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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007

OR

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

For the transition period from____________to____________

Commission File Number: 000-50810

Monadnock Bancorp, Inc.
(Name of Small Business Issuer in its Charter)

Maryland	20-4649880
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
One Jaffrey Road, Peterborough, New Hampshire	03458
(Address of Principal Executive Office)	(Zip Code)

(603) 924-9654
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such requirements for the past 90 days.

YES X NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendments to this Form 10-KSB. [X]

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

The Registrant's revenues for the fiscal year ended December 31, 2007 were $6,382,785.

As of March 1, 2008, there were 1,223,958 shares issued and outstanding of the Registrant's Common Stock. The aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of the Common Stock as of March 1, 2008 ($6.30) was $6,656,019.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Annual Report to Stockholders (Part II)
2. Proxy Statement for the 2008 Annual Meeting of Stockholders (Part III)

Transitional Small Business Disclosure Format (Check One):

YES _____ NO X

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MONADNOCK BANCORP, INC.

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PART I

ITEM 1. Description of Business

Forward Looking Statements

This Annual Report on Form 10-KSB contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated" and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

Monadnock Bancorp, Inc.

Monadnock Bancorp, Inc. (or the "Company") is a Maryland chartered stock holding company, organized in March 2006, that owns all of the outstanding shares of common stock of Monadnock Community Bank, a federal savings bank with two full-service offices. At December 31, 2007, Monadnock Bancorp, Inc. had consolidated assets of $105.2 million, deposits of $64.8 million and stockholders' equity of $9.4 million. As of December 31, 2007, Monadnock Bancorp, Inc. had 1,293,608 shares of common stock issued and 1,228,958 shares of common stock outstanding.

Monadnock Bancorp, Inc.'s executive offices are located at One Jaffrey Road, Peterborough, New Hampshire 03458. Its telephone number at this address is (603) 924-9654.

Monadnock Community Bank

Monadnock Community Bank is a federal stock savings bank that was organized in 1971 as a Vermont chartered credit union to serve the companies that were members of the Automobile Wholesalers Association of New England and the employees of such businesses. In May 1996, the credit union converted its charter to a federal mutual savings bank and, as a result, began to serve the general public. In June 2004, we completed our mutual holding company reorganization and stock offering through the organization of Monadnock Mutual Holding Company and its majority owned subsidiary, Monadnock Community Bancorp, Inc., followed by our acquisition of a branch office located in Winchendon, Massachusetts in October 2004. On June 28, 2006, in accordance with a Plan of Conversion and Reorganization, Monadnock Community Bank became the wholly-owned subsidiary of Monadnock Bancorp, Inc. Further, Monadnock Mutual Holding Company sold its majority ownership interest in Monadnock Community Bancorp, Inc. to the public in a "second step" offering and both companies ceased to exist. Monadnock Bancorp, Inc. sold 707,681 shares, par value of $.01 per share or the maximum of the offering range, to the public raising $4.8 million in net proceeds. As part of the conversion, existing public stockholders of Monadnock Community Bancorp, Inc. received 1.3699 shares of Monadnock Bancorp, Inc. common stock in exchange for each share of their existing shares of Monadnock Community Bancorp, Inc. common stock.

Monadnock Community Bank's executive offices are located at One Jaffrey Road, Peterborough, New Hampshire 03458. Its telephone number at this address is (603) 924-9654.

General

Our principal business consists of attracting retail deposits from the general public and investing those funds primarily in permanent one- to four-family residential mortgage loans as well as home equity loans. We also originate commercial real estate loans and commercial business loans and to a lesser extent we originate multi-family residential loans, construction and land development loans and consumer loans, primarily mobile home and automobile loans. We obtain loans through our staff, as well as through advertising in various publications and through our relationship with a mortgage banking company.

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Our revenues are derived principally from interest on loans and mortgage-backed and other securities. We also generate revenue from service charges, sales of loans and investments and other income.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, demand deposit accounts and certificate of deposit accounts with varied terms ranging from 90 days to seven years. We solicit deposits in our primary market area of western Hillsborough and eastern Cheshire Counties, New

Hampshire and northern Worcester County, Massachusetts.

Competition

We face strong competition in originating real estate and other loans. Competition in originating real estate loans comes primarily from mortgage bankers. We also face competition from other commercial banks with respect to commercial business loans.

We also face competition in attracting deposits. In the past, we have attracted all of our deposits through our home office. With the acquisition of a branch in Winchendon, Massachusetts in October 2004, we began attracting deposits in this area as well as through our Peterborough, New Hampshire location. Competition for our deposits are principally from savings institutions, commercial banks, brokerage firms, credit unions and mutual funds. We compete for these deposits by offering superior service and a variety of deposit accounts at competitive rates. As of December 31, 2007, we believe that we hold less than 1% of the deposits in each of Hillsborough and Cheshire Counties in New Hampshire and Worcester County in Massachusetts. We also have less than a 1% share of the loan market in each of these counties.

Market Area

We intend to continue to be a community oriented financial institution offering a variety of financial services to primarily meet the needs of the market areas of western Hillsborough and eastern Cheshire Counties in New Hampshire and northern Worcester County in Massachusetts that we serve. Our market area is predominately rural in nature. The employer base is varied with manufacturing, retail, educational and service companies, with service being the largest. Population growth has slightly increased over the past few years, and in the past five years generally tracked the trends of the United States and the state of New Hampshire. Unemployment rates, not seasonally adjusted, in December 2007 for Hillsborough and Cheshire Counties, were 3.3% and 3.2%, respectively, compared with 4.8% and 3.3% for the United States and the state of New Hampshire, respectively. The Worcester County, Massachusetts unemployment rate was 4.4%.

Lending Activities

General. We originate one- to four-family residential loans and home equity loans. We also originate commercial real estate loans and commercial business loans and to a lesser extent, multi-family residential loans, construction and land development loans and consumer loans, primarily mobile home and automobile loans. At December 31, 2007, our gross loan portfolio totaled $64.1 million. One- to four-family residential real estate mortgage loans represented $31.5 million, or 49.2%, of our loan portfolio at December 31, 2007. Commercial real estate and commercial business loans totaled $14.7 million and $7.1 million, respectively, and represented 22.9% and 11.0%, respectively, of the total loan portfolio at December 31, 2007. Home equity loans totaled approximately $5.4 million and represented 8.4% of the total loan portfolio at December 31, 2007.

At December 31, 2007, the maximum amount which we could have loaned to any one borrower and the borrower's related entities under applicable regulations was generally $1.28 million (which is 15% of our total regulatory capital). We also utilize credit enhancements provided by the United States Small Business Administration, the United States Department of Agriculture and other agencies which guarantee a major portion of specific loans. Our largest lending relationships at December 31, 2007 were as follows: (1) a $1.6 million loan to fund a full service hotel of which $1.2 million is guaranteed by the New Hampshire Business Finance Administration; and (2) a $1.0 million loan relationship to fund three five-unit townhouses as well as equipment and business assets of a road and bridge construction company; and 3) a $1.0 million loan relationship to fund a dental

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office and several buildings to be used as a wellness boutique business. These loan relationships, as discussed above, are performing in accordance with their original terms and conditions.

Loan Portfolio Composition. The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated.

	At December 31,			
	2007		2006	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Real Estate				
One- to four-family	$31,527	49.19%	$27,414	51.01%
Home equity	5,350	8.35	5,825	10.84
Commercial real estate	14,693	22.93	9,252	17.21
Multi-family	1,705	2.66	1,224	2.28
Construction and land development	1,141	1.78	1,108	2.06
Total real estate loans	54,416	84.91	44,823	83.40
Other Loans				
Commercial business	7,066	11.02	7,010	13.04
Consumer	2,607	4.07	1,911	3.56
Total other loans	9,673	15.09	8,921	16.60
Total loans	64,089	100.00%	53,744	100.00%
Add (Deduct):				
Net deferred loan origination costs (1)	332		300	
Allowance for loan losses	(390)		(335)	
Total loans, net	$64,031		$53,709	

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(1) See Note 2 to our Financial Statements as presented in our annual report to stockholders.

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Loan Maturity and Yields. The following table sets forth certain information at December 31, 2007
amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not inc
or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated matu
due in one year or less. Loan balances do not include undisbursed loan proceeds, unearned discounts, une
allowance for loan losses.

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	Real Estate						
	One- to-Four Family		Home Equity		Commercial Real Estate		Multi-Fa
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount
	(Dollars in Thousands)						
<S> Due	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Within 1 year	$ 30	6.50%	$ --	--%	$ 1,063	8.38%	$ --
After 1 Year through 3 Years	155	6.16	--	--	258	9.12	--
After 3 Years through 5 Years	181	6.47	--	--	2,013	9.53	--
After 5 Years through 10 Years	2,728	5.71	--	--	886	7.50	--
After 10 Years through 15 Years	10,232	5.63	280	7.50	1,580	7.45	254
Over 15 Years	18,201	6.35	5,070	7.21	8,893	7.54	1,451

Total	$31,527	6.06%	$5,350	7.23%	$14,693	7.89%	$1,705

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	Commercial Business		Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Due						
Within 1 year	$ 434	9.02%	$ 88	7.18%	$ 1,659	8.08%
After 1 Year through 3 Years	1,193	8.25	573	7.26	2,179	7.94
After 3 Years through 5 Years	3,087	8.00	462	7.87	5,903	8.49
After 5 Years through 10 Years	1,667	9.28	165	7.44	5,446	7.14
After 10 Years through 15 Years	175	8.25	671	8.22	13,378	6.15
Over 15 Years	510	7.95	648	8.26	35,524	6.88
Total	$7,066	8.41%	$2,607	7.63%	$64,089	6.97%

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The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2007 that are contractually due after December 31, 2008.

	Due After December 31, 2008		
	Fixed	Adjustable	Total
	(In Thousands)		
One- to four-family	$24,993	$ 6,503	$31,496
Home equity	--	5,350	5,350
Commercial real estate	2,890	10,740	13,630
Multi-family	342	1,363	1,705
Construction and land development	475	623	1,098
Commercial business	3,323	3,309	6,632
Consumer	2,518	1	2,519
Total loans	$34,541	$27,889	$62,430

One- to Four-Family Residential Lending. Rather than process this type of loan in-house, we use the services of an unaffiliated mortgage banking company to originate the majority of one- to four-family loans on our behalf in order to provide this service to our customers in a cost-effective manner. Monadnock Community Bank has no ownership interest in this company or any common employees or directors. These loans are generally underwritten in accordance with secondary market standards that we have approved. Our lending staff takes the loan applications and prepares the material for submission to the mortgage banking company for underwriting, final processing and closing. These loans are funded by the mortgage banking company with an option for Monadnock Community Bank to purchase the loan upon funding. For the year ended December 31, 2007, we accepted for our portfolio $2.8 million of the $3.2 million of loans that we originated through this program. We continue to portfolio 15 year and 30 year fixed-rate mortgages as well as all adjustable-rate single family loans for portfolio. The Bank does not originate any subprime loans.

Through our relationship with the mortgage banking company, we can assist applicants to obtain financing, but we are not required to commit to portfolio any loan. The decision whether to acquire the loan is made at the time the borrower's application is submitted to the mortgage banking company. We typically acquire the servicing rights in order to best assist the customer relationship. These loans are acquired from the mortgage banking company without recourse or any right against the mortgage banking company to require a loan to be repurchased from us.

Fees we collect from the mortgage banking company for loans not acquired by us are recorded as commission income. If we have committed to acquire the loan at closing the fee is deferred, to the extent it exceeds the amount paid to our in-house loan originators to originate the loan, and amortized over the contractual life of the loan under the interest method. The fees we pay to acquire the loan and servicing rights are deferred as part of the loan balance and amortized over the contractual life of the loan under the interest method. If we originate loans without the use of the mortgage banking company, the direct costs of origination, primarily salaries and wages, will be deferred and amortized over the contractual life of the loans. Any origination fees collected from the borrower will be deferred as a reduction of the loan balance and amortized over the contractual life of the loan.

We account for loans acquired from our mortgage banking company relationship as loan originations since at the time the application of the borrower is submitted to the mortgage banking company we have committed to purchase the loan from the mortgage banking company at the date of funding or closing. We receive a fee between 0.50% and 0.65% of the loan balance from the mortgage banking company for each loan we refer to it whether or not we acquire the loan. We pay a fixed aggregate fee to the mortgage banking company of 1.35% of the loan balance (0.75% for the servicing rights and 0.60% origination fee) and pay the mortgage banking company the principal balance of the loan regardless of the market value of the loan on the acquisition date. At December 31, 2007, our one- to four-family residential mortgage loans totaled $31.5 million, or 49.2%, of our gross loan portfolio.

These loans are underwritten based on the applicant's employment and credit history and the appraised value of the subject property. Loans are generally made up to 80% of the lesser of the appraised value or the purchase price of the property. Should a loan be granted with a loan-to-value ratio in excess of 80%, private mortgage insurance is generally required in order to reduce the debt exposure below 80%. Properties securing our one- to four-family loans are generally appraised by independent state licensed fee appraisers approved by the Board

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of Directors. Borrowers obtain title and hazard insurance, as well as flood insurance, if necessary, in an amount not less than the value of the property improvements.

One- to four-family mortgage loans are originated on a fixed-rate and adjustable-rate basis. The pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions and consistent with our internal needs. Adjustable-rate loans are tied to a variety of indices including a rate based on U.S. Treasury securities adjusted to a constant maturity of one year. A majority of the adjustable rate loans carry an initial fixed rate of interest for either three or five years which then convert to an interest rate that is adjusted annually based upon the applicable index. Home mortgages are structured with up to a 30 year maturity. Our one- to four-family loans originated or purchased are secured by properties located primarily in Hillsborough and Cheshire Counties, New Hampshire. All our real estate loans contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property.

We also originate, to a lesser extent, fixed rate home equity loans for portfolio. We generally underwrite these loans based on the applicant's employment and credit history. Presently, we generally lend up to 80% of the real estate tax assessment value or appraised value less any first liens, but may lend up to 90% for high credit quality borrowers. We require our borrowers to obtain hazard insurance and flood insurance, if necessary, in an amount not less than the value of the property improvements. All home equity loans have a maximum maturity of 15 years. We currently retain and service these loans.

Home-Equity Residential Lending. We currently originate home equity lines of credit. At December 31, 2007, such loans totaled approximately $5.4 million, or 8.4%, of our gross loan portfolio. We generally underwrite these loans based on the applicant's employment and credit history. Presently, we generally lend up to 80% of the real estate tax assessment value or appraised value less any first liens, but may lend up to 90% for high credit quality borrowers. We require our borrowers to obtain hazard insurance and flood insurance, if necessary, in an amount not less than the value of the property improvements.

Our home equity lines of credit carry adjustable interest rates based upon the prime rate of interest. All home equity lines of credit have a maturity of 20 years with a ten year draw period. We currently retain and service these loans.

Commercial Real Estate Lending. We offer commercial real estate loans. These loans are secured primarily by small retail establishments and small office buildings located in our primary market area. At December 31, 2007, commercial real estate loans totaled approximately $14.7 million, or 22.9%, of our gross loan portfolio. Our largest commercial real estate loan relationship at December 31, 2007 consisted of a $1.6 million loan to fund a full service hotel of which $1.2 million is guaranteed by the New Hampshire Business Finance Administration. The loan is performing in accordance with its original terms and conditions.

We originate fixed- and adjustable-rate commercial real estate loans. The interest rate on the adjustable-rate commercial real estate loans is tied to a variety of indices, including the prime rate as published in the Wall Street Journal as well as a rate based on the constant maturity of one year U.S. Treasury securities. A majority of our adjustable-rate loans carry an initial fixed rate of interest for either three or five years which then converts to an interest rate that is adjusted annually based upon the index. Loan-to-value ratios on our commercial real estate loans do not exceed 80% of the appraised value of the property securing the loan. These loans require monthly payments, amortize up to 25 years and may carry pre-payment penalties.

Loans secured by commercial real estate are underwritten based on the income producing potential of the property, the financial strength of the borrower and any guarantors. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. We typically require an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing commercial real estate loans are generally performed by independent state licensed fee appraisers approved by the Board of Directors. The properties securing our commercial real estate loans are primarily located in New Hampshire or Massachusetts.

Loans secured by commercial real estate properties may be larger and involve a greater degree of credit risk than one- to four-family residential mortgage loans. Because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired. Our loan

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portfolio possesses increased risk due to our substantial number of commercial real estate loans, which could increase the level of our provision for loan losses.

Multi-Family Residential Lending. We also offer multi-family residential loans. These loans are secured by real estate located in our primary market area. At December 31, 2007, multi-family residential loans totaled $1.7 million, or 2.7%, of our gross loan portfolio. Our largest multi-family loan relationship at December 31, 2007, was three loans totaling $668,000 secured by three 5 unit townhouses. The loan is performing in accordance with its original terms and conditions.

We originate fixed- and adjustable-rate multi-family residential real estate loans. We use a number of indices to set the interest rate, including a rate based on the constant maturity of one year U.S. Treasury securities. A majority of our adjustable-rate loans carry an initial fixed rate of interest for either three or five years which then converts to an interest rate that is adjusted annually based upon the applicable index. Loan-to-value ratios on our multi-family residential loans do not exceed 80% of the appraised value of the property securing the loan. These loans require monthly payments and amortize over a period of up to 25 years. We originate these loans through our staff. Although we generally retain all of the multi-family loans we originate, we may sell participations to manage our exposure to any one borrower.

Loans secured by multi-family residential real estate are underwritten based on the income producing potential of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. We require an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing multi-family residential loans are performed by independent state licensed fee appraisers approved by the Board of Directors.

Loans secured by multi-family residential properties are generally larger and involve a greater degree of credit risk than one- to four-family residential mortgage loans and home equity loans. Because payments on loans secured by multi-family residential properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired.

Construction and Land Development. We also offer construction and land development loans. At December 31, 2007, construction and land development loans totaled $1.1 million, or 1.8%, of our gross loan portfolio. Residential construction loans are financed to one- to four-family, owner occupied, primary residences only. Financing is limited to a maximum loan to value of 80%. Residential construction loans generally are written with permanent financing terms of up to 30 years and the construction period is generally the first eight months of the loan. Once the construction of the residential project is complete, the loan is taken out of the construction category and placed into the one- to four-family residential loan category for reporting purposes. We originate residential construction loans through our staff. Commercial construction loans are generally for the new construction of a special or limited use property where the primary use will be for commercial purposes. We use a number of indices to set the interest rate, including a rate based on the constant maturity of one year U.S. Treasury securities. A majority of our adjustable-rate loans carry an initial fixed rate of interest for either three or five years which then converts to an interest rate that is adjusted annually based upon the applicable index. Loan-to-value ratios on our commercial construction loans do not exceed 75% of the appraised value of the property securing the loan. These loans require monthly payments and amortize over a period of up to 25 years with the construction period of interest only being the first twelve months. Once the construction period for the commercial project is complete, the loan is taken out of the construction category and placed into the correct commercial category for reporting purposes. We originate these loans through our staff. We also originate residential land development loans. We originate fixed- and adjustable-rate residential land development loans. We use a number of indices to set the interest rate, including the prime rate as published in the Wall Street Journal. Loan-to-value ratios on our residential land development loans do not exceed 65% of the appraised value of the property securing the loan. These loans require monthly payments and amortize over a period of up to 15 years. We originate these loans through our staff.

Commercial Business Lending. We also offer commercial business loans. These loans are secured primarily by the assets of the business such as equipment, receivables and inventory. At December 31, 2007, commercial business loans totaled $7.1 million, or 11.0%, of our gross loan portfolio. Our largest commercial

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business loan relationship at December 31, 2007 consisted of two loans totaling $402,000 to a sales and service company of new and used vehicles and heavy duty trucks which is secured by all business assets. The loan is performing in accordance with its original terms and conditions. We also originate commercial business loans guaranteed by the United States Small Business Administration. Repayment of the principal of such loans is partially guaranteed by the United States Small Business Administration in a range from 50% to 90% of the principal depending upon the type of loan, the amount of the loan and the business of the borrower. At December 31, 2007, we had $1.3 million in commercial small business loans of which $873,000 were guaranteed by the United States Small Business Administration.

We originate fixed- and adjustable-rate commercial business loans. The interest rate on these loans is tied to a variety of indices, including the prime rate as published in the Wall Street Journal. A majority of our adjustable-rate loans carry an initial fixed rate of interest for either three or five years which then converts to an interest rate that is adjusted annually based upon the index.

Commercial loans involve a greater degree of credit risk than one- to four-family residential mortgage loans. Because payments on these loans are often dependent on the successful operation or management of the business, repayment of such loans may be subject to adverse conditions in the economy. If the cash flow from the business is reduced, the borrower's ability to repay the loan may be impaired. Interest rates on these loans are generally higher than interest rates charged on one- to four-family residential mortgage loans to compensate us for the greater degree of credit risk involved in this type of lending. Our loan portfolio possesses increased risk due to the number of commercial business loans, which could increase the level of our provision for loan losses.

Consumer Loans. Currently we offer loans secured by mobile home loans, new and used automobiles, and deposit accounts as well as a limited number of unsecured loans. Consumer loans, with the exception of mobile home loans, generally have shorter terms to maturity than mortgage loans, which reduces our exposure to changes in interest rates, and carry higher rates of interest than do one- to four-family residential mortgage loans. At December 31, 2007, our consumer loan portfolio totaled $2.6 million, or 4.1%, of our gross loan portfolio.

Consumer loans may entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciable assets, such as automobiles. We generally charge higher rates of interest for this type of lending as compared to one- to four-family residential mortgage loans to compensate us for the added credit risk. Repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Loan Originations, Purchases, Sales and Repayments

All loan applications are taken through employees located at our offices. Following approval of a loan application, we issue a loan commitment containing certain terms and conditions which must be complied with by the borrower before we fund the loan. Walk-in customers and referrals from our current customer base, advertisements and real estate brokers are also important sources of loan originations. While we originate both adjustable and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market area. Demand is affected by local competition and the interest rate environment. The one- to four-family mortgage loans we acquire through our mortgage banking company relationship are not considered purchases for financial reporting purposes. We have sold participation interests in commercial real estate and commercial business loans and multi-family loans to manage our limitation on loans-to-one borrower.

We account for the sale of participation interests in loans in accordance with paragraphs 9 to 11 of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets." In accordance with SFAS No. 140, we account for a transfer of financial assets, or a portion of a financial asset, as a sale when we surrender control of the transferred assets. Servicing rights and other retained interests in the sold assets are recorded by allocating the previously recorded investment between the assets sold and interest retained based on their relative fair values at the date of transfer. We determine the fair values of servicing rights and other retained interests at the date of transfer using the present value of estimated future cash flows, using assumptions that market participants would use in their estimates of values.

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The following table shows the loan origination, purchase, sale and repayment activities of Monadnock Community Bank for the periods indicated.

	Year Ended December 31,	
	2007	2006

	(In Thousands)	
Originations by type:		
Adjustable rate:		
Real estate - one-to four-family	$ --	$ 615
- home equity	946	2,759
- commercial	3,265	2,344
- multi-family	811	350
- construction and land development	361	432
Non-real estate - commercial business	1,200	3,672
Total adjustable-rate	6,583	10,172
Fixed rate:		
Real estate - one-to four-family........	6,483	5,775
- commercial................	3,192	423
- construction and land development	574	688
Non-real estate - commercial business	2,337	2,520
- consumer	1,771	701
Total fixed-rate	14,357	10,107
Total loans originated	20,940	20,279
Purchases:		
Real estate - one-to four-family	130	2,221
- commercial	882	--
- commercial construction	--	500
- consumer	64	475
Total loans purchased	1,076	3,196
Sales and Repayments:		
Sales and loan participations sold	516	--
Principal repayments	11,155	14,294
Total reductions	11,671	14,294
Net increase	$10,345	$ 9,181

Loan Approval Authority and Underwriting

The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, and the adequacy of the value of the property that will secure the loan. To assess the borrower's ability to repay, we review the employment and credit history and information on the historical and projected income and expenses of borrowers. Loans of up to $650,000 to any borrower and the borrower's related interests may be approved by the loan committee, consisting of senior management. All loans in excess of $650,000 must be approved by the Board of Directors.

We require appraisals or valuations of real property securing loans. Appraisals are performed by independent state licensed fee appraisers, who are approved by the Board of Directors annually. We require hazard insurance in amounts adequate to protect our principal balance. Where appropriate, flood insurance is also required. Private mortgage insurance is required for all residential mortgage loans with loan-to-value ratios greater than 85%.

Asset Quality

Collection Procedures. We have established a loan collection policy for delinquent loans. For one- to four-family residential, home equity, multi-family, commercial real estate, construction and land development loans

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and commercial business loans serviced by us, a delinquency notice is sent to the borrower when the loan is eight days past due. When the loan is 20 days past due, we contact the borrower requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current. If an acceptable repayment plan has not been agreed upon, loan personnel will generally take action to foreclose on the real estate collateral or seize the other security for the loan. The notice of intent to foreclose allows the borrower up to 30 days to bring the account current in the case of a residential mortgage loan and 10 days in the case of a commercial mortgage loan. Once the loan becomes 60 days delinquent, and an acceptable repayment plan has not been agreed upon, the servicing officer will initiate foreclosure or repossession of the collateral in the case of a non-real estate loan.

When a borrower fails to make a timely payment on a consumer loan, a delinquency notice is sent when the loan is over 10 or 15 days past due, depending on the type of loan. Following such time, and generally within 20 days of the delinquency, our staff contacts the borrower by telephone to determine the reason for delinquency and to request payment of the delinquent amount in full or the establishment of an acceptable repayment plan to bring the loan current. If the borrower is unable to make or keep payment arrangements, additional collection action is taken in the form of repossession of collateral for secured loans and small claims or legal action for unsecured loans.

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Delinquent Loans. The following table sets forth our loans delinquent 60 to 89 days and over 90 days or more past due by type, number, amount and percentage of delinquent loans to total gross loans at December 31, 2007 and 2006.

<TABLE>
<CAPTION>

	Loans Delinquent For			
	60-89 Days		90 Days and Over	
	Number	Amount	Number	Amount
			(Dollars in Thousands)	
<S>	<C>	<C>	<C>	<C>
At December 31, 2007				
One- to four-family	--	$ --	--	$ --
Home equity	--	--	--	--
Commercial real estate	1	60	--	--
Multi-family	--	--	--	--
Construction and land development	--	--	--	--
Commercial business	--	--	4	270
Consumer	--	--	--	--
Total	1	$ 60	4	$ 270
Delinquent loans to total gross loans		0.09%		0.42%
At December 31, 2006				
One- to four-family	--	$ --	--	$ --
Home equity	--	--	--	--
Commercial real estate	--	--	1	60
Multi-family	--	--	--	--
Construction and land development	--	--	--	--
Commercial business	--	--	--	--
Consumer	1	1	--	--
Total	1	$ 1	1	$ 60
Delinquent loans to total gross loans		--%		0.11%

</TABLE>

Non-Performing Assets. The table below sets forth the amounts and categories of non-performing assets in our loan portfolio. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days and over past due. Generally, all loans past due 90 days and over are classified as non-accrual. On non-accrual loans, interest income is not recognized until actually collected. At the time the loan is placed on non-accrual status, interest previously accrued but not collected is reversed and charged against current income.

Foreclosed assets consist of real estate and other assets which have been acquired through foreclosure on loans. At the time of foreclosure, assets are recorded at the lower of their estimated fair value less selling costs or the loan balance, with any write-down charged against the allowance for loan losses.

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At both dates presented, we had no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates.

	At December 31, 2007	At December 31, 2006
	(Dollars in Thousands)	
Non-accrual loans:		
One- to four-family	$ --	$ --
Home equity	--	--
Commercial real estate	--	60
Multi-family	--	--
Construction and land development	--	--
Commercial business	270	--
Consumer	--	--
Total	270	60
Loans 90 days or more delinquent and still accruing:		
One- to four-family	$ --	$ --
Home equity	--	--
Commercial real estate	--	--
Multi-family	--	--
Construction and land development	--	--
Commercial business	--	--
Consumer	--	--
Total	--	--
Total non-performing loans	$270	$ 60
Real estate owned:		
One- to four-family	$ --	$ --
Home equity	--	--
Commercial real estate	--	--
Multi-family	--	--
Construction and land development	--	--
Commercial business	--	--
Consumer	--	--
Repossessed assets	--	--
Total	--	--
Total non-performing assets	$270	$ 60
Ratios:		
Non-performing loans to total loans	0.42%	0.11%
Non-performing assets to total assets	0.26%	0.06%

For the year ended December 31, 2007 and 2006, $14,025 and $457, respectively, of gross interest income would have been recorded had the non-accruing loans been current in accordance with their original terms. No interest income was recorded on non-accruing loans during the respective periods. See "--Classified Assets."

Classified Assets. Regulations provide for the classification of loans and other assets, such as debt and equity securities considered by regulators to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses are designated as "special mention" by management.

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When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management and approved by the Board of Directors. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation, which may order the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the Office of Thrift Supervision and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. The total amount of classified assets represented 2.29% of our equity capital and 0.26% of our total assets at December 31, 2007. Monadnock Community Bank also had $2.1 million and $1.8 million of special mention assets at December 31, 2007 and 2006, respectively. The special mention assets had government guarantees from the United States Small Business Administration of $737,000 and $291,000, respectively, at December 31, 2007 and 2006, and the amounts presented above include only the non-government guaranteed portion of the loan.

The aggregate amount of our classified assets at the dates indicated were as follows:

	At December 31,	
	2007	2006
	(In Thousands)	
Loss	$ --	$ --
Doubtful	--	9
Substandard	216	241
Total	$216	$250

Monadnock Community Bank's management has focused on improving credit monitoring of these loans. The substandard assets shown in the table above had government guarantees from the United States Small Business Administration of $290,000 and $245,000, respectively, at December 31, 2007 and 2006 and the amounts presented in the table include only the non-government guaranteed portion of the loan. The largest classified asset as of December 31, 2007 is a $181,000 loan relationship with a recently closed restaurant as well as a sporting goods establishment. This loan relationship carries a guarantee by the United States Small Business Administration covering $86,000, or 47.5%, of the total principal and up to 90 days of interest.

Allowance for Loan Losses. We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated losses inherent in the loan portfolio. Our methodology for assessing the appropriateness of the allowance consists of several key elements, which include loss ratio analysis by type of loan and specific allowances for identified problem loans. In addition, the allowance incorporates the results of measuring impaired loans as provided in Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." These accounting standards prescribe the measurement methods, income recognition and disclosures related to impaired loans.

The formula allowance is calculated by applying loss factors to outstanding loans based on the internal risk evaluation of the loans or pools of loans. Changes in risk evaluations of both performing and nonperforming loans affect the amount of the formula allowance. Loss factors are based both on our historical loss experience as well as on significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date.

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The appropriateness of the allowance is reviewed and established by management quarterly based on then-existing economic and business conditions affecting our key lending areas and other conditions, such as credit quality trends (including trends in nonperforming loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments and recent loss experience in particular segments of the portfolio that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectibility of the loan. Senior management reviews these conditions quarterly in discussions with our senior credit officers. To the extent that any of these conditions is evidenced by a known identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a known identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the loss related to this condition is reflected in the general allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with known problem credits or portfolio segments.

Management also evaluates the adequacy of the allowance for loan losses based on a review of individual loans, historical loan loss experience, the value and adequacy of collateral and economic conditions in our market area. This evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. For all specifically reviewed loans for which it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement, we determine impairment by computing a fair value either based on discounted cash flows using the loan's initial interest rate or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans that are collectively evaluated for impairment and are excluded from specific impairment evaluation, and their allowance for loan losses is calculated in accordance with the allowance for loan losses policy described above.

Because the allowance for loan losses is based on estimates of losses inherent in the loan portfolio, actual losses can vary significantly from the estimated amounts. Our methodology as described permits adjustments to any loss factor used in the computation of the formula allowance in the event that, in management's judgment, significant factors which affect the collectibility of the portfolio as of the evaluation date are not reflected in the loss factors. By assessing the estimated losses inherent in the loan portfolio on a quarterly basis, we are able to adjust known and inherent loss estimates based upon any more recent information that has become available. In addition, management's determination as to the amount of our allowance for loan losses is subject to review by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation, which may require the establishment of additional general or specific allowances based upon their judgment of the information available to them at the time of their examination of Monadnock Community Bank.

At December 31, 2007 and 2006, our allowance for possible loan losses was $390,000 and $335,000, respectively, and the ratio of the allowance to total loans outstanding was 0.61% and 0.62%, respectively. At December 31, 2007 and 2006, the allowance for loan losses represented 144.44% and 558.33%, respectively, of nonperforming loans. The ratio of the allowance for loan losses to nonperforming loans in the table below includes nonperforming loans with government guarantees from the United States Small Business Administration. The non-guaranteed portion of nonperforming loans was $105,000 and $9,000, at December 31, 2007 and 2006, respectively, and the allowance for loan losses represented 371.43% and 3,722.22%, at December 31, 2007 and 2006, respectively, of the non-guaranteed portion of the nonperforming loans. We recorded a provision for loan losses of $112,000 for the year ended December 31, 2007 compared with a provision for loan losses of $37,000 for the year ended December 31, 2006. The increase in the provision was due to a $10.3 million increase in net loan volume for the year ended December 31, 2007, an increase in the provision for classified loans as well as an increase in the level of net charge-offs to $57,000 for the year ended December 31, 2007 compared with $13,000 for the year ended December 31, 2006. The provision for loan losses of $37,000 for 2006 consisted of $12,000 related to an overdraft program which was initiated in December 2005 for consumer and business checking customers and $25,000 related to the loan portfolio. We recorded a provision of $25,000 during the fourth quarter of 2006 due to the downgrade of several loan relationships totaling $1.1 million to special mention and the downgrade of several loan relationships totaling $434,000 ($193,000 of which is guaranteed by the United States Small Business Administration) from special mention to substandard during the fourth quarter of 2006. We believe that our allowance for loan losses is at an amount that will absorb known identifiable loan losses as well as estimated losses inherent in the portfolio for

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which the losses are probable but not identifiable. Additions to the loan loss allowance may be necessary if the market in which we operate deteriorates. Additionally, regulatory agencies review our allowance for loan losses as part of their examination process. Such agencies may require us to recognize additions to the allowance based on judgments which may be different from those of management.

The following table sets forth an analysis of our allowance for loan losses.

	Years Ended December 31,	
	2007	2006
	(Dollars in Thousands)	
Balance at beginning of period	$335	$311
Charge-offs:		
One- to four-family	--	--
Home equity	--	--
Commercial real estate	--	--
Multi-family	--	--
Construction and land development	--	--
Commercial business	(46)	--
Consumer	(15)	(15)
Recoveries:		
One- to four-family	--	--
Home equity	--	--
Commercial real estate	--	--
Multi-family	--	--
Construction and land development	--	--
Commercial business	--	--
Consumer	4	2
Net (charge-offs) recoveries	(57)	(13)

Provision (benefit) for loan losses	112	37
Balance at end of period	$390	$335
Net charge-offs (recoveries) to average loans outstanding during this period (1)	0.10%	0.03%
Ratios:		
Net charge-offs (recoveries) to average non-performing loans during this period	23.55%	16.88%
Allowance for loan losses to non-performing loans	144.44%	558.33%
Allowance as a percent of total gross loans (end of period)(1)	0.61%	0.62%

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(1) Total loans are net of deferred fees and costs.

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The distribution of the allowance for losses on loans at the dates indicated is summarized as follows.

<TABLE>
<CAPTION>

	At December 31,				
	2007			20	
	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category to Total Gross Loans	Amount	Percent o Allowance to Total Allowance
			(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
One- to four-family	$ 66	16.92%	49.19%	$ 54	16.12%
Home equity	13	3.33	8.35	15	4.48
Commercial real estate	140	35.90	22.93	103	30.75
Multi-family	14	3.59	2.66	17	5.07
Construction and land development	9	2.31	1.78	10	2.99
Commercial business	124	31.80	11.02	111	33.13
Consumer	24	6.15	4.07	25	7.46
Total Allowance for Loan Losses	$390	100.00%	100.00%	$335	100.00%

</TABLE>

Investment Activities

General. Under the direction and guidance of the asset/liability management committee and Board policy, our president has the basic responsibility for the management of our investment portfolio. Various factors are considered when making decisions, including the marketability, maturity and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated short and long term interest rates, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds via deposit withdrawals and loan originations and purchases.

Liquidity. We are required by federal regulations to maintain liquid assets in an amount necessary to support our operations and are also permitted to make certain other securities investments. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is provided.

We are authorized to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federal savings banks may also invest their assets in investment grade commercial paper and corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings bank is otherwise authorized to make directly.

Mortgage-Backed Securities. We invest in mortgage-backed securities as part of our asset liability management strategy. Management believes that mortgage-backed securities represent attractive investment opportunities relative to other investments due to the wide variety of maturity and repayment options available through such investments. Our mortgage-backed securities are purchased as an alternative to mortgage loans. At December 31, 2007, we held approximately $36.6 million of mortgage-backed securities. Our mortgage-backed securities are guaranteed by either Ginnie Mae, Fannie Mae or Freddie Mac, United States Government sponsored enterprises.

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SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that investments be categorized as "held-to-maturity," "trading securities" or "available-for-sale," based on management's intent as to the ultimate disposition of each security. SFAS No. 115 allows debt securities to be classified as "held-to-maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold those securities to maturity. Our current strategy is to hold all securities as available-for-sale, recorded at fair value.

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

	At December 31,			
	2007		2006	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
	(Dollars in Thousands)			
Securities Available for Sale:				
U.S. Government agency obligations	$ --	--%	$ 2,969	7.75%
Mortgage-backed securities:				
Ginnie Mae	14,445	39.47	19,821	51.72
Fannie Mae	13,753	37.58	11,660	30.43
Freddie Mac	8,398	22.95	3,870	10.10
Total mortgage-backed securities	36,596	100.00	35,351	92.25
Total	$36,596	100.00%	$38,320	100.00%
Other earnings assets:				
Interest-earning deposits in other financial institutions	--	--%	41	2.79%
Federal Home Loan Bank stock	1,608	94.15	1,328	90.40
Other investments	100	5.85	100	6.81
Total	1,708	100.00%	1,469	100.00%
Total	$38,304		$39,789	

While our mortgage-backed securities carry a reduced credit risk as compared to whole loans due to their issuance under government agency sponsored programs, they remain subject to the risk that a fluctuating interest rate environment, along with other factors like the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of the mortgage loans and so affect both the prepayment speed, and value, of the investment securities. As a result of these factors, the estimated average lives of these securities will be shorter than the contractual maturities as shown on the following table.

The maturities of the investment securities portfolio and the amortized cost and fair value, excluding Federal Home Loan Bank stock, as of December 31, 2007, were as follows:

<TABLE>
<CAPTION>

	At December 31, 2007				
	One Year or Less	After One to Five Years	After Five to 10 Years	Over 10 Years	Total
	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Amortiz Cost
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Ginnie Mae	$ --	$ --	$ --	$14,436	$14,43
Fannie Mae	--	--	--	13,639	13,63
Freddie Mac	--	--	--	8,371	8,37
Total mortgage-backed securities	$ --	$ --	$ --	$36,446	$36,44
Total investment securities	$ --	$ --	$ --	$36,446	$36,44
Weighted average yield	--%	--%	--%	5.29%	5.2

</TABLE>

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Sources of Funds

General. Our sources of funds are deposits, payment of principal and interest on loans, interest earned on or maturation or sales of other investment securities, borrowings, and funds provided from operations.

Deposits. We offer a variety of deposit accounts to consumers with a wide range of interest rates and terms. Our deposits consist of certificates of deposit, money market demand accounts, demand accounts, NOW accounts and savings accounts. We have historically paid market rates on our deposit accounts. We primarily rely on competitive pricing policies, marketing and customer service to attract and retain these deposits. We do not solicit brokered deposits, but may consider using them in the future.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates. The variety of deposit accounts we offer has allowed us to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. We have become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. We try to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to competitive factors. Based on our experience, we believe that our deposits are relatively stable sources of funds. Despite this stability, our ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions. We expect to maintain a substantial majority of our certificates of deposit that are maturing in 2008 by continuing to pay market rates, providing quality service and promoting our bank as a local community bank. Our liquidity could be reduced, however, if a significant portion of the certificates of deposit are not renewed. Paying market rates to retain these deposits may increase our cost of funds and could decrease our net interest income and net interest margin. We will be able to use Federal Home Loan Bank advances to provide an alternative source of funds for certificates of deposit that mature and are not renewed. Utilizing Federal Home Loan Bank advances is likely to increase our cost of funds.

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

<TABLE>
<CAPTION>

	At December 31,					
	2007			2006		
	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Deposit type:						
Non-interest bearing demand	$ 5,286	8.15%	--%	$ 5,262	8.57%	--%
Savings accounts	2,448	3.78	0.50	2,271	3.70	0.50
NOW accounts	7,613	11.75	2.76	3,447	5.62	0.68
Money market demand accounts	8,345	12.87	1.58	9,626	15.69	1.91
Total transaction accounts	23,692	36.55	1.49	20,606	33.58	1.06
Certificates of deposit	41,126	63.45	4.75	40,756	66.42	4.78
Total deposits	$64,818	100.00%	3.56%	$61,362	100.00%	3.53%

</TABLE>

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The following table sets forth, by interest rate ranges, information concerning certificates of deposit at the dates indicated.

<TABLE>
<CAPTION>

	At December 31, 2007					
	Period to Maturity					
	Less than One Year	One to Two Years	Two to Three Years	More than Three Years	Total	Percent of Total
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Rate Range:						
2.01% to 3.00%	$ 53	$ --	$ --	$ --	$ 53	0.13
3.01% to 4.00%	2,319	335	289	90	3,033	7.37
4.01% to 5.00%	17,739	1,759	1,207	977	21,682	52.72
5.01% to 6.00%	13,370	1,971	195	822	16,358	39.78
Total	$33,481	$4,065	$1,691	$1,889	$41,126	100.00%

</TABLE>

As of December 31, 2007, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was $11.9 million. The following table sets forth the maturity of those certificates as of December 31, 2007.

	At December 31, 2007
	(In Thousands)
Three months or less	$ 3,030
Over three months through six months	4,092
Over six months through one year	2,055
Over one year to three years	2,188
Over three years	487
Total	$11,852

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Borrowings. Although deposits are our primary source of funds, we may utilize borrowings primarily as part of our asset liability management strategy, when we desire additional capacity to purchase loans or to fund loan demand. Our borrowings historically have consisted of advances from the Federal Home Loan Bank of Boston. We may obtain advances from the Federal Home Loan Bank of Boston upon the security of our mortgage loans and mortgage-backed securities. These advances may be made using several different credit programs, each of which has its own interest rate, range of maturities and call or put features. At December 31, 2007, we had $30.5 million in Federal Home Loan Bank advances outstanding. At December 31, 2007, we had total collateral available to support an additional $21.0 million in additional advances from the Federal Home Loan Bank of Boston, but our internal policy limits Federal Home Loan Bank advances to 40% of total assets which amounts to an additional $9.0 million in borrowing capacity at year end.

The following table sets forth information as to our Federal Home Loan Bank advances for the periods indicated.

	At or For the Year Ended December 31,	
	2007	2006
	(Dollars in Thousands)	
Balance at end of period	$30,538	$24,965
Average balance during period	26,370	18,324
Maximum month-end balance	30,538	24,965
Weighted average interest rate during the period	4.40%	3.73%
Weighted average interest rate at end of period	4.34%	4.24%

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Employees

At December 31, 2007, we had twenty full-time employees and six part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good relationship with our employees.

Subsidiary Activities

At December 31, 2007, Monadnock Bancorp, Inc. did not have any subsidiaries other than Monadnock Community Bank.

Federal Taxation

General. Monadnock Bancorp, Inc. and Monadnock Community Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of taxation is intended only to summarize pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Monadnock Bancorp, Inc. or Monadnock Community Bank. Our federal income tax returns have never been audited by the IRS. We elected to file a consolidated federal income tax return.

Method of Accounting. For federal income tax purposes, we currently report our income and expenses on the accrual method of accounting and use a fiscal year ending on December 31, for filing our federal income tax return.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding five taxable years and forward to the succeeding twenty taxable years. At December 31, 2007, Monadnock Community Bank had operating loss carryovers for federal income tax purposes of approximately $68,000 which will expire in 2026 and operating loss carryforwards for state income tax purposes of approximately $246,000 which will expire in the years 2015 through 2016.

Corporate Dividends-Received Deduction. Monadnock Bancorp, Inc. may exclude from its income dividends received from Monadnock Community Bank as a wholly owned subsidiary of Monadnock Bancorp, Inc. The corporate dividends-received deduction is 100% or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payor of the dividend. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct 70% of dividends received or accrued on their behalf.

State Taxation

The two state taxes that materially impact Monadnock Bancorp, Inc. and Monadnock Community Bank are the New Hampshire Business Profits tax and the New Hampshire Business Enterprise tax. The New Hampshire Business Profits tax is assessed at the rate of 8.5%. For this purpose, gross business profits generally means federal taxable income subject to certain modifications provided for in New Hampshire law. The New Hampshire Business Enterprise tax is assessed at 0.75% of the total amount of payroll and certain employee benefits expense, interest expense, and dividends paid to stockholders. The New Hampshire Business Enterprise tax is applied as a credit towards the New Hampshire Business Profits tax. With the acquisition of a branch in Winchendon, Massachusetts during the fourth quarter of 2004, Monadnock Bancorp, Inc. and Monadnock Community Bank became subject to a Massachusetts excise tax rate of 10.5% based on an apportionment of income derived from Massachusetts sources, solely. Other applicable state taxes include generally applicable sales, use and real property taxes.

As a Maryland business corporation, Monadnock Bancorp, Inc. is required to file annual returns with the State of Maryland.

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Regulation

As a federally chartered savings bank, Monadnock Community Bank is regulated and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which we may engage, and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance funds and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. After completing an examination, the federal agency critiques the financial institution's operations and assigns its rating (known as an institution's CAMELS). Under federal law, an institution may not disclose its CAMELS rating to the public. Monadnock Community Bank also is a member of, and owns stock in, the Federal Home Loan Bank of Boston, which is one of the twelve regional banks in the Federal Home Loan Bank System. Monadnock Community Bank also is regulated, to a lesser extent, by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines Monadnock Community Bank and prepares reports for consideration by our Board of Directors on any operating deficiencies. Monadnock Community Bank's relationship with our depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of our loan documents.

There can be no assurance that changes to existing laws, rules and regulations, or any other new laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or the United States Congress, could have a material adverse impact on our business, financial condition or operations.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, Monadnock Community Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other loans and assets subject to applicable limits. Monadnock Community Bank also may establish subsidiaries that may engage in activities not otherwise permissible for Monadnock Community Bank directly, including real estate investment.

Capital Requirements. Office of Thrift Supervision regulations require savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest CAMELS rating) and an 8% risk-based capital ratio. The prompt corrective action standards discussed below, in effect, establish a minimum 2% tangible capital standard.

The risk-based capital standard for savings banks requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets, and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

At December 31, 2007, Monadnock Community Bank's capital exceeded all applicable requirements.

Loans to One Borrower. A federal savings bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus on an unsecured basis. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily

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marketable collateral, which generally does not include real estate. As of December 31, 2007, Monadnock Community Bank was in compliance with the loans-to-one-borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, Monadnock Community Bank is subject to a qualified thrift lender, or "QTL," test. Under the QTL test, Monadnock Community Bank must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the institution's business.

"Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. "Qualified thrift investments" also include 100% of an institution's credit card loans, education loans and small business loans. Monadnock Community Bank also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986.

A savings bank that fails the QTL test must either convert to a bank charter or operate under specified restrictions. At December 31, 2007, Monadnock Community Bank maintained approximately 98.25% of its portfolio assets in qualified thrift investments, and therefore satisfied the QTL test.

Capital Distributions. Office of Thrift Supervision regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the institution's capital account. A savings bank must file an application with the Office of Thrift

Supervision for approval of a capital distribution if:

* the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;

* the savings bank would not be at least adequately capitalized following the distribution;

* the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition; or

* the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company must still file a notice with the Office of Thrift Supervision at least 30 days before the Board of Directors declares a dividend or approves a capital distribution.

The Office of Thrift Supervision may disapprove a notice or application if:

* the savings bank would be undercapitalized following the distribution;

* the proposed capital distribution raises safety and soundness concerns; or

* the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Liquidity. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings banks have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the Office of Thrift Supervision is required to assess the savings bank's

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record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. Monadnock Community Bank received a "Satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings bank's authority to engage in transactions with its "affiliates" is limited by Office of Thrift Supervision regulations and Regulation W of the Federal Reserve Board, which implements Sections 23A and 23B of the Federal Reserve Act. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. Monadnock Bancorp, Inc. and its non-savings institution subsidiaries would be affiliates of Monadnock Community Bank. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings bank. In addition, Office of Thrift Supervision regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

Monadnock Community Bank's authority to extend credit to its directors, executive officers and 10% or greater stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Monadnock Community Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by Monadnock Community Bank's Board of Directors.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings banks and has the authority to bring enforcement action against all "institution-affiliated parties," including controlling stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the savings bank, receivership, conservatorship, the termination of deposit insurance or the imposition of civil money penalties. The Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings bank. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. 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 systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. 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. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

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Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the Office of Thrift Supervision is authorized and, under certain circumstances, required to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank is placed in one of the following five categories based on the savings bank's capital:

* well-capitalized (at least 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital);

* adequately capitalized (at least 4% leverage capital, 4% tier 1 risk-based capital and 8% total risk-based capital);

* undercapitalized (less than 3% leverage capital, 4% tier 1 risk-based capital or 8% total risk-based capital);

* significantly undercapitalized (less than 3% leverage capital, 3% tier 1 risk-based capital or 6% total risk-based capital); or

* critically undercapitalized (less than 2% tangible capital).

Generally, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings bank that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date a savings bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory restrictions become immediately applicable to the savings bank, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2007, Monadnock Community Bank met the criteria for being considered "well-capitalized."

Insurance of Deposit Accounts. Deposit accounts in Monadnock Community Bank are insured by the Federal Deposit Insurance Corporation up to a maximum of $100,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. Monadnock Community Bank's deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments. The Federal Deposit Insurance Corporation has adopted a risk-based system for determining deposit insurance assessments.

The Federal Deposit Insurance Corporation regulations assess insurance premiums based on an institution's risk. Under this assessment system, the Federal Deposit Insurance Corporation evaluates the risk of each financial institution based on its supervisory rating, financial ratios and long-term debt issuer rating. The rates for nearly all of the financial institution industry vary between five and seven cents for every $100 of domestic deposits. Federal law requires the Federal Deposit Insurance Corporation to establish a deposit reserve ratio for the deposit insurance fund of between 1.15% and 1.50% of estimated deposits. The Federal Deposit Insurance Corporation has designated the reserve ratio for the deposit insurance fund through the first quarter of 2008 at 1.25% of estimated insured deposits.

Effective March 31, 2006, the Federal Deposit Insurance Corporation merged the Bank Insurance Fund and the Savings Association Insurance Fund into a single fund called the Deposit Insurance Fund. In addition to the Federal Deposit Insurance Corporation assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the Federal Deposit Insurance Corporation, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2007, the annualized FICO assessment was equal to 1.14 basis points for each $100 in domestic deposits maintained at an institution.

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Prohibitions Against Tying Arrangements. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the savings bank or its affiliates or not obtain services of a competitor of the savings bank.

Federal Home Loan Bank System. Monadnock Community 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 a member of the Federal Home Loan Bank of Boston, Monadnock Community Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of December 31, 2007, Monadnock Community Bank was in compliance with this requirement.

The Federal Housing Finance Board, which regulates the 12 regional Federal Home Loan Banks including the Federal Home Loan Bank of Boston, on March 8, 2006 approved a proposed rule intended to strengthen the capital structure of the Federal Home Loan Banks by requiring a minimum level of retained earnings and restricting the amount of excess stock that a Federal Home Loan Bank can accumulate. Under the proposal, the Federal Housing

Financing Board would restrict the amount of dividends that a Federal Home Loan Bank, including the Federal Home Loan Bank of Boston, could pay to its members, including Monadnock Community Bank, whenever the Federal Home Loan Bank is not in compliance with applicable minimum retained earnings requirements. The proposal would also prohibit the Federal Home Loan Banks from issuing dividends in the form of stock. The Federal Housing Finance Board, on December 22, 2006 adopted a final rule prohibiting a Federal Home Loan Bank from issuing excess stock to members if the amount of member excess stock exceeds one percent of the bank's assets. Under the rule, any bank with excess stock greater than one percent of its total assets will be prevented from further increasing member excess stock by paying stock dividends or otherwise issuing new excess stock. As of December 31, 2007, Monadnock Community Bank did not own any excess stock in the Federal Home Loan Bank of Boston.

Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain non-interest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At December 31, 2007, Monadnock Community Bank was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the Office of Thrift Supervision.

The USA PATRIOT Act

The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Certain provisions of the Act impose affirmative obligations on a broad range of financial institutions, including federal savings banks, like Monadnock Community Bank. These obligations include enhanced anti-money laundering programs, customer identification programs and regulations relating to private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States).

Monadnock Community Bank has established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

Privacy Requirements of the Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act of 1999 provided for sweeping financial modernization for commercial banks, savings banks, securities firms, insurance companies, and other financial institutions operating in the United States. Among other provisions, the Gramm-Leach-Bliley Act places limitations on the sharing of consumer financial information with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of personal financial information with unaffiliated third parties.

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Holding Company Regulation

Monadnock Bancorp, Inc. is a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision has enforcement authority over Monadnock Bancorp, Inc. and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to Monadnock Community Bank. Monadnock Bancorp, Inc.'s activities are generally limited to those permissible for financial holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial activities or complementary to a financial activity.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by Section 302(a) of Sarbanes-Oxley Act of 2002, Monadnock Bancorp, Inc.'s Chief Executive Officer and Chief Financial Officer each are required to certify that its quarterly and annual reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in our quarterly and annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls. Monadnock Bancorp, Inc. will be subject to further reporting and audit requirements beginning with the year ending December 31, 2009 under the requirements of the Sarbanes-Oxley Act. Monadnock Bancorp, Inc. has been developing policies, procedures and systems designed to comply with these regulations.

Federal Securities Laws

The common stock of Monadnock Bancorp, Inc. is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Monadnock Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of Monadnock Bancorp, Inc. common stock that were issued in the 2006 stock offering does not cover the resale of the shares. Shares of common stock purchased by persons who are not affiliates of Monadnock Bancorp, Inc. may be resold without registration. Shares purchased by an affiliate of Monadnock Bancorp, Inc. will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Monadnock Bancorp, Inc. meets the current public information reporting requirements of Rule 144 under the Securities Act of 1933, each affiliate of Monadnock Bancorp, Inc. that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Monadnock Bancorp, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Monadnock Bancorp, Inc. may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

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ITEM 2. Description of Property

As of December 31, 2007, Monadnock Community Bank leased its main office and owned its branch office. The following is a list of our locations:

Location	Owned or Leased	Year Acquired or Leased	Net Book Value of Real Property
Main Office One Jaffrey Road Peterborough, New Hampshire 03458	Leased	1998	$ --

Branch Office 172 Central Street Winchendon, Massachusetts 01475	Owned	2004	$370,000

The net book value of our premises, land and equipment was $809,000 at December 31, 2007, which includes undeveloped property located in Rindge, New Hampshire as a potential new office site.

ITEM 3. Legal Proceedings

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of business. At December 31, 2007, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition, results of operations, or cash flows.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the year under report.

PART II

ITEM 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Our common stock is traded on the OTC Electronic Bulletin Board under the symbol "MNKB." The approximate number of holders of record of Monadnock Bancorp, Inc.'s common stock as of December 31, 2007 was 322. Certain shares of Monadnock Bancorp, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table sets forth the range of the high and low bid prices of Monadnock Bancorp, Inc. common stock since January 1, 2006 and is based upon information provided through MSN.com. The common stock prices reflected below have been adjusted to reflect a 1.3699 exchange ratio as a result of our second step offering which was completed on June 28, 2006 and are notated by an asterisk (*). Monadnock Bancorp, Inc. has never paid dividends. The quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

Quarter	High	Low	Dividends
Quarter ended December 31, 2007	$6.75	$6.05	$0.00
Quarter ended September 30, 2007	6.75	6.30	0.00
Quarter ended June 30, 2007	6.85	6.36	0.00
Quarter ended March 31, 2007	7.30	6.35	0.00
Quarter ended December 31, 2006	7.25	6.40	0.00
Quarter ended September 30, 2006	8.00	6.50	0.00
Quarter ended June 30, 2006	8.00	6.75*	0.00
Quarter ended March 31, 2006	7.96*	6.02*	0.00

Dividend payments by Monadnock Bancorp, Inc. are dependent primarily on dividends it receives from Monadnock Community Bank, because Monadnock Bancorp, Inc. will have no source of income other than dividends from Monadnock Community Bank and interest payments with respect to Monadnock Bancorp, Inc.'s

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loan to the employee stock ownership plan. A regulation of the Office of Thrift Supervision imposes restrictions on the ability of Monadnock Community Bank to pay dividends to Monadnock Bancorp, Inc. See "Regulation - Capital Distributions." Also, see Item 11, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for the Equity Compensation Plan table.

The table below sets forth information regarding the Company's common stock repurchase plans. Purchases made during October 2007 relate to the stock repurchase plan that was approved by the Company's Board of Directors on July 25, 2007. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. As of December 31, 2007, the Company had completed the purchase of 64,650 shares of common stock at a weighted average share price of $6.68.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2007 through October 31, 2007	14,650	6.75	64,650	--
November 1, 2007 through November 30, 2007	--	--	--	--
December 1, 2007 through December 31, 2007	--	--	--	--
Total	64,650	$6.66	64,650	--

On February 14, 2008, the Company's Board of Directors authorized its third stock repurchase program pursuant to which the Company intends to repurchase up to 65,000 shares, or 5.29% of its outstanding stock. These shares will be purchased at prevailing market prices from time to time over a twelve-month period depending upon market conditions. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of Monadnock Bancorp, Inc.'s 2007 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. Financial Statements

The consolidated financial statements included in Monadnock Bancorp, Inc.'s 2007 Annual Report to Stockholders are incorporated herein by reference.

ITEM 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 8A(T). Controls and Procedures

a) Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

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b) Report of Management on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and 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 generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's 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.

Management has used the framework set forth in the report entitled "Internal Control - Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of the end of the most recent fiscal year.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Form 10-KSB.

By: /s/ William M. Pierce, Jr.	By: /s/ Karl F. Betz
William M. Pierce, Jr. President, Chief Executive Officer and Director (Principal Executive Officer)	Karl F. Betz Senior Vice President and Chief Financial Officer (Principal Accounting Officer)
Date: March 21, 2008	Date: March 21, 2008

c) There has been no change in Monadnock Bancorp, Inc.'s internal control over financial reporting during Monadnock Bancorp, Inc.'s fourth quarter of fiscal year 2007 that has materially affected, or is reasonably likely to materially affect, Monadnock Bancorp, Inc.'s internal control over financial reporting.

ITEM 8B. Other Information

None.

PART III

ITEM 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16 (a) of the Exchange Act.

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal accounting officer or controller or persons performing similar functions. The Code of Ethics is available for free by writing to: Corporate Secretary: Monadnock Bancorp, Inc., 1 Jaffrey Road, Peterborough, NH 03458 and is also available through Monadnock Bancorp Inc.'s website at www.monadnockbank.com.

Information concerning Directors, Executive Officers and corporate governance of the Company is incorporated herein by reference from our definitive Proxy Statement (the "Proxy Statement"), specifically the section captioned "Proposal I-Election of Directors."

The information concerning compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 by directors, officers and ten percent stockholders of the Company required by this item is incorporated by reference herein from the Company's definitive proxy statement for its 2008 Annual Meeting of Stockholders.

ITEM 10. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Executive Compensation."

ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information concerning security ownership of certain owners and management and related stockholder matters is incorporated herein by reference from our Proxy Statement, specifically the sections captioned "Voting Securities and Principal Holders Thereof" and the "Equity Compensation Plan" table.

ITEM 12. Certain Relationships and Related Transactions, and Director Independence

Information concerning relationships and transactions is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Transactions with Certain Related Persons."

ITEM 13. Exhibits

3.1 Articles of Incorporation of Monadnock Bancorp, Inc.*
3.2 Bylaws of Monadnock Bancorp, Inc.*
4 Form of Common Stock Certificate of Monadnock Bancorp, Inc.*
10.1 Employee Stock Ownership Plan*
10.2 Monadnock Community Bancorp, Inc. 2005 Stock Option Plan**
10.3 Monadnock Community Bancorp, Inc. 2005 Recognition and Retention Plan**
10.4 Monadnock Bancorp, Inc. 2007 Equity Incentive Plan***
13 Annual Report to Stockholders
21 Subsidiaries of Registrant*
23.1 Consent of Shatswell, MacLeod & Company, P.C.
31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of

the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Incorporated by reference to the Registration Statement on Form SB-2 (Registration Number 333-132548) as filed on March 17, 2006, as amended.

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** Incorporated by reference to Appendix B and Appendix C to the Proxy Statement for Monadnock Community Bancorp, Inc.'s 2005 Annual Meeting of Stockholders (Commission File No. 000-50810) filed on March 24, 2005.

*** Incorporated by reference to Appendix A to the Proxy Statement for Monadnock Bancorp, Inc.'s 2007 Annual Meeting of Stockholders (Commission File No. 000-50810) filed on March 23, 2007.

ITEM 14. Principal Accountant Fees and Services

Information concerning principal accountant fees and services is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Proposal II - Ratification of Appointment of Independent Registered Public Accounting Firm."

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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.

Monadnock Bancorp, Inc.

Date: March 21, 2008

By: /s/ William M. Pierce, Jr.
William M. Pierce, Jr.
President and Chief Executive Officer

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 and in the capacities and on the dates indicated.

By: /s/ William M. Pierce, Jr.	By: /s/ Karl F. Betz
William M. Pierce, Jr. President, Chief Executive Officer and Director (Principal Executive Officer)	Karl F. Betz Senior Vice President and Chief Financial Officer (Principal Accounting Officer)
Date: March 21, 2008	Date: March 21, 2008
By: /s/ Kenneth A. Christian	By: /s/ Samuel J. Hackler
Kenneth A. Christian Director	Samuel J. Hackler Director
Date: March 21, 2008	Date: March 21, 2008
By: /s/ Jack Goldstein	By: /s/ Thomas C. LaFortune
Jack Goldstein Director	Thomas C. LaFortune Director
Date: March 21, 2008	Date: March 21, 2008

By: /s/ Kenneth R. Simonetta

Kenneth R. Simonetta
Director

Date: March 21, 2008

By: /s/ Edward J. Shea

Edward J. Shea
Director

Date: March 21, 2008

By: /s/ Nancy L. Carlson

Nancy L. Carlson
Director

Date: March 21, 2008

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EXHIBIT 13

MONADNOCK BANCORP, INC.

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[Letterhead of Monadnock Bancorp, Inc.]

Dear Stockholder:

Our franchise continues to improve as total assets grew $9.0 million, or 9.4%, to $105.2 million at December 31, 2007 compared to $96.2 million at December 31, 2006. Although the interest rate environment continues to be challenging, we were able to record net income of $83,000 for the year compared with a net income of $75,000 for 2006. Our book value per share and tangible book value per share were $7.69 and $7.53, respectively, at December 31, 2007.

In the lending area, we continue to be a diversified lender with a wide array of product offerings that suit the needs of small business owners and commercial customers as well as retail customers. Our net loan portfolio increased $10.3 million, or 19.2%, from $53.7 million at the end of 2006 to $64.0 million at the end of 2007. Despite the continued loan growth, we are committed to maintaining a strong asset quality position.

Our deposits increased $3.4 million, or 5.5%, from $61.4 million at the end of 2006 to $64.8 million at the end of 2007. The introduction of a new product, Rewards Checking, in the fourth quarter of 2007 has been successful in capturing new checking accounts.

Our corporation will continue to focus on the strategic objectives of maintaining a community focus in the areas we serve, providing a high quality of service to our customers and diligently working to improve our value for you, our shareholder.

The Board of Directors and management team remains committed to the communities we serve and our shareholders.

Very truly yours,
Monadnock Bancorp, Inc.

/s/ William M. Pierce, Jr.

William M. Pierce, Jr.
President and Chief Executive Officer

One Jaffrey Road * P.O. Box 888 * Peterborough, New Hampshire 03458

NH FAX: 603-924-9379 * TEL: 603-924-9654 * 888-924-1250
www.monadnockbank.com

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
OF
MONADNOCK BANCORP, INC. AND SUBSIDIARY

The summary information presented below under "Selected Financial Condition Data" and "Selected Operating Data" at and for the years ended December 31, 2007, 2006 and 2005 is derived from our audited consolidated financial statements. On June 28, 2006, Monadnock Bancorp, Inc. succeeded Monadnock Community Bancorp, Inc. as the holding company of Monadnock Community Bank. The following information is only a summary and should be read in conjunction with our consolidated financial statements and notes beginning on page 19.

	At December 31,		
	2007	2006	2005
	(In Thousands)		
Selected Financial Condition Data:			
Total assets	$105,176	$96,185	$75,801
Cash and cash equivalents	1,181	1,098	855
Loans, net	64,031	53,709	44,481
Securities available-for-sale	36,596	38,320	27,520
Other investments (interest-bearing time deposit)	100	100	100
FHLB stock	1,608	1,328	1,220
Deposits	64,818	61,362	53,238
Total borrowings	30,538	24,965	17,482
Total stockholders' equity	9,437	9,676	4,954

	Year Ended December 31,		
	2007	2006	2005
	(In Thousands)		
Selected Operating Data:			
Total interest and dividend income	$6,030	$4,626	$3,479
Total interest expense	3,449	2,464	1,700
Net interest and dividend income	2,581	2,162	1,779
Provision (benefit) for loan losses	112	37	(16)
Net interest and dividend income after provision (benefit) for loan losses	2,469	2,125	1,795
Customer service charges	199	201	137
Other non-interest income	154	73	120
Total non-interest income	353	274	257
Total non-interest expense	2,666	2,273	2,109
Income (loss) before income taxes	156	126	(57)
Income tax provision (benefit)	73	51	(27)
Net income (loss)	$ 83	$ 75	$ (30)

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Selected Financial Ratios and Other Data:

	At or For the Year Ended December 31,		
	2007	2006	2005
Performance Ratios:			
Return on assets (ratio of net income to average total assets)	0.08%	0.09%	(0.04)%

Return on equity (ratio of net income to average equity)	0.87%	1.02%	(0.59)%
Ratio of non-interest expense to average total assets	2.66%	2.74%	2.78%
Efficiency ratio(1)	94.47%	93.32%	103.57%
Ratio of average interest-earning assets to average interest-bearing liabilities	115.87%	115.67%	112.17%
Average interest rate spread (2)	2.07%	2.19%	2.12%
Net interest margin(3)	2.63%	2.67%	2.41%
Asset Quality Ratios:			
Non-performing assets to total assets	0.26%	0.06%	0.46%
Allowance for loan losses to non-performing loans(4)	144.44%	558.33%	88.86%
Allowance for loan losses to total loans(4)	0.61%	0.62%	0.70%
Net charge-offs (recoveries) to average outstanding loans(4)	0.10%	0.03%	(0.01)%
Non-performing loans to total loans(4)	0.42%	0.11%	0.79%
Capital Ratios:			
Equity to total assets at end of period	8.97%	10.06%	6.54%
Average equity to average assets	9.58%	8.82%	6.74%
Tier 1 leverage(5)	8.14%	8.67%	6.08%
Tier 1 risk-based(5)	15.30%	18.16%	12.89%
Total risk-based(5)	15.99%	18.89%	13.75%
Other Data:			
Number of full-service offices	2	2	2
Number of average full-time equivalent employees	24	24	22
Number of loans	935	823	705
Number of deposit accounts	5,341	5,345	4,949

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(1) Efficiency ratio represents non-interest expense as a percentage of net interest income plus non-interest income.
(2) Spread represents the difference between the weighted average yield on interest-earning assets and weighted average cost on interest-bearing liabilities.
(3) Net interest income divided by average interest-earning assets.
(4) The allowance for loan losses at December 31, 2007, 2006 and 2005 was $390,000, $335,000 and $311,000, respectively.
(5) Capital ratios are for Monadnock Community Bank only.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data. The information in this section has been derived from the audited consolidated financial statements, which appear beginning on page 19 of this annual report.

Forward-Looking Statements

These financial statements and management discussion and analysis contains forward-looking statements, which are based on assumptions and describe future plans, strategies and expectations of Monadnock Bancorp, Inc. and its wholly owned subsidiary, Monadnock Community Bank (the "Bank"). These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar words. Our ability to predict results or the actual effect of future plans or strategies is uncertain. Factors which could have a material adverse effect on our operations include, but are not limited to, changes in interest rates, general economic conditions, economic conditions in the states of New Hampshire or Massachusetts, 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, fiscal policies of the New Hampshire or Massachusetts State Government, the quality or composition of our loan or investment portfolios, demand for loan products, competition for and the availability of loans that we purchase for our portfolio, deposit flows, competition, demand for financial services in our market areas and accounting principles and guidelines, acquisitions and the integration of acquired businesses, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We wish to advise readers that the factors listed above could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. We do not undertake and specifically decline any obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

General

The following discussion is intended to assist in understanding the financial condition and results of operations of Monadnock Bancorp, Inc. and Monadnock Community Bank. On June 28, 2006, Monadnock Bancorp, Inc. succeeded Monadnock Community Bancorp, Inc. as the holding company of Monadnock Community Bank. The information contained in this section should be read in conjunction with other sections of this annual report, including the financial statements.

As a community based financial institution, our principal business has historically consisted of attracting deposits from the general public and the business community and making loans secured by various types of collateral, including residential and commercial real estate and general business assets. Deposit flows are influenced by a number of factors, including interest rates paid on competing investments, account maturities, fee structures, and level of personal income and savings. Lending activities are influenced by the demand for funds, interest rate levels, the number and quality of lenders, and regional economic cycles. Our sources of funds for lending activities include deposits, borrowings, payments on loans, maturation or sales of securities and income provided from operations.

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Our earnings are primarily dependent upon our net interest income, which is the difference between interest income on interest-earning assets, which principally consists of loans and investment securities, and interest expense on interest-bearing liabilities, which principally consists of deposits and borrowings. Our results of operations also are affected by the level of our provisions for loan losses, non-interest income and non-interest expenses. Non-interest income consists primarily of service charges on deposit accounts, point of sale income from debit and credit card transactions, ATM fees and any gain on sale of loans and investments. Non-interest expense consists primarily of salaries and employee benefits, occupancy, equipment, data processing and ATM expense. Our results of operations may also be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies, Federal Home Loan Bank ("FHLB") dividend policies and actions of regulatory authorities.

Critical Accounting Policies and Estimates

In reviewing and understanding our financial information, you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements.

These policies are described in Note 2 to the consolidated financial statements. The accounting and financial reporting policies of Monadnock Bancorp, Inc. conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that management believes will cover known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. Our methodology for analyzing the allowance for loan losses consists of specific and general 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 and quantitative and qualitative factors unique to the Bank for consumer, residential and commercial loans. In addition, residential real estate loans have grown to become a larger component of our total loan portfolio, but have had less seasoning than the remainder of our loan portfolio.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision may require the recognition of adjustments to the allowance for loan losses based on its judgment of information available to it at the time of their examination.

Loans. Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and deferred net loan origination fees, and increased by premiums on purchased loans. Loan fees and certain

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direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the effective interest method over the remaining lives of the associated loans. Loan premiums on purchased loans are amortized into interest income as a yield adjustment over the estimated lives of the loan pools using the effective interest method.

Investments. Investments and mortgage-backed securities that the Bank has both the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost. All mortgage-backed securities are currently available-for-sale and carried at fair value. Purchase premiums and discounts on mortgage-backed securities are amortized and accreted to interest income using the effective interest method, taking into consideration assumed prepayment patterns.

Management Strategy

Our strategy is to operate as an independent financial institution dedicated to serving the needs of customers in our market area, which consists of western Hillsborough and eastern Cheshire counties in New Hampshire and northern Worcester county in Massachusetts. We intend to continue to increase our loan portfolio and to attract retail deposits, with the goal of expanding our deposit base. This growth may include the establishment of a new office, either by acquisition or by exploring opportunities in our market area although we currently have no arrangements or understandings regarding any specific transaction. On June 28, 2006, we completed our conversion to full stock ownership in order to raise additional capital to continue our growth.

Our commitment is to provide a reasonable range of products and services to meet the needs of our customers. Our goal is to grow Monadnock Bancorp, Inc. while providing cost effective services to our market area and leveraging our infrastructure.

Financial highlights of our strategy include:

Operating as a Community Savings Bank and Offering Personalized Customer Service. We are committed to meeting the financial needs of the communities in which we operate. We provide a broad range of individualized consumer and business financial services. We believe that we can be more effective in servicing our customers than many of our non-local competitors because our employees and senior management are able to respond promptly to customer needs and inquiries. Our ability to provide these services is enhanced by the experience of our senior management, which has an average of over 25 years' experience in the financial services industry.

Increasing Loan Production. Our strategy of increasing net income includes increasing our loan production. Our business plan anticipates that we may emphasize originating commercial real estate, both permanent and construction, commercial business loans and one- to four-family residential real estate loans. Commercial real estate and commercial business loans provide higher returns and involve a greater degree of credit risk than one- to four-family residential mortgage loans. Because payments on commercial real estate and commercial business loans are often dependent on the successful operation or management of the properties or business, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Our net loan portfolio increased from $53.7 million at December 31, 2006 to $64.0 million at December 31, 2007, or a 19.2% increase. We plan to continue to grow our loan portfolio with the net proceeds raised in the 2006 stock offering.

Building Core Deposits. We offer checking accounts, NOW accounts and savings accounts, which generally are lower cost sources of funds than certificates of deposit and are less sensitive to withdrawal when interest rates fluctuate. In order to build our core deposit base, we intend to continue to offer a broad range of deposit products and to increase our core deposits through possible branch acquisitions, or the establishment of

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a new office although we currently have no arrangements or understandings regarding any specific transaction. In an effort to increase core deposits and become more competitive, the Bank implemented a high interest, Rewards Checking account in October 2007. At December 31, 2007, this product totaled $3.4 million. Our deposits increased $3.4 million, or 5.5%, to $64.8 million at December 31, 2007 from $61.4 million at December 31, 2006.

Improving Non-Interest Income. Non-interest income consists primarily of fees, service charges and net gains from securities sales. We plan to target programs to increase non-interest income such as the overdraft checking program we instituted in December 2005.

Maintaining Our Strong Asset Quality. Our asset quality is reflected in our ratio of non-performing assets to total assets, which was 0.26% and 0.06% at December 31, 2007 and December 31, 2006, respectively. We have introduced new loan products only when we were confident that our staff had the necessary expertise and sound underwriting and collection procedures were in place. In addition to these lending practices, we invest in high grade securities.

Improving Our Efficiency Ratio. Our infrastructure and fixed operating costs can support a larger asset base. We believe the proceeds from our recently completed stock offering described above will allow us to continue to increase our asset base through greater loan production which should help improve our efficiency ratio (non-interest expense divided by net-interest income and non-interest income) by generating additional income. Our efficiency ratio was 94.47% for the year ended December 31, 2007 compared with 93.32% for the year ended December 31, 2006.

All of these initiatives are designed to improve our profitability in future years.

Comparison of Financial Condition at December 31, 2007 and December 31, 2006.

General. Our total assets increased by $9.0 million, or 9.4%, to $105.2 million at December 31, 2007 compared to $96.2 million at December 31, 2006. The increase primarily reflected growth in our net loan portfolio of $10.3 million. The increase in assets was funded by an increase in FHLB advances of $5.5 million and an increase in deposits of $3.4 million.

Loans. Our net loan portfolio increased $10.3 million, or 19.2%, to $64.0 million at December 31, 2007 from $53.7 million at December 31, 2006. Loan growth during the year ended December 31, 2007 was primarily concentrated in commercial real estate lending and one- to four-family residential lending which grew $5.4 million and $4.1 million, respectively. Other significant loan increases for the year were in consumer loans which increased $697,000 and was primarily related to mobile home loans as well as an increase of $480,000 in multifamily loans, partially offset by a decrease of $475,000 in home equity loans. Our business plan anticipates that loan originations will primarily be concentrated in commercial real estate and commercial business loans in 2008.

Investments. We classify our investments in debt securities as securities held-to-maturity, securities available-for-sale or trading securities. Securities held-to-maturity are carried at amortized cost, securities available-for-sale are carried at market value with unrealized gains and losses shown in accumulated other comprehensive income (loss) as a separate component of stockholders' equity, net of related tax effects, and trading securities are carried at market value with unrealized gains and losses reflected in earnings. We had no securities classified as held-to-maturity or trading securities during 2007 or 2006.

Our investment portfolio decreased $1.7 million, or 4.4%, to $36.6 million at December 31, 2007 from $38.3 million at December 31, 2006. The decrease was primarily due to $12.7 million and $12.2 million in principal paydowns and proceeds from sales of mortgage-backed and government agency securities,

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respectively, partially offset by $22.9 million in purchases of mortgage-backed securities. The decrease in the investment portfolio was used to fund net loan growth.

At December 31, 2007, the net unrealized gains on securities available-for-sale, net of related tax effects were $91,000 compared with net unrealized losses on securities available-for-sale, net of related tax effects of $120,000 at December 31, 2006. These net unrealized gains and losses are shown in accumulated other comprehensive income or loss as a separate component of stockholders' equity.

At December 31, 2007, the weighted average maturity of mortgage-backed securities available-for-sale was 311 months, based upon their final maturities. However, normal principal repayments and prepayments of mortgage-backed securities are received regularly, substantially reducing their weighted average maturities. The majority of our adjustable rate mortgage-backed securities are resetting in 2008 and have a weighted average term to next repricing adjustment of 11 months on average.

Deposits. Our total deposits increased $3.4 million, or 5.5%, to $64.8 million at December 31, 2007 from $61.4 million at December 31, 2006. Interest-bearing deposits during the year ended December 31, 2007 increased $3.4 million and was primarily attributable to an increase in NOW accounts of $4.2 million, partially offset by a decrease in money market accounts of $1.3 million. The increase in NOW accounts was due to the implementation of a high interest, Rewards Checking account in the fourth quarter of 2007 which totaled $3.4 million at December 31, 2007 as well as a large NOW account balance at December 31, 2007. The increase in deposits was used to fund net loan growth.

Borrowings. FHLB advances increased $5.5 million, or 22.0%, to $30.5 million at December 31, 2007 from $25.0 million at December 31, 2006. The increase in FHLB advances were used to fund net loan growth and purchases of mortgage-backed securities during the year.

Principal payments due on other borrowings after December 31, 2007 are $449,000 in 2008, $5.0 million in 2009, $6.9 million in 2010, $3.6 million in 2011, $4.6 million in 2012 and $9.9 million in years thereafter. The FHLB will require the repayment of $4.0 million of borrowings during 2008 if the three-month LIBOR exceeds specified rates; $3.0 million of which is at a weighted average interest rate of 3.04% maturing in 2009 if the three-month LIBOR exceeds 6.50%. Additionally, the FHLB will require the repayment of $1.0 million of borrowings during 2008 if the three-month LIBOR exceeds 6.50% of which borrowings is at an interest rate of 3.99% maturing in 2014. As of December 31, 2007, the three month LIBOR was at 4.72%. During 2007 and 2006, the Bank borrowed $8.0 million in callable advances from the FHLB. These advances are callable at the discretion of the FHLB on the call date noted and are callable continuously on a quarterly basis thereafter. The FHLB has the right to call $7.0 million in borrowings during 2008, of which borrowings have a weighted average interest rate of 4.08% and a weighted average maturity of 97 months. In addition, the FHLB has the right to call $1.0 million in borrowings in 2009 of which borrowings is at an interest rate of 3.60% maturing in 2012. Should the FHLB require repayment of the putable and callable borrowings on the put and call dates, the interest cost to replace such borrowings would likely increase.

Stockholders' Equity. Total stockholders' equity decreased by $239,000 to $9.4 million at December 31, 2007 from approximately $9.7 million at December 31, 2006. Our equity to assets ratio was 8.97% at December 31, 2007 compared to 10.06% at December 31, 2006. The decrease in stockholders' equity was primarily attributable to the purchase of 64,650 shares of common stock for treasury for $432,000, the purchase of 26,538 shares of common stock for the Equity

Incentive Plan for $180,000, partially offset by an increase in accumulated other comprehensive income of $211,000 as well as net income of $83,000 for the year ended December 31, 2007.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth certain information for the years ended December 31, 2007 and 2006 and at December 31, 2007. The average yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from daily balances. The table reflects the consolidated average balance sheet of Monadnock Community Bancorp, Inc. until June 28, 2006 and the consolidated average balance sheet of Monadnock Bancorp, Inc. thereafter through December 31, 2007.

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	At December 31,		For the Year ended December			
	2007		2007			
	Ending Balance	Weighted Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance
				(Dollars in Thousands)		
INTEREST-EARNING ASSETS						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans (1)	$ 64,398	6.90%	$ 58,377	$3,993	6.84%	$49,882
Mortgage-backed securities(2)	36,446	5.29	34,177	1,769	5.18	25,556
Agency securities	--	--	2,304	93	4.04	3,000
Federal Home Loan Bank stock	1,608	6.50	1,432	88	6.15	1,086
Other interest-earning assets	100	4.35	1,716	87	5.07	1,461
Total interest-earning assets	102,552	6.32	98,006	6,030	6.15	80,985
Non-interest earning assets	2,624		2,039			2,067
Total assets	$105,176		$100,045			$83,052
INTEREST-BEARING LIABILITIES						
NOW and money market	$ 15,958	2.14	$ 13,553	$ 250	1.84	$12,926
Savings deposits	2,448	0.50	2,353	12	0.51	2,588
Certificates of deposit	41,126	4.75	42,303	2,028	4.79	36,176
Federal Home Loan Bank advances	30,538	4.34	26,370	1,159	4.40	18,324
Total interest-bearing liabilities	90,070	4.03	84,579	3,449	4.08	70,014
Non-interest bearing liabilities	5,669		5,881			5,712
Total liabilities	95,739		90,460			75,726
Stockholders' equity	9,437		9,585			7,326
Total liabilities and stockholders' equity	$105,176		$100,045			$83,052
Net interest/spread		2.29%		$2,581	2.07%	
Net interest margin(3)		2.78%			2.63%	
Ratio of interest-earning assets to interest-bearing liabilities	113.86%		115.88%			115.67%

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(1) Calculated net of deferred costs and includes non-performing loans.

(2) Calculated based on amortized cost.
(3) Net interest income divided by interest-earning assets.
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Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of our interest-earning assets and interest-bearing liabilities. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume, which are changes in volume multiplied by the old rate; (2) changes in rate, which are changes in rate multiplied by the old volume; and (3) changes in rate/volume, which are the changes in rate times the changes in volume.

	For the Year Ended December 31, 2007 vs. 2006 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Net
	(In Thousands)			
INTEREST-EARNING ASSETS				
Loans (1)	$ 557	$138	$ 24	$ 719
Mortgage-backed and U.S. Government agency securities (2)	343	224	75	642
Federal Home Loan Bank stock	19	8	2	29
Other interest-earning assets	13	1	0	14
Total interest-earning assets	$ 932	$371	$101	$1,404
INTEREST-BEARING LIABILITIES				
NOW and money market accounts	$ 10	$ 40	$ 2	$ 52
Savings deposits	(1)	(1)	0	(2)
Certificates of deposit	265	167	28	460
Federal Home Loan Bank advances	300	121	54	475
Total interest-bearing liabilities	$ 574	$327	$ 84	$ 985
Net interest/spread	$ 358	$ 44	$ 17	$ 419

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(1) Calculated net of deferred costs and includes non-performing loans.
(2) Calculated based on amortized cost.

Comparison of Results of Operations for the Years Ended December 31, 2007 and 2006.

General. We recorded net income of $83,000 for the year ended December 31, 2007 compared with net income of $75,000 for the year ended December 31, 2006. The increase in earnings for the year ended December 31, 2007 compared with the year earlier was primarily attributable to an increase in net interest and dividend income of $419,000, an increase in noninterest income of $79,000, partially offset by an increase in noninterest expense of $392,000, an increase in the provision for loan losses of $75,000 and an increase in income tax expense of $22,000.

Our profitability has been marginal during the last few years primarily due to our high fixed operating costs in relation to the amount of net interest and dividend income and noninterest income we generated and our comparatively low net interest margin (net interest and dividend income divided by average interest earning assets). Noninterest expense (consisting primarily of salaries and employee benefits) divided by net interest and dividend income plus noninterest income, commonly referred to as our efficiency ratio was 94.5% for the year ended December 31, 2007 compared with 93.3% for the year ended December 31, 2006. The existing operating platform we have in place relative to the size of our customer base and asset base has tended to negatively impact our profitability. Our net interest margin for the year ended December 31, 2007 was 2.63% as compared to 2.67% for the year ended December 31, 2006. The decrease in the net interest margin

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for the year ended December 31, 2007 compared with the year earlier was due to a change in the mix of assets to lower yielding investment securities as a result of our increasing the average balance of interest earning assets by $17.0 million during this period. In addition, the change in the mix of liabilities to more interest rate sensitive products such as time certificates and FHLB advances resulted in net interest margin compression for the year ended December 31, 2007 when compared with the year ended December 31, 2006. In the event we are unable to generate continued commercial and residential loan volume during 2008, or become reliant on investment securities, certificates of deposit or FHLB borrowings, our net interest margin and net interest spread may be negatively impacted along with our net earnings potential. In addition, our net interest margin may be impacted by recent Federal Reserve actions which resulted in the reduction of the Prime Rate by 1.25% in late January 2008.

Net Interest and Dividend Income. Net interest and dividend income increased $419,000, or 19.4%, to $2.6 million for the year ended December 31, 2007 compared to $2.2 million for the year ended December 31, 2006. The increase reflected a $1.4 million, or 30.4%, increase in interest and dividend income, offset by a $985,000, or 40.0%, increase in interest expense. The interest rate spread decreased to 2.08% for the year ended December 31, 2007 compared to 2.19% for the year ended December 31, 2006.

Interest and Dividend Income. Total interest and dividend income increased by $1.4 million, or 30.4%, to $6.0 million for the year ended December 31, 2007 from $4.6 million for the year ended December 31, 2006. The increase of $1.4 million related to an increase in the balance of average interest-earning assets of $17.0 million, or 21.0%, from $81.0 million for the year ended December 31, 2006 to $98.0 million for the year ended December 31, 2007 coupled with an increase in the yields on interest-earning assets from 5.71% for the year ended December 31, 2006 to 6.15% for the year ended December 31, 2007. Interest income on loans increased $719,000 from $3.3 million for the year ended December 31, 2006 to $4.0 million for the year ended December 31, 2007. The increase was primarily the result of an increase in the average loan balance of $8.5 million, or 17.0%, from $49.9 million for the year ended December 31, 2006 to $58.4 million for the year ended December 31, 2007, and to a lesser extent, an increase in the average loan yields from 6.56% for the year ended December 31, 2006 to 6.84% for the year ended December 31, 2007. The increase in the average balance of loans was attributable to a $4.3 million increase in one- to four-family residential loans, a $1.8 million increase in commercial real estate loans as well as a $1.6 million increase in commercial loans. The increase in average loan yields from 6.56% for the year ended December 31, 2006 to 6.84% for the year ended December 31, 2007 was due to the addition of new loans at higher rates during 2007, partially offset by the decrease in the Prime Rate of 100 basis points since the middle of September of 2007.

Interest and dividend income on investment securities, FHLB stock and interest-bearing deposits with other financial institutions increased $685,000 from $1.4 million for the year ended December 31, 2006 to $2.0 million for the year ended December 31, 2007. The increase was primarily the result of an increase in the average balance of the investment portfolio by $8.5 million from $31.1 million for the year ended December 31, 2006 to $39.6 million for the year ended December 31, 2007 coupled with an increase in the overall yield on total investments from 4.35% for the year ended December 31, 2006 to 5.14% for the year ended December 31, 2007. The increase in the average balance of the investment portfolio was the direct result of our leveraging the Bank with FHLB advances and purchasing investment securities. The increase in yield was due to the repricing of adjustable rate mortgage-backed securities during 2007 and 2006 and the purchase of higher yielding investment securities during 2007.

Interest Expense. Total interest expense increased by $985,000, or 40.0% from $2.5 million for the year ended December 31, 2006 to $3.4 million for the year ended December 31, 2007. The increase of $985,000 related primarily to an increase in the average balance of interest-bearing liabilities of $14.6 million from $70.0 million for the year ended December 31, 2006 to $84.6

million for the year ended December 31, 2007 coupled with an increase in the average overall cost of interest-bearing liabilities from 3.52% for the year ended December 31, 2006 to 4.09% for the year ended December 31, 2007. Interest expense on deposits

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increased $510,000 from $1.8 million for the year ended December 31, 2006 to $2.3 million for the year ended December 31, 2007. The increase was primarily due to an increase in the average balance of certificates of deposit of $6.1 million from $36.2 million for the year ended December 31, 2006 to $42.3 million for the year ended December 31, 2007, and to a lesser extent, an increase in the average cost of certificates of deposit from 4.33% for the year ended December 31, 2006 to 4.82% for the year ended December 31, 2007. Average certificates of deposit comprised 70.0% of interest-bearing deposits for the year ended December 31, 2006 compared with 72.7% for the year ended December 31, 2007. The increase in the average balance of certificates of deposit was the direct result of our advertising interest rate specials and offering competitive rates on certificates of deposit. The average balance of NOW accounts increased $1.1 million while the average balance of money market accounts decreased $482,000 for the year ended December 31, 2007 compared with the same period in 2006. The increase in the average balances of NOW accounts and the associated costs was attributable to a large NOW account that we received at the end of June and the implementation of a high interest, Rewards Checking product in the fourth quarter of 2007. The average cost on NOW accounts increased from 0.63% for the year ended December 31, 2006 to 1.44% for the year ended December 31, 2007, and the average cost on money market deposits increased from 1.82% for the year ended December 31, 2006 to 2.03% for the year ended December 31, 2007.

Interest expense on FHLB advances increased $475,000 from $684,000 for the year ended December 31, 2006 to $1.2 million for the year ended December 31, 2007. The increase was primarily due to an increase in the average balance of FHLB advances of $8.1 million from $18.3 million for the year ended December 31, 2006 to $26.4 million for the year ended December 31, 2007, and to a lesser extent, an increase in the average borrowing cost on FHLB advances from 3.73% for the year ended December 31, 2006 to 4.40% for the year ended December 31, 2007.

Allowance for Loan Losses. We recorded a provision for loan losses of $112,000 for the year ended December 31, 2007 compared with a provision for loan losses of $37,000 for the year ended December 31, 2006. The increase in the provision was due to a $10.3 million increase in net loan volume for the year ended December 31, 2007, an increase in the provision for classified loans as well as an increase in the level of net charge-offs to $57,000 for the year ended December 31, 2007 compared with $13,000 for the year ended December 31, 2006. We believe that our allowance for loan losses is at an amount that will absorb known identifiable loan losses as well as estimated losses inherent in the portfolio for which the losses are probable but not identifiable. Provisions to the allowance may be necessary if the market in which we operate deteriorates, or the composition of our loan portfolio changes. Additionally, regulatory agencies review our allowance for loan losses as part of their examination process. Such agencies may require us to recognize additions to the allowance based on judgments which may be different from those of management.

Total Noninterest Income. Noninterest income increased $79,000, or 28.8% from $274,000 for the year ended December 31, 2006 to $353,000 for the year ended December 31, 2007. The increase was primarily attributable to net gains on sales of available-for-sale securities of $76,000 for the year ended December 31, 2007 compared with no gains on sales for the year ended December 31, 2006.

Total Noninterest Expenses. Noninterest expenses increased $392,000, or 17.2%, from $2.3 million for the year ended December 31, 2006 compared to $2.7 million for the year ended December 31, 2007. Salaries and employee benefits expense increased $200,000 from $1.2 million, or 51.4%, of total noninterest expense for the year ended December 31, 2006 to $1.4 million, or 51.4%, of total noninterest expense for the year ended December 31, 2007. The increase in salaries and employee benefits expense resulted from an increase in staffing for the commercial lending area, normal salary increases and increases related to stock benefit plans. Other increases in noninterest expense related primarily to a $60,000 increase in marketing expenses which included the implementation of a high interest, Rewards Checking account in the fourth quarter of 2007. Additional increases were attributable to a $74,000 increase in other expenses, of which $21,000 related to enhanced internet security, $21,000 related to higher FDIC assessment premiums in 2007, increased costs related to stock benefit plans for Directors, additional costs related to the introduction of the Rewards Checking product as well as Business Enterprise Tax adjustments for the fourth quarter of 2006. In addition, other increases included a $58,000 increase in professional fees of which $34,000 was related to costs associated with becoming compliant with Section 404 of the Sarbanes-Oxley Act of 2002 by December 31, 2007 as a non-accelerated filer.

Income Taxes. Income tax expense increased $22,000, or 43.1%, to $73,000 for the year ended December 31, 2007 from $51,000 for the year ended December 31, 2006. The effective tax rate was 46.8% for the year ended December 31, 2007 compared to 40.5% for the year ended December 31, 2006.

Management of Interest Rate Risk

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Our loans generally have longer maturities than our deposits. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is a significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

In order to minimize the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we have adopted asset/liability and funds management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. The Board of Directors sets and recommends the asset and liability and funds management policies of Monadnock Community Bank, which are implemented by the asset/liability management committee.

The purpose of the asset/liability management committee is to communicate, coordinate and control asset/liability management consistent with our business plan and Board approved policies. The committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. Our objectives are to manage assets and funding sources to produce results that are consistent with our liquidity, capital adequacy, growth, risk and profitability goals.

The asset/liability management committee generally meets quarterly to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections using a net present value of portfolio equity analysis and income simulations. The asset/liability management committee recommends appropriate strategy changes based on this review.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have focused our strategies on:

* Using FHLB advances and pricing on fixed-term non-core deposits to align maturities and repricing terms;

* Purchasing adjustable rate securities;

* Originating and purchasing adjustable rate loans;

* Originating and purchasing a reasonable volume of fixed rate mortgages;

* Managing our deposits to establish stable deposit relationships; and

* Originating and purchasing adjustable rate loans.

Depending on the level of general market interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, the asset/liability management committee may determine to increase our interest rate risk position in order to maintain and improve our net interest margin.

The asset/liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the Board of Directors of Monadnock Community Bank.

The Office of Thrift Supervision provides us with the information presented in the following table, which is based on information provided to the Office of Thrift Supervision by Monadnock Community Bank. It presents the change in Monadnock Community Bank's net portfolio value at December 31, 2007 (the latest data available), that would occur upon an immediate change in interest rates based on Office of Thrift Supervision assumptions, but without giving effect to any steps that management might take to counteract such change.

The following table illustrates the change in net interest income at December 31, 2007 that would occur in the event of an immediate change in interest rates, with no effect given to any steps that management might take, within the parameters established by our asset/liability management committee, to counter the effect of such interest movement.

At December 31, 2007

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates)	Net Portfolio Value			as % of PV of Assets	
	$ Amount	$ Change	% Change	NPV Ratio	$ Change
	(Dollars in Thousands)				
+300 bp	7,481	(2,571)	(26)%	7.34%	(202)bp
+200 bp	8,733	(1,320)	(13)%	8.39%	(97)bp
+100 bp	9,679	(374)	(4)%	9.14%	(22)bp
0 bp	10,053	--	--%	9.36%	--
-100 bp	9,979	(74)	(1)%	9.19%	(17)bp
-200 bp	9,552	(501)	(5)%	8.71%	(65)bp

The Office of Thrift Supervision uses certain assumptions in assessing the interest rate risk of savings associations. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although assets and liabilities may have similar

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maturities or periods to repricing, they may react in different degrees to changes in the market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

Liquidity and Commitments

Historically, we have maintained liquid assets at levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. We regularly review cash flow projections and update them to assure that adequate liquidity is maintained. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans.

Our liquidity, represented by cash and cash equivalents and mortgage-backed and related securities, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed securities, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed related securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, we invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. We also generate cash through borrowings. We utilize FHLB advances to leverage our capital base and provide funds for our lending and investment activities, and enhance our interest rate risk management.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits and federal funds sold. On a longer-term basis, we maintain a strategy of investing in various lending products such as residential, commercial and consumer loans. We use our sources of funds primarily to meet ongoing commitments, to pay maturing time deposits and savings withdrawals, to fund loan commitments and to maintain our portfolio of mortgage-backed and related securities. At December 31, 2007, the total approved loan commitments unfunded amounted to $7.3 million, which includes the unadvanced portion of loans of $6.8 million. Certificates of deposit and advances from the FHLB of Boston scheduled to mature in one year or less at December 31, 2007, totaled $33.5 million and $449,000, respectively. Based on historical experience, we believe that a significant portion of maturing deposits will remain with Monadnock Community Bank. We anticipate that we will continue to have sufficient funds, through deposits and borrowings, to meet our current commitments.

At December 31, 2007, we had total collateral available to support an additional $21.0 million in additional advances from the FHLB, but our internal policy limits FHLB advances to 40% of total assets which amounts to an additional $9.0 million in borrowing capacity at year end.

Stockholders' Equity

Total stockholders' equity decreased by $239,000 to $9.4 million at December 31, 2007 from approximately $9.7 million at December 31, 2006. Our equity to assets ratio was 8.97% at December 31, 2007 compared to 10.06% at December 31, 2006. The decrease in stockholders' equity was primarily attributable to the purchase of 64,650 shares of common stock for treasury for $432,000, the purchase of 26,538 shares of common stock for the Equity Incentive Plan for $180,000, partially offset by an increase in accumulated other comprehensive income of $211,000 as well as net income of $83,000 for the year ended December 31, 2007.

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Consistent with our goal to operate a sound and profitable financial institution, we actively seek to maintain a "well-capitalized" institution in accordance with regulatory standards. As of December 31, 2007, the most recent notification from the Office of Thrift Supervision categorized Monadnock Community Bank as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the bank must maintain total risk-based, Tier I risk-based, and Tier I leverage ratios of 5%, 6% and 10%, respectively. There have been no conditions or events since that notification that management believes would cause a change in Monadnock Community Bank's categorization.

Impact of Inflation

The financial statements presented in this annual report have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturity structure of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of non-interest expense. Such expense items as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of SFAS 155 did not have a material impact on the Company's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140" (SFAS 156). SFAS 156 requires an entity 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 in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company's adoption of this statement did not have a material impact on its financial condition, results of operations or cash flows.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or

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expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The Company does not expect the adoption of this statement to have a material impact on the Company's financial condition or results of operations.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF Issue 06-4). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The Company does not expect the adoption of this issue to have a material impact on its financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

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SHATSWELL, MacLEOD & COMPANY, P.C. [LOGO]
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Monadnock Bancorp, Inc.
Peterborough, New Hampshire

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Monadnock Bancorp, Inc. and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Monadnock Bancorp, Inc. and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Shatswell, MacLeod & Company, P.C.
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
February 20, 2008

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

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ASSETS	2007	2006
<S>	<C>	<C>
Cash and due from banks	$ 1,181,206	$ 1,057,602
Interest-bearing demand deposits with other banks		587
Federal funds sold		40,000
Total cash and cash equivalents	1,181,206	1,098,189
Interest-bearing time deposit in other bank	100,000	100,000
Investments in available-for-sale securities (at fair value)	36,595,813	38,319,846
Federal Home Loan Bank stock, at cost	1,607,700	1,328,300
Loans, net of allowance for loan losses of $389,770 as of December 31, 2007 and $334,917 as of December 31, 2006	64,030,781	53,709,317
Premises and equipment	809,493	786,815
Goodwill	132,293	132,293
Core deposit intangible	61,250	81,625
Accrued interest receivable	442,749	427,679
Other assets	214,674	200,672
Total assets	$105,175,959	$96,184,736
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 5,286,039	$ 5,261,639
Interest-bearing	59,531,823	56,100,270
Total deposits	64,817,862	61,361,909
Federal Home Loan Bank advances	30,537,976	24,965,119
Other liabilities	383,533	181,908
Total liabilities	95,739,371	86,508,936
Stockholders' equity:		
Preferred stock, par value $.01 per share; authorized 2,000,000 shares; issued and outstanding none		
Common stock, par value $.01 per share; authorized 10,000,000 shares; 1,293,608 shares issued at December 31, 2007 and 2006; 1,228,958 and 1,293,608 outstanding at December 31, 2007 and December 31, 2006, respectively	12,936	12,936
Paid-in capital	7,755,439	7,725,786
Retained earnings	2,710,788	2,627,752
Unearned compensation - ESOP	(402,683)	(431,445)
Unearned compensation - Restricted stock awards	(298,799)	(139,104)
Treasury stock, at cost (64,650 shares at December 31, 2007)	(431,687)	
Accumulated other comprehensive income (loss)	90,594	(120,125)
Total stockholders' equity	9,436,588	9,675,800
Total liabilities and stockholders' equity	$105,175,959	$96,184,736

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

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2007 and 2006

	2007	2006
Interest and dividend income:		
Interest and fees on loans	$3,993,166	$3,273,850
Interest on investments-taxable	1,862,320	1,220,723
Other interest income	174,497	131,640
Total interest and dividend income	6,029,983	4,626,213
Interest expense:		
Interest on deposits	2,289,822	1,780,159
Interest on Federal Home Loan Bank advances	1,159,016	683,811
Total interest expense	3,448,838	2,463,970
Net interest and dividend income	2,581,145	2,162,243
Provision for loan losses	111,709	36,957
Net interest and dividend income after provision for loan losses	2,469,436	2,125,286
Noninterest income:		
Service charges on deposits	199,018	200,595
Net gain on sales of available-for-sale securities	75,759	
Loan commissions	2,246	
Other income	75,779	73,433
Total noninterest income	352,802	274,028
Noninterest expense:		
Salaries and employee benefits	1,368,648	1,169,221
Occupancy expense	156,310	149,106
Equipment expense	87,651	87,120
Data processing	218,978	222,720
Blanket bond insurance	16,250	19,953
Professional fees	196,499	137,858
Supplies and printing	43,957	44,648
Telephone expense	50,885	52,152
Marketing expense	110,597	51,193
Postage expense	40,916	38,132
Other expense	375,379	301,495
Total noninterest expense	2,666,070	2,273,598
Income before income tax expense	156,168	125,716
Income tax expense	73,132	51,106
Net income	$ 83,036	$ 74,610
Shares used in computing net income per share:		
Basic	1,177,299	1,230,808
Diluted	1,218,087	1,268,183
Net income per share - basic	$ 0.07	$ 0.06
Net income per share - diluted	0.07	0.06

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

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

<TABLE>
<CAPTION>

	Common Stock	Paid-in Capital	Retained Earnings	Unearned Compensation ESOP	Unearned Restricted Stock Awards	Treasury Stock	Acc Comp Inco
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C
Balance, December 31, 2005	$ 9,446	$2,814,032	$2,553,142	$(114,570)	$(154,560)	$	$(
Comprehensive loss:							
Net income			74,610				
Net change in unrealized holding loss on available for sale securities, net of tax effect							
Comprehensive income							
Employee Stock Ownership Plan Distribution		3,033		14,656			
Issuance of common stock	3,490	4,837,205					
Liquidation of Monadnock Mutual Holding Company		50,000					
Purchase of common stock for ESOP (42,460 shares)				(331,531)			
Recognition of stock option expense		21,516					
Restricted stock award amortization					15,456		
Balance, December 31, 2006	12,936	7,725,786	2,627,752	(431,445)	(139,104)		(
Comprehensive income:							
Net income			83,036				
Net change in unrealized holding loss on available for-sale securities, net of tax effect							
Comprehensive income							
Employee Stock Ownership Plan Distribution		(2,482)		28,762			
Purchase of common stock for Equity Incentive Plan (26,538 shares)		(5,307)			(175,151)		
Purchase of common stock for Treasury (64,650 shares)						(431,687)	
Recognition of stock option expense		37,442					
Restricted stock award amortization					15,456		
Balance, December 31, 2007	$12,936	$7,755,439	$2,710,788	$(402,683)	$ (298,799)	$(431,687)	$

</TABLE>

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

(Continued)

Reclassification disclosure for the years ended December 31:

<TABLE>
<CAPTION>

	2007	2006
<S>	<C>	<C>

Net unrealized holding gains on available-for-sale securities	$ 424,690	$ 55,518
Reclassification adjustment for net realized gains in net income	(75,759)	
Other comprehensive income before income tax effect	348,931	55,518
Income tax expense	(138,212)	(21,991)
Other comprehensive income, net of tax	$ 210,719	$ 33,527

</TABLE>

Accumulated other comprehensive income as of December 31, 2007 consists of net unrealized holding gains on available-for-sale securities, net of taxes. Accumulated other comprehensive loss as of December 31, 2006 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

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

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

<TABLE>
<CAPTION>

	2007	2006
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 83,036	$ 74
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sales of available-for-sale securities	(75,759)	
Net amortization of securities	82,750	72
Change in deferred loan origination costs, net	(31,619)	(92
Provision for loan losses	111,709	36
Amortization of unearned compensation - restricted stock award plans	15,456	15
Recognition of stock option expense	37,442	21
Depreciation and amortization	107,495	105
Increase in accrued interest receivable	(15,070)	(108
Amortization of core deposit intangible	20,375	22
(Increase) decrease in other assets	(41,235)	3
Decrease in loan servicing rights and interest-only strips, net	13,851	7
Increase in prepaid expenses	(16,800)	(31
Deferred income tax expense	68,736	60
(Increase) decrease in taxes receivable	(21,913)	14
Increase (decrease) in accrued ESOP and restricted stock award plans expense	10,355	
Increase in accrued expenses	20,487	29
Increase in accrued interest payable	24,835	42
Increase in other liabilities	17,375	
Net cash provided by operating activities	411,506	275
Cash flows from investing activities:		
Purchases of available-for-sale securities	(22,855,000)	(19,588
Proceeds from sales of available-for-sale securities	12,233,726	
Principal payments received on available-for-sale securities	12,687,247	8,772
Purchase of other investment security		(20
Purchases of Federal Home Loan Bank stock, net	(279,400)	(107
Loan originations and principal collections, net	(9,508,786)	(5,978
Loans purchased	(896,793)	(3,196
Recoveries of previously charged off loans	4,025	2
Capital expenditures - premises and equipment	(130,173)	(81
Net cash used in investing activities	(8,745,154)	(20,198

</TABLE>

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

(continued)

<TABLE>
<CAPTION>

	2007	2006
<S>	<C>	<C>
Cash flows from financing activities:		
Net increase (decrease) in demand deposits, savings and NOW deposits	3,086,495	(1,771,
Net increase in time deposits	369,458	9,895,
Net change on short-term advances from Federal Home Loan Bank	(976,000)	1,000,
Long-term advances from Federal Home Loan Bank	13,240,857	13,986,
Payments on long-term advances from Federal Home Loan Bank	(6,692,000)	(7,503,
Net proceeds from issuance of common stock (total proceeds of $5,661,448, less offering costs of $820,753)		4,840,
Liquidation of Monadnock Mutual Holding Company		50,
Purchase of common stock for treasury	(431,687)	
Purchase of 26,538 shares for Equity Incentive Plan	(180,458)	
Purchase of 42,460 shares for ESOP		(331,
Net cash provided by financing activities	8,416,665	20,166,
Net increase in cash and cash equivalents	83,017	243,
Cash and cash equivalents at beginning of period	1,098,189	855,
Cash and cash equivalents at end of period	$ 1,181,206	$ 1,098,
Supplemental disclosures:		
Interest paid	$ 3,424,003	$ 2,421
Income taxes paid (received)	24,405	(30
Allocation of common stock by the ESOP	26,280	17

</TABLE>

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

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MONADNOCK BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS

Monadnock Community Bank (the "Bank") provides a variety of financial services to corporations and individuals from its offices in Peterborough, New Hampshire and Winchendon, Massachusetts. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans. On June 28, 2004, in accordance with a Plan of Mutual Holding Company Reorganization and Stock Issuance, the Bank became a federally chartered stock bank and wholly-owned subsidiary of Monadnock Community Bancorp, Inc., a federally chartered stock holding company. Monadnock Community Bancorp, Inc. became a majority owned subsidiary of Monadnock Mutual Holding

Company, a federally chartered mutual holding company. On June 28, 2006, in accordance with a Plan of Conversion and Reorganization, the Bank became the wholly-owned subsidiary of Monadnock Bancorp, Inc. (the "Company"), a Maryland chartered stock holding company. Further, Monadnock Mutual Holding Company sold its ownership interest in Monadnock Community Bancorp, Inc. to the public in a "second step" offering and ceased to exist. The Company sold 707,681 shares, par value of $.01 per share or the maximum of the offering range, to the public raising $4.8 million in net proceeds. As part of the conversion, existing public stockholders of Monadnock Community Bancorp, Inc. received 1.3699 shares of Company common stock in exchange for each of their existing shares of Monadnock Community Bancorp, Inc. common stock.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America and predominant practices within the savings institution industry. The consolidated financial statements were prepared using the accrual method of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of Monadnock Bancorp, Inc. and its wholly-owned subsidiary, the Bank for 2007 and 2006. All significant intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, interest bearing demand deposit accounts with other banks and federal funds sold.

Cash and due from banks as of December 31, 2007 and 2006 includes $75,000 which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

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- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.

- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized.

-- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff, are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees, costs on originated loans or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination, commitment fees and certain direct origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual life of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

ALLOWANCE FOR LOAN LOSSES:

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the

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borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. 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.

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Useful lives are 40 years for bank buildings and 3 - 10 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated life of the related improvement. Maintenance and repairs are charged to expense as incurred, and improvements are capitalized.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with Statement of Financial Accounting Standards ("SFAS") No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring." These properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any write-down from cost to estimated fair value, required at the time of foreclosure or classification as in-substance foreclosure, is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent write-downs and gains or losses recognized upon sale are included in other expense.

In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," the Company classifies loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

ADVERTISING:

The Company directly expenses costs associated with advertising as they are incurred.

IDENTIFIED INTANGIBLE ASSETS AND GOODWILL:

Intangible assets include the excess of the purchase price over the fair value of net assets acquired (goodwill) in the acquisition of the branch purchase with Fitchburg Savings Bank effective October 15, 2004 as well as a core deposit intangible (CDI) related to the branch purchase noted above. The core deposit intangible is amortized using the sum of the year's digits method over 9.3 years. The Company periodically evaluates intangible assets for impairment on the basis of whether any events and circumstances might have diminished the fair value of such assets below their carrying value. The Company has determined that the carrying values of identified intangible assets and goodwill are not impaired as of December 31, 2007.

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A summary of acquired amortized intangible assets is as follows:

	As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-branch purchase	$135,000	$73,750	$61,250

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-branch purchase	$135,000	$53,375	$81,625

Aggregate amortization expense was $20,375 and $22,583 in 2007 and 2006, respectively.

Estimated amortization expense for each of the five years succeeding 2007, and thereafter, is as follows:

2008	$17,375
2009	14,375
2010	11,375
2011	8,375
2012	5,583
Thereafter	4,167
	$61,250

INCOME TAXES:

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

RETIREMENT AND BENEFIT PLANS:

The Company has an Employee Stock Ownership Plan ("ESOP"), covering eligible employees with one year of service as defined by the ESOP. The Company records compensation expense in an amount equal to the fair value of shares committed to be released from the ESOP to employees, plus discretionary contributions.

EARNINGS PER SHARE:

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

Reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income are as follows:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Year ended December 31, 2007			
Basic EPS			
Net income	$83,036	1,177,299	$0.07
Effect of dilutive securities options		40,788	
Diluted EPS			
Net income	$83,036	1,218,087	$0.07

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	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Year ended December 31, 2006			
Basic EPS			
Net income	$74,610	1,230,808	$0.06
Effect of dilutive securities options		37,375	
Diluted EPS			
Net income	$74,610	1,268,183	$0.06

STOCK-BASED COMPENSATION:

At December 31, 2007, the Company has two stock-based incentive plans which are described more fully in Note 10. Beginning in 2006, the Company accounts for the plans under the recognition and measurement principles of SFAS 123 (revised 2004), "Share-Based Payment." During the years ended December 31, 2007 and 2006, $37,442 and $21,516, respectively, in stock-based employee compensation was recognized. The compensation cost that has been charged against income for the granting of stock awards under the Monadnock Community Bancorp, Inc. 2005 Recognition and Retention Plan and Monadnock Bancorp, Inc. Equity Incentive Plan was $25,811 and $15,546 for the years ended December 31, 2007 and 2006, respectively.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate those assets' fair values.

Interest-bearing time deposits in other banks: Fair values of interest-bearing time deposits in other banks are estimated using discounted cash flow analyses based on current rates for similar types of time deposits.

Securities (including mortgage-backed securities): Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for interest and non-interest checking, passbook savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances: Fair values for Federal Home Loan Bank advances are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities on Federal Home Loan Bank advances.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates.

RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of SFAS 155 did not have a material impact on the Company's financial condition and results of operations.

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In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140" (SFAS 156). SFAS 156 requires an entity 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 in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The adoption of this statement did not have a material impact on its financial condition, results of operations or cash flows.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The Company does not expect the adoption of this statement to have a material impact on the Company's financial condition or results of operations.

In September 2006, the FASB ratified the consensus reached by the

Emerging Issues Task Force ("EITF") on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF Issue 06-4). EITF Issue 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The Company does not expect the adoption of this issue to have a material impact on its financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

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NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values are as follows:

<TABLE>
<CAPTION>

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
December 31, 2007:				
Mortgage-backed securities:				
FNMA	$13,639,059	$113,755	$	$13,752,814
FHLMC	8,370,811	31,490	(4,330)	8,397,971
GNMA	14,435,927	36,087	(26,986)	14,445,028
Total mortgage-backed securities	36,445,797	181,332	(31,316)	36,595,813
Total investments in available-for sale securities	$36,445,797	$181,332	$ (31,316)	$36,595,813
December 31, 2006:				
U.S. Government agency obligations	$ 3,000,000	$	$ (30,937)	$ 2,969,063
Mortgage-backed securities:				
FNMA	11,669,332	26,057	(35,573)	11,659,816
FHLMC	3,921,455	7,168	(58,732)	3,869,891
GNMA	19,927,974	23,964	(130,862)	19,821,076
Total mortgage-backed securities	35,518,761	57,189	(225,167)	35,350,783
Total investments in available-for sale securities	$38,518,761	$ 57,189	$(256,104)	$38,319,846

</TABLE>

There were no securities of issuers whose aggregate carrying amount exceeded

10% of stockholders' equity as of December 31, 2007.

As of December 31, 2007 and 2006, securities with carrying amounts totaling $20,998,650 and $8,371,018, respectively, were pledged to secure Federal Home Loan Bank advances.

The fair value of available-for-sale securities by contractual maturity at December 31, 2007 are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Fair Value
Due after ten years	$36,595,813
	$36,595,813

Proceeds from sales of available-for-sale securities were $12,233,726 during the year ended December 31, 2007. There were no sales of available-for-sale securities during the year ended December 31, 2006. Gross realized gains and gross realized losses on those sales were $78,259 and $2,500, respectively. The tax provision applicable to these net gains amounted to $30,008 during 2007.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized-loss position for less than twelve months and for twelve months or more, and are not other than temporarily impaired, are as follows:

<TABLE>
<CAPTION>

December 31, 2007	Less than 12 Months		12 Months or Longer		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>
Mortgage-backed securities:					
FHLMC	$2,675,334	$ 4,330	$	$	$2,675,334
GNMA	4,651,556	8,880	2,424,148	18,106	7,075,704
Total temporarily impaired securities	$7,326,890	$13,210	$2,424,148	$18,106	$9,751,038

</TABLE>

<PAGE>

<TABLE>
<CAPTION>

December 31, 2006	Less than 12 Months		12 Months or Longer		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>
U.S. Government agency obligations	$	$	$ 2,969,063	$ 30,937	$ 2,969,06
Mortgage-backed securities:					
FNMA	5,840,092	35,573			5,840,09
FHLMC			2,517,228	58,732	2,517,22
GNMA	3,290,670	8,393	11,677,948	122,469	14,968,61
Total mortgage-backed securities	9,130,762	43,966	14,195,176	181,201	23,325,93
Total temporarily impaired securities	$9,130,762	$43,966	$17,164,239	$212,138	$26,295,00

</TABLE>

The investments in the Company's investment portfolio that are temporarily impaired as of December 31, 2007 and 2006 consist of debt securities issued by U.S. government agencies and a U.S. government sponsored enterprise with strong credit ratings. The unrealized losses in the above table are attributable to changes in market interest rates. Company management does not intend to sell these securities in the near term future, and due to the securities relative short duration, anticipates that the unrealized losses that currently exist will be dramatically reduced going forward. As Company management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2007	2006
One-to-four family residential	$31,526,555	$27,413,968
Home equity	5,350,078	5,825,299
Commercial real estate	14,693,410	9,251,740
Multifamily	1,704,787	1,224,684
Construction and land development loans	1,141,352	1,108,258
Commercial loans	7,065,867	7,010,047
Consumer loans	2,607,149	1,910,504
	64,089,198	53,744,500
Allowance for loan losses	(389,770)	(334,917)
Deferred costs, net	331,353	299,734
Net loans	$64,030,781	$53,709,317

Certain directors and executive officers of the Company and companies in which they have a significant ownership interest were customers of the Bank during 2007. The aggregate amount of loans granted to directors, executive officers and their companies was $984,239 and $509,860 at December 31, 2007 and 2006, respectively. During 2007, $723,425 of new loans were granted and principal repayments totaled $249,046.

Changes in the allowance for loan losses were as follows for the years ended December 31:

	2007	2006
Balance at beginning of period	$334,917	$311,250
Recoveries of loans previously charged off	4,025	2,263
Provision for loan losses	111,709	36,957
Charge offs	(60,881)	(15,553)
Balance at end of period	$389,770	$334,917

The following table sets forth information regarding nonaccrual loans and accruing loans 90 days or more overdue as of December 31:

	2007	2006
Total nonaccrual loans	$269,725	$60,434
Accruing loans which are 90 days or more overdue	$ 0	$ 0

<PAGE>

Information about loans that meet the definition of an impaired loan in SFAS No. 114 is as follows as of December 31:

<TABLE>
<CAPTION>

	2007		20
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans
<S>	<C>	<C>	<C>
Loans for which there is a related allowance for credit losses	$242,804	$37,448	$60,434

Loans for which there is no related allowance for credit losses	26,921		0
Totals	$269,725	$37,448	$60,434
Average recorded investment in impaired loans during the year ended December 31	$241,720		$76,753
Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired			
Total recognized	$ 0		$ 0
Amount recognized using a cash-basis method of accounting	$ 0		$ 0

</TABLE>

Amortization of servicing rights was $7,056 in 2007 and $4,012 in 2006. The balance of capitalized loan servicing rights included in other assets as of December 31, 2007 and 2006 was $886 and $7,942, respectively. The fair value of these rights approximated their carrying amount.

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	2007	2006
Land	$ 215,800	$ 215,800
Buildings	350,360	298,318
Leasehold improvements	147,847	150,177
Furniture and equipment	614,925	578,234
	1,328,932	1,242,529
Accumulated depreciation and amortization	(519,439)	(455,714)
	$ 809,493	$ 786,815

NOTE 6 - DEPOSITS

Deposits consisted of the following as of December 31:

	2007	2006
Demand accounts	$ 5,286,039	$ 5,261,639
Non-interest bearing deposits	5,286,039	5,261,639
NOW accounts	7,613,526	3,447,510
Savings accounts	2,448,071	2,271,000
Money market deposit accounts	8,344,598	9,625,590
Time certificates	41,125,628	40,756,170
Interest-bearing deposits	59,531,823	56,100,270
Total deposits	$64,817,862	$61,361,909

The aggregate amount of time deposit accounts in denominations of $100,000 or more as of December 31, 2007 and 2006 was $11,851,684 and $11,403,336, respectively.

<PAGE>

For time deposits as of December 31, 2007, the scheduled maturities for each of the following five years ended December 31, and thereafter, are:

2008	$33,480,248
2009	4,065,127
2010	1,691,247
2011	759,690

2012	411,278
Thereafter	718,038
	$41,125,628

Deposits from related parties held by the Company as of December 31, 2007 and 2006 amounted to $355,342 and $220,700, respectively.

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the years ending after December 31, 2007 and December 31, 2006 are summarized as follows:

Year of Maturity	2007	Year of Maturity	2006
2008	$ 448,515	2007	$ 3,692,000
2009	5,048,114	2008	424,515
2010	6,903,771	2009	3,939,600
2011	3,612,501	2010	4,186,150
2012	4,569,568	2011	2,610,411
Thereafter	9,955,507	Thereafter	10,112,443
	$30,537,976		$24,965,119

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties, certain unencumbered investment securities and other qualified assets.

At December 31, 2007, the interest rates on FHLB advances ranged from 2.77% to 5.38% and at December 31, 2006, the interest rates on FHLB advances ranged from 2.68% to 5.38%. At December 31, 2007 and 2006, the weighted average interest rates on FHLB advances were 4.34% and 4.24%, respectively.

As of December 31, 2007, the Bank had $4.0 million in putable advances (Knock-out Advances) from the FHLB. The FHLB will require that these borrowings become due immediately upon their Strike Date, as defined in the contract, if the three month LIBOR rate equals or exceeds the Strike Rate. As of December 31, 2007, the three month LIBOR was at 4.72%.

Knock-out Advances outstanding as of December 31, 2007 are as follows:

Next Strike Date	Amount	Current Rate	Strike Rate	Maturity Date
January 2, 2008	$2,000,000	2.77%	6.50%	April 1, 2009
January 2, 2008	1,000,000	3.99	6.50	July 2, 2014
February 25, 2008	1,000,000	3.58	6.50	May 26, 2009

During 2006 and 2007, the Bank borrowed $8.0 million in callable advances from the FHLB. These advances are callable at the discretion of the FHLB on the call date noted and are callable continuously on a quarterly basis thereafter. Callable advances outstanding as of December 31, 2007 are as follows:

Next Call Date	Amount	Current Rate	Maturity Date
February 25, 2008	$1,000,000	4.05%	August 24, 2012
February 25, 2008	3,000,000	4.19	November 25, 2016
February 29, 2008	1,000,000	4.25	May 30, 2017
March 12, 2008	1,000,000	3.99	December 12, 2016
June 12, 2008	1,000,000	3.69	September 12, 2014
December 21, 2009	1,000,000	3.60	December 20, 2012

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NOTE 8 - INCOME TAX EXPENSE

The components of income tax expense are as follows for the years ended December 31:

	2007	2006
Current:		
Federal	$ 79,265	$(9,634)
State	7,698	472
Benefit of operating loss carryforward	(82,567)	
	4,396	(9,162)
Deferred:		
Federal	59,942	47,232
State	8,794	13,036
	68,736	60,268
Total income tax expense	$ 73,132	$51,106

The reasons for the differences between the tax at the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	2007	2006
	% of Income	% of Income
Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Unallowable expenses and other items	7.4	(0.4)
State tax expense, net of federal tax benefit	5.4	7.1
Effective tax rates	46.8%	40.7%

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 148,042	$ 116,924
Other temporary differences	478	478
Operating loss carryover	36,837	121,905
Depreciation	8,212	5,314
Core deposit intangible	17,627	13,121
Stock option - nonqualified	7,034	2,461
Net unrealized holding loss on available-for-sale securities		78,790
Gross deferred tax assets	218,230	338,993
Deferred tax liabilities:		
Loan origination costs net of fees	(132,332)	(127,125)
Accrual to cash adjustment	(166,834)	(143,273)
Goodwill	(13,434)	(9,952)
Net unrealized holding gain on available-for-sale securities	(59,422)	
Loan income	(1,061)	(6,548)
Gross deferred tax liabilities	(373,083)	(286,898)
Net deferred tax (liability) asset	$(154,853)	$ 52,095

As of December 31, 2007, for federal income tax purposes, the Company has operating loss carryovers of approximately $68,000 which will expire in the year 2026.

As of December 31, 2007, for state income tax purposes, the Company has operating loss carryovers of approximately $246,000 which will expire in the years 2015 through 2016.

NOTE 9 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

All Bank employees meeting certain age and service requirements are eligible to participate in the ESOP. On June 28, 2004, the Company's ESOP purchased 23,169 shares of common stock for $135,304. Acquisitions of unearned ESOP shares by Monadnock Community Bank ESOP Trust were funded internally through a borrowing from Monadnock Community Bancorp, Inc., which is repayable annually with interest at a fixed rate of 4% for ten years. Shares are committed for release

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upon the repayment of the borrowing and are allocated to participants based on compensation. Participant's benefits become fully vested after six years of service. Principal and interest payments were $16,682 for 2006. Company contributions are the primary source of funds for the ESOP's repayment of the loan.

Early in the third quarter of 2006, in accordance with a Plan of Conversion and Reorganization, the employee stock ownership plan completed its purchase of 42,460 shares of common stock for $331,531, or $7.81 per share. All employee stock ownership plan shares, comprising 6% of the total shares sold in the offering, were purchased in the open market through its newly designated trustee. In anticipation of the ESOP purchases, a new note was written to allow for borrowings totaling approximately $454,000. The actual borrowings under this note agreement totaled $435,171, of which borrowing has a fifteen year term and a floating rate of interest tied to the Prime rate at the beginning of each January 1st of each year. Principal and interest payments were $51,526 for 2007 and are expected to total approximately $49,000 in 2008.

Compensation expense related to the ESOP amounted to $26,281 and $18,688 for the years ended December 31, 2007 and 2006, respectively.

The total shares that were allocated and are held by the ESOP at December 31, 2007 and 2006 are 9,882 and 5,917 shares, respectively. Unallocated shares are 55,731 and 59,712 at December 31, 2007 and 2006, respectively. The fair value of all ESOP shares was approximately $407,000 and $450,000 at December 31, 2007 and 2006, respectively.

NOTE 10 - STOCK COMPENSATION PLANS

At the May 12, 2005 Annual Meeting of Stockholders, the Monadnock Community Bancorp, Inc. 2005 Stock Option Plan and the Monadnock Community Bancorp, Inc. 2005 Recognition and Retention Plan were approved by stockholders. Under the Company's 2005 Stock Option Plan, the Company may grant options to its directors, officers and employees for up to 63,072 shares of common stock. Both incentive stock options and non-statutory stock options may be granted under this plan. The exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. All options currently outstanding vest at 10% per year for the first eight (8) years and 20% in year nine (9) and upon a change in control, as defined in the plan, become fully vested and exercisable for one year following cessation of employment.

At the May 10, 2007 Annual Meeting of Stockholders, the Monadnock Bancorp, Inc. 2007 Equity Incentive Plan was approved by stockholders. Under the Company's 2007 Equity Incentive Plan, the Company may grant options to its directors, officers and employees for up to 70,768 shares of common stock. Both incentive stock options and non-statutory stock options may be granted under this plan. The exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. All options currently outstanding vest at 10% per year for the first eight (8) years and 20% in year nine (9) and upon a change in control, as defined in the plan, become fully vested and exercisable for one year following cessation of employment.

A summary of the status of the Company's stock options for the years ended December 31, 2007 and 2006 is presented below:

	2007		2006	
	Number of Options	Weighted Average Option Price	Number of Options	Weighted Average Option Price
Options at beginning of year	58,621	$6.17	58,756	$6.12
Granted	70,500	6.68	2,602	7.23
Canceled			(2,737)	6.12

Options at end of year	129,121	$6.45	58,621	$6.17

The following table summarizes information about fixed stock options outstanding as of December 31, 2007:

	Options Outstanding		Options Exercisable	
Exercise Prices	Number Outstanding as of 12/31/07	Weighted-Average Remaining Contractual Life	Number Exercisable as of 12/31/07	Weighted-Average Exercise Price
$6.12	56,019	7.9 years	11,202	$6.12
6.68	70,500	9.4 years	--	--
7.23	2,602	8.5 years	260	7.23
$6.45	129,121	8.7 years	11,462	$6.15

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The weighted average fair value of the options granted in 2007 and 2006 using the Black-Scholes option pricing model was $3.73 per option share and $4.30 per option share, respectively. The Company recorded compensation cost of $37,442 and $21,516 in 2007 and 2006, respectively, related to stock options. As of December 31, 2007, there was approximately $420,000 of unrecognized compensation cost related to nonvested stock options. The cost is expected to be recognized over a weighted-average period of 8.7 years.

Assumptions used to determine the weighted average fair value of options granted:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Dividend yield	N/A	N/A
Expected life in years	10 years	10 years
Expected volatility	35%	39%
Risk-free interest rate	4.86%	5.08%

Under the Company's 2005 Recognition and Retention Plan, the Company may grant stock awards to its directors, officers and employees for up to 25,228 shares of common stock. Under the Company's 2007 Equity Incentive Plan, the Company may grant stock awards to its directors, officers and employees for up to 26,538 shares of common stock. Shares are contingently awarded to recipients subject to restrictions based on the general rules of the plan. The Company applies SFAS No. 123(R), "Share-Based Payment," in accounting for stock awards. The stock allocations, based on the market price at the date of grant, are recorded as unearned compensation. Unearned compensation is amortized over the vesting period to be benefited. All stock awards currently outstanding vest at 10% per year for the first eight (8) years and 20% in year nine (9) and become fully vested upon a change in control, as defined in the plan.

Stock awards for 25,931 shares, having a fair value of $6.60 per share, were granted during 2007. The Company recorded compensation cost of $25,811 and $15,456 in 2007 and 2006, respectively. As of December 31, 2007, there was approximately $284,000 of unrecognized cost related to stock awards. The cost is expected to be recognized over a weighted-average period of 8.7 years.

NOTE 11 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 Bank's 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 Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), of core capital (as defined) to adjusted total assets (as defined) and of Tangible capital (as defined) to tangible assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Office of Thrift Supervision categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and core capital leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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<TABLE>
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	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Unc Prompt Correcti Action Provisic	
	Amount	Ratio	Amount	Ratio	Amount	Rati
			(Dollar amounts in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 2007:						
Total Capital (to Risk Weighted Assets)	$8,915	15.99%	$4,461	> or = 8.0%	$5,576	> or = 1
Core Capital (to Adjusted Total Assets)	8,532	8.14	4,193	> or = 4.0	5,241	> or =
Tangible Capital (to Tangible Assets)	8,532	8.14	1,572	> or = 1.5	N/A	
Tier 1 Capital (to Risk Weighted Assets)	8,532	15.30	N/A	N/A	3,346	> or =
December 31, 2006:						
Total Capital (to Risk Weighted Assets)	8,671	18.89	3,672	> or = 8.0	4,590	> or = 1
Core Capital (to Adjusted Total Assets)	8,338	8.67	3,846	> or = 4.0	4,807	> or =
Tangible Capital (to Tangible Assets)	8,338	8.67	1,442	> or = 1.5	N/A	
Tier 1 Capital (to Risk Weighted Assets)	8,338	18.16	N/A	N/A	2,754	> or =

</TABLE>

On May 25, 2007, the Company's Board of Directors authorized the repurchase of up to 2.05% or 26,538 shares of the Company's outstanding common shares. The purpose of the repurchase was to fund the Monadnock Bancorp, Inc. 2007 Equity Incentive Plan approved by stockholders at the 2007 annual meeting of stockholders. As of December 31, 2007, the Company purchased 26,538 shares of common stock for $180,458, or a weighted average per share price of $6.80.

On July 25, 2007, the Company announced a Stock Repurchase Program ("Program"), whereby the Company's Board of Directors authorized the repurchase of up to 5.0% or 64,650 shares of the Company's outstanding common shares. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. As of December 31, 2007, the Company had completed the Stock Repurchase Program, noted above, having purchased 64,650 shares of common stock for $431,687, or a weighted average per share price of $6.68.

On February 14, 2008, the Company's Board of Directors authorized its third stock repurchase program pursuant to which the Company intends to repurchase up to 65,000 shares, or 5.29% of its outstanding common stock. These shares will be purchased at prevailing market prices from time to time over a twelve-month period depending upon market conditions. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2007, the Company is obligated under an operating lease for the Company's main office expiring July 31, 2008. The Company has the option to extend the lease for two additional five year periods. The total minimum rental due in future periods under this existing agreement is as follows as of

December 31, 2007:

2008	$27,676
Total	$27,676

The total rental expense amounted to $47,444 for 2007 and $47,789 for 2006.

NOTE 13 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within the state of New Hampshire. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in the state of New Hampshire.

NOTE 14 - FINANCIAL INSTRUMENTS

The Company is party to 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 originate loans and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

The estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

<TABLE>
<CAPTION>

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial assets:				
Cash and cash equivalents	$ 1,181,206	$ 1,181,206	$ 1,098,189	$ 1,098,189
Interest bearing time deposit in other bank	100,000	100,000	100,000	100,000
Available-for-sale securities	36,595,813	36,595,813	38,319,846	38,319,846
Federal Home Loan Bank stock	1,607,700	1,607,700	1,328,300	1,328,300
Loans, net	64,030,781	64,036,000	53,709,317	53,064,000
Accrued interest receivable	442,749	442,749	427,679	427,679
Financial liabilities:				
Deposits	64,817,862	65,074,000	61,361,909	61,406,000
FHLB advances	30,537,976	31,067,000	24,965,119	24,755,000

</TABLE>

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

The notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of December 31:

	2007	2006
Commitments to originate loans	$ 516,000	$ 551,465
Unadvanced portions of loans:		
Commercial lines of credit	1,452,348	1,227,870
Consumer lines of credit	5,287,331	5,057,633
Construction loans	92,555	137,292
	$7,348,234	$6,974,260

There is no material difference between the notional amounts and the estimated fair values of the off-balance sheet liabilities.

NOTE 15 - RECLASSIFICATION

Certain amounts in the prior year have been reclassified to be consistent with the current year's statement presentation.

NOTE 16 - SECOND STEP OFFERING

On June 28, 2006, in accordance with a Plan of Conversion and Reorganization, the Bank became the wholly-owned subsidiary of Monadnock Bancorp, Inc. (the "Company"), a Maryland chartered stock holding company. Monadnock Mutual Holding Company sold its ownership interest in Monadnock Community Bancorp, Inc. to the public in a "second step" offering and ceased to exist. As part of the conversion, existing public stockholders of Monadnock Community Bancorp, Inc. received 1.3699 shares of Company common stock in exchange for each of their existing shares of Monadnock Community Bancorp, Inc. common stock. All per share amounts, references to common stock, shareholders' equity amounts, ESOP plan, stock option plan and recognition and retention plan data have been restated as if the conversion had occurred as of the earliest period presented.

<PAGE>

STOCKHOLDER INFORMATION

<TABLE>

<S> <C>

EXECUTIVE OFFICES
One Jaffrey Road
Peterborough, New Hampshire 03458

REGISTRAR AND TRANSFER AGENT
Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Shatswell, MacLeod & Company, P.C.
83 Pine Street
West Peabody, Massachusetts 01960

COMMON STOCK LISTING
Monadnock Bancorp, Inc. stock is listed on the over-the-counter bulletin board under the symbol "MNKB"

SECURITIES COUNSEL
Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, NW, Suite 400
Washington, DC 20015

FORM 10-KSB
A copy of Monadnock Bancorp, Inc. annual report on Form 10-KSB has been filed with the Securities and Exchar Commission and may be obtained without charge by written

Karl F. Betz
Senior Vice President & Chief Financial Officer
Monadnock Bancorp, Inc.
One Jaffrey Road
Peterborough, New Hampshire 03458

ANNUAL MEETING
The annual meeting of Monadnock Bancorp, Inc. will be hel 10:30 a.m., May 8, 2008 at:
RiverMead Auditorium
150 Rivermead Road
Peterborough, New Hampshire 03458

STOCKHOLDER RELATIONS
Stockholders are encouraged to contact the Investor Relat any questions or comments about their investment.
Direct inquiries to:
Karl F. Betz
Senior Vice President & Chief Financial Officer
One Jaffrey Road
Peterbough, New Hampshire 03458
(800) 924-9654

MONADNOCK BANCORP, INC.

<CAPTION>

EXECUTIVE OFFICERS	OFFICERS *	DIRECTORS
<S>	<C>	<C>
William M. Pierce, Jr. President & Chief Executive Officer	Wayne R. Gordon Vice President	Kenneth A. Christian Chairman
Karl F. Betz Senior Vice President & Chief Financial Officer	Peter K. Hazel Vice President	Samuel Hackler Vice-Chairman
William C. Gilson * Senior Vice President & Senior Lending Officer	Rachel O'Leary Assistant Vice President	Thomas LaFortune Secretary
Donald R. Blanchette * Senior Vice President	R. Steven Venning Assistant Vice President	Kenneth R. Simonetta Assistant Secretary
	Julie Beaumont Compliance Officer	Nancy L. Carlson
		Jack Goldstein
	Donna G. Loucks Assistant Treasurer	William M. Pierce, Jr. President & Chief Executive Officer
	Gail Murphy Branch Officer	Edward J. Shea
	Lysa Wilder Branch Officer	

* Officers of Monadnock Community Bank only.
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SHATSWELL, MacLEOD & COMPANY, P.C. [LOGO]
CERTIFIED PUBLIC ACCOUNTANTS

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation in this Annual Report on Form 10-KSB of Monadnock Bancorp, Inc. and Subsidiary of our report dated February 20, 2008.

/s/ SHATSWELL, MacLEOD & COMPANY, P.C.
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
March 18, 2008

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Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William M. Pierce, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-KSB of Monadnock Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting;

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting:

March 21, 2008	/s/ William M. Pierce, Jr.
Date	William M. Pierce, Jr. President and Chief Executive Officer

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Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Karl F. Betz, certify that:

1. I have reviewed this Annual Report on Form 10-KSB of Monadnock Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting;

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting:

March 21, 2008	/s/ Karl F. Betz
Date	Karl F. Betz Senior Vice President and Chief Financial Officer

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Exhibit 32

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

William M. Pierce, Jr., President and Chief Executive Officer and Karl F. Betz, Senior Vice President and Chief Financial Officer of Monadnock Bancorp, Inc. (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the annual report of the Company on Form 10-KSB for the year ended December 31, 2007 and that to the best of his knowledge:

1. the report fully complies with the requirements of Sections 13(a) of the Securities Exchange Act of 1934; and

2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

A signed original of this written statement required by Section 906 has been provided to Monadnock Bancorp, Inc. and will be retained by Monadnock Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

March 21, 2008	/s/ William M. Pierce, Jr.
Date	William M. Pierce, Jr. President and Chief Executive Officer
March 21, 2008	/s/ Karl F. Betz
Date	Karl F. Betz Senior Vice President and Chief Financial Officer

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