

The Cape Cod Five Cents Savings Bank

Quarterly Report

Period ending June 30, 2011

We are pleased to present our 2011 second quarter Report.

The Bank's second quarter 2011 results were good and exceeded budget and the comparable period last year. The positive earnings come from all the Bank's business lines, highlighted by quality loan growth, strong non-interest income, and a lower loan loss provision. The Nantucket branch and related business continue to exceed expectations.

We are pleased with our improved financial results, but we remain very cautious in regard to the fragile economic recovery. Many businesses and individuals continue to struggle amidst higher operating costs and constrained revenue and demand. As we have said for some time, job growth, housing, and government debt levels still need to find long term solutions to create a stable environment that promotes a healthy economy.

We hope for continued good summer weather to give the region a boost during this important time of the year for our region's economy.

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

Dorothy A. Savarese, President and Chief Executive Officer

Net income for the first six months of 2011 was \$6.7 million, a 20.7% increase over last year's same period results and represented an annualized return on average assets of 69 basis points. Increases in net interest income and non-interest income combined with a decrease in loan loss provision were the primary drivers for the improvement, which more than offset the rise in operating expenses. Strong growth in Trust & Asset Management revenue contributed to the increase in non-interest income. The Bank's total assets were \$2.02 billion at June 30, 2011, up \$58.5 million from \$1.96 billion last year. Contributing to the increase in total assets, deposits grew \$64.2 million and capital grew \$13.0 million to \$201.6 million year-over-year. The Bank continues to be categorized as well capitalized under all quantitative regulatory definitions. Investments decreased \$58.9 million to \$445.8 million and when combined with the deposit and capital growth, provided the sources for the increase in net loans of \$115.0 million to \$1.5 billion, or 74.1% of total assets. Both the residential mortgage and commercial loan categories contributed to the year-over-year loan growth with increases of \$75.1 and \$45.1 million, respectively. The loan loss provision was \$250,000 for the first half of 2011 and the loan loss coverage ratio stood at 1.16% as of June 30, 2011. The Bank continues to maintain adequate reserves against potential loan losses, a strong capital position, and appropriate liquidity levels. Financial highlights are detailed below and financial statements are included in this report.

- Year-to-date net income was \$6.7 million; an annualized return on assets of 69 basis points
- Capital was \$201.6 million at quarter-end and represented 9.98% of \$2.02 billion in assets
- Deposits increased \$64.2 million since last year to end the quarter at \$1.75 billion, or growth of 3.4%
- Net loans increased \$115.0 million since last year to end the quarter at \$1.50 billion, 74.1% of assets
- There was no loan loss provision for the quarter and \$250,000 for the year-to-date period; the loan loss coverage ratio was 1.16% at June 30, 2011

Phillip W. Wong, Treasurer and Chief Financial Officer



STATEMENT OF CONDITION - Unaudited

(In Thousands)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS:		
Cash and Due From Banks.....	\$ 22,232	\$ 18,824
Investments and Fed Funds Sold:		
United States Government and Federal Agency Securities.....	252,754	304,984
Certificates of Deposit, Money Markets and Commercial Paper.....	15,833	18,011
Other Bonds and Obligations.....	94,264	84,800
Bank and Equity Securities.....	11,753	12,531
Federal Funds Sold.....	<u>71,190</u>	<u>84,326</u>
Total Investments and Fed Funds Sold:	445,794	504,652
Loans:		
Residential Loans.....	1,057,284	989,411
Commercial Real Estate Loans.....	334,608	301,002
Commercial & Industrial Loans.....	121,767	110,262
Consumer Loans.....	<u>1,677</u>	<u>1,900</u>
Total Gross Loans:	1,515,336	1,402,575
Reserve For Loan Losses.....	<u>(17,588)</u>	<u>(19,830)</u>
Net Loans.....	1,497,748	1,382,745
Banking Premises, Furniture and Equipment.....	24,306	23,862
Other Assets.....	<u>30,276</u>	<u>31,822</u>
TOTAL ASSETS	<u>\$ 2,020,356</u>	<u>\$ 1,961,905</u>
LIABILITIES AND RETAINED EARNINGS:		
Deposits.....	\$ 1,747,807	\$ 1,683,586
Repurchase Agreement Sweep.....	28,051	38,533
	628	587
Mortgagor's Tax and Other Escrow Accounts.....	9,870	8,153
Other Liabilities.....	32,440	42,502
Federal Home Loan Advances.....	<u>201,560</u>	<u>188,544</u>
Retained Earnings.....	<u>\$ 2,020,356</u>	<u>\$ 1,961,905</u>
TOTAL LIABILITIES AND RETAINED EARNINGS		

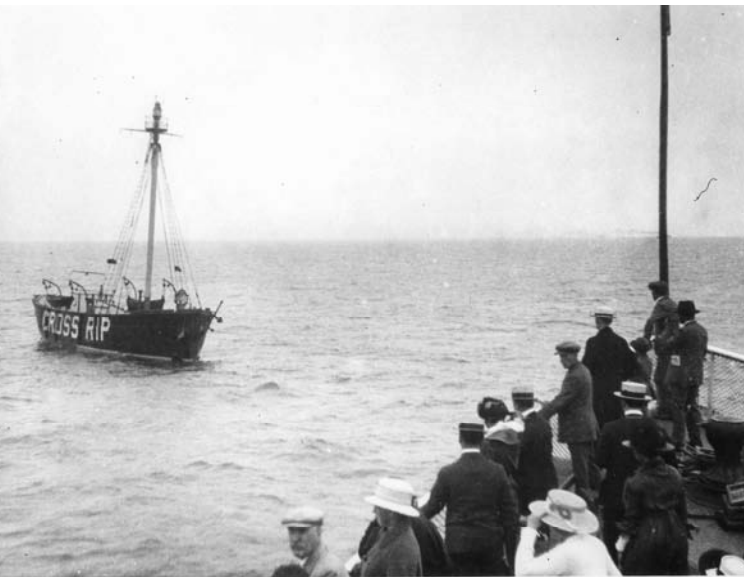
NOTES:

- 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 \$41,000,000 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)

	Six Months Ended June 30,	
	<u>2011</u>	<u>2010</u>
INTEREST INCOME:		
Interest on Real Estate Loans.....	\$ 31,143	\$ 31,078
Interest on Other Loans.....	2,643	2,798
Investment Income.....	<u>2,995</u>	<u>4,054</u>
Total Interest Income	36,781	37,930
INTEREST EXPENSE:		
Interest on Deposits.....	7,426	9,100
Interest on Borrowings and Repurchase Agreements.....	<u>449</u>	<u>692</u>
Total Interest Expense	7,875	9,792
Net Interest Income	28,906	28,138
Loan Loss Provision.....	<u>250</u>	<u>3,000</u>
Net Interest Income after Loan Loss Provision	28,656	25,138
NON INTEREST INCOME:		
Loan Servicing Fees.....	833	663
Net Gain on Sale of Mortgage Loans.....	2,346	2,407
Service Charges.....	2,703	2,758
Net Gain on Sale of Investments.....	6	77
Trust/Investment & Government Banking Fees.....	3,449	3,003
Other Income.....	<u>88</u>	<u>(109)</u>
Total Non Interest Income	<u>9,425</u>	<u>8,799</u>
Total Operating Income	38,081	33,937
OPERATING EXPENSES:		
Salaries and Benefits.....	16,573	15,275
General Operating.....	4,735	4,490
Data Processing and Check Processing.....	2,197	2,090
Equipment & Occupancy.....	2,246	2,082
Other Expenses.....	<u>951</u>	<u>691</u>
Total Operating Expenses	<u>26,702</u>	<u>24,628</u>
Net Operating Income Before Taxes	11,379	9,309
Provision for Income Taxes	<u>4,673</u>	<u>3,752</u>
Net Income	<u>\$ 6,706</u>	<u>\$ 5,557</u>



A Nantucket Steamer approaching the "Cross Rip" lightship where passengers would throw daily newspapers and treats to the crew. From the collection of William Quinn of Orleans.

TRUSTEER RAPPORT ADDED ONLINE SECURITY

Cape Cod Five recently partnered with Trusteer to bring you Rapport security software. Trusteer is the world's leading provider of secure web access services. Rapport provides a supplemental layer of important transaction protection and defense from online identity theft. It is available at no cost and can be downloaded from Cape Cod Five's website.

Rapport's protection is based on technology that is entirely different from the technologies used by conventional desktop security solutions. Rapport guards your username, password, and other sensitive login information and prevents malware and fraudulent websites from stealing this information.

When you bank, trade, or shop online, Rapport can significantly reduce your exposure to the growing threat of financial fraud and identity theft. Rapport:

- works with both Windows and Mac on any of the four major web browsers;
- can be downloaded (from Cape Cod Five's website) onto as many computers as you want;
- guards all of your password protected websites (not just Cape Cod Five's online banking);
- is entirely transparent and does not require you to change the way you work or sign into these websites;
- requires no configuration or maintenance – you simply install and browse safely;
- promptly notifies you of any online threats.

This critical enhancement is part of Cape Cod Five's ongoing commitment to safeguarding your online banking environment. We recommend it for both consumer and business customers. Easy instructions can be found on our homepage at www.capecodfive.com.

THE CAPE COD FIVE CENTS SAVINGS BANK CHARITABLE FOUNDATION TRUST

Helping to Prevent Homelessness - An Important Foundation Priority -

During the second quarter of 2011, the Cape Cod Five Cents Savings Bank Charitable Foundation Trust provided donations to four local organizations known for their effective dedication to preventing homelessness.

Homeless Prevention Council (HPC) was given \$5,000. By collaborating with the Lower Cape Outreach Council, they added cost-saving efficiency to their fine record of keeping people in their housing through counseling. Last year, HPC worked with 579 families, with 968 children.

Housing Assistance Corporation (HAC), the area's largest housing agency, was given \$10,000. Last year alone, HAC provided foreclosure counseling to 803 households, impacting over 2,400 people. After factoring in their other housing programs, HAC helped over 15,000 people.

The Housing with Love Walk is a program for which the Foundation has long been the sole sponsor. Over the past 18 years, local non-profits have raised \$2.5 million while walking from Provincetown to the Canal. The Foundation contributed \$3,000 to sponsor this year's walk.

Habitat for Humanity, which has constructed 73 homes on Cape Cod since 1989, is creating a "ReStore" to receive, store, and distribute donated building materials, furniture and appliances. The Foundation recognized this project as another example of Habitat's fine work, and contributed \$2,000.

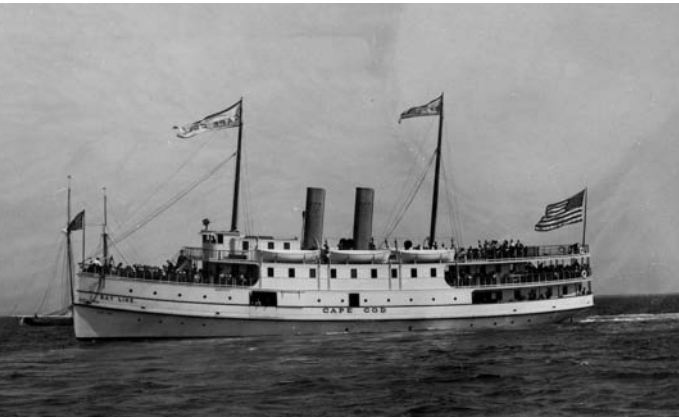
The continuing economic downturn continues to present challenges to Cape Cod families. It has been recognized that the cost of providing intervention to prevent homelessness is one third of the cost of providing shelter to the homeless, and helps support stable communities. The Foundation is privileged to provide support to these organizations which provide essential, proactive services.



U. S. Lifesaving Service crew training off Provincetown with a three-masted schooner passing in the background. From the collection of William Quinn of Orleans.

MARKET REVIEW SECOND QUARTER 2011

As the second quarter of 2011 opened, global economists were still just digesting the impact of the Japanese earthquake on not only Japan's GDP, but on world economies as well. An increased focus on the end of the quarter was developing, as June 30 was the maturity date of the Federal Reserve's quantitative easing program (QE2). Although the S&P 500 Index ended the quarter virtually where it began, market activity, economic news, and worldwide events were far from unexciting.



Bay Line Steamer "Cape Cod" offered service between Provincetown and Boston in the late 1800s. From the collection of William Quinn of Orleans.

During the quarter, markets grappled with less than inspiring conditions. Higher oil prices caused consumers to keep a tighter grip on their wallets. Turmoil in the Middle East and North Africa kept supplies tight, resulting in higher oil prices. The national average price for a gallon of gas reached \$3.90. As consumer spending contributes to roughly two-thirds of U.S. GDP, a reduction in spending can cause a reduction in investors' confidence. Rising commodity prices and signs of a slowdown in manufacturing growth in China and Europe added to investors' unease that a global slowdown might gain momentum. Greece's debt

issues resurfaced, as did fears of a European contagion. U.S. unemployment crept back up to 9% and personal income declined over the same period a year ago, as adjusted for inflation. The May housing reports indicated that sales for both new homes and existing homes fell. The combination of these conditions caused equity markets to drop every week in the month of May. First quarter earnings for S&P 500 companies posted double digit growth, but these good reports could not counterbalance the troubling news emerging close to home and across the globe.

In the first 10 weeks of the quarter, the S&P Index experienced a 7.2% decline that virtually erased all year-to-date gains. Last year, a similar mix of economic weakness caused the S&P 500 to drop 11.86% in the second quarter. The index managed to end the quarter 0.10% to the positive, along with a 1.42% return from the Dow Jones Industrial Average. The 10 year Treasury Bond increased and yields fell from 3.24% to 3.16%, as fears of a continued slowdown grew. The price of gold rose 4.62% to \$1,505 per ounce and oil finished at \$94 per barrel. U.S. economic growth slowed to 1.9% in the first quarter from a robust 3.1% at the end of last year. Many market strategists view this quarter's "soft patch" in economic growth as a short term response to the sharp rise in oil prices mentioned above and the earthquake-induced collapses in Japanese demand.

Over the decades and indeed centuries, world events have created crises across the globe. As we are all students of history, we can observe that it is human nature to seek resolution and to find opportunities in times of difficulty. As the quarter came to a close, we witnessed a release of oil from the Strategic Petroleum Reserve which was followed by a drop in the price of oil, Greek parliament agreed to austerity measures, China's premier announced that inflation had been reined in and the maturity of QE2 did not trigger a disaster. The markets rebounded on these resolutions and attention quickly turned to the U.S. debt ceiling debate. We continue to have confidence in the well managed companies that conduct business on a daily basis despite the headlines, maintain well diversified portfolios to weather ongoing news here and abroad, and expect that next quarter a resolution to the concerns we see today regarding the debt ceiling will be reported to our readers.

INDEX	QTD Return
Standard & Poor's 500	0.10%
Dow Jones Industrial Average	1.42%
NASDAQ Composite	-0.03%
Standard & Poor's 400	-0.73%
Russell 2000	-1.61%
MSCI EAFE International	-1.36%

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

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