

Where We Have Been and Where We Are Headed

When I last wrote to you at the end of 2009, I outlined the themes we adopted during the past year based on stabilization and preparation for recovery. Cape Cod Cooperative Bank has been successful on both fronts by remaining true to our philosophy of smart and steady growth combined with fostering the loyalty of the community that supports us.

From September 2008 throughout 2009, most of the issues that influenced our business model were negative:

- Rising unemployment
- Customers experiencing flat profit levels at best
- Property values decreasing across the board as much 30%
- Investment markets without historical comparison, creating huge uncertainty
- Climate of distrust by the public towards all forms of banks and financial institutions, magnified by media presentation

As we approached 2009-2010, we identified a number of challenges, among them the ability of our customers to be able to repay us and the implications this imparted to our potential loan loss, a significant increase in our FDIC Insurance premium, the prospect of decreased profit and significant public policy issues.

We tightened our belts by cutting budgets where we could, eliminating two management positions and reducing compensation in salary, benefits and 401K contributions across the board. We embarked on a new strategy to reduce our reliance on wholesale funding. As our deposits grew, we repaid a significant portion of Federal Home Loan Bank advances. We intentionally continued to lend, while maintaining our credit culture.

We worked with borrowers and as always we were direct, in some cases we modified loans, in others we recommended the borrower sell the property as it was in their best interest. We feel fortunate that the actual number of foreclosures for the past year is in the single digits.

As we look at the results, the actions we took allowed us to make progress. We created a profit, we managed control over our asset size and we planned for the future. Part of the explanation is that rates paid on savings and borrowed money fell faster than rates on loans and investments. Our efficiency ratio increased. Our mix of assets changed as we decreased longer term investments while increasing our loan portfolio. We have ended our fiscal year ahead of our peers in earnings.

On the horizon we anticipate regulatory changes aimed at fixing issues that significantly contributed to the financial meltdown that began in 2008. Some of the proposed legislation may affect Community Banks more than Investment Banks and Financial

conglomerates. As I have articulated in the past, I believe that the Community Banks did not create these problems and have been intimately involved in the solution. Clearly, people in Washington DC, believe that individuals have been hurt by a combination of financial institution actions and extreme risk taking, and that a Consumer Protection Agency may be part of the solution. I continue to believe that a structure can be created to attain this goal effectively.

2010 will be a critical year for financial reform. There are many issues involved from dealing with financial firms that are 'too big to fail' and regulating non-regulated industries that compete with financial institutions to public policy discussions on how to blend consumer protection with the safety and soundness practices used by banks.

Looking ahead, our challenge is to plan for eventual rate increases as the current rate structure is artificially low. We will continue to work against the perception of the public that all banks are bad, as Community Banks continue to lead in contributing to the economic recovery.

I conclude with thanks for those who care so deeply that Cape Cod Cooperative Bank continues to be a profitable, efficient, caring organization that prospers in all economic environments. Difficult choices and sacrifices have been effective because so many have participated in the decisions and accepted the consequences. We look ahead with cautious optimism that 2010 – 2011 will be a year of growth and financial success.

Joel.