

CHICOPEE BANCORP, INC.  
Form 10-Q  
August 14, 2006  
Table of Contents

---

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

Washington, DC 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-51996

---

**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

01013

Edgar Filing: CHICOPEE BANCORP, INC. - Form 10-Q

(Address of principal executive offices)

(413) 594-6692

(Zip Code)

(Registrant's telephone number, including area code)

N/A

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

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of August 1, 2006, there were 7,439,368 shares of the registrant's common stock outstanding

---

**Table of Contents**

**CHICOPEE BANCORP, INC.**

**Table of Contents**

	<b>Page No.</b>
<b>Part I. <u>Financial Information</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Financial Condition at December 31, 2005 and June 30, 2006</u>	2
<u>Consolidated Statements of Income for the Three and Six Month Ended June 30, 2006 and 2005</u>	3
<u>Consolidated Statements of Changes in Surplus for the Six Months Ended June 30, 2006 and 2005</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and 2005</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	18
Item 4. <u>Controls and Procedures</u>	20
<b>Part II. <u>Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	21
Item 1A. <u>Risk Factors</u>	21
Item 2. <u>Unregistered Sales of Equity and Use of Proceeds</u>	21
Item 3. <u>Defaults Upon Senior Securities</u>	21
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	21
Item 5. <u>Other Information</u>	21
Item 6. <u>Exhibits</u>	21
<u>Signatures</u>	22

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

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

## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statements of Financial Condition

(Unaudited)

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

Commitments and contingencies

Edgar Filing: CHICOPEE BANCORP, INC. - Form 10-Q

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

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

**Table of Contents**

## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statements of Income

(Unaudited)

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

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

**Table of Contents**

## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statement of Changes in Surplus (Unaudited)

Six Months Ended June 30, 2006

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

## Consolidated Statement of Changes in Surplus (Unaudited)

Six Months Ended June 30, 2005

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

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





**Table of Contents**

## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Unaudited)

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

Supplementary cash flow information:

Edgar Filing: CHICOPEE BANCORP, INC. - Form 10-Q

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

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

---

**Table of Contents**

**CHICOPEE SAVINGS BANK AND SUBSIDIARIES**

**Notes to the Unaudited Financial Statements**

**June 30, 2006**

**(1) Basis of Presentation**

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

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

**(2) Plan of Conversion**

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

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

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

**(3) Earnings per Share**

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

**(4) Recent Accounting Pronouncements**

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



**Table of Contents**

In July 2006, FASB issued Financial Accounting Standards Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 to have a material effect on its financial condition and results of operations.

**(5) Defined Benefit Pension Plan**

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

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>	
Service cost	\$ 89	\$ 73
Interest cost	90	74
Amortization of transition obligation	1	1
Expected return on assets	(93)	(82)
Recognized net actuarial loss	8	3
Net periodic benefit cost	95	69
Weighted-average discount rate assumption used to determine benefit obligation	5.75%	5.75%
Weighted-average discount rate assumption used to determine net benefit cost	5.75%	5.75%
	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>	
Service cost	\$ 179	\$ 147
Interest cost	180	148
Amortization of transition obligation	1	1
Expected return on assets	(186)	(164)
Recognized net actuarial loss	17	6
Net periodic benefit cost	191	138
Weighted-average discount rate assumption used to determine benefit obligation	5.75%	5.75%
Weighted-average discount rate assumption used to determine net benefit cost	5.75%	5.75%

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

## **Table of Contents**

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

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

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

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

Chicopee Bancorp and Chicopee Savings Bank's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of Chicopee Bancorp and its subsidiary include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in Chicopee Bancorp and Chicopee Savings Bank's market area, changes in real estate market values in Chicopee Bancorp and Chicopee Savings Bank's market area, changes in relevant accounting principles and guidelines and inability of third party service providers to perform.

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

#### **General**

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

Chicopee Savings Bank is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area. We attract deposits from the general public and use such funds to originate primarily one- to four-family residential real estate loans, commercial real estate loans and commercial loans. To a lesser extent, we originate multi-family loans, construction loans and consumer loans. At June 30, 2006, we operated out of our main office and six offices in Chicopee, West Springfield and Ludlow, Massachusetts.

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

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

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

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

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

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

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

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

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



**Table of Contents**

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

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

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

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

non- interest expense.

**Table of Contents**

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

	Three Months Ended		
	June 30,		% Change
	2006	2005	
	(Dollars in thousands)		
<b>Interest and dividend income:</b>			
Loans	\$ 4,879	\$ 4,213	15.8%
Investment securities	385	277	39.0
Other interest-earning assets	152	79	92.4