

The Cape Cod Five Cents Savings Bank

Quarterly Report

Period ending June 30, 2009

We are pleased to present our 2009 Second Quarter Report.

As we reflect on the first half of 2009, the impacts of the eighteen month economic recession continue. While we have seen some signs of stabilization with improvements in the credit markets and stock market gains from the lows of earlier this year, it has become clear that we live in a very different economic world.

The regulatory and financial landscape will continue to evolve and there is unfortunately continuing substantial economic pain with high levels of unemployment and significantly reduced consumer spending. These macro changes affect commerce everywhere as ultimately businesses' success depends upon the ability of their customers to pay for goods and services. People who are out of work may encounter difficulty in paying their bills and for these reasons we will continue to build our loan loss reserves.

The Bank experienced large increases in deposits from new and existing customers, growth in clients and assets in our Trust and Asset Management Department, good commercial loan growth, and we were able to close over \$475 million in residential mortgage loans during the first half of the year. We feel privileged that in these difficult times there continues to be a growing recognition of the value of doing business with a locally managed, conservative community bank. Overall, we are quite pleased with our financial results and the ability of our earnings to add to our reserves and capital.

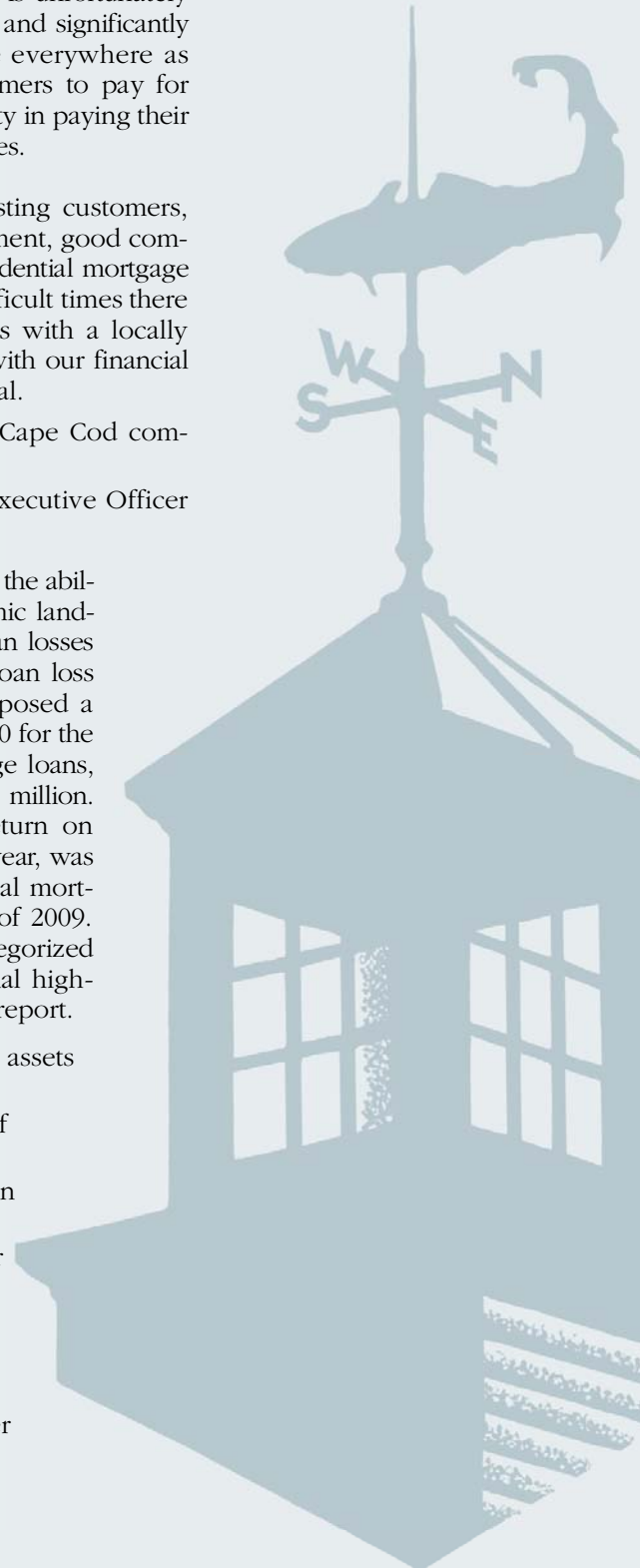
As always, we appreciate the confidence that our customers and the Cape Cod community continue to place in us.

Dorothy A. Savarese, President and Chief Executive Officer

Unemployment continues to rise at the regional and national level affecting the ability of borrowers to meet their contractual loan payments. In this economic landscape, Cape Cod Five continued to emphasize building its reserve for loan losses by adding \$1.95 million in its 2009 second quarter; thus improving its loan loss coverage ratio to 1.15%. Additionally within the quarter, the FDIC imposed a special deposit insurance assessment with an approximate cost of \$850,000 for the Bank. Core earnings, supplemented with strong gain on sale of mortgage loans, aided in mitigating these factors resulting in quarterly net income of \$1.6 million. Year-to-date net income was \$3.2 million producing an annualized return on average assets of 35 basis points. The Bank's deposit growth, year over year, was \$182.8 million or 12.5%; exceeding expectations. Total closed residential mortgages reached a level of 1,936 loans for \$475 million for the first half of 2009. The Bank's capital grew to \$177.4 million at June 30, 2009 and was categorized as well capitalized under all quantitative regulatory definitions. Financial highlights are detailed below and financial statements are included in this report.

- Year-to-date net income was \$3.2 million; an annualized return on assets of 35 basis points
- Capital was \$177.4 million at quarter-end and represented 9.22% of \$1.92 billion in assets
- Deposits increased \$182.8 million to end the quarter at \$1.65 billion for year-over-year growth of 12.5%
- Net loans increased \$29.3 million since last year to end the quarter at \$1.35 billion and 70.1% of assets
- Loan loss provision was \$1.95 and \$4.25 million for quarter and year-to-date, respectively, increasing the loan loss coverage ratio to 1.15% at June 30, 2009

Phillip W. Wong, Treasurer and Chief Financial Officer



STATEMENT OF CONDITION - Unaudited

(In Thousands)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS:		
Cash and Due From Banks.....	\$ 21,268	\$ 34,359
Investments and Fed Funds Sold:		
United States Government and Federal Agency Securities.....	267,274	154,431
Certificates of Deposit, Money Markets and Commercial Paper.....	26,028	18,257
Other Bonds and Obligations.....	86,188	109,960
Bank and Equity Securities.....	11,493	10,260
Federal Funds Sold.....	<u>118,760</u>	<u>59,292</u>
Total Investments and Fed Funds Sold:	509,743	352,200
Loans:		
Residential Loans.....	959,876	953,843
Commercial Real Estate Loans.....	294,812	282,677
Commercial & Industrial Loans.....	107,134	90,677
Consumer Loans.....	<u>2,111</u>	<u>3,080</u>
Total Gross Loans:	1,363,933	1,330,277
Reserve For Losses.....	<u>(15,743)</u>	<u>(11,390)</u>
Net Loans.....	1,348,190	1,318,887
Banking Premises, Furniture and Equipment.....	23,885	24,699
Other Assets.....	<u>20,207</u>	<u>17,033</u>
TOTAL ASSETS	<u>\$ 1,923,293</u>	<u>\$ 1,747,178</u>
LIABILITIES AND RETAINED EARNINGS:		
Deposits.....	\$ 1,645,969	\$ 1,463,158
Repurchase Agreement Sweep.....	35,661	33,021
Mortgagor's Tax and Other Escrow Accounts.....	717	692
Other Liabilities.....	11,034	8,604
Federal Home Loan Advances.....	52,561	72,618
Retained Earnings.....	<u>177,351</u>	<u>169,085</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 1,923,293</u>	<u>\$ 1,747,178</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 \$14,000,000 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 \$45,500,000 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)

	Six Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
INTEREST INCOME:		
Interest on Real Estate Loans.....	\$ 34,213	\$ 36,030
Interest on Other Loans.....	2,637	3,165
Investment Income.....	<u>4,814</u>	<u>6,479</u>
Total Interest Income	41,664	45,674
Interest Expense:		
Interest on Deposits.....	14,884	20,338
Interest on Borrowings and Repurchase Agreements.....	<u>1,314</u>	<u>2,016</u>
Total Interest Expense	16,198	22,354
Net Interest Income	25,466	23,320
Loan Loss Provision.....	<u>4,250</u>	<u>500</u>
Net Interest Income after Loan Loss Provision	21,216	22,820
NON INTEREST INCOME:		
Loan Servicing Fees.....	100	440
Net Gain on Sale of Mortgage Loans.....	5,589	1,182
Service Charges.....	2,356	2,284
Net Gain on Sale of Investments.....	16	488
Trust/Investment & Government Banking Fees.....	2,332	2,224
Other Income.....	<u>31</u>	<u>25</u>
Total Non Interest Income	<u>10,424</u>	<u>6,643</u>
TOTAL OPERATING INCOME	31,640	29,463
OPERATING EXPENSES:		
Salaries and Benefits.....	16,352	14,025
General Operating.....	5,567	3,521
Data Processing and Check Processing.....	1,913	1,761
Equipment & Occupancy.....	2,034	1,959
Other Expenses.....	<u>704</u>	<u>629</u>
Total Operating Expenses	<u>26,570</u>	<u>21,895</u>
Net Operating Income Before Taxes	5,070	7,568
Provision for Income Taxes	<u>1,832</u>	<u>2,798</u>
Net Income	<u>\$ 3,238</u>	<u>\$ 4,770</u>



F. M. Cummings' cottage, 1893, from the collection of H. K. Cummings photographs at the Snow Library, Orleans, MA

LADDER CDs Timely and Worth Considering

The Cape Cod Five's Ladder CD invests your money in 12, 24, 36, 48 and 60 month CD "rungs." As a result, one of these CDs will mature every year, and if annually you elect to reinvest the maturing funds in a new 60 month "rung," your total investment will benefit by adding more 60 month CDs to the ladder. Typically 60 month CDs earn the highest available rate.

As an example, assume you invest \$30,000 in a Ladder CD with \$6,000 in each of the five "rungs." Then assume that each year, as one of the CD "rungs" matures, you continue the process and roll the maturing \$6,000 into a new 60 month CD. You will still have \$30,000 invested, and \$6,000 maturing annually. You may reinvest the interest earned, however this example assumes that you are withdrawing it.

Although you could create your own CD Ladder, Cape Cod Five's Ladder CD pays premium rates, plus it simplifies the process, because unless you instruct us otherwise, you can count on the maturing funds to be automatically reinvested in another 60 month CD. This can be a time-saver and provides assurance of the continuation of the Ladder.

It's a strategy that provides income annually and combines the advantages of long-term rates with short-term commitments, in a portfolio secured by FDIC and DIF insurance. For more information, stop by one of our branch offices, or call our Customer Service Center at (toll-free) 888-225-4636.

Minimum balance: \$10,000 (at least \$2,000 per term).

THE CAPE COD FIVE CENTS SAVINGS BANK CHARITABLE FOUNDATION TRUST

This quarter we feature Champ Homes as an example of important work being done within the Cape Cod community.

It started as the Champ House in 1991, the creation of Paul and Carolyn Hebert. Their mission: "To provide our neighbors on Cape Cod and the Islands with an affordable, supportive home where each person may move toward his or her full potential." Ever since then, the Heberts have turned it into a model of a successful, entrepreneurial non-profit, having housed and provided over 1,400 individuals with a diverse array of helpful case management services. Their success is evident in their growth – from the School Street campus in Hyannis to the main house, then adding three smaller homes and a pavilion; hence their new name: Champ Homes. They now accommodate 63 people ranging in age from 17 to 85 who work towards educational, employment and personal goals.

With support from Cape Cod Five's Foundation, Champ Homes introduced a recycling program that serves as employment for its residents. They also created the Champ Campus Garden using compost-rich organic soil. And recently, the Heberts received an Innovation Award from the Massachusetts Non-Profit Network for their new photo voltaic project – a rooftop installation which will produce 42,000 kilowatts a year, and satisfy 60% of their electricity needs – another project for which the Foundation provided funding. All of this nicely fits with the Foundation's objective to support human needs, economic development and a "greener" environment.

Beach Picnic, Orleans, 1895, from the collection of H. K. Cummings photographs at the Snow Library, Orleans, MA



MARKET REVIEW SECOND QUARTER 2009

Investors finally had a reason to celebrate as the second quarter came to a close. All of the major averages reversed a first quarter slide and ended the quarter with significant gains. Most of the major indices posted their best performance since 2003. Domestic stocks did well, but the highest returns were generated by the international and emerging market sectors. Investors were betting that lower borrowing costs would lead to



View from North Beach, showing "Little Daisy" & "Puritan", 1895, from the collection of H.K. Cummings photographs at the Snow Library, Orleans, MA

a global recovery that would lead to higher growth worldwide. Looking at the numbers, the Dow Jones Industrial Average closed up more than 11% for the quarter, with investors believing that larger companies will be the major beneficiaries of an economic recovery package. The S&P 500 index turned in a positive return of almost 16% for the last three months. Financial stocks, which held back the index in the last quarter, added significantly to its performance this quarter, due to a better showing in the banking sector. Technology stocks helped the NASDAQ Composite turn in an impressive gain of over 20% for the second quarter. Benefiting from the strength in foreign markets, the Morgan Stanley EAFE International Index was the clear winner posting a 25% return for the last quarter.

Investors are still not in agreement as to what the future holds, however buyers did outnumber sellers this past quarter. Bullish investors continued looking for more signs of an economic recovery, while bearish investors pointed to a consumer that was struggling to hang on. The answer may lie with future employment reports, which could dictate the trend of the market as we move forward. The news to date has been disappointing and weak as far as employment is concerned. Lay-offs and bankruptcies have many individuals looking for work. Our country is experiencing one of the most severe employment slumps in history. The unemployment rate is expected to rise above the 10% level, and we are close to experiencing two full years of negative monthly jobs reports. Optimists will point to the fact that employment trends are a lagging indicator, and do not begin to show signs of improving until the economy is on its way to recovering. One thing is certain, without an improving jobs picture, it will be difficult for the market to move higher. Aside from the jobs picture, maybe a good way to put it is that the bad news is getting better. This could point to good news emerging as we enter the second half of the year.

INDEX	QTD Return
Standard & Poor's 500	+15.93%
Dow Jones Industrial Average	+11.96%
NASDAQ Composite	+20.34%
Standard & Poor's 400	+18.75%
Russell 2000	+20.69%
MSCI EAFE International	+25.43%

Other factors that will continue influencing the markets are the effectiveness of the government stimulus package, concerns over inflation as more money is pumped into our system, and of course we will quickly be entering another earnings reporting season. There is an old adage that the market climbs a wall of worry. We can only hope that it holds true this time around.

Looking ahead to the second half of the year, our view is that the market will initially need to digest more negative news. Positive economic news should slowly emerge during the second half of the year leading to an upward trend in the stock market. We will see corrections, but view them more as an entry point to selectively purchase companies at attractive valuations.

Michael S. Kiceluk, CFA®, Chief Investment Officer
 Edward R. Eastman, III, Senior Investment Officer
 Rachael Aiken, CFP®, Senior Investment 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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Customer Service Center: 888-225-4636

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