The Cape Cod Five Cents Savings Bank
Quarterly Report

Period ended March 31, 2017

From our President

In the midst of a change in administration and market and policy volatility, I am pleased to report that the Bank had a strong start in 2017 with solid business line results for the first quarter. Net income of $5.77 million represented an improvement of 16.8% over the first quarter of last year.

Year-over-year asset growth of $231.8 million, or 8.0%, was driven by increases in the Bank's residential and commercial real estate mortgage portfolios of 7.0% and 8.4%, respectively. The Bank's prudent lending practices continue to be evident in the favorable asset quality trends as delinquencies remain near all-time lows at only 0.29% of total loans.

Deposit trends have been very strong with 6.6% growth year-over-year. The Bank's strong core deposit base has supported the Bank's continued growth and pursuit of its community bank mission.

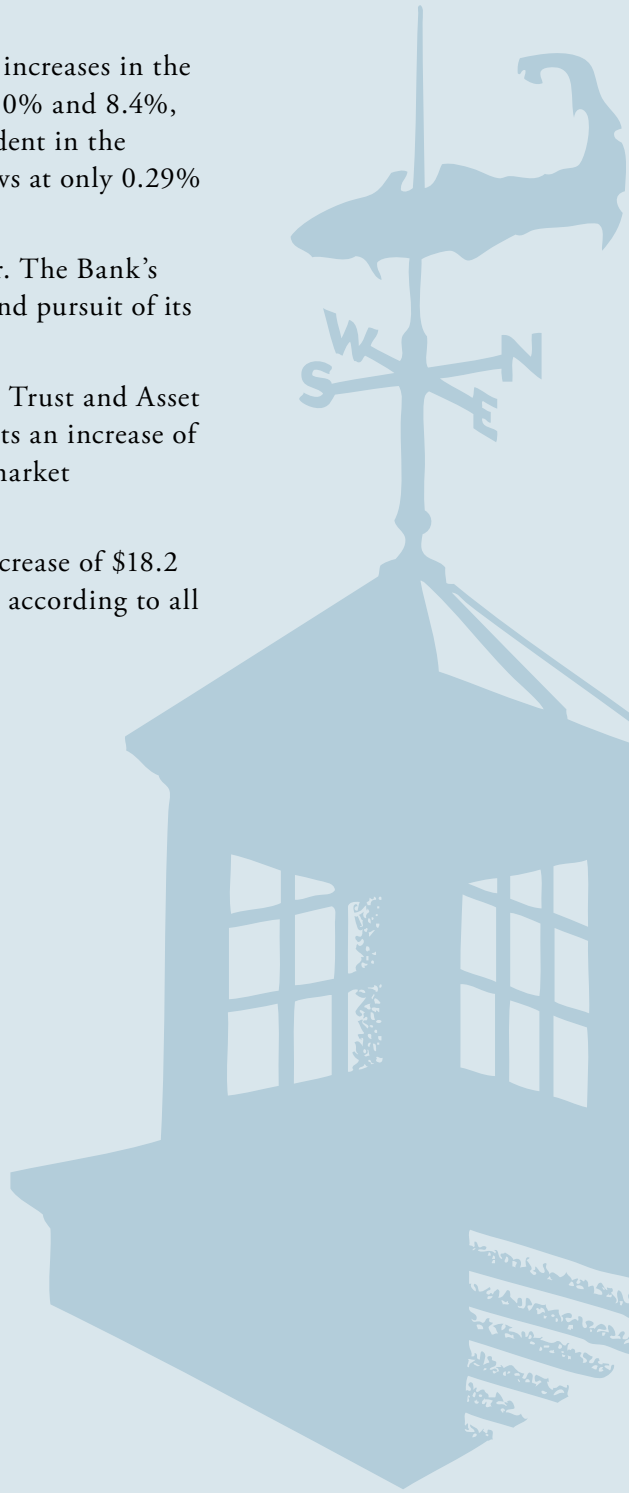
During the first quarter, total assets under management by the Bank's Trust and Asset Management Department exceeded $1.1 billion. This growth represents an increase of 10.0% year-over-year, as a result of new business and favorable stock market conditions.

Capital finished the first quarter at $285.1 million, representing an increase of $18.2 million or 6.8% year-over-year, and the Bank remains well-capitalized according to all regulatory definitions.

As we were posting strong financial results, we continued to work on our strategic priorities for 2017 and our continued commitment to our communities through our responsible business practices, corporate leadership and volunteerism, philanthropy, financial education, and community banking.

The Bank's accomplishments reflect the dedication and attention to detail of a talented team of professionals who remain committed to earning the trust our customers place in us and serving our communities as One Bank. We appreciate the opportunity to serve our customers and communities on their financial journey.

Sincerely,
Dorothy A. Savarese
President and Chief Executive Officer



CONSOLIDATED BALANCE SHEETS - Unaudited

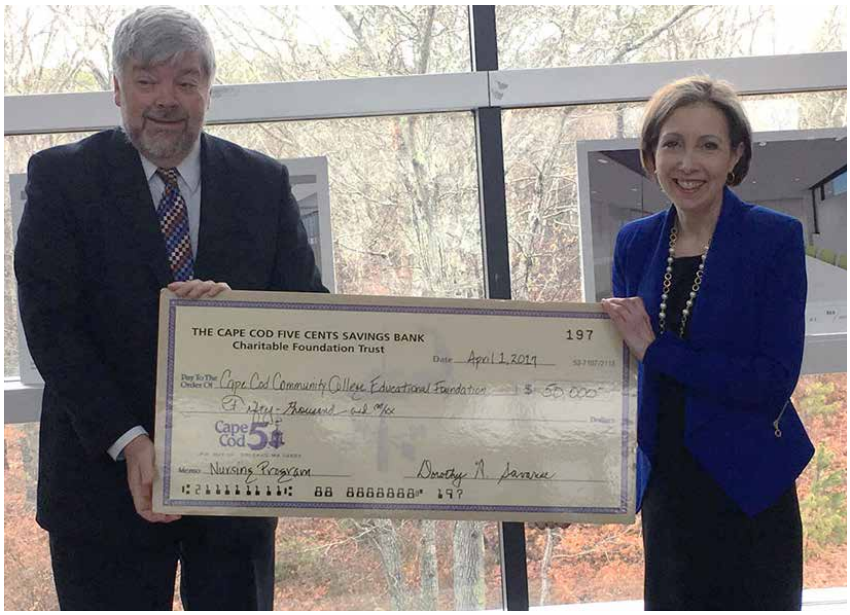
	As of March 31, 2017	As of March 31, 2016
	(In Thousands)	
ASSETS:		
Cash and Cash Equivalents	$ 32,017	$ 23,958
Investments:		
U.S. Government and Federal Agency Securities	62,730	110,610
Other Bonds and Obligations	273,059	188,840
Bank and Equity Securities	20,368	16,394
Unrealized (Loss) Gain on Available for Sale Securities, net	(881)	2,633
Total Investments	355,276	318,477
Loans:		
Residential Mortgages	1,957,970	1,829,617
Commercial Real Estate	507,391	468,050
Commercial & Industrial	151,858	163,347
Consumer	9,106	8,742
Gross Loans	2,626,325	2,469,756
Allowance For Loan Losses	(16,891)	(16,929)
Net Loans	2,609,434	2,452,827
Premises, Furniture and Equipment, net	55,550	50,325
Other Assets	64,015	38,870
TOTAL ASSETS	$ 3,116,292	$ 2,884,457
LIABILITIES AND RETAINED EARNINGS:		
Deposits	$ 2,538,390	$ 2,380,425
Repurchase Agreement Sweep	26,338	16,235
Mortgagors' Escrow Accounts	4,410	3,207
Federal Home Loan Bank Advances	251,765	203,291
Other Liabilities	10,254	14,386
Retained Earnings	285,135	266,913
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 3,116,292	$ 2,884,457

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. Federal Agency securities with a par value amount of $11,395,991 have been pledged as collateral for the Bank's Discount Window borrowings at the Federal Reserve Bank of Boston. Additional Federal Agency securities with a par value amount of $44,261,033 have been segregated as collateral at the Federal Home Loan Bank of Boston for the Bank's Repurchase Agreement Sweep program.
3. Retained earnings includes recognition of deferred income taxes and unrealized gains (losses) within the Available for Sale Investment portfolio.

CONSOLIDATED INCOME STATEMENTS - Unaudited

	Quarter Ended March 31, 2017	Quarter Ended March 31, 2016
	(In Thousands)	
INTEREST INCOME:		
Interest on Loans	$ 23,845	$ 22,360
Interest on Investments	1,825	1,491
Total Interest Income	25,670	23,851
Interest Expense:		
Interest on Deposits	2,483	2,268
Interest on Borrowed Funds	895	638
Total Interest Expense	3,378	2,906
Net Interest Income	22,292	20,945
Loan Loss Provision	-	-
Net Interest Income after Loan Loss Provision	22,292	20,945
NON INTEREST INCOME:		
Service Charges	1,541	1,441
Loan Servicing Fees, net	549	523
Net Gain on Sales of Mortgage Loans	1,625	1,606
Net Gain on Sales of Investments	-	270
Trust and Investment Services Fees	2,526	2,416
Other Income	368	291
Total Non Interest Income	6,609	6,547
TOTAL OPERATING INCOME	28,901	27,492
OPERATING EXPENSES:		
Salaries and Benefits	13,383	12,039
Occupancy and Equipment	2,736	2,420
General Operating	2,707	2,285
Professional Services	820	1,215
Data Processing Charges	321	1,023
Deposit Insurance	336	466
Total Operating Expenses	20,303	19,448
Net Operating Income Before Taxes	8,598	8,044
Provision for Income Taxes	2,826	3,101
Net Income	$ 5,772	$ 4,943

Cape Cod Five Foundation Supports CCCC Nursing and Allied Health Program



John L. Cox, President of Cape Cod Community College and Dorothy A. Savarese, President and CEO of Cape Cod Five.

Through its academic programs and partnerships, Cape Cod Community College provides educational opportunities to its students to meet the diverse needs of Cape Cod, Martha's Vineyard, Nantucket and Southeastern Massachusetts. Cape Cod Five is pleased to support Cape Cod Community College's campaign to renovate and expand it Nursing and Allied Health Program Clinic. The Cape Cod Five, through its charitable foundation, will be contributing a $250,000 challenge grant towards the college's planned state-of-the-art teaching center and laboratory. Scheduled to be completed for the fall 2017 semester, the renovation will double the square footage of the current program space and allow the college to admit up to 32 additional students each year into the nursing program. Qualified nursing program graduates will be eligible for jobs with Cape Cod Healthcare through a partnership with that institution. Additionally, nurses will have the opportunity to earn a bachelor's of science degree in nursing in partnership with the University of Massachusetts Boston. Expanding this program is critical to meeting the healthcare needs of Cape Cod residents and to providing increased opportunities for members of our community seeking to develop careers in nursing and other allied health professions.

Cape Cod Five Issues Chip-Enabled Debit Cards for Enhanced Customer Security

Cape Cod Five recently issued debit cards enabled with chip technology to its personal and business customers. These chip-enabled cards provide a more secure way to pay at millions of merchants around the world. The new debit card is embedded with a microchip, which when used at a chip-enabled register, uses your account information to create a one-time unique code. This code adds an additional layer of fraud protection since it can never be used again even if intercepted by hackers. The chip technology makes card counterfeit virtually impossible and helps reduce in-store fraud. Cape Cod Five is dedicated to providing its customers with enhanced security and fraud protection across all banking channels.

MARKET REVIEW FIRST QUARTER 2017

INDEX	1st Quarter Return
Standard & Poor's 500	6.07%
Dow Jones Industrial Average	5.19%
NASDAQ Composite	9.82%
Standard & Poor's 400	3.94%
Russell 2000	2.47%
MSCI EAFE International	7.95%

Real economic progress and subdued interest rates acted in concert during the first quarter to support stock market levels achieved on the back of post-election euphoria. Revisions to fourth quarter Gross Domestic Product (GDP) figures show the U.S. economy grew by 2.1% at the end of last year. While final revisions raised consumer spending to 3.5%, business fixed investment declined indicating capital spending has yet to gain momentum, perhaps evidencing low corporate conviction in long-term economic growth rates. In March, the Federal Reserve's Federal Open Market Committee (FOMC) announced a 0.25% increase in the fed funds rate to a target range of 0.75% to 1.00%. Although the labor market has been strong for some time, financial market stability and an uptick in inflation likely facilitated the second rate increase in the last three months. The FOMC's quarterly projections for growth, inflation, employment, and interest rates were mostly unchanged, signaling no major deviation in the economic outlook since their December meeting.

Inflation in the U.S. continues to accelerate, with headline Consumer Price Index (CPI) firming 0.1% in February and the year-over-year number increasing to 2.8%. Core CPI also grew, up 2.2% from a year ago. Energy prices fell in the month and the strength in the year over year number mainly stems from an easy comparison from 2016. The Personal Consumption Expenditures (PCE) deflator increased to 2.1% in February, boosting the chances of future rate hikes. The February employment report exceeded expectations, with the U.S. economy adding 235,000 jobs and the unemployment rate marginally declining to 4.7%. Average hourly earnings growth picked up from January to February, rising to 2.8% from 2.5% on a year-over-year basis. This strong showing gave the Fed scope for March's rate hike and sharpens our focus on the Fed's intentions for the remainder of the year.

The first quarter saw the S&P 500 achieve its largest quarterly gain since 2015, rising on the back of corporate and consumer confidence and an improving economic outlook. The index's 6.07% return sustained post-election gains that have driven U.S. indices to record heights, but the type of equities powering the recent rally have shifted. As the new administration's capability to enact their pro-business agenda is examined, investors have retreated from stocks expected to capitalize on changing U.S. policy and turned to companies expected to grow alongside a strengthening economy. In a reversal from the start of the year, the financial sector decreased 2.77% and the industrial sector declined 0.69% in March. The technology sector led broader indices higher, growing 12.57% for the quarter as the best performing sector of that period. The tech-heavy Nasdaq Composite grew 9.82% for the quarter, while the Dow Jones Industrial Average gained 5.19%.

Despite uncertainty surrounding European elections and U.S. fiscal policy, domestic equities were remarkably calm during the quarter and pullbacks were minimal, demonstrating the perseverance of the eight-year bull market. The CBOE Volatility Index posted its second lowest quarterly average on record, and the average daily percentage change for the Dow Jones Industrial Average on a quarterly basis was the lowest since 1965. International equities also performed well, with the MSCI Emerging Markets index reaching a two-year peak in March, advanced by rallies in China, Korea, and India. Exposure to international and developing market equities continue to play an important role in equity asset allocation. These markets generally trade at a relative discount to the U.S. as domestic valuations have stretched our indices to record heights, further evidenced by domestic price-to-earnings ratios pushing past their long-run average.

From a fixed income perspective, a flattening of the Treasury yield curve during the first quarter poses an intriguing challenge to investors counting on accelerating U.S. growth and inflation. Short-term yields, primarily influenced by monetary policy, have grown in 2017 as Fed officials have expressed their intent to continue raising the fed-funds rate throughout the year. On the other hand, long-term Treasury yields, mostly driven by U.S. economic and inflation outlook, are slightly down, having pulled back from an uptick following November's election results. The 10-year U.S. Treasury yield decreased from 2.45% at the end of 2016 to 2.40% to end the quarter. Investors pay close attention to the level and steepness of the yield curve because a flattening yield curve can be an early indicator of economic deceleration and overheating in riskier asset classes. Prospects for higher long-term yields and a steepening of the curve now rely on the economy picking up momentum and getting a boost from tax cuts, infrastructure spending and reducing regulatory burdens. Heading into the second quarter, both occurrences are still plausible but seemingly less certain.

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