

# The Cape Cod Five Cents Savings Bank

## Quarterly Report

Period ending September 30, 2008

We are pleased to present our 2008 third Quarter Report. As you will read in greater detail below, The Cape Cod Five Cents Savings Bank continues to be profitable, well-capitalized, and conservatively managed. At Cape Cod Five, we have always committed ourselves to conducting our business in a way that is straightforward and conscientious. Now, more than ever, the value of that approach is evident.

The Cape Cod Five has not engaged in so-called sub-prime lending, nor has it invested in securities tied to sub-prime loans. As a result, the credit quality of our loan portfolio remains strong, our past due loans are low and we continue to lend responsibly.

All deposits at The Cape Cod Five Cents Savings Bank are fully insured through a combination of FDIC and DIF insurance. DIF insures 100% of deposits above the FDIC limits. Over one in four deposit dollars in Barnstable County is placed with the Cape Cod Five, making us the largest deposit institution on Cape Cod.

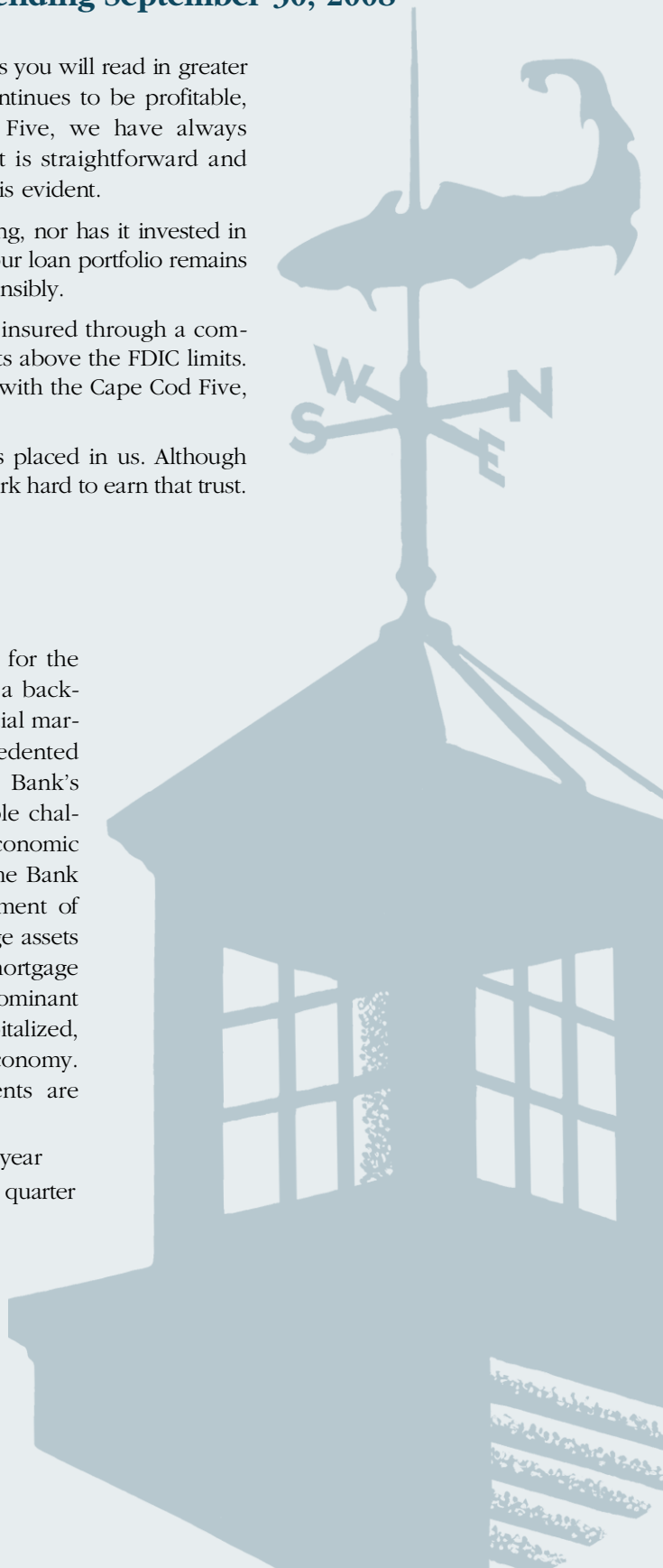
We appreciate the confidence that the Cape Cod community has placed in us. Although the economic times ahead may be difficult, we will continue to work hard to earn that trust.

Dorothy A. Savarese  
President and Chief Executive Officer

The Bank is pleased to report strong financial performance for the first nine months of 2008. This has been achieved against a backdrop of weakness in the national economy and turmoil in financial markets, with the month of September 2008 presenting unprecedented challenges to both national and global financial systems. The Bank's 2008 final results will continue to face serious and unpredictable challenges from the existing weakness in the national and global economic environment. For the nine months ended September 30, 2008, the Bank recorded net income of \$7.3 million representing an improvement of 8.7% over last year and providing an annualized return on average assets of 57 basis points. The Bank continues to act as a resource for mortgage and commercial lending and to grow its deposits, increasing its dominant market share position on Cape Cod. The Bank remains well-capitalized, and stands ready to withstand the ongoing challenges in the economy. Financial highlights are detailed below and financial statements are included inside this report.

- Year-to-date net income was \$7,322,000 and 8.7% ahead of last year
- Net loans have increased \$73.1 million since last year to end the quarter at \$1.34 billion and 75.8% of assets
- Deposits have increased \$86.4 million since last year to end the quarter at \$1.49 billion
- Capital was \$170.4 million at quarter-end and the Bank is well capitalized under all regulatory definitions

Phillip W. Wong  
Treasurer and Chief Financial Officer



**STATEMENT OF CONDITION - Unaudited**

	<u>September 30, 2008</u>	<u>September 30, 2007</u>
<b>ASSETS:</b>		
Cash and Due From Banks.....	\$ 36,776,000	\$ 37,199,000
Investments and Fed Funds Sold:		
United States Government and Federal Agency Securities.....	160,046,000	159,394,000
Certificates of Deposit, Money Markets and Commercial Paper.....	14,532,000	5,875,000
Other Bonds and Obligations.....	106,961,000	124,504,000
Bank and Equity Securities.....	8,207,000	9,789,000
Federal Funds Sold.....	<u>60,020,000</u>	<u>9,882,000</u>
Total Investments and Fed Funds Sold:	349,766,000	309,444,000
Loans:		
Residential Loans.....	977,350,000	938,247,000
Commercial Real Estate Loans.....	288,188,000	260,574,000
Commercial & Industrial Loans.....	85,101,000	77,295,000
Consumer Loans.....	<u>2,757,000</u>	<u>3,388,000</u>
Total Gross Loans:	1,353,396,000	1,279,504,000
Reserve For Losses.....	<u>(11,920,000)</u>	<u>(11,139,000)</u>
Net Loans.....	1,341,476,000	1,268,365,000
Banking Premises, Furniture and Equipment.....	24,428,000	21,970,000
Other Assets.....	<u>18,062,000</u>	<u>18,824,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,770,508,000</u>	<u>\$ 1,655,802,000</u>
<b>LIABILITIES AND RETAINED EARNINGS:</b>		
Deposits.....	\$ 1,490,094,000	\$ 1,403,675,000
Repurchase Agreement Sweep.....	26,495,000	30,497,000
Mortgagor's Tax and Other Escrow Accounts.....	1,747,000	1,738,000
Other Liabilities.....	9,210,000	10,033,000
Federal Home Loan Advances.....	72,605,000	48,317,000
Retained Earnings.....	<u>170,357,000</u>	<u>161,542,000</u>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<u>\$ 1,770,508,000</u>	<u>\$ 1,655,802,000</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 \$13,000,000 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 \$38,000,000 have been segregated as collateral at Brown Brothers Harriman & Co. for the Bank's Repurchase Agreement Sweep program.
- Retained Earnings values shown after recognition of deferred income taxes and unrealized gains (losses) within the equity portfolio.

**INCOME STATEMENT - Unaudited**

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>INTEREST INCOME:</b>		
Interest on Real Estate Loans.....	\$ 53,983,000	\$ 52,880,000
Interest on Other Loans.....	4,606,000	4,944,000
Investment Income.....	<u>9,659,000</u>	<u>10,873,000</u>
<b>Total Interest Income</b>	68,248,000	68,697,000
<b>Interest Expense:</b>		
Interest on Deposits.....	28,935,000	33,413,000
Interest on Borrowings and Repurchase Agreements.....	<u>2,972,000</u>	<u>3,514,000</u>
<b>Total Interest Expense</b>	31,907,000	36,927,000
<b>Net Interest Income</b>	36,341,000	31,770,000
Loan Loss Provision	<u>1,075,000</u>	<u>0</u>
<b>Net Interest Income after Loan Loss Provision</b>	35,266,000	31,770,000
<b>NON INTEREST INCOME:</b>		
Loan Servicing Fees.....	660,000	572,000
Net Gain on Sale of Mortgage Loans.....	1,659,000	1,117,000
Service Charges.....	3,491,000	3,280,000
Net Gain on Sale of Investments.....	488,000	0
Trust/Investment & Government Banking Fees.....	3,456,000	3,383,000
Other Income.....	<u>48,000</u>	<u>75,000</u>
<b>Total Non Interest Income</b>	<u>9,802,000</u>	<u>8,427,000</u>
<b>TOTAL OPERATING INCOME</b>	45,068,000	40,197,000
<b>OPERATING EXPENSES:</b>		
Salaries and Benefits.....	21,416,000	18,183,000
General Operating.....	5,483,000	5,076,000
Data Processing and Check Processing.....	2,642,000	2,560,000
Equipment & Occupancy.....	2,965,000	2,830,000
Other Expenses.....	<u>1,015,000</u>	<u>1,081,000</u>
<b>Total Operating Expenses</b>	<u>33,521,000</u>	<u>29,730,000</u>
<b>Net Operating Income Before Taxes</b>	11,547,000	10,467,000
<b>Provision for Income Taxes</b>	<u>4,225,000</u>	<u>3,732,000</u>
<b>Net Income</b>	<u>\$ 7,322,000</u>	<u>\$ 6,735,000</u>



Images of Harwich Exchange Building, Chatham Main Street and Brewster's Crosby Mansion from the collection of Noel Beyle of Eastham, Massachusetts.

## **MONEY MARKET DEPOSIT ACCOUNTS**

Recent uncertainty and volatility in the financial markets has reinforced the desire for a stable and dependable rate of return. There are a number of product options available to fill this desire, one of which is a Money Market deposit account. In addition to earning a higher rate of return than a typical savings account, a Money Market deposit account provides the flexibility of immediate access to your funds.

Recently, there has been confusion regarding the differences between a Money Market deposit account, described above, and a Money Market mutual fund. A Money Market deposit account is an interest-bearing savings account offered by banks, and therefore has the benefit of bank deposit insurance. In contrast, a Money Market mutual fund is a short-term fund that invests in commercial paper, government securities and other short term investment vehicles. A Money Market mutual fund sells shares to investors and earns interest based on performance. If the fund experiences a decline in value due to investment losses, the shareholder has no guarantee that their investment will be reimbursed in full.

At the Cape Cod Five, we offer many types of Money Market deposit products including business, personal, municipal and non-profit options; all 100% insured by the Federal Deposit Insurance Corporation (FDIC) and the Deposit Insurance Fund (DIF).

If you are interested in learning more about the Money Market deposit account options available at Cape Cod Five, please call 888-225-4636 or stop by one of our convenient locations here on Cape Cod.

## **THE CAPE COD FIVE CENTS SAVINGS BANK CHARITABLE FOUNDATION TRUST**

### *Another Example of Special Support*

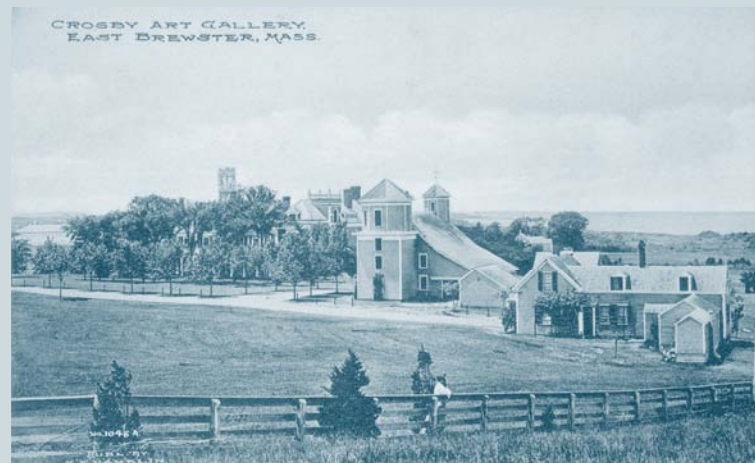
This past July, The Cape Cod Community College announced a \$200,000 pledge from The Cape Cod Five Cents Savings Bank Charitable Foundation Trust to upgrade the William Brewster Nickerson Cape Cod History Archives, located within the Wilkens Library. With this gift, the Foundation was given naming rights for the new facility.

Currently, the Nickerson Archives occupies a single 652-square-foot space and has outgrown its ever-increasing role of housing the Cape's historical books, rare manuscripts, ships' logs, diaries and special collections dating back to the 1600s. Its expansion will increase the size of the Archives three-fold and allow it to accommodate projected growth, expand research and display, as well as meet archival facilities standards; including the addition of audio-visual teaching technology.

The new Archives, with its innovative design, will feature a climate control system, plus host both a lecture and exhibit series to better disseminate the story of Cape Cod history. The total cost will be \$1 million, and the Foundation's "lead" gift was said to be key to launching the public phase of the campaign.

Dorothy Savarese, Foundation Chairman, when speaking at the announcement, related the Foundation's historical roots (the Bank) to the significance of archiving for future generations. She said, "Who else better to jump in and take a lead position in this project? We're such a part of that history. Our own history on Cape Cod dating back to 1855, as a thriving, independent institution, is indelibly connected to the historic provenance of the Nickerson Archives."

Although this is an example of a special situation, the Foundation is deeply rewarded by each of the many gifts it is privileged to make on behalf of the Cape Cod community.



## MARKET REVIEW THIRD QUARTER 2008

The third quarter of 2008 ended with the major averages sliding into bear market territory. Looking at the quarterly numbers, all the major averages turned in negative returns. The Dow Jones Industrial Average was one of the better performers, closing with a loss of 4.4%. The Standard & Poor's shed 9%, and the Nasdaq Composite gave up 9.2%. With all of the bankruptcies, government buyouts and credit downgrades, it is somewhat surprising the markets held up as well as they did. International markets were hit even harder, with the EAFE Index dropping almost 18% for the quarter.



Headline stories that would have seemed unbelievable to many became a stark reality of just how severe the current financial crisis has become. Credit concerns at Fannie Mae and Freddie Mac necessitated a government takeover of both companies. Lehman Brothers, once looked at as a pillar in the financial community, was forced into bankruptcy. Merrill Lynch was acquired by Bank of America, and American International Group agreed to severe government restrictions for much needed capital.

Much of the pain facing financial institutions can be directly traced to the housing meltdown. Falling home prices directly affected a broad range of financial instruments that were manufactured by investment bankers. The instruments sold to the financial community have come to be known as sub

prime mortgages. Some of these mortgages were issued with no proper documentation based upon inflated home values, and with little or no down payment. This scenario works when home prices are increasing but, unfortunately, a drop in housing values exposed the house of cards.

The markets are now looking to Washington to propose a financial package to help relieve the short-term pressure many financial institutions are facing. The passage of some form of financial assistance is all but certain. The question many investors are pondering is whether the package will have the desired effect for which all are hoping for. Even with a package, time is needed to de-leverage a financial system that was exposed to risks that exceeded all reasonable thought.

The economic impact of the credit crises will most likely be a recession, which may have already started. Consumer spending will slow from the previous pace, but the upcoming holiday season should have a slight positive impact. Another positive is the current drop in oil. This will limit the inflationary pressures on our economy, while keeping more money in the consumers' pocket. The final determinant of how long our economic weakness persists will be how quickly the government's moves restore confidence in our economy and financial markets.

This is certainly one of the most distressing financial periods our country has faced. The financial excesses of the past years need to be reversed. The process will be painful to complete. We need to remember that during these periods opportunities will present themselves that historically have proven to be very profitable. Our companies still represent the best run and most innovative enterprises in the world. When the markets do turn, cash from both domestic and international sources will quickly flow back into our markets.

INDEX	YTD Return as of September 30, 2008
Standard & Poor's 500	-19.27%
Dow Jones Industrial Average	-16.57%
NASDAQ Composite	-20.63%
Standard & Poor's 400	-14.34%
Russell 2000	-10.38%
MSCI EAFE International	-29.25%

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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