SHATSWELL, MacLEOD & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Bank of Cape Cod
Hyannis, Massachusetts

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of Bank of Cape Cod as of December 31, 2007 and 2006 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Cape Cod as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Shatswell, MacLeod + Company, P.C.

SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
April 8, 2008

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BANK OF CAPE COD

BALANCE SHEETS

December 31, 2007 and 2006

ASSETS	2007	2006
Cash and due from banks	$ 404,385	$ 546,067
Federal funds sold	6,395,000	14,090,000
Cash and cash equivalents	6,799,385	14,636,067
Interest-bearing time deposits with other banks	2,003,408	
Investments in available-for-sale securities	6,016,256	
Federal Home Loan Bank stock	10,000	
Loans, net	27,014,844	6,856,963
Premises and equipment	1,263,226	1,026,717
Accrued interest receivable	163,242	19,063
Other assets	108,539	123,541
Total assets	$43,378,900	$22,662,351
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 4,042,877	$ 923,485
Interest-bearing	27,949,410	9,109,281
Total deposits	31,992,287	10,032,766
Other liabilities	189,366	87,444
Total liabilities	32,181,653	10,120,210
Stockholders' equity:		
Common stock, par value $2.00; authorized 9,000,000 shares; 1,416,000 shares issued and outstanding in 2007 and 2006	2,832,000	2,832,000
Paid-in capital	11,815,379	11,643,179
Accumulated deficit	(3,472,132)	(1,933,038)
Accumulated other comprehensive income	22,000	
Total stockholders' equity	11,197,247	12,542,141
Total liabilities and stockholders' equity	$43,378,900	$22,662,351

The accompanying notes are an integral part of these financial statements.

BANK OF CAPE COD

STATEMENTS OF INCOME

Years Ended December 31, 2007 and 2006

	2007	2006
Interest income:		
Interest and fees on loans	$ 1,290,320	$ 55,249
Interest on securities, taxable	123,057	
Other interest	631,074	292,832
Total interest income	2,044,451	348,081
Interest expense:		
Interest on deposits	845,048	79,766
Total interest expense	845,048	79,766
Net interest income	1,199,403	268,315
Provision for loan losses	213,292	65,800
Net interest income after provision for loan losses	986,111	202,515
Noninterest income:		
Service charges on deposit accounts	16,202	622
Other income	32,605	5,465
Total noninterest income	48,807	6,087
Noninterest expense:		
Salaries and employee benefits	1,548,474	663,912
Occupancy expense	235,869	139,333
Advertising expense	137,557	88,193
Data processing expense	228,861	81,863
Professional fees	125,102	218,891
Share based compensation - warrants		515,371
Other expense	297,693	164,523
Total noninterest expense	2,573,556	1,872,086
Income before income taxes	(1,538,638)	(1,663,484)
Income tax expense	456	
Net loss	$(1,539,094)	$(1,663,484)
Loss per share	$ (1.09)	

The accompanying notes are an integral part of these financial statements.

BANK OF CAPE COD

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

	Common Stock	Paid-in Capital	Accumulated Deficit	Other Comprehensive Income	Total
Balance, December 31, 2005	$	$	$ (269,554)	$	$ (269,554)
Proceeds from issuance of common stock (1,416,000 shares)	2,832,000	11,113,458			13,945,458
Share based compensation - warrants		515,371			515,371
Share based compensation - stock options		14,350			14,350
Net loss			(1,663,484)		(1,663,484)
Balance, December 31, 2006	2,832,000	11,643,179	(1,933,038)		12,542,141
Comprehensive loss:					
Net loss			(1,539,094)		
Change in net unrealized holding gains on available-for-sale securities				22,000	
Comprehensive loss					(1,517,094)
Share based compensation - stock options		172,200			172,200
Balance, December 31, 2007	$2,832,000	$11,815,379	$(3,472,132)	$22,000	$11,197,247

Reclassification disclosure for the year ended December 31:

	2007
Net unrealized gains on available-for-sale securities	$22,000
Reclassification adjustment for realized (gains) losses in net income	
Other comprehensive income	$22,000

Accumulated other comprehensive income consists of net unrealized holding gains on available-for-sale securities as of December 31, 2007.

The accompanying notes are an integral part of these financial statements.

BANK OF CAPE COD

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net loss	$ (1,539,094)	$ (1,663,484)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of discounts on securities	(934)	
Change in deferred origination costs, net	(35,681)	(11,026)
Provision for loan losses	213,292	65,800
Depreciation and amortization	136,122	43,102
Increase in interest receivable	(144,179)	(19,063)
Decrease (increase) in other assets	15,002	(97,015)
Increase in interest payable	35,139	6,477
Increase in other liabilities	56,174	80,967
Share based compensation - warrants		515,371
Share based compensation - stock options	172,200	14,350
Net cash used in operating activities	(1,091,959)	(1,064,521)
Cash flows from investing activities:		
Purchases of interest-bearing time deposits with other banks	(2,103,408)	
Maturities of interest-bearing time deposits with other banks	100,000	
Purchases of available-for-sale securities	(5,993,322)	
Purchase of Federal Home Loan Bank stock	(10,000)	
Loan originations and principal collections, net	(20,324,883)	(6,911,737)
Capital expenditures	(372,631)	(1,060,779)
Net cash used in investing activities	(28,704,244)	(7,972,516)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	14,882,129	8,072,518
Net increase in time deposits	7,077,392	1,960,248
Proceeds from issuance of common stock		13,370,000
Offering costs from issuance of common stock, net of interest earned on escrow of $119,980		(214,542)
Net cash provided by financing activities	21,959,521	23,188,224
Net (decrease) increase in cash and cash equivalents	(7,836,682)	14,151,187
Cash and cash equivalents at beginning of year	14,636,067	484,880
Cash and cash equivalents at end of year	$ 6,799,385	$14,636,067
Supplemental disclosures:		
Interest paid	$809,909	$ 73,289
Income taxes paid	456	
Organizers advances transferred to common stock and paid-in-capital		790,000

The accompanying notes are an integral part of these financial statements.

BANK OF CAPE COD

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS

Bank of Cape Cod (Bank) is a state chartered commercial bank which was incorporated in Massachusetts and is headquartered in Hyannis, Massachusetts. The Bank was incorporated on August 15, 2006 and commenced operations with the public on September 13, 2006. Prior to incorporation, all organizing activities were performed by CCCB LLC, a Massachusetts limited liability corporation, formed on June 27, 2005 for the purpose of planning, organizing and funding the Bank. In that period, CCCB LLC, devoted substantially all of its efforts to establishing the Bank and planned operations had not commenced. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in commercial real estate and business and consumer loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The financial statements were prepared using the accrual method of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the financial statements and other data contained herein.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and federal funds sold.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Bank classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Bank has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

-- Held-to-maturity securities are measured at amortized cost in the balance sheet. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the financial statements.

-- Available-for-sale securities are carried at fair value on the balance sheet. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

-- Trading securities are carried at fair value on the balance sheet. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff, are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees, costs on originated loans or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination, commitment fees and certain direct origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield. The Bank is amortizing these amounts over the contractual life of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans is credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring." These properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any write-down from cost to estimated fair value, required at the time of foreclosure or classification as in-substance foreclosure, is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent write-downs and gains or losses recognized upon sale are included in other expense.

In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," the Bank classifies loans as in-substance repossessed or foreclosed if the Bank receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share (EPS) excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The weighted-average common shares outstanding were $1,416,000 in 2007, and loss per share was $1.09. Diluted EPS is not presented in 2007 because the effect on loss per share of common stock equivalents would be anti-dilutive. EPS for the year ended December 31, 2006 is not presented since the information would not be meaningful.

ADVERTISING:

The Bank directly expenses costs associated with advertising as they are incurred.

INCOME TAXES:

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of this Statement did not have a material impact on the Bank's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140" (SFAS 156). SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The adoption of this statement did not have a material impact on the Bank's financial condition, results of operations or cash flows.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2007. The adoption of FIN 48 is not expected to have a material impact on the Bank's financial statements.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF 06-4). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. Banks should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The Bank does not expect the adoption of this issue to have a material impact its financial position, results of operations or cash flows.

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, “Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140” (SFAS No. 156). SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing a liability shall be initially measured at fair value; however, an entity may elect the “amortization method” or “fair value method” for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity’s first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity’s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The adoption of this statement did not have a material impact on the Bank’s financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Bank’s financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The Bank does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158, “Employer’s Accounting for Defined Benefit Pension and other Postretirement Plans - an amendment of FASB Statements No 87, 88, 106 and 132(R)” (SFAS 158). SFAS 158 requires 1) the recognition of an asset or liability for the over-funded or under-funded status of a defined benefit plan, 2) the recognition of actuarial gains and losses and prior service costs and credits in other comprehensive income, 3) measurement of plan assets and benefit obligations as of the employer’s balance sheet date, rather than at interim measurement dates as currently allowed, and 4) disclosure of additional information concerning actuarial gains and losses and prior service costs and credits recognized in other comprehensive income. This statement is effective for financial statements with fiscal years ending after June 15, 2007. The adoption of this Statement did not have a material impact on the Bank’s financial position, result of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115” (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Bank’s fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Bank does not expect the adoption of this statement to have a material impact on its financial position, results of operations or cash flows.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Debt securities have been classified in the balance sheets according to management’s intent. The amortized cost of securities and their approximate fair values are as follows as of December 31, 2007:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities issued by U.S. government corporations and agencies	$5,994,256	$22,000	$	$6,016,256

During 2007, there were no sales of available-for-sale securities.

There were no securities of issuers with an amortized cost basis and fair value which exceeded 10% of stockholders' equity as of December 31, 2007.

As of December 31, 2007, there are no securities pledged.

The scheduled maturities of available-for-sale debt securities were as follows as of December 31, 2007:

	Fair Value
Due within one year	$1,002,720
Due after one year through five years	5,013,536
	$6,016,256

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2007	2006
Commercial, financial and agricultural	$ 4,736,375	$ 461,526
Real estate - commercial	13,794,712	3,600,331
Real estate - construction	2,011,419	654,889
Real estate - residential	6,627,192	2,183,498
Consumer	66,922	11,493
	27,236,620	6,911,737
Allowance for loan losses	(268,483)	(65,800)
Deferred origination costs, net	46,707	11,026
Net loans	$27,014,844	$6,856,963

Changes in the allowance for loan losses were as follows for the years ended December 31:

	2007	2006
Balance at beginning of period	$ 65,800	$
Provision	213,292	65,800
Reclassification as allowance for unfunded commitments	(10,609)	
Balance at end of period	$268,483	$65,800

Certain directors and executive officers of the Bank and companies in which they have significant ownership interest were customers of the Bank during 2007. Total loans to such persons and their companies amounted to $220,392 as of December 31, 2007. During 2007, principal payments totaled $370,608 and advances amounted to $591,000.

There were no nonaccrual loans or accruing loans 90 days or more overdue as of December 31, 2007 and 2006.

There were no loans that met the definition of an impaired loan in Statement of Financial Accounting Standards No. 114 as of December 31, 2007 and 2006 or during the years then ended.

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	2007	2006
Leasehold improvements	$ 717,887	$ 715,119
Furniture and equipment	352,158	354,700
Construction in progress	372,405	
	1,442,450	1,069,819
Accumulated depreciation and amortization	(179,224)	(43,102)
	$1,263,226	$1,026,717

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of $100,000 or more as of December 31, 2007 and 2006 was $5,197,844 and $1,399,002, respectively.

For time deposits as of December 31, 2007, the scheduled maturities for each of the following years ended December 31, are:

2008	$8,246,925
2009	200,823
2010	105,437
2011	28,265
2012	456,190
Total	$9,037,640

Deposits from related parties held by the Bank as of December 31, 2007 and 2006 amounted to $1,316,686 and $642,062, respectively.

NOTE 7 - INCOME TAXES

The components of income tax expense (benefit) are as follows for the years ended December 31:

	2007	2006
Current:		
State	$ 456	$
Deferred:		
Federal	(471,652)	(327,455)
State	(18,663)	(49,817)
Change in valuation allowance	490,315	377,272
Total income tax expense	$ 456	$

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	2007 % of Income	2006 % of Income
Federal income tax at statutory rate	(34.0)%	(34.0)%
Increase (decrease) in tax resulting from:		
Interest income credited to paid-in-capital		2.5
Disallowed stock option expense	2.8	.2
Disallowed stock warrant expense		10.5
Other, net	.1	.1
State tax benefit, net of federal tax expense	(.8)	(2.0)
Change in valuation allowance	31.9	22.7
Effective tax rates	0%	0%

The Bank had gross deferred tax assets and a gross deferred tax liability as follows as of December 31:

	2007	2006
Deferred tax assets:		
Allowance for loan losses	$110,889	$ 26,932
Charitable contributions	2,017	451
Accelerated depreciation	8,424	7,035
Start up costs	185,346	198,908
Organizational costs	54,100	58,058
Other	13,380	
Stock option expenses	20,252	1,558
Net operating loss carryforward	601,424	183,859
Gross deferred tax assets	995,832	476,801
Valuation allowance	(967,116)	(476,801)
Gross deferred tax asset net of valuation allowance	28,716	
Deferred tax liability:		
Deferred loan costs	(28,716)	
Gross deferred tax liability	(28,716)	
Net deferred tax assets	$	$

The Bank has net operating loss carryforwards of $1,768,894 which will expire in 2026 through 2027.

NOTE 8 - EMPLOYEE BENEFITS

The Bank has a defined contribution pension plan in which substantially all employees may participate. The Bank will contribute 100% of employees' deferrals up to 4% of employees' wages. The Bank made contributions of $44,747 and $12,037 for this plan in the years ended December 31, 2007 and 2006, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2007, the maximum potential amount of the Bank's obligation was $20,000, for financial letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of December 31:

	2006	2006
Commitments to originate loans	$1,000,000	$ 985,000
Letters of credit	20,000	
Unadvanced funds on construction loans	1,553,750	45,111
Unadvanced funds on lines of credit	5,382,637	1,157,997
	$7,956,387	$2,188,108

There is no material difference between the notional amounts and the estimated fair values of the off-balance sheet liabilities.

As of December 31, 2007, the Bank was obligated under non-cancelable operating leases for bank premises expiring in 2012. The Bank has the option to extend the term of the leases. The cost of such rentals is not included below. The total minimum rental due in future periods under these existing agreements are as follows as of December 31, 2007:

2008	$141,000
2009	150,000
2010	150,000
2011	140,000
2012	63,000
Total	$644,000

The total rental expense amounted to $96,000 and $84,500 for the years ended December 31, 2007 and 2006, respectively.

NOTE 10 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within the state. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in the Commonwealth of Massachusetts.

NOTE 11 – STOCK BASED COMPENSATION PLAN

In October 2006, the Bank adopted the Bank of Cape Cod Stock Option Plan (the "Plan"). Under the Plan, the Bank may grant stock options to directors, officers and employees for up to 212,400 shares of common stock. Bank incentive stock options and nonqualified stock options may be granted under the Plan. Stock options shall be granted with an exercise price that equals or exceeds the fair market value of the Bank's common stock on the date of grant. Stock options have a maximum term of ten years. Shares of common stock awarded under the Plan are contingently awarded to recipients subject to restrictions based on the general rules of the Plan.

The fair value of each option granted during 2006 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 23 percent; risk-free interest rate of 4.61 percent; and expected lives of 7 years. There were no options granted during 2007.

A summary of the status of the Bank's stock option plan as of December 31, 2007 and 2006 and changes during the years then ended are presented below:

	2006		2006	
Fixed Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	188,500	$10.00		
Granted			188,500	$10.00
Exercised				
Forfeited				
Outstanding at end of year	188,500	$10.00	188,500	$10.00
Weighted-average fair value of options granted during the year			$3.65	

The following table summarizes information about fixed stock options outstanding as of December 31, 2007:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding as of 12/31/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of 12/31/07	Weighted-Average Exercise Price
$10.00	188,500	8.9 years	$10.00	47,125	$10.00

As of December 31, 2007, there was $501,685 of total unrecognized compensation cost related to nonvested shares granted under the Plan. That cost is expected to be recognized over a period of 2.9 years. The total fair value of compensation expense recorded during the years ended December 31, 2007 and 2006 was $172,200 and $14,350, respectively.

NOTE 12 – WARRANTS TO PURCHASE COMMON STOCK

In recognition of each Organizer's financial commitment to the organization of the Bank, warrants to purchase the Bank's common stock were issued to each Organizer. Each warrant entitles the holder to purchase one share of the Bank's common stock at $10.00 per share. As of December 31, 2007, there were 136,000 shares that could be purchased. The warrants expire on August 15, 2016 and are exercisable at any time before the expiration date.

The fair value of the warrants was estimated on the date of issuance using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0 percent, expected volatility of 23 percent, risk-free interest rate of 4.93 percent, and expected lives of 7 years. The Bank recognized compensation cost of $515,371 with respect to the warrants in 2006.

NOTE 13 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:	(Dollar amounts in thousands)					
Total Capital (to Risk Weighted Assets)	$11,455	37.15%	$2,467	≥8.0%	$3,084	≥10.0%
Tier 1 Capital (to Risk Weighted Assets)	11,175	36.24	1,234	≥4.0	1,850	≥6.0
Tier 1 Capital (to Average Assets)	11,175	26.24	1,704	≥4.0	2,129	≥5.0
As of December 31, 2006:						
Total Capital (to Risk Weighted Assets)	12,608	115.57	873	≥8.0	1,091	≥10.0
Tier 1 Capital (to Risk Weighted Assets)	12,542	114.96	436	≥4.0	655	≥6.0
Tier 1 Capital (to Average Assets)	12,542	63.00	796	≥4.0	995	≥5.0