The Cape Cod Five Cents Savings Bank

Quarterly Report

Period ending September 30, 2011

From our President

This quarter I have chosen to share some of my remarks from the Corporators Meeting on September 20, 2011, which took place immediately before our Foundation Annual Meeting.

"It seems as though we talk about the same themes every time we get together - a difficult economic environment as American households continue to deal with depressed home values and high levels of unemployment and work to shed their excessive debt. Governments are working to sustain services in the face of strained government budgets.

Although corporate performance has improved, primarily through increases in productivity, corporations continue to build up cash and hold off on investments and hiring in the face of diminished demand and overriding uncertainty about the economy, the government, taxation and regulation.

The increased concern about international economic stability and sovereign debt issues has exacerbated matters globally and domestically. This summer, it felt as if these concerns were disrupting any traction the economy seemed to be gaining.

Needless to say, the stock market has been volatile. There are a significant number of people who argue that the Fed's commitment to maintain low interest rates until mid-year 2013, is not stimulative and instead continues to hurt those who are dependent on interest and investment income, which comprises a large percentage of our customers. Also, it will continue to hurt bank margins. On the other hand, those supporting this approach argue that raising rates would throw more overleveraged households into a crisis.

Although we would like to move through this period of deleveraging more quickly, if it happened too suddenly, it would create huge dislocation in the economy. So we probably face a long slog through this recovery.

The Bank, like individuals and other businesses, continues to adjust to a world with constrained economic growth and much more regulation. This is a time for the careful balancing of risk and growth. However, our mission of providing responsible financial products to our customers, making a positive impact on our community, and carefully managing our risk profile remains unchanged.

As a mutual institution, our focus is on our customers, our employees, and the communities we serve. We feel the organizing principals of our organization are the values that are at its core – commitment, fairness, integrity.

We then focus on prudently providing community banking delivered exceptionally well to help individuals and businesses in our communities meet their financial goals. We do this through our products and services, our extensive branch and location network and our talented employees, who have intimate knowledge of our communities.

The outcomes of implementing our values with a strong focus on execution have led to good outcomes for the bank, in terms of market share and sound financial condition. These good outcomes reinforce the attractiveness of the Bank in the minds of existing and future customers.

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STATEMENT OF CONDITION - Unaudited

	(In Thousands) Sept. 30, 2011	Sept. 30, 2010
ASSETS:		
Cash and Due From Banks	$ 25,584	$ 19,077
Investments and Fed Funds Sold:		
United States Government & Federal Agency Securities	226,145	314,154
Certificates of Deposit, Money Markets & Commercial Paper	36,157	9,451
Other Bonds & Obligations	106,155	70,385
Bank and Equity Securities	12,077	12,331
Federal Funds Sold	101,144	95,380
Total Investments and Fed Funds Sold:	481,678	501,701
Loans:		
Residential & Home Equity Loans	1,092,265	1,014,719
Commercial Real Estate Loans	338,409	293,731
Commercial & Industrial Loans	102,124	98,561
Consumer Loans	1,619	1,753
Total Gross Loans:	1,534,417	1,408,764
Reserve For Loan Losses	(17,765)	(19,237)
Net Loans	1,516,652	1,389,527
Banking Premises, Furniture & Equipment	24,596	24,047
Other Assets	27,592	30,828
TOTAL ASSETS	$ 2,076,102	$ 1,965,180
LIABILITIES AND RETAINED EARNINGS:		
Deposits	$ 1,792,886	$ 1,686,451
Repurchase Agreement Sweep	33,080	33,850
Mortgagor's Tax & Other Escrow Accounts	1,430	1,523
Other Liabilities	11,672	8,907
Federal Home Loan Advances	32,425	42,487
Retained Earnings	204,609	191,962
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 2,076,102	$ 1,965,180

NOTES:

1. 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.
2. Loan values are shown after reduction for reserve for possible losses and net of unadvanced funds.
3. Bank and other stocks are shown at market value which was greater than or equal to cost as of reported dates.
4. 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 $50,111,000 have been segregated as collateral at Brown Brothers Harriman & Co. for the Bank's Repurchase Agreement Sweep program.
5. Surplus values shown after recognition of deferred income taxes and unrealized gains (losses) within the equity portfolio.

INCOME STATEMENT - Unaudited

	(In Thousands) Nine Months Ended September 30, 2011	2010
INTEREST INCOME:		
Interest on Real Estate Loans	$ 46,943	$ 46,880
Interest on Other Loans	3,969	4,129
Investment Income	4,517	5,735
Total Interest Income	55,429	56,744
INTEREST EXPENSE:		
Interest on Deposits	11,009	13,311
Interest on Borrowings & Repurchase Agreements	703	1,161
Total Interest Expense	11,712	14,472
Net Interest Income	43,717	42,272
Loan Loss Provision	1,000	3,000
Net Interest Income after Loan Loss Provision	42,717	39,272
NON INTEREST INCOME:		
Loan Servicing Fees	911	767
Net Gain on Sale of Mortgage Loans	3,499	4,186
Service Charges	4,172	4,192
Net Gain on Sale of Investments	7	120
Trust/Investment & Government Banking Fees	5,248	4,527
Other Income	(177)	67
Total Non Interest Income	13,660	13,859
Total Operating Income	56,377	53,131
OPERATING EXPENSES:		
Salaries & Benefits	25,075	23,817
General Operating	6,733	6,901
Data Processing & Check Processing	3,278	3,095
Equipment & Occupancy	3,455	3,121
Other Expenses	1,700	1,137
Total Operating Expenses	40,241	38,071
Net Operating Income Before Taxes	16,136	15,060
Provision for Income Taxes	6,618	6,102
Net Income	$ 9,518	$ 8,958

From the President (cont'd)

In this day and age, there are a variety of pressures on banks that exert a downward pressure on revenues and others that exert an upward pressure on expenses, therefore scale and growth is becoming increasingly important. Our earnings are reinvested in growing the institution so that we can continue to provide products and excellent customer service to our customers. But that is not the full extent of our mission.

The other two components of our community mission are support to the community through sponsorships and charitable donations, as well as through volunteerism and support. As the Bank has grown over the years, it has always companioned its community banking with its philanthropy and community support, long before the creation of the Charitable Foundation in 1998. And today, although the Foundation is the primary vehicle through which we provide our community support, we continue to provide monetary and volunteer support through our sponsorships and branches.

All together through the Bank and the Foundation, we provided over $750,000 of support to the communities we served in 2010. In addition, as you probably know, many employees of the Bank are involved on boards and with community activities on the Cape and Islands.

The Bank is pleased once again to have received an "Outstanding" CRA rating, a reflection of its community commitment in both banking and support."

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

Dorothy A. Savarese, *President and Chief Executive Officer*

From our Treasurer

Net income for the first nine months of 2011 was $9.5 million, up 6.3% over last year's same period, resulting in an annualized return on average assets of 64 basis points. A combination of an increase in net interest income and a decrease in loan loss provision of $1.4 and $2.0 million, respectively, more than offset the modest decrease of $199,000 in non-interest income and the $2.2 million rise in operating expenses. The Bank's total assets were $2.08 billion at September 30, 2011 up $110.9 million from $1.97 billion last year; driven by the increases in deposits of $106.4 million and capital growth of $12.6 million. At 28.3%, the 2011 FDIC Summary of Deposits report shows Cape Cod Five maintaining its number one deposit market share in Barnstable County. Capital has increased to $204.6 million and the Bank continues to be categorized as well capitalized under all quantitative regulatory definitions. Investments decreased $20.0 million to $481.7 million and when combined with the deposit and capital growth provided the sources for the increase in net loans of $127.1 million to $1.52 billion or 73.1% of total assets. Both the residential mortgage and commercial loan categories contributed to the year over year loan growth with increases of $83.0 and $48.2 million, respectively. The loan loss provision was $1,000,000 for the first nine months of 2011 and the loan loss coverage ratio stands at 1.16% as of September 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 $9.5 million; an annualized return on assets of 64 basis points
- Capital was $204.6 million at quarter-end and represented 9.86% of $2.08 billion in assets
- Deposits increased $106.4 million since last year to end the quarter at $1.79 billion or growth of 6.3%
- Net loans increased $127.1 million since last year to end the quarter at $1.52 billion and 73.1% of assets
- The loan loss provisions for the quarter and year-to-date periods were $750,000 and $1.0 million, respectively, and the loan loss coverage ratio stands at 1.16% as of September 30, 2011

Phillip W. Wong, *Treasurer and Chief Financial Officer*

MARKET REVIEW THIRD QUARTER 2011

The third quarter began on a positive note. Investors were optimistic that the second half of 2011 would usher in stronger economic growth and continued gains in the equity markets. Yet by mid-July, sentiment turned decidedly negative, volatility spiked, and a flight to quality reminiscent of 2008 ensued. The quarter was punctuated by global economic and political developments that undermined investor confidence and created an environment of fear and uncertainty. In response, markets around the world swooned resulting in their worst third quarter since 2008.

Main Street, Hyannis. The "Type 1" VW bus (on the left), Woolworth's, and the Mayflower Cafe dates this photograph to the early 1960s.

Throughout the quarter, technical indicators overshadowed fundamental analysis as investors intently watched key technical levels in the S&P 500, gold and the VIX, for a clue as to how the markets would trade on any given day. The selling was fierce. Markets moved violently from day to day; exemplified by 29 days in the third quarter where the DJIA rose or fell by more than 1%.

By the end of September, no corner of the market was immune from the indiscriminate selling. The Dow Jones Industrial Average fell 11.5%, its largest decline since the first quarter 2009. The S&P 500 declined 13.9% for the quarter, and now stood at a negative 8.7% year to date. The more volatile small and mid-cap markets fell even further with the Russell 2000, the small cap market proxy, falling 21.9% and the S&P Mid-cap 400 losing 19.9%. European markets experienced their biggest quarterly losses since 2002 and gold lost its luster, falling 12% in September after posting record highs in August.

INDEX	QTD Return
Standard & Poor's 500	-13.87%
Dow Jones Industrial Average	-11.49%
NASDAQ Composite	-12.70%
Standard & Poor's 400	-19.88%
Russell 2000	-21.86%
MSCI EAFE International	-18.95%

The macro backdrop for the sell-off began in late July as the debt ceiling debate intensified and the market reacted negatively to the stinging realization that partisan gridlock could damage our country's economic future. With Congress failing to create a viable long term deficit reduction plan, the United States AAA credit rating hung in the balance. The credit rating agency, Standard & Poor's, reacted quickly and on August 5th downgraded the U.S. sovereign debt rating from AAA to AA+; a decision that rocked financial markets.

Meanwhile, the European sovereign debt crisis raged on. As the odds of a Greek default increased, investors feared it could threaten the stability of the entire European financial system. Bourses across Europe experienced significant declines. The German, DAX, and the French, CAC 40, each declined more than 25% in the third quarter. Selling pressure quickly spread across the globe. In Asia, the Japanese NIKKEI declined 10.7% and the broader emerging markets plummeted 22.6%.

The anticipated impact of the S&P downgrade was a large scale sell-off in the bond market that would result in increased borrowing rates for the government, corporations and consumers. Such a result never materialized. To the contrary, the yield on the 10 year Treasury, a proxy for the bond market, fell to levels not seen since the 1940's. By the close of the quarter, the flight to quality pushed the yield on the 10 year Treasury to 1.9%, well below the 3% level it stood at in early July.

As we begin the fourth quarter of 2011, investors can find a few reasons to be optimistic. Economic data points are improving, valuations are compelling and corporations continue to report strong demand.

Looking ahead, we will closely monitor monetary and fiscal policy initiatives as well as global policy initiatives designed to create clarity in an environment currently plagued by uncertainty. We are cautiously optimistic that as each layer of uncertainty is removed, markets will breathe a sigh of relief and refocus on the fundamentals, which is the cornerstone of our process.

Finally, during these uncertain times, we remain committed to our consistent process that identifies well run, financially strong companies with significant free cash flow and stable earnings across all market caps. We believe the market's decline will present compelling opportunities to add good companies to our focus list at extremely low valuations.

Michael S. Kiceluk, CFA,® *Chief Investment Officer*
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