

The Cape Cod Five Cents Savings Bank

Quarterly Report

Period ending March 31, 2011

We are pleased to present our 2011 first quarter Report.

The Bank's first quarter 2011 results were good and exceeded the comparable period last year. The improved earnings resulted from strong performance in all the Bank's business lines, quality loan growth, and a lower loan loss provision. During the quarter, we opened our first branch on Nantucket, which is the Bank's fifteenth branch overall. We continue to be very appreciative of the reception we are receiving from the Nantucket community and are pleased with the new account activity.

Despite our improved financial results, the economic recovery remains tenuous and fragile and there continue to be conflicting signals. Real estate and building activity shows some improvement since last year, but challenges continue. Job growth and government debt levels need to find long-term solutions to create a stable environment that allows our economy to truly get healthy.

In the meantime, we will continue to pursue our mission of responsibly providing financial products and service in our communities.

As always, we appreciate the confidence that our customers and the community place in us, a locally managed, conservative community bank.

Dorothy A. Savarese, President and Chief Executive Officer

Net income of \$3.6 million for the quarter period ended March 31, 2011 exceeded last year's comparable quarterly results of \$3.0 million by \$621,000 or 20.7%. Return on average assets for the quarter ended March 31, 2011 was 75.4 basis points up from the 64.2 basis points recorded in the comparable prior year period. Increases in net interest and non interest income coupled with a decrease in loan loss provision was partially offset by the increase in operating expenses and led to an increase of \$1.2 million in year-over-year pre-tax income. Management's assessment of the possibility of future losses in its loan portfolio resulted in a quarterly loan loss provision of \$250,000, which was down from last year's level of \$1.5 million. The Bank's capital grew to \$197.9 million at March 31, 2011, increasing from \$185.4 million at March 31, 2010. The Bank continues to be categorized as well capitalized under all quantitative regulatory definitions. Continuing its role as the leading mortgage lender on the Cape, the Bank closed 455 loans for a total of \$133.5 million in residential mortgage loans during the three months ended March 31, 2011.

The Bank remains appropriately reserved against loan losses, maintains strong liquidity and is well-capitalized, positioning it to withstand ongoing challenges in the local, national and global economies. Financial highlights are detailed below and financial statements are included inside this report.

- Quarterly net income was \$3.6 million as compared to \$3.0 million last year.
- Capital was \$197.9 million at quarter-end.
- Reserve for loan loss coverage was 1.27%.
- Deposits decreased \$35.0 million, seasonally, in the quarter and ended at \$1.67 billion.
- Net loans increased \$30.1 million for the quarter and ended at \$1.46 billion.

Phillip W. Wong, Treasurer and Chief Financial Officer



STATEMENT OF CONDITION - Unaudited

(In Thousands)

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
ASSETS:		
Cash and Due From Banks.....	\$ 19,428	\$ 17,841
Investments and Fed Funds Sold:		
United States Government and Federal Agency Securities.....	293,568	310,398
Certificates of Deposit, Money Markets and Commercial Paper.....	138	21,874
Other Bonds and Obligations.....	74,454	83,862
Bank and Equity Securities.....	10,915	11,632
Fed Funds Sold.....	<u>23,054</u>	<u>60,752</u>
Total Investments and Fed Funds Sold:	402,129	488,518
Loans:		
Residential Loans.....	1,029,228	965,101
Commercial Real Estate Loans.....	334,333	292,063
Commercial & Industrial Loans.....	109,132	115,727
Consumer Loans.....	<u>1,647</u>	<u>1,958</u>
Total Gross Loans:	1,474,340	1,374,849
Reserve For Loan Losses.....	<u>(18,731)</u>	<u>(19,038)</u>
Net Loans.....	1,455,609	1,355,811
Banking Premises, Furniture and Equipment.....	23,919	23,748
Other Assets.....	<u>30,637</u>	<u>27,728</u>
TOTAL ASSETS	<u>\$ 1,931,722</u>	<u>\$ 1,913,646</u>
LIABILITIES AND RETAINED EARNINGS:		
Deposits.....	\$ 1,666,141	\$ 1,644,948
Repurchase Agreement Sweep.....	24,705	31,839
Mortgagor's Tax and Other Escrow Accounts.....	1,484	1,426
Other Liabilities.....	9,000	7,507
Federal Home Loan Advances.....	32,456	42,517
Retained Earnings.....	<u>197,936</u>	<u>185,409</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 1,931,722</u>	<u>\$ 1,913,646</u>

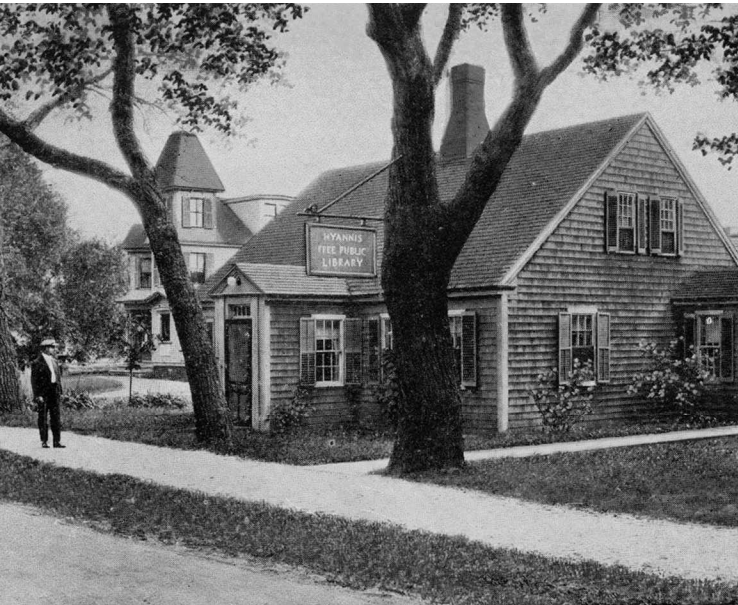
NOTES:

- The accounting policies of the Bank and its wholly-owned subsidiaries conform to generally accepted accounting principles and to statutory and regulatory requirements for the banking industry.
- Loan values are shown after reduction for reserve for possible losses and net of unadvanced funds.
- Bank and other stocks are shown at market value which was greater than or equal to cost as of reported dates.
- Federal Agency securities with a par value amount of \$16,000,000 have been segregated as collateral for the Bank's Treasury, Tax and Loan position and Discount Window borrowing at the Federal Reserve Bank of Boston. Additional Federal Agency securities with a par value amount of \$42,000,000 have been segregated as collateral at Brown Brothers Harriman & Co. for the Bank's Repurchase Agreement Sweep program.
- Surplus values shown after recognition of deferred income taxes and unrealized gains (losses) within the equity portfolio.

INCOME STATEMENT - Unaudited

(In Thousands)

	Three Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
INTEREST INCOME:		
Interest on Real Estate Loans.....	\$ 15,355	\$ 15,478
Interest on Other Loans.....	1,292	1,408
Investment Income.....	<u>1,508</u>	<u>2,123</u>
Total Interest Income	18,155	19,009
Interest Expense:		
Interest on Deposits.....	3,745	4,695
Interest on Borrowings and Repurchase Agreements.....	<u>206</u>	<u>343</u>
Total Interest Expense	3,951	5,038
Net Interest Income	14,204	13,971
Loan Loss Provision.....	<u>250</u>	<u>1,500</u>
Net Interest Income after Loan Loss Provision	13,954	12,471
NON INTEREST INCOME:		
Loan Servicing Fees.....	450	293
Net Gain on Sale of Mortgage Loans.....	1,602	1,370
Service Charges.....	1,246	1,248
Net Gain on Sale of Investments.....	2	60
Trust/Investment & Government Banking Fees.....	1,706	1,523
Other Income.....	<u>91</u>	<u>65</u>
Total Non Interest Income	<u>5,097</u>	<u>4,559</u>
TOTAL OPERATING INCOME	19,051	17,030
OPERATING EXPENSES:		
Salaries and Benefits.....	8,232	7,658
General Operating.....	2,079	2,062
Data Processing and Check Processing.....	1,103	1,032
Equipment & Occupancy.....	1,094	1,043
Other Expenses.....	<u>430</u>	<u>282</u>
Total Operating Expenses	<u>12,938</u>	<u>12,077</u>
Net Operating Income Before Taxes	6,113	4,953
Provision for Income Taxes	<u>2,498</u>	<u>1,959</u>
Net Income	<u>\$ 3,615</u>	<u>\$ 2,994</u>



Postcard of Hyannis Public Library courtesy of Priscilla Jones

A HOME EQUITY LINE OF CREDIT AT CAPE COD FIVE

At the Cape Cod Five, we are proud of our experience in Home Equity Line of Credit lending and will continue to work hard at meeting our customers' needs, with a sincere interest in their financial security. We call this responsible lending, and more than anything, that's what distinguishes a Cape Cod Five Home Equity Line of Credit.

- An attractive feature of this type of credit is that once approved, it allows for advances of at least \$500 at any time, up to the agreed upon limit. Monthly finance charges only apply to the amount outstanding.
- Bank approval depends on its guidelines being met for a minimum credit line of \$10,000, up to a maximum amount of \$200,000.
- These lines are available for most homes. This includes owner-occupied 1-4 family primary and some secondary homes. Homes currently on the market or intended for sale within six months do not qualify.

To find out more, call us at 888-225-4636 or stop by any of the Bank's branch offices.

THE CAPE COD FIVE CENTS SAVINGS BANK CHARITABLE FOUNDATION TRUST

In Support of The Friends of Fairwinds

Friends of Fairwinds are volunteers organized as a non-profit to act as an advisory board to Fairwinds Clubhouse and assist in fundraising efforts. "The mission of Fairwinds Clubhouse is to provide opportunities for friendship, support, employment, and education to people with psychiatric disabilities who live on the Upper Cape."

Recently, the Cape Cod Five Foundation made a capital donation of \$15,000 to support the purchase of a building which makes it possible for Fairwinds to relocate from its current inadequate location. Also, in collaboration with the Falmouth Housing Corporation, the Foundation's contribution has helped establish the Peter D. Kirwin* Fairwinds Center at the new property, and build eight studio apartments for disabled adults as well.

The Foundation recognizes the important contribution made by Fairwinds to Upper Cape communities. The Clubhouse is open 365 days a year, serving about 135 individuals throughout the year. Staffing at Fairwinds is made up of 4 full-time and 2 part-time paid staff, plus 30 volunteers. As part of a nutrition program, a hot meal is served daily. Fairwinds also helps members find housing where they can live independently. A strong commitment to education and transitional employment is evident at Fairwinds, with 42% of their members employed (nationally only 9% of people in similar situations are employed). As stated on their website, "at Fairwinds, the focus is on what is well about a person and what they do well. An individual's skills and strengths are emphasized, applied and developed."

* The late Peter D. Kirwin served as a Corporator of the Cape Cod Five Cents Savings Bank, 2005-2010.



Photograph of the former Brewster Town Hall courtesy of Priscilla Jones

MARKET REVIEW FIRST QUARTER 2011

A series of exogenous events tested investors' resolve during the first quarter of 2011. Civil unrest in Middle Eastern countries, coupled with Japan's 9.0 magnitude earthquake, subsequent tsunami, and nuclear meltdown, were tremendous external shocks to an already sensitive global economy.

While external headwinds are not a new concept to investors, the geo-political events over the past quarter can send even the strongest optimist into submission. Investors looking for additional words of wisdom and bullish long-term views on America need to look no further than Warren Buffet. In his annual letter to shareholders, the "Oracle of Omaha" had this to say about the future of America and its economic prosperity:

"Money always flows toward opportunity, and there is an abundance of that in America. Commentators today often talk of 'great uncertainty'. But think back, to December 6, 1941, October 18, 1987, and September 10, 2001. No matter how serene today may be, tomorrow is always uncertain. Don't let that reality spook you. Throughout my lifetime, politicians and pundits have constantly moaned about terrifying problems facing America. Yet our citizens now live an astonishing six times better than when I was born. The prophets of doom have overlooked the all-important factor that is certain: Human potential is far from exhausted, and the American system for unleashing that potential - a system that has worked wonders for over two centuries despite frequent interruptions for recessions and even a Civil War - remains alive and effective."

Positives within the economy were not nonexistent during the 1st quarter. The March employment report surprised to the upside, adding 216,000 new jobs sending the unemployment rate down 8.8%. A minor improvement that should help spur economic output. Corporate earnings should continue to improve modestly and many cash-rich companies are expected to increase mergers and acquisitions spending in the coming months. However, rising food and oil prices will remain a major concern heading into the summer travel months. The continued weakness in the U.S. dollar will also weigh on domestic consumers. The "greenback" has lost 15% against the major world currencies since last summer, due to ever-increasing trade and fiscal deficits.

Equity markets chose to ignore the external pressures throughout the world, closing higher across the board. Mid-cap stocks took the top spot, as the S&P 400 surged 9.36%. The blue-chip Dow Industrials followed suit, adding 742 points in the first three months of 2011, closing up 7.07%, its second largest 1st quarter percentage gain in the history of the storied index. The S&P 500 rounded out the gains, ending the quarter up 5.92%. Tech stocks, while positive for the quarter, did lag the boarder markets, with the NASDAQ Composite posting a 4.83% return through March, thanks to strong performance from some of the smaller capitalized companies with the tech-laden index. Technology bellwethers, such as Cisco Systems, Intel, and Microsoft have had difficulty impressing investors lately, which has been reflected in their performance over the past year.

Retirees' seeking consistent streams of income came up short during the first quarter, as yields remained well below their historic averages. Treasury prices dropped during the 1st quarter of 2011 with the benchmark 10-year yield rising 14 basis points to 3.47%, while short-term paper remained at historic lows due to the Fed's expansionary fiscal policy. Short-term yields between government and municipal bonds continued to tighten throughout the quarter, despite continued negative media coverage and pockets of naysayers predicting a meteoric rise in municipal defaults. Seasoned investors should be able to see through the predicted doom and find opportunity. High quality municipal bonds remain an excellent opportunity for investors in the higher tax brackets looking for predictable, safe income investments. Defaults are surely on the horizon, but we believe the majority of the risk lies in lower credit qualities and specific under-funded revenue projects. Potential investors should remind themselves that municipal bond defaults remain extremely low at less than 1% of the \$2.8 trillion municipal market.

In closing, we remain stalwart in our core beliefs. Long-term investors dedicated to proper asset allocation and calculated sector weighting within their portfolios will be rewarded with consistent, inflation besting returns.

Michael S. Kiceluk, CFA,* Chief Investment Officer
Rachael Aiken, CFP,* Senior Investment Officer
Edward R. Eastman, III, Senior Investment Officer
Kimberly K. Williams, Senior Wealth Management Officer

These facts and opinions are provided by the Cape Cod Five Trust and Asset Management Department. The information presented has been compiled from sources believed to be reliable and accurate, but we do not warrant its accuracy or completeness and will not be liable for any loss or damage caused by reliance thereon. Investments are NOT FDIC INSURED, NOT DIF INSURED, NOT BANK GUARANTEED and MAY LOSE VALUE.

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Community Banking Since 1855