owned by Chicopee Savings Bank.

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 incident 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.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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, 2010 and 2009, as reported by NASDAQ. The Company did not pay any dividend to shareholders during the years ended December 31, 2010 and 2009.

	High	Low		High	Low
2010			2009		
First Quarter	$ 12.95	$ 11.85	First Quarter	$ 11.90	$ 10.16
Second Quarter	13.10	11.01	Second Quarter	13.53	11.75
Third Quarter	11.45	10.79	Third Quarter	13.67	12.74
Fourth Quarter	12.73	11.25	Fourth Quarter	13.57	12.11

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 March 3, 2011, the Company had approximately 715 registered holders of record of the Company's common stock.

The following table provides information regarding the Company's purchase of its equity securities during the three months ended December 31, 2010.

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 -31, 2010	21,000	$	11.41	176,207	142,745
November 1 - 30, 2010	146,345		12.24	3,600	299,404
December 1 -31, 2010	44,500		12.35	48,100	254,904
Total	211,845	$	12.18		

(1) On November 23, 2010, the Company announced that it had completed its fourth stock repurchase program for the purchase of 318,952 shares. On November 19, 2010 the Company announced that its Board of Directors authorized a fifth stock repurchase program for the purchase of up to 303,004 shares of the Company's common stock or approximately 5% of its outstanding common stock. During the month of November, 142,745 shares were repurchased to complete the fourth buyback and 3,600 were repurchased to commence the fifth buyback. As of December 31, 2010, the Company can repurchase an additional 254,904 shares to complete the fifth buyback. The Company intends to purchase its shares from time to time at prevailing prices in the open market, in block transactions, in privately negotiated transactions, or under rule 10b-5(1) repurchase plans. The repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes.

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				
	2010	2009	2008	2007	2006
	(In Thousands)				
Selected Financial Data:					
Total assets	$ 573,704	$ 544,150	$ 527,699	$ 463,456	$ 450,045
Cash and cash equivalents	35,873	20,075	23,100	23,521	11,528
Loans, net	430,307	424,655	416,076	379,868	368,968
Securities available-for-sale	362	503	5,268	7,681	7,861
Securities held-to-maturity	69,713	62,983	49,662	27,324	37,411
Deposits	391,937	365,498	334,767	324,971	311,571
Advances from the Federal Home Loan Bank	71,615	63,675	76,567	17,774	15,256

Total stockholders' equity	91,882	94,172	94,017	104,299	108,446
Nonperforming assets	6,756	4,924	3,185	1,014	1,711

	For the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(In Thousands)				
Selected Operating Data:					
Interest and dividend income	$ 24,857	$ 24,514	$ 25,783	$ 26,305	$ 22,759
Interest expense	8,016	9,107	11,189	11,783	9,207
Net interest and dividend income	16,841	15,407	14,594	14,522	13,552
Provision for loan losses	1,223	897	315	223	440
Net interest income after provision for loan losses	15,618	14,510	14,279	14,299	13,112
Non-interest income	2,626	1,312	2,001	2,521	1,631
Non-interest expense	18,009	18,045	15,882	14,202	17,854
Income (loss) before provision for income taxes	235	(2,223)	398	2,618	(3,111)
Income tax (benefit) expense	(230)	(627)	376	1,018	(577)
Net income (loss)	$ 465	$ (1,596)	$ 22	$ 1,600	$ (2,534)
Earnings (loss) per share	$ 0.08	$ (0.28)	$ -	$ 0.24	$ (0.37)

25

	At or For the Years Ended December 31, 2010		2009		2008		2007		2006	
Selected Operating Ratios and Other Data:										
Performance Ratios:										
Average yield on interest-earning assets (1)	4.96	%	5.03	%	5.53	%	6.13	%	5.85	%
Average rate paid on interest-bearing liabilities	1.91	%	2.26	%	3.02	%	3.63	%	2.96	%
Average interest rate spread (2)	3.05	%	2.77	%	2.51	%	2.50	%	2.89	%
Net interest margin (3)	3.40	%	3.18	%	3.15	%	3.40	%	3.49	%
Ratio of interest-earning assets to interest-bearing liabilities	122.61	%	121.58	%	126.71	%	132.66	%	125.29	%
Non-interest expenses as a percent of average assets	3.24	%	3.39	%	3.19	%	3.10	%	4.28	%
Return on average assets	0.08	%	(0.30	%)	-		0.35	%	(0.61	%)
Return on average equity	0.49	%	(1.69	%)	0.02	%	1.48	%	(3.57	%)
Ratio of average equity to average assets	17.04	%	17.76	%	19.85	%	23.57	%	17.02	%
Efficiency ratio (4)	91.59	%	102.74	%	94.56	%	87.01	%	117.18	%
Regulatory Capital Ratios:										
Total capital to risk-weighted assets	20.7	%	23.4	%	23.6	%	28.6	%	28.7	%
Tier 1 capital to risk-weighted assets	19.7	%	22.4	%	22.8	%	27.7	%	27.8	%
Tier 1 capital to average assets	16.1	%	17.4	%	18.4	%	22.7	%	24.4	%
Asset Quality Ratios:										
Nonperforming loans as a percent of total loans	1.49	%	1.13	%	0.69	%	0.26	%	0.46	%
Nonperforming assets as a percent of total assets	1.18	%	0.90	%	0.60	%	0.22	%	0.38	%
Allowance for loan losses as a percent of total loans	1.02	%	0.95	%	0.79	%	0.80	%	0.78	%
Allowance for loan losses as a percent of nonperforming loans and troubled debt restructurings	68.49	%	84.17	%	114.30	%	303.35	%	169.96	%
Net loans charged-off to average interest-earning loans	0.20	%	0.04	%	0.01	%	0.01	%	0.04	%
Other Data:										
Banking offices at end of year	9		9		8		7		7	

(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 sales of investment securities, property, loans and other, net. At December 31, 2010 the ratio is calculated as follows (in thousands):

Non-interest expenses	$18,009	
Tax equivalent net interest income	$17,524	
Non-interest income	2,626	
Add back:		
Loan sales and servicing, net	(365	)
Net gain on sales of securities available-for-sale	(158	)
Other than temporary impairment charge	13	
Loss on sale of other real estate owned	22	
Total income included in calculation	$19,662	
Non-interest expenses divided by total income	91.59	%

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 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. In addition to these risk factors, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to: (1) changes in consumer spending, borrowing and savings habits; (2) the financial health of certain entities, including government sponsored enterprises, the securities of which are owned or acquired by the Company; (3) adverse changes in the securities market; and (4) the costs, effects and outcomes of existing of future litigation. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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 to cover the inherent probable losses in the loan portfolio. 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.

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 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.

Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on management's evaluation of the level of the allowance required in relation to the probable loss exposure in the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management. Qualitative factors, or risks considered in evaluating the adequacy of the allowance for loan losses for all loan classes include historical loss experience; levels and trends in delinquencies, nonaccrual loans, impaired loans and net charge offs; the character and size of the loan portfolio; effects of any changes in underwriting policies; experience of management and staff; current economic conditions and their effect on borrowers; effects of changes in credit concentrations, and management's estimation of probable losses. 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 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.

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

Impairment is measured on a loan-by-loan basis 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 loans for impairment evaluation, except for home equity loans.

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 "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.

Other-Than-Temporary Impairment. "Accounting for Certain Investments in Debt and Equity Securities," "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Benefits," and "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. For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors is recognized in other comprehensive income or loss. Credit loss is determined to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the difference between the security's cost basis and its fair value at the balance sheet date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

29

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:

- increasing our commercial relationships in our expanding market area;
- increasing our deposit market share in our expanding market area;
- increasing 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.

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 $67.9 million, or 40.6%, and at December 31, 2010 was 54.2% 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. Business deposit and checking accounts increased from $23.3 million at December 31, 2007 to $58.7 million at December 31, 2010, an increase of 151.85%. Since 2007, we have also increased the number of our commercial lenders and commercial lending support staff.

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, remote capture, 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.

Increasing 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 $183,000, $142,000 and $396,000 of non-interest income during the years ended December 31, 2010, 2009 and 2008, 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 and cost control. Our ratio of non-interest expense to average total assets decreased to 3.24% in 2010 from 3.39% 2009. Non-interest expense remained relatively unchanged from 2009 to 2010 at $18.0 million. The increase in expenses in 2009 was largely impacted by an increase in FDIC insurance premium fees of $492,000, which includes the FDIC special assessment of $229,000 paid in the second quarter of 2009, as well as an increase of $455,000 in occupancy expenses due to the addition of two branches. 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. 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 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, 2010, our nonperforming loans (loans which are 90 or more days delinquent) were 1.49% of our total loan portfolio. Although we intend to continue our efforts to originate commercial real estate, commercial business and construction loans, we intend to continue our philosophy of managing large loan exposures through our conservative approach to lending.

Balance Sheet Analysis

Comparison of Financial Condition at December 31, 2010 and December 31, 2009

Total assets increased $29.6 million, or 5.4%, from $544.2 million at December 31, 2009 to $573.7 million at December 31, 2010. The increase was primarily due to a $15.8 million, or 78.7%, increase in cash and cash equivalents, an increase in investments of $6.6 million, or 10.4%, and a $5.7 million, or 1.3%, increase in net loans from $424.7 million at December 31, 2009, to $430.3 million at December 31, 2010. The significant components of this increase were a $14.8 million, or 10.1%, increase in commercial real estate loans and a $4.3 million, or 6.3%, increase in commercial and industrial loans, partially offset by a $5.2 million, or 13.7%, decrease in construction loans and a $7.3 million, or 5.2%, decrease in one- to four-family residential loans, a $1.2 million, or 27.9%, decrease in consumer loans, and a $1.1 million, or 10.6%, decrease in residential investment loans. The decrease in one- to four-family residential loans was primarily due to prepayments and refinancing activity attributed to the decline in interest rates to historically low levels. The construction portfolio decreased as borrowers completed construction projects and the demand for construction loans decreased due to the economy. In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company sold $18.2 million fixed rate, low coupon residential real estate loans originated in 2010 to the secondary market. The Company currently services $75.8 million in loans sold to the secondary market. Servicing rights will continue to be retained on all loans written and sold in the secondary market.

Total deposits increased $26.4 million, or 7.2%, from $365.5 million at December 31, 2009 to $391.9 million at December 31, 2010. Certificate of deposits increased $12.4 million, or 6.0%, to $218.6 million, money market accounts increased $10.9 million, or 19.8%, to $66.2 million, demand accounts increased $5.7 million, or 13.3%, to $48.3 million and regular savings accounts increased $1.3 million, or 3.1%, to $44.2 million. These increases were offset by a decrease in NOW accounts of $3.9 million, or 21.1%, to $14.6 million. The increase in certificate of deposits was due to marketing and promotion efforts to attract low cost, long-term funds to position the balance sheet for an eventual rise in interest rates. Demand accounts increased as a result of new commercial loan relationships and NOW accounts decreased as customers transferred funds to higher earnings accounts, such as certificates of deposit and money market accounts.

Borrowings, including repurchase agreements of $18.0 million and Federal Home Loan Bank ("FHLB") advances of $71.6 million, increased $5.5 million, or 6.5%, to $89.6 million at December 31, 2010. FHLB advances increased $7.9 million, or 12.5%. Due to the low interest rate environment, the Company obtained lower cost, longer-term advances from the FHLB. The weighted average remaining maturity and weighted average rate of the advances are 3.6 years and 2.54%, respectively. Repurchase agreements decreased $2.4 million, or 12.0%.

Total stockholders' equity at December 31, 2010 was $91.9 million compared to $94.2 million at December 31, 2009. The decrease was primarily attributed to the Company's stock repurchase plan, partially offset by net income of $465,000 and stock-based compensation of $1.6 million. In 2010, the Company purchased 367,052 shares of the Company's common stock at a cost of $4.3 million and an average per share price of $11.83. Our capital management strategies allowed us to increase our book value per share by $0.52, or 3.5%, to $15.28 at December 31, 2010 compared to $14.76 at December 31, 2009.

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 residential investment, construction and consumer loans.

The size of our one- to four-family residential loan portfolio has decreased during 2010, from $139.9 million to $132.7 million, primarily due to prepayments and refinancing activity attributed to the decline in interest rates to historically low levels. In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company sold $18.2 million fixed rate, low coupon residential real estate loans originated in 2010 to the secondary market. Servicing rights will continue to be retained on all loans written and sold in the secondary market.

Our commercial real estate and residential investment portfolio increased during 2010, from $147.3 million to $162.1 million as a result of new commercial loan relationships established in 2010.

Commercial business loans increased during 2010, from $68.6 million to $72.8 million as a result of new commercial relationships, due to increased marketing efforts and offering a wider variety of services for commercial borrowers, including cash management products.

Our construction loan portfolio decreased during 2010, from $38.3 million to $33.1 million. Commercial construction decreased $2.5 million from $29.1 million to $26.6 million as projects were completed and sold. Residential construction decreased $2.8 million as projects were completed and sold.

Our consumer and home equity loan portfolio decreased $612,000 during 2010, from $33.7 million to $33.1 million primarily attributable to prepayments and refinancing activity attributed to the decline in interest rates to historically low levels.

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.

	At December 31,														
	2010			2009			2008			2007			2006		
	Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total	
	(Dollars In Thousands)														
Real estate loans:															
Residential real estate	$132,670	30.6	%	$139,937	32.7	%	$157,208	37.6	%	$147,771	38.7	%	$136,602	36.8	%
Commercial	162,107	37.4	%	147,255	34.4	%	134,085	32.0	%	121,253	31.7	%	121,628	32.8	%
Home equity	29,933	6.9	%	29,320	6.9	%	27,184	6.5	%	22,704	5.9	%	21,081	5.7	%
Total real estate loans	324,710	74.9	%	316,512	74.0	%	318,477	76.1	%	291,728	76.3	%	279,311	75.3	%
Construction loans:															
Residential	6,428	1.5	%	9,192	2.1	%	8,431	2.0	%	11,827	3.1	%	14,970	4.0	%
Commercial	26,643	6.1	%	29,121	6.9	%	33,198	7.9	%	28,567	7.5	%	26,743	7.2	%
	33,071	7.6	%	38,313	9.0	%	41,629	9.9	%	40,394	10.6	%	41,713	11.2	%

Total construction loans															
Total real estate and construction loans	357,781	82.5	%	354,825	83.0	%	360,106	86.0	%	332,122	86.9	%	321,024	86.5	%
Consumer loans	3,165	0.7	%	4,390	1.0	%	4,045	1.0	%	4,111	1.1	%	3,647	1.0	%
Commercial loans	72,847	16.8	%	68,552	16.0	%	54,255	13.0	%	45,815	12.0	%	46,348	12.5	%
Total loans	433,793	100.0	%	427,767	100.0	%	418,406	100.0	%	382,048	100.0	%	371,019	100.0	%
Net deferred loan origination costs	945			965			1,003			896			857		
Allowance for loan losses	(4,431)			(4,077)			(3,333)			(3,076)			(2,908)		
Loans, net	$430,307			$424,655			$416,076			$379,868			$368,968		

Loan Maturity. The following table sets forth certain information at December 31, 2010 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 loans include residential and commercial real estate loans and home equity loans.

	Real Estate Mortgage	Construction	Commercial (In Thousands)	Consumer	Total Loans
Amounts due:					
One year or less	$1,003	$17,379	$42,581	$261	$61,224
More than one year to five years	10,432	15,692	23,135	2,580	51,839
More than five years	313,275	-	7,131	324	320,730
Total amount due	$324,710	$33,071	$72,847	$3,165	$433,793

The following table sets forth the dollar amount of all loans at December 31, 2010 that are due after December 31, 2011 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. Real estate loans include residential and commercial real estate loans. Consumer loans include home equity loans.

	Due After December 31, 2010		
	Fixed (In Thousands)	Adjustable	Total
Real estate loans	$ 28,770	$ 265,004	$ 293,774
Construction	10,897	4,795	15,692
Commercial	19,650	10,616	30,266
Consumer	15,543	17,294	32,837
Total loans	$ 74,860	$ 297,709	$ 372,569

Securities. Our securities portfolio consists primarily of U.S. Treasury securities and industrial revenue bonds. Total securities increased $6.6 million, or 10.4%, to $70.1 million as of December 31, 2010 from $63.5 million as of December 31, 2009. The increase in 2010 is primarily due to purchases of U.S. Treasury securities of $90.4 million, industrial revenue bonds of $11.9 million and certificates of deposit of $11.7 million, partially offset by maturities of U.S. Treasury securities of $102.7 million, a maturity of a debt security of U.S. Government sponsored enterprises of $2.0 million and pay downs and maturities of collateralized mortgage obligations and bonds of $2.3 million.

Total securities increased $8.6 million, or 15.6%, for the year ended December 31, 2009. The increase in 2009 is primarily due to purchases of U.S. Treasury securities and an $8.3 million industrial revenue bond, partially offset by maturities of U.S. government sponsored enterprises and the sale of most of the equity securities portfolio.

Total securities increased $19.9 million, or 56.9%, for the year ended December 31, 2008, primarily due to purchases of held-to-maturity securities.

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.

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Available-for-sale securities						
Marketable equity securities[1]	$ 319	$ 362	$ 402	$ 503	$ 7,449	$ 5,268
Total available-for-sale securities	$ 319	$ 362	$ 402	$ 503	$ 7,449	$ 5,268
Held-to-maturity securities						
Debt securities of U.S. Government sponsored enterprises	$ -	$ -	$ 1,999	$ 1,999	$ 27,164	$ 27,189
U.S. Treasury securities	30,817	30,816	43,118	43,117	11,997	12,000
Corporate and industrial revenue bonds	23,348	23,348	12,109	12,109	4,060	4,060
Certificates of deposit	11,725	11,725	-	-	-	-
Collateralized mortgage obligations	3,823	4,023	5,757	5,905	6,441	6,424
Total held-to-maturity securities	$ 69,713	$ 69,912	$ 62,983	$ 63,130	$ 49,662	$ 49,673
Total securities	$ 70,032	$ 70,274	$ 63,385	$ 63,633	$ 57,111	$ 54,941

[1] Does not include investments in FHLB-Boston stock or Banker's Bank stock totaling $4.5 million and $183,000 at December 31, 2010 and $4.3 million and $183,000 at December 31, 2009 and 2008.

During 2010, amortized cost of securities available-for-sale decreased $83,000, or 20.6%, to $319,000 at December 31, 2010, primarily due to a partial sale of a security, reducing the book value of that security by $70,000. Also contributing to the decrease was an other-than-temporary impairment ("OTTI") charge of $13,000. The fair value of securities available-for-sale decreased $141,000, or 28.0%, to $362,000 at December 31, 2010 from December 31, 2009, primarily due to the partial sale of a security that resulted in a gain of $158,000 and a reduction in fair value of $228,000, partially offset by increases in market values of the remaining equity portfolio.

During 2009, the Company sold 115 individual issues, or 66 companies, with a total cost of $5.7 million and total fair value of $5.9 million. The net gain on the sale of equities of $129,000 consisted of $284,000 of realized gains and $155,000 of realized losses.

At December 31, 2010 the amortized cost of held-to-maturity securities increased $6.7 million, or 10.7%, to $69.7 million, primarily due to purchases of U.S. Treasury securities of $90.4 million, industrial revenue bonds of $11.9 million and certificates of deposit of $11.7 million, partially offset by maturities of U.S. Treasury securities of $102.7 million, a maturity of debt security of U.S. Government sponsored enterprises of $2.0 million and pay downs and maturities of collateralized mortgage obligations and bonds of $2.3 million.

At December 31, 2010, our marketable equity securities had a net unrealized gain of $43,000 and no unrealized losses. These investments are in highly traded stocks. During the year ended December 31, 2010, the Company recorded an other-than-temporary impairment write-down of $13,000. Management evaluated the security according to the Company’s OTTI policy and determined the decline in value to be other-than-temporary.

The Company sold $5.9 million of its equity securities during the fourth quarter of 2009. As a result, the Company had a remaining equity portfolio of $503,000 at December 31, 2009. The sales of equity securities during the fourth quarter of 2009 reflected management's determination to revise its investment strategy and reduce its overall level of investment in equity securities and overall risk in the equities markets. As part of this revised strategy, it was determined to sell most of the equity securities in the portfolio. The Company expects to continue to hold the remaining equity securities. The Company's equity securities portfolio was primarily designed to assist the Company in managing its liquidity and interest rate risk on a long-term basis. However, due to the unprecedented decline in the stock market over the past two years, the value of such portfolio has been significantly reduced which resulted in management's reevaluation of the investment strategy, including the Company’s reliance on its equity portfolio for liquidity.

At December 31, 2009, management determined that 5 of the equities sold in the fourth quarter in the financial industry had other-than-temporary impairment for which a loss on sale of OTTI securities was recorded in the amount of $62,000. For the year ended December 31, 2009, the Company sold OTTI securities at a loss of $241,000. These securities were sold due to company specific information that suggested the cost of the shares were not likely to recover.

At December 31, 2009, our marketable equity securities had gross unrealized losses of approximately $15,000. These investments are in highly traded stocks. During the year ended December 31, 2009, the Company experienced a total other-than-temporary impairment write-down of $1.4 million, representing 30 companies, or 56 individual issues. Management evaluated these securities according to the Company's OTTI policy and determined the decline in value to be other-than-temporary. The following table reflects the fair value and OTTI loss of securities that were written-down before the sale of the equity portfolio for the year ended December 31, 2009 due to other-than-temporary impairment by industry (in thousands):

Industry	Fair Value on Date of Write-Down	OTTI Loss	# of securities	# of companies	% of fair value	% of loss	Impairment severity
Energy	$ 645	$ 334	13	7	26%	24%	52%
Materials	366	246	7	4	15%	18%	67%
Industrial	293	176	9	3	12%	13%	60%
Financial	398	282	11	5	16%	20%	71%
Consumer discretionary	149	95	2	2	6%	7%	64%
Utilities	230	92	4	3	9%	7%	40%
Health care	176	86	4	2	7%	6%	49%
Telecommunciation	85	42	2	1	3%	3%	49%
Consumer staples	110	32	3	2	4%	2%	29%
Information technology	23	18	1	1	1%	1%	78%
	$ 2,475	$ 1,403	56	30	100%	100%	

At December 31, 2009 and 2010, we had no investments in a single company or entity that had an aggregate book value in excess of 10% of our equity.

The table below sets forth the stated maturities and weighted average yields of debt securities at December 31, 2010. 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 to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in Thousands)									
Held-to-maturity securities										
U.S. Treasury securities	$30,817	0.12 %	$-	-	$-	-	$-	-	$30,817	0.12 %
Corporate and industrial revenue bonds	-	-	3,243	5.23 %	8,300	4.47 %	11,805	4.85 %	23,348	4.77 %
	11,725	1.00 %	-	-	-	-	-	-	11,725	1.00 %

Certificates of deposit															
Collateralized mortgage obligations	-	-		-	-		3,823	4.58	%	-	-		3,823	4.58	%
Total held-to-maturity securities	$42,542	0.36	%	$3,243	5.23	%	$12,123	4.51	%	$11,805	4.85	%	$69,713	2.07	%

As of December 31, 2010, the Company also held $4.5 million in FHLB-Boston stock. The Company periodically evaluates its investment in FHLB-Boston stock for impairment based on, among other factors, the capital adequacy of the FHLB-Boston and its overall financial condition. No impairment losses have been recorded through December 31, 2010. The Company will continue to monitor its investment in FHLB-Boston stock. For additional information regarding our FHLB-Boston stock, see Note 3 to the notes to the consolidated financial statements.

Deposits. Our primary source of funds is our deposit accounts, which are comprised of certificates of deposit, money market deposit accounts, demand deposits, passbook accounts, and NOW accounts. These deposits are provided primarily by individuals and businesses within our market areas. At December 31, 2010, 2009 and 2008, we did not use brokered deposits as a source of funding.

At December 31, 2010, deposits increased $26.4 million, or 7.2%, to $391.9 million from $365.5 million at December 31, 2009. The increase in 2010 was primarily due to increases in certificates of deposits of $12.4 million, or 6.0%, money market accounts of $10.9 million, or 19.8%, demand accounts of $5.7 million, or 13.3% and savings accounts of $1.3 million, or 3.1%, partially offset by a decrease in NOW accounts of $3.9 million, or 21.1%. Certificates of deposit increased due to marketing and promotions. Money market and demand accounts increased due to increases in municipal and commercial accounts.

Deposits increased $30.7 million, or 9.2%, for the year ended December 31, 2009. The increase in deposits in 2009 was mostly due to the increase in demand accounts of $12.6 million, or 40.9%, money market accounts of $7.7 million, or 16.2%, and certificates of deposit of $5.4 million, or 2.7%. The increase in demand and money market accounts was directly related to the increase in commercial relationships.

Deposits increased $8.0 million, or 2.5%, for the year ended December 31, 2008. The increase in deposits in 2008 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.

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

	December 31,		
	2010	2009	2008
	(In Thousands)		
Demand	$ 48,302	$ 42,629	$ 30,811
Savings	44,215	42,875	40,780
Money market	66,218	55,293	47,608
NOW	14,572	18,466	14,702
Certificates of deposit	218,630	206,235	200,866
Total deposits	$ 391,937	$ 365,498	$ 334,767

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of December 31, 2010. Jumbo certificates of deposit require minimum deposits of $100,000.

Maturity Period	Amount	Weighted Average Rate
	(Dollars in Thousands)	
Three months or less	$ 11,939	1.69 %
Over three through six months	15,499	1.93 %
Over six through 12 months	26,245	3.22 %
Over 12 months	56,667	3.02 %
Total	$ 110,350	2.77 %

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

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Maximum amount of advances outstanding at any month-end during the year:			
FHLB Advances	$80,907	$71,258	$76,567
Securities sold under agreements to repurchase	29,639	27,334	38,557
Other borrowings	-	-	50
Average advances outstanding during the year:			
FHLB Advances	$74,775	$58,278	$45,872
Securities sold under agreements to repurchase	18,703	21,339	23,191
Other borrowings	-	-	25
Weighted average interest rate during the year:			
FHLB Advances	2.70 %	2.90 %	3.16 %
Securities sold under agreements to repurchase	0.36 %	0.98 %	1.50 %
Other borrowings	-	-	7.00 %
Balance outstanding at end of year:			
FHLB Advances	$71,615	$63,675	$76,567
Securities sold under agreements to repurchase	17,972	20,422	21,956
Other borrowings	-	-	-
Weighted average interest rate at end of year:			
FHLB Advances	2.54 %	3.04 %	2.24 %
Securities sold under agreements to repurchase	0.25 %	0.50 %	1.25 %
Other borrowings	-	-	-

FHLB advances increased $7.9 million, or 12.5%, to $71.6 million at December 31, 2010 from $63.7 million at December 31, 2009. The increase was primarily due to proceeds of $24.5 million, partially offset by maturities and pay downs of $16.6 million. During 2010, the Company relied mostly on the increase in deposits of $26.4 million in 2010 to fund loan growth and minimize interest rate risk. FHLB advances decreased $12.9 million, or 16.8%, for the year ended December 31, 2009. The decrease was due to maturities and principal pay downs of $41.9 million, offset by new advances of $29.0 million. The Company relied mostly on the increase in deposits of $30.7 million in 2009 to fund loan growth. FHLB advances increased $58.8 million, or 330.8%, for the year ended December 31, 2008. The increase in FHLB advances during the period was used to fund loan growth. These advances mature in 2012 through 2018.

At December 31, 2010, securities sold under agreements to repurchase decreased $2.4 million, or 12.0%, to $18.0 million from $20.4 million at December 31, 2009 due to fluctuations in the balances of each customer's account. Securities sold under agreements to repurchase remained relatively consistent with the prior year at $20.4 million as of December 31, 2009 compared to $22.0 million at December 31, 2008. Securities sold under agreements to repurchase increased $7.8 million, or 54.8%, during the year ended December 31, 2008 compared with the year ended December 31, 2007.

In addition, at December 31, 2010, 2009 and 2008, we had the ability to borrow a total of $3.0 million from a correspondent bank, none of which was borrowed at such date. As of December 31, 2010 our available line of credit with the FHLB was $2.0 million. Also, the Company had an option to purchase Fed Funds of up to $3.0 million. The Company did not utilize any of these contingency funding options as of December 31, 2010.

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, 2010, 2009 and 2008. 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.

	For the Years Ended December 31,								
	2010			2009			2008		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in Thousands)								
Interest-earning assets:									
Investments (1)	$64,381	$1,971	3.06 %	$49,136	$993	2.02 %	$49,530	$1,410	2.85 %
Loans:									
Residential real estate loans	145,269	7,668	5.28 %	157,687	8,662	5.49 %	165,265	9,366	5.67 %
Commercial real estate loans	180,560	10,808	5.99 %	170,975	10,536	6.16 %	157,601	10,110	6.41 %
Consumer loans	33,764	1,637	4.85 %	32,029	1,648	5.15 %	29,135	1,757	6.03 %
Commercial loans	74,599	3,424	4.59 %	60,263	2,830	4.70 %	50,349	2,892	5.74 %
Loans, net (2)	434,192	23,537	5.42 %	420,954	23,676	5.62 %	402,350	24,125	6.00 %
Other	16,525	32	0.19 %	20,459	29	0.14 %	16,983	404	2.38 %
Total interest-earning assets	515,098	25,540	4.96 %	490,549	24,698	5.03 %	468,863	25,939	5.53 %
Noninterest-earning assets	40,823			41,669			29,494		
Total assets	$555,921			$532,218			$498,357		
Interest-bearing liabilities:									
Deposits:									
Money market accounts	$59,506	$400	0.67 %	$60,292	$559	0.93 %	$45,340	$916	2.02 %
Savings accounts (3)	44,272	101	0.23 %	41,783	148	0.35 %	39,864	266	0.67 %
NOW accounts	16,694	37	0.22 %	16,445	47	0.29 %	14,712	61	0.41 %
Certificates of deposit	206,178	5,392	2.62 %	205,354	6,451	3.14 %	201,026	8,148	4.05 %
Total interest-bearing deposits	326,650	5,930	1.82 %	323,874	7,205	2.22 %	300,942	9,391	3.12 %
FHLB advances	74,775	2,018	2.70 %	58,278	1,692	2.90 %	45,872	1,448	3.16 %
Securities sold under agreement to repurchase	18,703	68	0.36 %	21,339	210	0.98 %	23,191	348	1.50 %
Other borrowings	-	-	7.00 %	-	-	7.00 %	25	2	8.00 %
Total interest-bearing borrowings	93,478	2,086	2.23 %	79,617	1,902	2.39 %	69,088	1,798	2.60 %
Total interest-bearing liabilities	420,128	8,016	1.91 %	403,491	9,107	2.26 %	370,030	11,189	3.02 %

Demand deposits	40,809			33,908			29,228		
Other noninterest-bearing liabilities	259			285			197		
Total liabilities	461,196			437,684			399,455		
Total stockholders' equity	94,725			94,534			98,902		
Total liabilities and stockholders' equity	$555,921			$532,218			$498,357		
Net interest-earning assets	$94,970			$87,058			$98,833		
Tax equivalent net interest income/ interest rate spread (4)		17,524	3.05 %		15,591	2.77 %		14,750	2.51 %
Tax equivalent net interest margin (net interest income as a percentage of interest-earning assets)			3.40 %			3.18 %			3.15 %
Ratio of interest-earning assets to interest-bearing liabilities			122.61 %			121.58 %			126.71 %
Less: tax equivalent adjustment (1)		(683)			(184)			(156)	
Net interest income as reported on income statement		$16,841			$15,407			$14,594	

(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 statement of operations. See 'Explanation of Use of Non-GAAP Financial Measurements'.
(2) Loans, net excludes loans held for sale and the allowance for loan losses and includes nonperforming loans.
(3) Savings accounts include mortgagors' escrow deposits.
(4) Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

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, 2010 Compared to December 31, 2009			Year Ended December 31, 2009 Compared to December 31, 2008		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	$ 368	$ 610	$ 978	$ (11)	$ (406)	$ (417)
Loans:						
Residential real estate loans	(664)	(330)	(994)	(421)	(283)	(704)
Commercial real estate loans	580	(308)	272	835	(409)	426
Consumer loans	87	(98)	(11)	164	(273)	(109)
Commercial loans	661	(67)	594	523	(585)	(62)
Total loans	664	(803)	(139)	1,101	(1,550)	(449)
Other	(7)	10	3	71	(446)	(375)
Total interest-earning assets	$ 1,025	$ (183)	$ 842	$ 1,161	$ (2,402)	$ (1,241)
Interest-bearing liabilities:						
Deposits:						
Money market accounts	$ (7)	$ (152)	$ (159)	$ 240	$ (597)	$ (357)
Savings accounts (1)	9	(56)	(47)	12	(130)	(118)
NOW accounts	1	(11)	(10)	6	(20)	(14)
Certificates of deposit	26	(1,085)	(1,059)	172	(1,869)	(1,697)
Total interest-bearing deposits	29	(1,304)	(1,275)	430	(2,616)	(2,186)
FHLB advances	455	(129)	326	370	(126)	244
Securities sold under agreement to repurchase	(23)	(119)	(142)	(26)	(112)	(138)
Other borrowings	-	-	-	(2)	-	(2)
Total interest-bearing borrowings	432	(248)	184	342	(238)	104
	461	(1,552)	(1,091)	772	(2,854)	(2,082)

Total interest-bearing liabilities						
Increase in net interest income	$ 564	$ 1,369	$ 1,933	$ 389	$ 452	$ 841

(1) Includes interest on mortgagors' escrow deposits.

Results of Operations.

Comparison of Operating Results for the Years Ended December 31, 2010 and December 31, 2009

General. For the year ended December 31, 2010, the Company reported net income of $465,000 compared to a net loss of $1.6 million for the year ended December 31, 2009.

Net Interest Income. Net interest income, on a tax equivalent basis, totaled $17.5 million for the year ended December 31, 2010, an increase of $1.9 million, or 12.4%, from $15.6 million for the same period in 2009. The cost of interest-bearing deposits decreased $1.3 million, or 17.7%. Investment securities interest income increased $978,000, or 98.5%. These increases to net interest income were partially offset by the increase in the cost of borrowings of $184,000, or 9.7%, as well as the decrease in interest income on net loans of $139,000, or 0.6%.

Net interest margin, on a tax equivalent basis, increased 22 basis points to 3.40% for the year ended December 31, 2010 from 3.18% for the same period in 2009, primarily attributable to the increase in net interest income of $1.9 million, partially offset by the increase in the balances of interest earning assets of $24.5 million, or 5.0%.

Interest and Dividend Income. Interest and dividend income, on a tax equivalent basis, increased $842,000, or 3.4%, to $25.5 million for the year ended December 31, 2010 from $24.7 million in 2009, largely reflecting the increase in income from industrial revenue bonds. Average interest-earning assets totaled $515.1 million for the year ended December 31, 2010 compared to $490.5 million for the same period last year, representing an increase of $24.5 million, or 5.0%. Average loans increased $13.2 million, or 3.1%, primarily due to strong originations partially offset by the sale of low-coupon fixed rate residential real estate loans originated in 2010 to the secondary market. Average investment securities increased $15.2 million, or 31.0%, primarily due to the purchase of a $10.0 million industrial revenue bond and $11.7 million in certificates of deposit, partially offset by maturities of U.S. Treasury securities and pay downs of collateralized mortgage obligations. The tax equivalent yield on interest-earning assets decreased 7 basis points to 4.96% for the year ended December 31, 2010 from 5.03% for the year ended December 31, 2009, largely attributable to lower market rates of interest for 2010. For instance, the 5 year FHLB rate dropped 66 basis points from 3.35% to 2.69% and the 10 year treasury rate dropped 55 basis points from 3.85% to 3.30% from December 31, 2009 to 2010, respectively.

Interest Expense. Total interest expense decreased $1.1 million, or 12.0%, to $8.0 million for the year ended December 31, 2010 from $9.1 million in 2009, resulting primarily from the Company reducing deposit interest rates to manage interest rate risk, reflecting decreased market rates of interest. Average interest-bearing liabilities totaled $420.1 million for the year ended December 31, 2010, representing an increase of $16.6 million, or 4.1%, from $403.5 million for the same period in 2009, mainly due to an increase in average interest-bearing borrowings of $13.9 million, or 17.4%. In an effort to manage interest rate risk and increase the margin, the Company funded the increase in loans of $13.2 million with lower cost borrowings. The rate paid on interest-bearing liabilities decreased 35 basis points to 1.91% for the year ended December 31, 2010 from 2.26% in 2009, reflecting the lower interest rate environment.

Provision for Loan Losses. The Company's provision for loan losses increased $326,000 to $1.2 million for the year ended December 31, 2010 from $897,000 for the same period in 2009. Factors contributing to the increase in the loan loss provision include the growth in the commercial portfolio, which carries higher risk and requires higher reserves, as well as the continued weakening of the local and national economy, including unemployment rates and increased charge-offs.

The allowance for loan losses was $4.4 million, or 1.02% of total loans, as of December 31, 2010, compared to $4.1 million, or 0.95% of total loans, as of December 31, 2009. 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” and in Note 4 of the financial statements.

Non-interest Income. Total non-interest income increased $1.3 million, or 100.2%, to $2.6 million for the year ended December 31, 2010 compared to $1.3 million for the same period in 2009. The increase was primarily due to a $1.4 million decrease in OTTI charges. Excluding the OTTI charges, non-interest income decreased $76,000, or 2.8%, compared to the twelve months ended December 31, 2009. The decrease in non-interest income, excluding OTTI charges, was due to a $264,000 decrease from net loan sales and servicing due to a decrease in volume of loan sales to the secondary market. Loan sales were $18.2 million and $37.0 million, respectively, for the years ended December 31, 2010 and December 31, 2009. Offsetting the decrease in net loan sales and servicing was an increase of $209,000, or 13.9%, in service charges, fees and commissions and a $17,000, or 12.1%, increase in net gains on sales of investment securities.

Non-interest Expenses. Non-interest expenses were relatively unchanged at $18.0 million for the years ended December 31, 2010 and December 31, 2009. Salaries and benefits increased $149,000, or 1.5%, due to timing of payroll which will be offset in January 2011. Data processing expenses increased $118,000, or 10.8%, professional fees increased $73,000, or 14.5%. These increases were offset by a $117,000, or 10.3%, decrease in furniture and equipment, a $79,000, or 15.8%, decrease in FDIC insurance expense, a $68,000, or 17.8%, decrease in supplies and postage, and a $56,000, or 3.5%, decrease in occupancy expenses.

Income Taxes. The Company’s income tax benefit decreased $397,000 to a benefit of $230,000 for the year ended December 31, 2010 compared to a benefit of $627,000 in 2009 mainly attributable to the increase in income before income taxes of $2.5 million, which resulted in an increase in current tax expense of $261,000, a decrease in deferred benefit expense of $490,000 and a decrease in the addition to the valuation reserve of $354,000. As of December 31, 2010, a valuation allowance of $1.8 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, as well as to a capital loss carry forward. Of the $1.8 million valuation allowance, $57,000 was applied for the year ended December 31, 2010. 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 market conditions. See Note 10 for additional income tax disclosures.

Comparison of Operating Results for the Years Ended December 31, 2009 and December 31, 2008

General. For the year ended December 31, 2009, the Company reported a net loss of $1.6 million compared to net income of $22,000 for the year ended December 31, 2008.

Net Interest Income. Net interest income, on a tax equivalent basis, totaled $15.6 million for the year ended December 31, 2009, an increase of $841,000, or 5.7%, from $14.7 million for the same period in 2008. The increase reflects the Company’s ability to decrease the cost of interest-bearing liabilities by $2.1 million, offset by a decrease in income from interest-earning assets of $1.2 million. Net interest margin, on a tax equivalent basis, increased 3 basis points to 3.18% for the year ended December 31, 2009 from 3.15% for the same period in 2008, primarily attributable to the Company’s ability to adapt to the decreasing interest rate environment by decreasing the cost of interest bearing liabilities more than the economic decrease to earning assets.

Interest and Dividend Income. Interest and dividend income, on a tax equivalent basis, decreased $1.2 million, or 4.8%, to $24.7 million for the year ended December 31, 2009 from $25.9 million in 2008, largely reflecting the decreasing interest rate environment. Average interest-earning assets totaled $490.5 million for the year ended December 31, 2009 compared to $468.9 million for the same period last year, representing an increase of $21.7 million, or 4.6%. Average loans increased $18.6 million, or 4.6%, primarily due to strong originations partially offset by the sale of low-coupon fixed rate residential real estate loans originated in 2009 to the secondary market. Average investment securities decreased $394,000, or 0.8%. The tax equivalent yield on interest-earning assets decreased 50 basis points to 5.03% for the year ended December 31, 2009 from 5.53% for the year ended December 31, 2008, largely attributable to lower market rates of interest for 2009.

Interest Expense. Total interest expense decreased $2.1 million, or 18.6%, to $9.1 million for the year ended December 31, 2009 from $11.2 million in 2008, resulting primarily from decreased FHLB interest rates and the Company’s ability to decrease deposit rates. Average interest-bearing liabilities totaled $403.5 million for the year ended December 31, 2009, representing an increase of $33.5 million, or 9.0%, from $370.0 million for the same period in 2008, mainly due to an increase in average deposit balances of $22.9 million, or 7.6%. Average money market accounts increased $15.0 million, or 33.0%, to $60.3 million for the year ended December 31, 2009, due to the increase in commercial relationships. Average certificate of deposit balances increased $4.3 million, or 2.2%, to $205.4 million for the year ended December 31, 2009. Average FHLB advances increased $12.4 million, or 27.0%, to

$58.3 million for the year ended December 31, 2008, mainly due to the increase in bonds of $8.0 million. The rate paid on interest-bearing liabilities decreased 76 basis points to 2.26% for the year ended December 31, 2009 from 3.02% in 2008, reflecting the lower interest rate environment.

Provision for Loan Losses. The Company's provision for loan losses increased by $582,000 to $897,000 for the year ended December 31, 2009 from $315,000 for the same period in 2008. Factors contributing to the increase in the loan loss provision include the growth in the commercial portfolio, which carries higher risk and requires higher reserves, as well as the continued weakening of the local and national economy.

The allowance for loan losses was $4.1 million, or 0.95% of total loans, as of December 31, 2009, as compared to $3.3 million, or 0.79% of total loans, as of December 31, 2008. 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 $689,000, or 34.4%, to $1.3 million for the year ended December 31, 2009 compared to $2.0 million for the same period in 2008. The decrease was primarily due to a charge of $1.4 million for OTTI securities recognized in the third quarter, partially offset by a $642,000 increase in loan sales and servicing and a $198,000 increase in gains on sales of securities available for sale.

Non-interest Expenses. Non-interest expenses increased $2.2 million, or 13.6%, to $18.0 million for the year ended December 31, 2009 from $15.9 million for the same period in 2008. The increase was directly related to the increase in FDIC insurance premium expenses of $492,000 to $539,000 as of December 31, 2009 from $47,000 as of December 31, 2008, including the FDIC special assessment of $229,000 recognized in the second quarter of 2009. Also contributing to the increase was an increase in expenses directly related to the establishment of two new branches in 2009, which included an increase in occupancy expenses of $455,000.

Income Taxes. The Company’s income tax expense decreased $1.0 million to a tax benefit of $627,000 for the year ended December 31, 2009 compared to a tax expense of $376,000 in 2008 mainly attributable to the decrease in income before income taxes of $2.6 million. As of December 31, 2009, a valuation allowance of $1.7 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, as well as a capital loss carry forward. Of the $1.7 million valuation allowance, $411,000 was applied in the second half of 2009. 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 market conditions.

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,					
	2010		2009		2008	
	(Dollars in Thousands)					
	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield
Investment securities (non-tax adjustment)	$ 1,288	2.00 %	$ 809	1.65 %	$ 1,254	2.53 %
Tax equivalent adjustment (1)	683		184		156	
Investment securities (tax equivalent basis)	$ 1,971	3.06 %	$ 993	2.02 %	$ 1,410	2.85 %
Net interest income (non-tax adjustment)	$ 16,841		$ 15,407		$ 14,594	
Tax equivalent adjustment (1)	683		184		156	
Net interest income (tax equivalent basis)	$ 17,524		$ 15,591		$ 14,750	
Interest rate spread (no tax adjustment)		2.92 %		2.74 %		2.48 %
Net interest margin (no tax adjustment)		3.27 %		3.14 %		3.11 %

(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.

Management performs a monthly review of all delinquent loans. The actions taken with respect to delinquency vary depending upon the nature of the delinquent loans and the period of delinquency. A late charge is normally assessed on loans where the scheduled payment remains unpaid after a 15 day grace period. After mailing delinquency notices, the Company’s collection department calls the borrower to determine the reason for the delinquency and the repayment status. Through continued heightened account monitoring, collection, and workout efforts, the Company attempts to work out a payment schedule with the borrower in order to avoid foreclosure. If these actions do not result in a satisfactory resolution, the Company refers the loan to legal counsel and counsel initiates foreclosure proceedings. The Company is committed to assist the homeowners to remain in their homes.

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.

Analysis of Nonperforming and Classified Assets. We consider repossessed assets, loans that are 90 days or more past due, and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal to be nonperforming assets. Loans are 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 other real estate owned ("OREO") until it is sold. When property is acquired and placed into OREO, it is 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. As of December 31, 2010 and 2009, the Company had $286,000 and $80,000 classified as OREO, respectively.

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

	At December 31,				
	2010	2009	2008	2007	2006
	(Dollars in Thousands)				
Non-accrual loans:					
Real estate	$5,487	$3,722	$2,595	$779	$1,460
Construction	316	184	97	167	-
Commercial	391	664	139	63	243
Consumer (1)	276	274	85	5	8
Total	$6,470	$4,844	$2,916	$1,014	$1,711
Real estate owned	286	80	269	-	-
Total nonperforming assets	$6,756	$4,924	$3,185	$1,014	$1,711
Total nonperforming loans as a percentage of total loans (2)	1.49 %	1.13 %	0.69 %	0.26 %	0.46 %
Total nonperforming assets as a percentage of total assets (3)	1.18 %	0.90 %	0.60 %	0.22 %	0.38 %

(1) Consumer loans include home equity loans.

(2) Total loans equals net loans plus the allowance for loan losses.

(3) 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 collectability of interest or principal. The Company had one troubled debt restructuring included in nonperforming loans of $1.4 million at December 31, 2010.

As of December 31, 2010, the following loan classes were not accruing interest: there were 26 residential real estate loans, with total principal balances of $3.3 million and total collateral values of $4.3 million, and 8 commercial real estate loans, with total principal balances of $2.2 million and total collateral values of $2.3 million; there was 3 residential construction loans, with total principal balances of $316,000 and total collateral values of $295,000; there were 11 commercial loans, with total principal balances of $391,000 and total collateral values of $629,000; and there were seven home equity loans, with principal balances of $204,000 and total collateral values of $702,000. We do not separately indentify consumer loans for impairment. Any shortfalls of collateral were charged against the allowance for loan losses. At December 31, 2010, the Company's total nonperforming loans as a percentage of total loans of 1.49% was below the peer average of 2.05%. This statistical data was obtained from the December 31, 2010 UBPR Peer Group Average Report and included average data for 398 insured savings banks.

There were 21 residential real estate loans, with total principal balances of $2.7 million and total collateral values of $3.6 million, and five commercial real estate loans, with total principal balances of $982,000 and total collateral values of $2.0 million that were not accruing interest as of December 31, 2009. There was one residential construction loan with a principal balance of $184,000 not accruing interest as of December 31, 2009, with a collateral value of

$250,000. There were no commercial construction loans that were not accruing interest as of December 31, 2009. There were 11 commercial loans not accruing interest as of December 31, 2009, with total principal balances of $664,000 and total collateral values of $1.2 million. Of the 11 commercial loans, six loans were applied specific reserves of $53,000 to compensate for 100% of the collateral shortfalls. Only one commercial loan has exposure to loss of $9,000 due to a collateral shortfall. The remaining four commercial loans are adequately collateralized. There were 6 home equity loans not accruing interest as of December 31, 2009 with total principal balances of $182,000 with a combined collateral value of $776,000. Collateral values were sufficient to cover the loan balances of non-accrual loans. At December 31, 2009, the Company’s total nonperforming loans as a percentage of total loans of 1.13% was below the peer average of 1.77%. This statistical data was obtained from the December 31, 2009 UBPR Peer Group Average Report and included average data for 408 insured savings banks.

There were 20 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. Collateral values were sufficient to cover the loan balances of non-accrual loans.

Interest income that would have been recorded for the years ended December 31, 2010 and 2009 had nonperforming loans and troubled debt restructurings been current according to their original terms amounted to $170,000 and $210,000, respectively. Interest income recognized on impaired loans and troubled debt restructurings for the years ended December 31, 2010 and 2009 was $337,000 and $375,000, respectively. Although nonaccrual loans increased $1.6 million, interest forgone on these loans decreased due to lower market rates of interest.

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 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 probable 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: special mention, substandard, doubtful, and 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”. “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. An asset classified as “loss” is normally fully charged-off.

The following table shows the aggregate amounts of our classified loans at the dates indicated.

	December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Special mention loans	$19,462	$17,342	$12,109
Substandard loans	15,186	7,939	4,439
Doubtful loans	-	502	37
Loss loans	-	17	-
Total classified loans	$34,648	$25,800	$16,585

At December 31, 2010, special mention loans consisted of $1.5 million in commercial loans, $11.9 million in commercial construction loans, and $6.1 million in commercial real estate loans. Substandard loans consisted of $3.3 million in commercial loans, $4.3 million in commercial constructions loans, $4.0 million in commercial real estate loans, $3.3 million in residential real estate loans, and $316,000 in residential construction loans. The increase in classified loans was due to general deterioration of economic conditions that have led to the inability of some businesses to properly service their debt. At December 31, 2010, 79.0% of our classified loans were current with payments. Other than disclosed in the above tables, there are no other loans at December 31, 2010 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

At December 31, 2009, special mention loans consisted of $9.5 million in commercial real estate loans, $6.6 million in commercial construction loans, and $1.2 million in commercial business loans; substandard loans consisted of $4.0

million in commercial business loans, $2.5 million in commercial construction loans, and $1.4 million in commercial real estate loans; doubtful loans consisted of $369,000 in commercial business loans and $133,000 in commercial real estate loans; and loss loans consisted of $17,000 in commercial business loans. The increase in classified loans was due to general deterioration of economic conditions that have led to the inability of some businesses to properly service their debt. At December 31, 2009, 95.8% of our classified loans were current with payments. Other than disclosed in the above tables, there are no other loans at December 31, 2009 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 inherent 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. The allowance for loan losses is maintained at an amount that management considers appropriate to cover inherent probable losses in the loan portfolio.

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 probable 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 collectability of the portfolio as of the evaluation date. These significant factors include: levels and historical trends in delinquencies, impaired loans, non-accrual loans, charge-offs, recoveries, and classified assets; trends in the volume and terms of loans; effects of any change in underwriting, policies, procedures, and practices; experience, ability, and depth of management and staff; national and local economic trends and conditions; trends and conditions in the industries in which borrowers operate; effects of changes in credit concentrations. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment.

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 collectability. 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, 2010, our allowance for loan losses represented 1.02% of total loans and 68.48% of nonperforming loans. The allowance for loan losses increased slightly from $4.1 million at December 31, 2009 to $4.4 million at December 31, 2010, due to a provision for loan losses of $1.2 million, partially offset by net charge-offs of $869,000. The provision for loan losses in the year ended December 31, 2010 reflects management's assessment of several factors. In particular, non-accrual loans increased $1.6 million to $6.5 million at December 31, 2010 from $4.8 million at December 31, 2009. Also, net charge-offs increased $716,000 from December 31, 2009. 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, as well as the weakening of the local and national economy.

At December 31, 2009, our allowance for loan losses represented 0.95% of total loans and 84.17% of nonperforming loans. The allowance for loan losses increased slightly from $3.3 million at December 31, 2008 to $4.1 million at December 31, 2009, due to a provision for loan losses of $897,000, partially offset by net charge-offs of $153,000. The provision for loan losses in the year ended December 31, 2009 reflects management's assessment of several factors. In particular, non-accrual loans increased $1.9 million to $4.8 million at December 31, 2009 from $2.9 million at December 31, 2008. Also, net charge-offs increased $95,000 from December 31, 2008. 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, as well as the weakening of the local and national economy.

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.

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. Real estate includes residential, commercial and home equity loans.

	For Years Ended December 31,								
	2010			2009			2008		
	Amount	% of Allowance in each Category to Total Allowance	Percent of Loans in each Category to Total Loans	Amount	% of Allowance in each Category to Total Allowance	Percent of Loans in each Category to Total Loans	Amount	% of Allowance in each Category to Total Allowance	Percent of Loans in each Category to Total Loans
	(Dollars in Thousands)								
Real estate	$2,424	54.7 %	74.9 %	$2,105	51.6 %	74.0 %	$1,784	53.5 %	76.1 %
Construction	550	12.4 %	7.6 %	811	19.9 %	9.0 %	624	18.7 %	9.9 %
Commercial	1,429	32.3 %	16.8 %	1,124	27.6 %	16.0 %	895	26.9 %	13.0 %
Consumer	28	0.6 %	0.7 %	37	0.9 %	1.0 %	30	0.9 %	1.0 %
Unallocated	-	-	-	-	-	-	-	-	-
Total allowance for loan losses	$4,431	100.0 %	100.0 %	$4,077	100.0 %	100.0 %	$3,333	100.0 %	100.0 %

	For Years Ended December 31,					
	2007			2006		
	Amount	% of Allowance in each Category to Total Allowance	Percent of Loans in each Category to Total Loans	Amount	% of Allowance in each Category to Total Allowance	Percent of Loans in each Category to Total Loans
	(Dollars in Thousands)					
Real estate	$1,636	53.2 %	76.3 %	$1,531	52.6 %	75.3 %
Construction	603	19.6 %	10.6 %	626	21.5 %	11.2 %
Commercial	778	25.3 %	12.0 %	724	24.9 %	12.5 %
Consumer	31	1.0 %	1.1 %	27	1.0 %	1.0 %
Unallocated	28	0.9 %	-	-	-	-
Total allowance for loan losses	$3,076	100.0 %	100.0 %	$2,908	100.0 %	100.0 %

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.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated. Real estate includes residential and commercial real estate loans. There were no home equity loans charged off or recovered as of December 31, 2010.

	At or for the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in Thousands)				
Allowance for loan losses, beginning of period	$ 4,077	$ 3,333	$ 3,076	$ 2,908	$ 2,605
Charged-off loans:					
Real estate	(450)	(93)	-	(25)	(47)
Construction	(107)	-	-	-	-
Commercial	(266)	(9)	-	(3)	(88)
Consumer	(109)	(69)	(71)	(37)	(4)
Total charged-off loans	(932)	(171)	(71)	(65)	(139)
Recoveries on loans previously charged-off:					
Real estate	-	-	-	-	-
Construction	-	-	-	-	-
Commercial	38	-	-	10	2
Consumer	25	18	13	-	-
Total recoveries	63	18	13	10	2
Net loans charged-off	(869)	(153)	(58)	(55)	(137)
Provision for loan losses	1,223	897	315	223	440
Allowance for loan losses, end of period	$ 4,431	$ 4,077	$ 3,333	$ 3,076	$ 2,908
Net loans charged-off to average loans, net	0.20 %	0.04 %	0.01 %	0.01 %	0.04 %
Allowance for loan losses to total loans (1)	1.02 %	0.95 %	0.79 %	0.80 %	0.78 %
Allowance for loan losses to nonperforming loans (2)	68.48 %	84.17 %	114.30 %	303.35 %	169.96 %
Net loans charged-off to allowance for loan losses	19.61 %	3.75 %	1.74 %	1.79 %	4.71 %
Recoveries to charge-offs	6.76 %	10.53 %	18.31 %	15.38 %	1.44 %

(1) Total loans equals net loans plus the allowance for loan losses.
(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 collectability 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 residential investment 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.

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, 2010 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, 2010 through December 31, 2011.

Increase (Decrease) in Market Interest Rates (Rate Shock)		Net Interest Income					
		$ Amount		$ Change		% Change	
		(Dollars In Thousands)					
500	bp	$	20,084	$	3,251	19.3	%
400		$	19,392	$	2,559	15.2	%
300		$	18,718	$	1,885	11.2	%

200		$	18,267	$	1,434		8.5	%
100		$	17,637	$	804		4.8	%
-		$	16,833		-		-	
(100	)	$	15,642	$	(1,191	)	-7.1	%
(200	)	$	14,948	$	(1,885	)	-11.2	%

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 FHLB-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. Our short-term investments primarily consist of U.S. Treasury and government agencies, which we use primarily for the collateral purposes for sweep accounts maintained by commercial customers. The balances of these investments fluctuate as the aggregate balance of our sweep accounts fluctuate.

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, 2010, total Bank cash and cash equivalents totaled $35.6 million, net of reserve requirements. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled $362,000 at December 31, 2010. Other liquid assets as of December 31, 2010 include: U.S. Treasury securities and collateralized mortgage obligations, net of pledged securities, of $8.8 million, loans held for sale of $1.9 million, and certificates of deposit of $11.7 million. At December 31, 2010, the Bank had an over collateralized securities pledging position of $7.9 million.

On December 31, 2010, we had $71.6 million of borrowings outstanding with the FHLB. At December 31, 2010, we had the ability to borrow an additional $7.9 million based on the collateral pledged to the FHLB. The Company is able to pledge additional collateral to increase the advance availability with the FHLB of up to 50% of its asset base. In addition, at December 31, 2010 we had the following contingency funding sources available: a $2.0 million available line of credit with the FHLB, which has been reduced from our FHLB availability based on pledged collateral; an unsecured line of credit of $3.0 million with Bankers Bank, N.E; and the ability to purchase up to $3.0 million in fed funds. During the year ended December 31, 2010, we did not utilize any of the three contingency funding sources. Future growth of our loan portfolio resulting from our expansion efforts may require us to borrow additional funds.

At December 31, 2010, we had $101.2 million in loan commitments outstanding, which consisted of $10.7 million in commercial loan commitments, $4.9 million of mortgage loan commitments, and $232,000 in home equity and consumer commitments; $7.1 million in unadvanced construction loan commitments; $75.9 million in unused lines of credit; and $2.3 million in standby letters of credit. Certificates of deposit due within one year of December 31, 2010 totaled $117.6 million, or 53.8% 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, 2011. 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, 2010 (in thousands):

51

	Payments due by period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-term debt	$ 71,615	$ 5,000	$ 25,600	$ 32,619	$ 8,396
Operating lease obligations	6,051	410	744	748	4,149
Other long-term liabilities reflected on the Company's balance sheet under GAAP	-	-	-	-	-
Total	$ 77,666	$ 5,410	$ 26,344	$ 33,367	$ 12,545

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 FHLB 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 FDIC, 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, 2010, we exceeded all of our regulatory capital requirements. We are considered “well capitalized” under regulatory guidelines.

Total stockholders’ equity at December 31, 2010 was $91.9 million compared to $94.2 million at December 31, 2009. The decrease was primarily attributed to the Company’s stock repurchase plan, partially offset by net income of $465,000 and stock-based compensation of $1.6 million. In 2010, the Company purchased 367,052 shares of the Company’s common stock at a cost of $4.3 million and an average per share price of $11.83. Our capital management strategies allowed us to increase our book value per share by $0.52, or 3.5%, to $15.28 at December 31, 2010 compared to $14.76 at December 31, 2009. During 2010, 2009 and 2008 we repurchased approximately $4.3 million, or 367,052 shares, $1.5 million, or 117,723 shares, and $10.4 million, or 787,615 shares, of our stock 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, 2010 and December 31, 2009, 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 this 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.

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 2010 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.

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 2011 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 2011 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 2011 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.

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 2011 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 2011 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 2011 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 2011 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 2011 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

The following table sets forth information as of December 31, 2010 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.

Plan Category	Number of Securities to be Issued Upon the Exercise of Outstanding Options Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	708,720	$ 14.22	156,738
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	708,720	$ 14.22	156,738

Item 13. Certain Relationships and Related Transactions, 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" and "Policies and Procedures for Approval of Related Person Transactions" in Chicopee Bancorp's Proxy Statement for the 2011 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 2011 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 2011 Annual Meeting of Stockholders is incorporated by reference.

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, 2010 and 2009
- Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2010, 2009 and 2008
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008
- 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.

3. Exhibits

No.		Description
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. (3)
10.2	*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank (3)
10.3	*	Amended and Restated Change in Control Agreement between Russell J. Omer and Chicopee Savings Bank (3)
10.4	*	Amended and Restated Change in Control Agreement between Alzira C. Costa and Chicopee Savings Bank (3)
10.5	*	Amended and Restated Change in Control Agreement between Maria J.C. Aigner and Chicopee Savings Bank (3)
10.6	*	Form of Chicopee Savings Bank Employee Stock Ownership Plan (1)

10.7	*	Form of Trust Agreement between Chicopee Savings Bank and the Trustee for Chicopee Savings Bank Employee Stock Ownership Plan Trust (1)
10.8	*	Form of Loan Agreement (1)
10.9	*	Amended and Restated Chicopee Savings Bank Employee Severance Compensation Plan (3)
10.10	*	Amended and Restated Chicopee Savings Bank Supplemental Executive Retirement Plan (3)
10.11	*	Form of Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Alzira C. Costa, Russell J. Omer and William J. Wagner (1)
10.12	*	Form of First Amendment to the Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Alzira C. Costa, Russell J. Omer and William J. Wagner (3)
10.13	*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc. (3)
10.14	*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank (3)
10.15	*	Change in Control Agreement between Chicopee Savings Bank and Guida R. Sajdak (4)
10.16	*	Employment Agreement between Chicopee Bancorp, Inc. and Russell J. Omer (4)
10.17	*	Employment Agreement between Chicopee Savings Bank and Russell J. Omer (4)

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) 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).

(3) Incorporated by reference in this document to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 13, 2009 (File No. 000-51996).

(4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2010.

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 15, 2011

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.

Name	Title	Date
/s/ William J. Wagner William J. Wagner	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 15, 2011
/s/ Guida R. Sajdak Guida R. Sajdak	Senior Vice President, Chief Financial Officer and Treasurer (principal financial and chief accounting officer)	March 15, 2011
/s/ James P. Lynch James P. Lynch	Director	March 15, 2011
/s/ William D. Masse William D. Masse	Director	March 15, 2011
/s/ Arthur F. DuBois Arthur F. DuBois	Director	March 15, 2011
/s/ William J. Giokas William J. Giokas	Director	March 15, 2011
/s/ John P. Moylan John P. Moylan	Director	March 15, 2011
/s/ Gregg F. Orlen Gregg F. Orlen	Director	March 15, 2011
/s/ Judith T. Tremble Judith T. Tremble	Director	March 15, 2011

/s/ Thomas J. Bardon Thomas J. Bardon	Director	March 15, 2011
/s/ James H. Bugbee James H. Bugbee	Director	March 15, 2011
/s/ Louis E. Dupuis Louis E. Dupuis	Director	March 15, 2011
/s/ Douglas K. Engebretson Douglas K. Engebretson	Director	March 15, 2011
/s/ Gary G. Fitzgerald Gary G. Fitzgerald	Director	March 15, 2011
/s/ Paul C. Picknelly Paul C. Picknelly	Director	March 15, 2011

Management's Annual 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 ("GAAP"), 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, 2010. 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, 2010, 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, 2010, a copy of which is included in this annual report.

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, 2010 and 2009, 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, 2010. We have also audited Chicopee Bancorp, Inc.'s internal control over financial reporting as of December 31, 2010, 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 GAAP. 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 GAAP, 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.

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, 2010 and 2009, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2010, 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, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Berry, Dunn, McNeil & Parker
Portland, Maine

March 15, 2011

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2010	2009
	(In thousands, except share data)	
Cash and due from banks	$6,903	$9,757
Short-term investments	-	16
Federal funds sold	28,970	10,302
Cash and cash equivalents	35,873	20,075
Securities available-for-sale, at fair value	362	503
Securities held-to-maturity, at cost (fair value $69,912 and $63,130 at December 31, 2010 and 2009, respectively)	69,713	62,983
Federal Home Loan Bank stock, at cost	4,489	4,306
Loans receivable, net of allowance for loan losses ($4,431 at December 31, 2010 and $4,077 at December 31, 2009)	430,307	424,655
Loans held for sale	1,888	534
Other real estate owned	286	80
Mortgage servicing rights	306	297
Bank owned life insurance	13,032	12,610
Premises and equipment, net	10,340	10,652
Accrued interest receivable	1,897	1,629
Deferred income tax asset	2,469	2,112
FDIC prepaid insurance	1,361	1,783
Other assets	1,381	1,931
Total assets	$573,704	$544,150
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$48,302	$42,629
Interest-bearing	343,635	322,869
Total deposits	391,937	365,498
Securities sold under agreements to repurchase	17,972	20,422
Advances from Federal Home Loan Bank	71,615	63,675
Accrued expenses and other liabilities	298	383
Total liabilities	481,822	449,978
Commitments and contingencies (Notes 10, 11, 12, 13, 14, 15, 16 and 17)		
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at December 31, 2010 and December 31, 2009)	72,479	72,479
Treasury stock, at cost (1,427,390 shares at December 31, 2010 and		

1,060,338 shares at December 31, 2009)	(18,295)	(13,951)
Additional paid-in capital	2,255	1,765
Unearned compensation (restricted stock awards)	(1,431)	(2,269)
Unearned compensation (Employee Stock Ownership Plan)	(4,463)	(4,761)
Retained earnings	41,308	40,843
Accumulated other comprehensive income	29	66
Total stockholders' equity	91,882	94,172
Total liabilities and stockholders' equity	$573,704	$544,150

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2010	2009	2008
	(In thousands, except share data)		
Interest and dividend income:			
Loans, including fees	$23,537	$23,676	$24,125
Interest and dividends on securities	1,288	809	1,254
Other interest-earning assets	32	29	404
Total interest and dividend income	24,857	24,514	25,783
Interest expense:			
Deposits	5,930	7,205	9,391
Securities sold under agreements to repurchase	68	210	348
Other borrowed funds	2,018	1,692	1,450
Total interest expense	8,016	9,107	11,189
Net interest income	16,841	15,407	14,594
Provision for loan losses	1,223	897	315
Net interest income, after provision for loan losses	15,618	14,510	14,279
Non-interest income:			
Service charges, fee and commissions	1,716	1,507	1,602
Loan sales and servicing, net	365	629	(13)
Net gain (loss) on sales of securities available-for-sale	158	382	(47)
Loss on sales of other than temporarily impaired securities	-	(241)	(10)
Loss on sale of other real estate owned	(22)	(28)	-
Other than temporary impairment charge	(13)	(1,403)	-
Income from bank owned life insurance	422	466	469
Total non-interest income	2,626	1,312	2,001
Non-interest expenses:			
Salaries and employee benefits	10,407	10,258	9,496
Occupancy expenses	1,551	1,607	1,152
Furniture and equipment	1,022	1,139	974
FDIC insurance assessment	422	501	47
Data processing	1,207	1,089	907
Professional fees	577	504	729
Advertising	501	514	488
Stationery, supplies and postage	315	383	351
Other non-interest expense	2,007	2,050	1,738
Total non-interest expenses	18,009	18,045	15,882
Income (loss) before income taxes	235	(2,223)	398
Income tax (benefit) expense	(230)	(627)	376
Net income (loss)	$465	$(1,596)	$22

Earnings (loss) per share: (1)			
Basic	$0.08	$(0.28)	$-
Diluted	$0.08	$(0.28)	$-
Adjusted weighted average common shares outstanding			
Basic	5,662,864	5,715,618	5,986,141
Diluted	5,668,596	5,715,618	5,986,427

(1) Common stock equivalents are excluded from the computation of diluted net loss per share for the year ended December 31, 2009, since the inclusion of such equivalents would be anti-dilutive.

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2010, 2009 and 2008

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (ESOP)	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	(In thousands, except number of shares)							
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
Comprehensive loss:								
Net loss	-	-	-	-	-	(1,596)	-	(1,596)
Change in net unrealized loss on								

securities available-for-sale (net of deferred tax expense of $795)	-	-	-	-	-	-	1,486	1,486
Total comprehensive loss								(110)
Treasury stock purchased (117,723 shares)	-	(1,468)	-	-	-	-	-	(1,468)
Change in unearned compensation:								
Stock option expense	-	-	524	-	-	-	-	524
Restricted stock award expense	-	-	-	838	-	-	-	838
Common stock held by ESOP committed to be released	-	-	73	-	298	-	-	371
Balance at December 31, 2009	$ 72,479	$ (13,951)	$ 1,765	$ (2,269)	$ (4,761)	$ 40,843	$ 66	$ 94,172
Comprehensive income:								
Net income	-	-	-	-	-	465	-	465
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of $20)	-	-	-	-	-	-	(37)	(37)
Total comprehensive income								428
Treasury stock purchased (367,052 shares)	-	(4,344)	-	-	-	-	-	(4,344)
Change in unearned compensation:								
Stock option expense	-	-	432	-	-	-	-	432
Restricted stock award expense	-	-	-	838	-	-	-	838
Common stock held by ESOP committed to be released	-	-	58	-	298	-	-	356
	$ 72,479	$ (18,295)	$ 2,255	$ (1,431)	$ (4,463)	$ 41,308	$ 29	$ 91,882

Balance at
December 31, 2010

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:		(In thousands)	
Net income (loss)	$465	$(1,596)	$22
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,007	1,145	1,095
Provision for loan losses	1,223	897	315
Increase in cash surrender value of life insurance	(422)	(466)	(469)
Realized (gains) losses on investment securities, net	(158)	(382)	47
Realized losses on other than temporarily impaired securities	-	241	10
Other than temporary impairment charge	13	1,403	-
Realized losses on disposal of property and equipment	-	-	1
Realized gains on sales of loans	(169)	(352)	(22)
Net loss on sales of other real estate owned	22	28	-
Net change in loans originated for resale	(1,354)	(349)	(185)
Deferred income tax (benefit) expense	(337)	(473)	363
Decrease (increase) in FDIC prepaid insurance	422	(1,783)	-
Decrease (increase) in other assets	587	(5)	(1,045)
(Increase) decrease in accrued interest and dividends receivable	(268)	(52)	175
Decrease in other liabilities	(85)	(9)	(740)
Change in unearned compensation	1,626	1,733	1,725
Net cash provided (used) by operating activities	2,572	(20)	1,292
Cash flows from investing activities:			
Additions to premises and equipment	(582)	(1,012)	(4,469)
Loan originations and principal collections, net	(7,479)	(9,754)	(36,792)
Proceeds from sales or paydowns of other real estate owned	376	439	-
Proceeds from sales of securities available-for-sale	228	8,086	2,595
Proceeds from calls of securities held-to-maturity	-	5,000	-
Purchases of securities available-for-sale	-	(2,301)	(2,780)
Purchases of securities held-to-maturity	(114,100)	(132,035)	(327,157)
Maturities of securities held-to-maturity	105,072	112,800	304,724
Proceeds from principal paydowns of securities held-to-maturity	2,309	935	-
Net purchase of FHLB stock	(183)	-	(2,723)
Net cash used in investing activities	(14,359)	(17,842)	(66,602)
Cash flows from financing activities:			
Net increase in deposits	26,439	30,731	8,694
Net (decrease) increase in securities sold under agreements to repurchase	(2,450)	(1,534)	7,777
Proceeds from long-term FHLB advances	24,500	29,000	52,000
Payments on long-term FHLB advances	(16,560)	(31,892)	(3,207)
Net (decrease) increase in short-term advances	-	(10,000)	10,000
Stock purchased for treasury	(4,344)	(1,468)	(10,375)

Net cash provided by financing activities	27,585	14,837	64,889
Net increase (decrease) in cash and cash equivalents	15,798	(3,025)	(421)
Cash and cash equivalents at beginning of year	20,075	23,100	23,521
Cash and cash equivalents at end of year	$35,873	$20,075	$23,100
Supplemental cash flow information:			
Interest paid on deposits	$5,930	$7,205	$9,391
Interest paid on borrowings	2,099	1,865	1,701
Income taxes paid	239	63	822
Transfers from loans to other real estate owned	566	277	269

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2010, 2009 and 2008

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 ("GAAP"), 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, the determination of other-than-temporary impairment of investment securities ("OTTI"), 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.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors is recognized in other comprehensive income or loss. Credit loss is determined to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the difference between the security's cost basis and its fair value at the balance sheet date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other-Than-Temporary Impairment of Investment Securities

One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairment. The evaluation of securities for other-than-temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if other-than-temporary impairment is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest due.

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

The Company grants real estate, commercial and consumer loans to customers. Real estate loans include residential loans secured by first lien real estate and residential construction loans. Commercial loans include commercial real estate, commercial & industrial, commercial construction loans and residential investment loans. Consumer loans include second mortgages, home improvements, equity loans, automobile and personal loans. For purposes of evaluating the risk in our loan portfolio, we have identified the following loan classes, which are used in evaluating the adequacy of the allowance for loan losses: residential real estate, residential construction, commercial real estate, commercial construction, commercial & industrial, consumer and home equity loans.

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.

Delinquency and nonaccrual

All loan classes, as mentioned above, past due greater than 30 days are considered delinquent. The Company calculates the number of days past due based on a 30 day month. Management continuously monitors delinquency and nonaccrual levels and trends.

It is the policy of the Company to discontinue the accrual of interest on all loan classes when principal or interest payments are delinquent 90 days or more. The accrual of interest is also discontinued for impaired loans that are delinquent 90 days or more or at management's discretion.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All interest accrued, but not collected, for all loan classes, including impaired 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. All loan classes are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Risk Characteristics

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

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

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

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

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Credit Quality

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

The following describes the credit risk ratings:

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

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

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

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

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

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

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

Loans charged off

Commercial loans- Loans past due more than 120 days are considered for one of three options: charge-off the balance of the loan, charge-off any excess balance over the value of the collateral securing the loan, or continue collection efforts subject to a monthly review until either the balance is collected or a charge-off recommendation can be reasonably made.

Residential loans- In general, no charge-off will be recommended until a potential shortfall can be determined when the Bank has received an updated appraisal and title to the property. However, any outstanding loan balance in excess of the fair value of the property, less cost to sell, is classified as a loss in the allocation of loan loss reserves. This amount is recommended for charge off, when the property is acquired and transferred on the balance sheet from loans to other real estate owned.

Consumer loans- Generally all loans are automatically considered for charge-off at 90 to 120 days from the contractual due date, unless there is liquid collateral in hand sufficient to repay principal and interest in full.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on management's evaluation of the level of the allowance required in relation to the probable loss exposure in the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management. Qualitative factors, or risks considered in evaluating the adequacy of the allowance for loan losses for all loan classes include historical loss experience; levels and trends in delinquencies, nonaccrual loans, impaired loans and net charge offs; the character and size of the loan portfolio; effects of any changes in underwriting policies; experience of management and staff; current economic conditions and their effect on borrowers; effects of changes in credit concentrations, and management's estimation of probable losses. 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 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.

Impairment

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

Impairment is measured on a loan-by-loan basis 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 loans for impairment evaluation, except for home equity loans.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan servicing

The valuation of mortgage servicing rights is a critical accounting policy, which requires significant estimates and assumptions. The Bank often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 1% of the outstanding balance of the loan per annum. Servicing assets are recognized at fair value as separate assets when servicing rights are acquired through the sale of loans. Capitalized servicing rights are reported in other assets and are amortized against non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine fair value. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speed results in lower valuations of mortgage servicing rights. 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. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.

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

Periodically, the Company acquires property in connection with foreclosures or in satisfaction of debt previously contracted. The valuation of this property is accounted for individually based on its net realizable value on the date of acquisition. At the acquisition date, if the net realizable value of the property is less than the book value of the loan, a charge or reduction in the allowance for loan losses is recorded. If the value of the property becomes permanently impaired, as determined by an appraisal or an evaluation in accordance with the Company’s appraisal policy, the Company will record the decline by a charge against current earnings. Upon acquisition of a property, a current appraisal or broker’s opinion must substantiate market value for the property.

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.

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.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Advertising

Advertising costs are expensed as incurred.

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 dilutive 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.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. The Company's stock options and stock awards receive non-forfeitable dividends at the same rate as common stock. The following table sets forth the computation of basic and diluted earnings per share under the two-class method:

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Years Ended December 31, 2010	2009	2008
Net income (loss) (in thousands)	$ 465	$ (1,596)	$ 22
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(1,149,876)	(1,008,680)	(649,241)
Less: average number of unallocated ESOP shares	(476,121)	(505,878)	(535,635)
Less: average number of nonvested restricted stock awards	(150,507)	(209,192)	(268,351)
Adjusted weighted average number of common shares outstanding	5,662,864	5,715,618	5,986,141
Plus: dilutive nonvested restricted stock awards	5,732	-	286
Weighted average number of diluted shares outstanding	5,668,596	5,715,618	5,986,427
Net income (loss) per share:			
Basic- common stock	$ 0.08	$ (0.28)	$ -
Basic- unvested share-based payment awards	$ 0.08	$ (0.28)	$ -
Diluted- common stock	$ 0.08	$ (0.28)	$ -
Diluted- unvested share-based payment awards	$ 0.08	$ (0.28)	$ -

There were 591,334, 688,167, and 671,667 stock options for the years ended December 31, 2010, 2009 and 2008, which were excluded from the diluted earnings per share because their effect is anti-dilutive.

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 (loss) income and related tax effects are as follows:

	Years Ended December 31, 2010	2009 (In Thousands)	2008
Unrealized holding gains (losses) on available-for-sale securities arising during the year	$ 88	$ 1,019	$ (2,597)
Other than temporary impairment charge realized in income	13	1,403	-
Reclassification adjustment for (gains) losses realized in income	(158)	(141)	57

Net unrealized holding (losses) gains		(57)		2,281		(2,540)
Tax effect		20		(795)		886
Other comprehensive (loss) income	$	(37)	$	1,486	$	(1,654)

F-16

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2010	December 31, 2009
	(In Thousands)	
Net unrealized gain on securities available-for-sale	$ 43	$ 101
Tax effect	(14)	(35)
Net-of-tax amount	$ 29	$ 66

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.

Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued a change to Accounting Standards Codification (ASC) Topic 860, "Transfers and Servicing," to improve the reporting for the transfer of financial assets resulting from 1) practices that have developed since the issuance of a previous FASB statement that are not consistent with the original intent and key requirements of that statement and 2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This ASC is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Earlier application is prohibited. The adoption of this Statement did not have a material impact on the Company's consolidated financial statements.

In June 2009, FASB issued a change to ASC Topic 810, "Consolidation," to amend certain requirements of consolidation of variable interest entities, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The ASC is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for annual reporting periods thereafter. Earlier application is prohibited. The adoption of this Statement did not have a material impact on the Company's consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In August 2009, FASB issued Accounting Standards Update (ASU) 2009-05, "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value," which updates ASC Topic 820. The update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

1. A valuation technique that uses a) the quoted price of an identical liability when traded as an asset, or b) quoted prices for similar liabilities or similar liabilities when traded as assets.

2. Another valuation technique that is consistent with the principles of ASC Topic 820; examples include an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

This standard is effective for financial statements issued for the first reporting period beginning after August 2009. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements," to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for any Level 3 fair value measurements, which will become effective with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2010, FASB issued ASU 2010-20, "Receivables (Topic 310: Disclosures about the Credit Quality of Financial Receivables and the Allowance for Credit Losses." This ASU is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The guidance is effective for interim and annual reporting periods ending after December 15, 2010. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

Reclassifications

Certain amounts in the 2009 and 2008 financial statements have been reclassified to conform to the 2010 presentation.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009, these reserve balances amounted to $1.2 million and $1.1 million, 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, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale				
Marketable equity securities[1]	$ 319	$ 43	$ -	$ 362
Total securities available-for-sale	$ 319	$ 43	$ -	$ 362
Securities held-to-maturity				
U.S. Treasury securities	$ 30,817	$ -	$ (1)	$ 30,816
Corporate and industrial revenue bonds	23,348	-	-	23,348
Certificates of deposit	11,725	-	-	11,725
Collateralized mortgage obligations	3,823	200	-	4,023
Total securities held-to-maturity	$ 69,713	$ 200	$ (1)	$ 69,912

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale				
Marketable equity securities[1]	$ 402	$ 116	$ (15)	$ 503
Total securities available-for-sale	$ 402	$ 116	$ (15)	$ 503
Securities held-to-maturity				
Debt securities of U.S. Government sponsored enterprises	$ 1,999	$ -	$ -	$ 1,999
U.S. Treasury securities	43,118	3	(4)	43,117
Corporate and industrial revenue bonds	12,109	-	-	12,109
	5,757	153	(5)	5,905

Collateralized mortgage obligations				
Total securities held-to-maturity	$ 62,983	$ 156	$ (9)	$ 63,130

[1] Marketable equity securities does not include FHLB-Boston stock of $4.5 million and $4.3 million and Banker's Bank stock of $183,000 and $183,000, respectively, at December 31, 2010 and 2009.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2010 and 2009, securities with a carrying value of $25.9 million and $30.4 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, 2010 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-Maturity	
	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$ 42,542	$ 42,541
From 1 to 5 years	3,243	3,243
From 5 to 10 years	12,123	12,323
Over 10 years	11,805	11,805
	$ 69,713	$ 69,912

Proceeds from sales of securities available-for-sale during the years ended December 31, 2010, 2009 and 2008 amounted to $228,000, $8.1 million, and $2.6 million, respectively. Gross realized gains of $158,000, $510,000, and $534,000, and gross realized losses of $0, $369,000, and $591,000, were realized during the years ended December 31, 2010, 2009 and 2008, respectively. Of the $369,000 and $591,000 realized losses in 2009 and 2008, respectively, $241,000 and $10,000 were OTTI in 2009 and 2008, respectively. The tax provision applicable to these net realized gains and losses in 2010, 2009, and 2008 amounted to $46,000, $48,000, and $19,000, respectively.

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

During the year ended December 31, 2009, the Company incurred OTTI charges of $1.4 million. The Company also sold securities that were other-than-temporarily impaired with total losses of $241,000. Management evaluated these securities according to the Company's OTTI policy and determined the declines in value to be other-than-temporary.

During the year ended December 31, 2010, management determined that one equity security in the financial industry had other-than-temporary impairment for which a charge was recorded in the amount of $13,000.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unrealized Losses and Other-than-Temporary-Impairment on Investment Securities

The following table represents the fair value of investments with continuous unrealized losses for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of December 31, 2010 and 2009:

	December 31, 2010 (In Thousands)					
	Less Than Twelve Months		Twelve Months and Over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$ 17,995	$ (1)	$ -	$ -	$ 17,995	$ (1)
Total temporarily impaired securities	$ 17,995	$ (1)	$ -	$ -	$ 17,995	$ (1)

	December 31, 2009 (In Thousands)					
	Less Than Twelve Months		Twelve Months and Over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Marketable equity securities	$ -	$ -	$ 311	$ (15)	$ 311	$ (15)
U.S. Treasury securities	19,436	(4)	-	-	19,436	(4)
Collateralized mortgage obligations	190	(5)	-	-	190	(5)
Total temporarily impaired securities	$ 19,626	$ (9)	$ 311	$ (15)	$ 19,937	$ (24)

U.S. Treasury Securities.
Unrealized losses within the U.S. Treasury securities category at December 31, 2010 and 2009 all had losses for less than 12 months. The losses totaled approximately $1,000 and $4,000, respectively.

Collateralized Mortgage Obligations.
Unrealized losses within the collateralized mortgage obligations (“CMO”) category at December 31, 2009, related to 2 securities, both with continuous losses for less than 12 months. The losses totaled approximately $5,000. There were no unrealized losses at December 31, 2010.

Management reviews these securities on a regular basis for OTTI and considers if the issuer is an agency sponsored by the U.S. Government and whether downgrades by rating agencies have occurred. The Company reviews its CMO portfolio for OTTI similar to its OTTI analysis for its other securities, whereby it considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and its intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or until maturity. The Company has the ability and intent to hold these securities until maturity.

As of December 31, 2010, the Company had 16 CMO bonds, or 22 individual issues, with an aggregate book value of $3.8 million, which included 5 bonds, or 6 individual issues, with a FICO score of less than 650. This risk is mitigated by loan to value ratios of less than 65%. The total exposure of these 5 bonds to the Company was approximately $13,000. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

These 16 CMO bonds have been substantially paid down with an average current factor of 18%, and are backed by well seasoned loans of an earlier vintage, which have not been significantly affected by high delinquency levels or vulnerable to lower collateral coverage as seen in later issued pools. All such CMOs are paying according to their contractual terms and are expected to continue to pay their contractual cash flows.

The Company's remaining 11 CMO bonds are all investment grade and classified as HTM. All of these securities were issued by government sponsored agencies and are all collateralized primarily by triple AAA rated Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") mortgage loans and, to the best of the Company's knowledge, are not collateralized by sub-prime and Alt-A loans. FHLMC and FNMA guarantees the contractual cash flows of the CMOs. The loans collateralizing such CMOs consist of fixed-rate, 15-year loans, originated in early 2003 and 2004, with average FICO scores between 725 and 775, and average LTV of 57%.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Based on management's analysis, which included the above indicators, the Company has determined that no OTTI exists within the CMO portfolio as of December 31, 2010.

Marketable Equity Securities.
As of December 31, 2010, there were no unrealized losses within the equity securities portfolio. The portfolio ended the year with a net unrealized gain of $43,000 compared to $101,000 at December 31, 2009.

Unrealized losses within the marketable equity securities category at December 31, 2009 related to 4 securities, or 2 companies in the financial industry, of which all had continuous losses for more than 12 months. Unrealized loss as a percent of cost was 0.05%.

Federal Home Loan Bank stock and Federal Reserve Bank stock have also been evaluated for impairment. The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston. The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Bank's level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of December 31, 2010 and 2009, the Company's investment in FHLB stock totaled $4.5 million and $4.3 million, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. However, in the first quarter of 2009 the FHLB announced a moratorium on such redemptions in order to preserve its capital in response to current market conditions and declining retained earnings. The minimum required shares are redeemable, subject to certain limitations, five years following termination of FHLB membership. The Bank has no intention of terminating its FHLB membership. The Company had no dividend income on its FHLB stock in 2010 and 2009.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2010. The Bank will continue to monitor its investment in FHLB stock.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS

At December 31, 2010, the Company's net loan portfolio was $430.3 million, or 75.0% of total assets, compared to $424.7 million, or 78.0% of total assets, at December 31, 2009. The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the respective portfolio.

	December 31, 2010		December 31, 2009	
	Amount	Percent of Total	Amount	Percent of Total
	(In Thousands)			
Real estate loans:				
Residential real estate[1]	$ 132,670	30.6 %	$ 139,937	32.7 %
Home equity	29,933	6.9 %	29,320	6.9 %
Commercial	162,107	37.4 %	147,255	34.4 %
Total	324,710	74.9 %	316,512	74.0 %
Construction-residential	6,428	1.5 %	9,192	2.1 %
Construction-commercial	26,643	6.1 %	29,121	6.9 %
Total construction	33,071	7.6 %	38,313	9.0 %
Total real estate loans	357,781	82.5 %	354,825	83.0 %
Consumer loans	3,165	0.7 %	4,390	1.0 %
Commercial loans	72,847	16.8 %	68,552	16.0 %
Total loans	433,793	100.0 %	427,767	100.0 %
Net deferred loan origination costs	945		965	
Allowance for loan losses	(4,431)		(4,077)	
Loans, net	$ 430,307		$ 424,655	

[1] Excludes loans held for sale of $1.9 million and $534,000 at December 31, 2010 and 2009, respectively.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents an analysis of total loans segregated by risk rating and class at December 31, 2010:

	Commercial Credit Risk Exposure			
	Commercial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$ 68,048	$ 10,484	$ 152,062	$ 230,594
Special mention	1,516	11,856	6,090	19,462
Substandard	3,283	4,303	3,955	11,541
Doubtful	-	-	-	-
Loss	-	-	-	-
Total commercial loans	$ 72,847	$ 26,643	$ 162,107	$ 261,597

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
Pass	$ 129,341	$ 6,112	$ 135,453
Substandard (also, nonaccrual)	3,329	316	3,645
Total residential loans	$ 132,670	$ 6,428	$ 139,098

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
Performing	$ 3,093	$ 29,729	$ 32,822
Nonperforming (nonaccrual)	72	204	276
Total consumer loans	$ 3,165	$ 29,933	$ 33,098

An analysis of the allowance for loan losses follows:

	Years Ended December 31,		
	2010	2009	2008
	(In Thousands)		
Balance at beginning of year	$ 4,077	$ 3,333	$ 3,076
Provision for loan losses	1,223	897	315
Recoveries	63	18	13
Loans charged-off	(932)	(171)	(71)
Balance at end of year	$ 4,431	$ 4,077	$ 3,333

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the allowance for loan losses and select loan information for the year ended December 31, 2010:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
				(In Thousands)				
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$ 349	$ 86	$ 1,632	$ 374	$ 1,016	$ 28	$ 128	$ 3,613
Individually evalutated for impairment	164	62	151	28	413	-	-	818
	$ 513	$ 148	$ 1,783	$ 402	$ 1,429	$ 28	$ 128	$ 4,431
Total loans ending balance								
Collectively evaluated for impairment	$ 129,342	$ 6,112	$ 158,437	$ 24,915	$ 69,601	$ 3,165	$ 29,729	$ 421,301
Individually evalutated for impairment	3,328	316	3,670	1,728	3,246	-	204	12,492
	$ 132,670	$ 6,428	$ 162,107	$ 26,643	$ 72,847	$ 3,165	$ 29,933	$ 433,793

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

	December 31, 2010	December 31, 2009
	(In Thousands)	
Impaired loans without a valuation allowance	$ 6,800	$ 8,384
Impaired loans with a valuation allowance	5,692	1,956
Total impaired loans	$ 12,492	$ 10,340
Valuation allowance related to impaired loans	$ 818	$ 501

	Years Ended December 31, 2010	2009	2008
	(In Thousands)		
Average recorded investment in impaired loans	$ 11,448	$ 9,372	$ 4,812

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents a summary of information pertaining to impaired loans by class as of December 31, 2010:

	Recorded Investment	Unpaid Balance	Average Recorded Investment (In Thousands)	Related Allowance	Interest Income Recognized
With no related allowance					
Residential real estate	$ 2,274	$ 2,274	$ 1,948	$ -	$ 33
Residential construction	97	97	179	-	-
Commercial real estate	2,341	2,666	1,262	-	26
Commercial construction	1,500	1,500	1,499	-	50
Commercial	384	384	1,199	-	10
Consumer	-	-	-	-	-
Home equity	204	204	150	-	4
With an allowance					
Residential real estate	$ 1,054	$ 1,054	$ 835	$ 164	$ 22
Residential construction	219	219	81	62	-
Commercial real estate	1,329	1,329	1,244	151	47
Commercial construction	228	228	563	28	16
Commercial	2,862	2,862	2,481	413	129
Consumer	-	-	-	-	-
Home equity	-	-	7	-	-
Total					
Residential real estate	$ 3,328	$ 3,328	$ 2,783	$ 164	$ 55
Residential construction	316	316	260	62	-
Commercial real estate	3,670	3,995	2,506	151	73
Commercial construction	1,728	1,728	2,062	28	66
Commercial	3,246	3,246	3,680	413	139
Consumer	-	-	-	-	-
Home equity	204	204	157	-	4

Interest income recognized on impaired loans was $337,000, $375,000, and $169,000 for the years ended December 31, 2010, 2009, and 2008. No additional funds are committed to be advanced in connection with impaired loans.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents nonaccrual loans as of December 31, 2010:

	Nonaccrual (In Thousands)
Residential	
Residential	$ 3,329
Residential construction	316
Commercial	
Commercial	391
Commercial real estate	2,158
Commercial construction	-
Consumer	
Home equity	204
Consumer	72
Total	$ 6,470

The following table presents an aging analysis of past due loans as of December 31, 2010:

	31-59 Days Past Due	60-89 Days Past Due	Greater than 90 days	Total Past Due	Current	Total Loans
			(In Thousands)			
Residential real estate	$ 964	$ 622	$ 2,356	$ 3,942	$ 128,728	$ 132,670
Residential construction	-	-	316	316	6,112	6,428
Commercial real estate	340	33	758	1,131	160,976	162,107
Commercial construction	-	-	-	-	26,643	26,643
Commercial	105	401	258	764	72,083	72,847
Consumer	92	3	68	163	3,002	3,165
Home equity	107	6	117	230	29,703	29,933
Total	$ 1,608	$ 1,065	$ 3,873	$ 6,546	$ 427,247	$ 433,793

Any loan with a payment more than 30 days past due will be considered delinquent.

Nonaccrual loans were $6.5 million and $4.8 million at December 31, 2010 and 2009, respectively. As of December 31, 2010, nonaccrual loans exceed loans greater than 90 days past due by $2.6 million due to nonaccrual loans that have been paid down to less than 90 days delinquent, but are considered nonaccrual until the borrower becomes current with all past due payments. Interest foregone was $170,000, $210,000, and $126,000 for the years ended

December 31, 2010, 2009, and 2008, respectively. There were no loans greater than ninety days past due and still accruing at December 31, 2010 and 2009.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. LOAN SERVICING

Loans serviced for others are not included in the consolidated balance sheet. The unpaid principal balance of mortgages that are serviced for others was $75.8 million and $71.4 million at December 31, 2010 and 2009, respectively. The Company recorded net gains on sales of loans of $169,000, $352,000 and $22,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company capitalizes servicing rights quarterly based on a third party valuation. The balance of capitalized servicing rights included in other assets at December 31, 2010 and 2009 was $306,000 and $297,000, respectively. The significant assumptions used by a third party to estimate the fair value of capitalized servicing rights at December 31, 2010, include weighted average prepayment speed for the portfolio using the Public Securities Association Standard Prepayment Model (203 PSA), weighted average discount rate (8.22%), weighted average servicing fee (25.17 basis points), and net cost to service loans ($41.46 per loan). The fair value of the Company's servicing rights was $455,000 and $582,000 at December 31, 2010 and 2009, respectively. There was a valuation allowance of $70,000 and $33,000 at December 31, 2010 and 2009, respectively. The Company charged $37,000, $6,000 and $27,000 in impairment write-downs for the years ended December 31, 2010, 2009 and 2008, respectively. 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,		
	2010	2009	2008
	(In Thousands)		
Balance at beginning of year	$ 297	$ 75	$ 228
Capitalized mortgage servicing rights	169	352	22
Impairment losses	(37)	(6)	(27)
Amortization	(123)	(124)	(148)
Balance at end of year	$ 306	$ 297	$ 75

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment is as follows:

	December 31, 2010	December 31, 2009
	(In Thousands)	
Land	$ 1,529	$ 1,529
Buildings	9,657	9,372
Leasehold improvements	1,432	1,432
Furniture and equipment	5,248	5,080
Computer software and equipment	1,530	1,443
	19,396	18,856
Accumulated depreciation and amortization	(9,056)	(8,204)
Premises and equipment, net	$ 10,340	$ 10,652

Depreciation and amortization expense related to premises and equipment for the years ended December 31, 2010, 2009, and 2008 amounted to $894,000, $1,037,000 and $824,000, respectively.

7. DEPOSITS

A summary of deposit balances by type is as follows:

	December 31, 2010	December 31, 2009
	(In Thousands)	
Demand	$ 48,302	$ 42,629
NOW	14,572	18,466
Money market	66,218	55,293
Regular savings	44,215	42,875
Total non-certificate accounts	173,307	159,263
Certificate accounts less than $100,000	108,280	106,745
Certificate accounts of $100,000 or more	110,350	99,490
Total certificate accounts	218,630	206,235
Total deposits	$ 391,937	$ 365,498

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of certificate accounts by maturity is as follows:

	December 31, 2010		December 31, 2009	
	(In Thousands)			
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2010	$ -	-	$ 112,867	2.01 %
2011	117,627	2.10 %	32,315	4.48 %
2012	23,750	2.48 %	11,895	3.50 %
2013	25,900	3.31 %	18,295	3.74 %
2014	30,057	2.92 %	30,863	2.90 %
2015	21,296	2.85 %	-	-
	$ 218,630	2.47 %	$ 206,235	2.77 %

8. REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase, ("repurchase agreements") are funds borrowed from customers on an overnight basis that are secured by securities and are summarized as follows:

	Years Ended December 31, 2010	2009
	(In Thousands)	
Balance at year-end	$ 17,972	$ 20,422
Average amount outstanding during the year	18,703	21,339
Interest expense incurred during the year	68	210
Maximum amount outstanding at any month-end	29,639	27,334
Weighted average interest rate during the year	0.36 %	0.98 %
Weighted average interest rate on year-end balances	0.25 %	0.50 %

At December 31, 2010 and 2009, securities with a carrying value of $25.9 million and $30.4 million, respectively, were pledged to secure repurchase agreements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. ADVANCES FROM FEDERAL HOME LOAN BANK

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

		December 31, 2010		December 31, 2009	
		Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(In Thousands)		
Fixed-rate FHLB advances maturing:					
2010		$ -	-	$ 5,000	2.50 %
2011	(a)	-	-	16,450	3.74 %
2012	(a)	22,996	2.56 %	4,053	4.34 %
2013	(a)	2,604	3.55 %	3,588	3.55 %
2014	(a)	19,607	2.35 %	24,584	2.35 %
2015	(a)	13,012	2.12 %	-	-
2016	(a)	4,340	2.55 %	5,000	2.55 %
2017	(a)	4,056	2.57 %	-	-
2018	(b)	5,000	3.69 %	5,000	3.69 %
Total FHLB advances		$ 71,615	2.54 %	$ 63,675	3.04 %

(a) Includes amortizing advances requiring monthly principal and interest payments.
(b) One time put option- The FHLB may, at its option and its sole discretion, require the Member to repay this advance on June 30, 2011 provided that the FHLB has given the Member at least four days written notice of its intention to exercise its option.

FHLB advances are secured primarily by a blanket lien on qualified one- to four-family first mortgages, certain pledged commercial real estate loans and by the Company's holding of FHLB stock. At December 31, 2010 and 2009, the Company was in compliance with the FHLB collateral requirements. At December 31, 2010, the Company pledged total net eligible loans of $147.7 million of collateral to the FHLB.

At December 31, 2010, the Company had the ability to borrow an additional $7.9 million based on the collateral pledged to the FHLB. In addition, the Company is able to pledge additional collateral to increase the advance availability with the FHLB.

The Company utilizes advances from the FHLB primarily in connection with funding growth in the balance sheet and to manage interest rate risk. At December 31, 2010, all of the Company's outstanding FHLB advances were at fixed interest rates ranging from 0.70% to 3.69%. The weighted average rate for all FHLB advances at December 31, 2010 was 2.54%.

Of the $71.6 million in advances outstanding at December 31, 2010, $5.0 million is callable by the FHLB.

At December 31, 2010 and 2009, the Company had $4.5 million and $4.3 million of FHLB stock and could immediately borrow up to $7.9 million and $13.1 million, respectively, without purchasing additional FHLB stock.

During the year-ended December 31, 2010, the Company restructured a portion of existing advances to lower rates, with similar terms. Advances of $19.9 million were restructured to lower the cost of funds by 100 basis points and extend the maturity by one year.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2010 the Company had an Ideal Way Line of Credit available with the FHLB of $2.0 million and an unsecured line of credit with Banker's Bank, N.E. The unsecured line of credit with Banker's Bank, N.E. allows the Company to borrow up to $3.0 million. At December 31, 2010, there were no amounts outstanding under the two lines of credit.

10. INCOME TAXES

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

	Years Ended December 31,		
	2010	2009	2008
		(In Thousands)	
Current tax expense (benefit):			
Federal	$ 92	$ (163)	$ (14)
State	15	9	27
	107	(154)	13
Deferred tax (benefit) expense:			
Federal	(309)	(761)	(15)
State	(85)	(123)	78
	(394)	(884)	63
Change in valuation reserve	57	411	300
	(337)	(473)	363
Income tax (benefit) expense	$ (230)	$ (627)	$ 376

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

	Years Ended December 31,		
	2010	2009	2008
Statutory rate	34.0 %	34.0 %	34.0 %
(Decrease) increase resulting from:			
State taxes, net of federal tax benefit	3.7 %	3.4 %	16.5 %
Dividends received deduction	-1.8 %	1.6 %	-9.6 %
Change in valuation allowance	24.2 %	-18.5 %	71.3 %
Tax-exempt interest	-142.1 %	4.0 %	-18.1 %
Bank owned life insurance	-60.9 %	7.1 %	-37.9 %
Stock-based compensation	60.8 %	-5.4 %	17.3 %
Other, net	-15.8 %	2.0 %	21.0 %
Effective tax rates	-97.9 %	28.2 %	94.5 %

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2010	2009
	(In Thousands)	
Gross deferred tax assets		
Charitable contribution carryfoward	$ 1,769	$ 1,780
Capital loss carryforward	71	145
Allowance for loan losses	1,898	1,628
Employee benefit and stock-based compensation plans	778	627
Other	279	181
Gross deferred tax assets	4,795	4,361
Gross deferred tax liabilities		
Deferred loan costs	(283)	(315)
Mortgage servicing rights	(122)	(119)
Depreciation	(139)	(69)
Unrealized gain on securities available-for-sale	(14)	(35)
Gross deferred tax liabilities	(558)	(538)
Net deferred tax asset	4,237	3,823
Valuation allowance	(1,768)	(1,711)
Net deferred tax asset	$ 2,469	$ 2,112

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

	Years Ended December 31, 2010	2009	2008
		(In Thousands)	
Balance at beginning of year	$ 1,711	$ 1,300	$ 1,000
Change generated by current year's operations	57	411	300
Balance at end of year	$ 1,768	$ 1,711	$ 1,300

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 $1.9 million. As of December 31, 2010, 2009 and 2008 a valuation reserve of $1.8 million, $1.7 million and $1.3 million, respectively, 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 Chicopee Savings Bank Charitable Foundation as well as a capital loss carry forward. The judgment applied by management considers the likelihood that sufficient taxable income will be realized within the carry forward period in light of its tax planning strategies and changes in the market conditions. The charitable contribution carry forward of $5.1 million at December 31, 2010 expires in 2011. The charitable contribution carry forward, net of the related allowance and tax effected is $62,000.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The federal income tax reserve for loan losses at the Bank's base year is $3.6 million. 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 $1.4 million has not been provided.

The Company’s income tax returns for the years ended December 31, 2007, 2008 and 2009 are open to audit under the statute of limitations by the Internal Revenue Service. The Company’s policy is to record interest and penalties related to uncertain tax positions as part of its income tax expense. The Company has no penalties and interest recorded for the years ended December 31, 2010, 2009 and 2008.

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:

	December 31,	
	2010	2009
	(In Thousands)	
Commitments to grant loans	$ 18,945	$ 17,429
Unfunded commitments for construction loans	7,140	8,203
Unfunded commitments under lines of credit	75,924	62,006
Standby letters of credit	2,301	2,334

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.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASB Statements, 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, 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 $2.3 million at December 31, 2010 and 2009, 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, 2010 and 2009 was not material.

Lease commitments

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2010, future minimum operating lease commitments pertaining to banking premises are as follows:

	(In Thousands)
2011	$ 410
2012	364
2013	380
2014	374
2015	374
Thereafter	4,149
	$ 6,051

The leases contain options to extend for periods from one to five years. Total rent expense, including common area charges for the years ended December 31, 2010, 2009, and 2008 approximated $490,000, $490,000, and $300,000, respectively.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. OTHER COMMITMENTS AND CONTINGENCIES

Employment and change in control agreements

Chicopee Bancorp, Inc. has three-year employment agreements with its President and Chief Executive Officer and its Executive Vice President of Lending 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, 2010 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, 2010 and 2009, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 2010, 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.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's and Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 are presented in the table.

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In Thousands)			
As of December 31, 2010:						
Total Capital to Risk Weighted Assets						
Company	$ 95,199	20.7 %	$ 36,861	8.0 %	N/A	N/A
Bank	$ 78,687	17.1 %	$ 36,786	8.0 %	$ 45,982	10.0 %
Tier 1 Capital to Risk Weighted Assets						
Company	$ 90,749	19.7 %	$ 18,430	4.0 %	N/A	N/A
Bank	$ 74,237	16.1 %	$ 18,393	4.0 %	$ 27,589	6.0 %
Tier 1 Capital to Average Assets						
Company	$ 90,749	16.1 %	$ 22,590	4.0 %	N/A	N/A
Bank	$ 74,237	13.2 %	$ 22,532	4.0 %	$ 28,164	5.0 %
As of December 31, 2009:						
Total Capital to Risk Weighted Assets						
Company	$ 97,878	23.4 %	$ 33,418	8.0 %	N/A	N/A
Bank	$ 84,779	20.4 %	$ 33,303	8.0 %	$ 41,628	10.0 %
Tier 1 Capital to Risk Weighted Assets						
Company	$ 93,756	22.4 %	$ 16,709	4.0 %	N/A	N/A

Bank	$	80,657	19.4	%	$	16,651	4.0	%	$	24,977	6.0 %
Tier 1 Capital to Average Assets											
Company	$	93,756	17.4	%	$	21,498	4.0	%		N/A	N/A
Bank	$	80,657	15.1	%	$	21,435	4.0	%	$	26,794	5.0 %

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the Company's equity as disclosed in the balance sheet under GAAP to regulatory capital as disclosed in the table above.

	December 31, 2010	December 31, 2009
	(In Thousands)	
Total equity determined under generally accepted accounting principles	$ 91,882	$ 94,172
Net unrealized gain on securities available-for-sale, net of tax	(28)	(66)
Disallowed mortgage servicing rights	(31)	(30)
Disallowed deferred tax assets	(1,074)	(320)
Tier 1 Capital	90,749	93,756
Allowable allowance for loan losses	4,431	4,077
Unrealized gain on available-for-sale equity securities, net of tax	19	45
Total regulatory capital	$ 95,199	$ 97,878

14. COMMON STOCK REPURCHASE PROGRAM

During 2007 through 2010, the Board of Directors authorized five 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 February 2008 at a total cost of approximately $4.9 million, or an average price of $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 an average price of $13.26 per share. The third repurchase of 335,000 shares was completed in November 2009 for at a total cost of approximately $4.3 million, or an average price of $12.98 per share.

During 2010, the fourth and fifth repurchase programs were approved by the Board of Directors for approximately 5% of the Company's outstanding common stock, or 318,952 and 303,004 shares, respectively. The fourth repurchase of 318,952 shares was completed in November 2010 at a total cost of approximately $3.7 million, or an average price of $11.75 per share. As of December 31, 2010, the Company repurchased 48,100 shares of the 303,004 shares from the fifth repurchase program at a total cost of approximately $594,000, or an average price of $12.36 per share. In total, at December 31, 2010, the Company repurchased 367,052 shares at a total cost of approximately $4.3 million, or an average price of $11.83 per share.

As of December 31, 2010, the Company repurchased a total of 1,427,390 shares of common stock at a total cost of approximately $18.3 million, or an average price of $12.82 per share during 2007 through 2010 for all five 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.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. EMPLOYEE BENEFIT PLANS

The Company provides a 401(k) defined contribution plan (the “401(k) Plan”) for eligible employees. Each employee reaching the age of 21 and one year of service automatically becomes a participant in the 401(k) Plan. Employees may defer from 1%-75% of compensation subject to current federal tax laws. For participating employees, the Company makes matching contributions equal to 50% of a participant’s contribution up to 2% of compensation. The Company also provides a guaranteed non-elective 3% Safe Harbor contribution to all eligible employees. The Company’s total expense under the 401(k) Plan for the years ended December 31, 2010, 2009, and 2008, amounted to $212,000, $235,000, and $233,000, respectively.

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”). On January 31, 2007, the Company terminated the Pension Plan and all funds were distributed to eligible employees on September 16, 2008. As of December 31, 2008, the Bank had no accrued liability related to the Pension Plan and there was no activity during the years ended December 31, 2010 and 2009.

Pension cost for the 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.

		Plan Year Ended October 31, 2008 (In Thousands)	
Change in plan assets:			
Fair value of plan assets at beginning of year	$	5,638	
Actual return on plan assets		157	
Contributions		781	
Benefits paid		(6,576	)
Fair value of plan assets at end of year		-	
Change in benefit obligation:			
Benefit obligation at beginning of year		6,419	
Service cost		-	
Interest cost		157	
Actuarial gain		-	
Benefits paid		(6,576	)
Benefit obligation at end of year		-	
Funded status and accrued benefit cost recognized in the balance sheet at October 31	$	-	
Accumulated benefit obligation	$	-	

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Components of net periodic benefit cost follow:

	Plan Year Ended October 31, 2008 (In Thousands)
Service cost	$ -
Interest cost	157
Expected return on plan assets	(157)
Recognized net actuarial loss	-
Amortization of unrecognized transition obligation	-
Net periodic benefit cost	$ -

	2008
Weighted average assumptions used to determine benefit cost were as follows:	
Discount rate on benefit cost	4.79 %
Rate of increase in compensation levels	N/A
Expected long-term rate of return on plan assets	4.79 %
Weighted average assumptions used to determine the benefit obligation were as follows:	
Discount rate on benefit obligations	N/A
Rate of increase in compensation levels	N/A

N/A = not applicable

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The composition of the Company's Pension Plan assets at October 31, 2008, by asset category, were 100% fixed income.

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 rate of return for 2008 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 was based on prevailing yields on high quality fixed income investments increased by a premium of 3% to 5% for equity investments.

The Company provides supplemental life insurance benefits to its key officers. Amounts charged to expense for these benefits were $360,000, $354,000 and $328,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

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. During 2007, 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, 2010, the remaining principal balance is payable as follows:

Years Ending December 31,	(In Thousands)
2011	$ 180
2012	195
2013	211
2014	229
2015	247
Thereafter	3,926
	$ 4,988

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each participant’s compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. Total compensation expense applicable to the ESOP amounted to $356,000, $371,000, and $378,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

Shares held by the ESOP include the following:

	December 31,		
	2010	2009	2008
Allocated	144,241	114,788	