UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
Washington, D.C. 20549

FORM 10-K

☑ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Year Ended December 31, 2010

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File No. 001-33934

Cape Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**26-1294270**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
225 North Main Street, Cape May Court House, New Jersey.	**08210**
(Address of Principal Executive Offices)	Zip Code

(609) 465-5600
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES ☑ NO ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

As of March 11, 2011 there were 13,313,521 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2010, was $88,186,000.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2011 Annual Meeting of Shareholders (Part III).

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PART I

ITEM 1. BUSINESS

Forward Looking Statements

Certain statements contained herein are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may", "will", "believe", "expect", "estimate", "anticipate", "continue", or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

Cape Bancorp wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Overview

Cape Bancorp is a Maryland corporation that was incorporated on September 14, 2007 for the purpose of becoming the holding company of Cape Bank (formerly Cape Savings Bank) in connection with Cape Bank's mutual-to-stock conversion, Cape Bancorp's initial public offering and simultaneous acquisition of Boardwalk Bancorp, Inc. ("Boardwalk Bancorp"), Linwood, New Jersey and its wholly-owned New Jersey chartered bank subsidiary, Boardwalk Bank. The Company disclosed that the stockholders of Boardwalk Bancorp, Inc. and the depositors of Cape Savings Bank approved the merger by the requisite vote required by state law and federal law. As a result of these transactions, Boardwalk Bancorp was merged with, and into, Cape Bancorp and Boardwalk Bank was merged with and into Cape Bank. As of January 31, 2008, Cape Savings Bank changed its name to Cape Bank.

The merger of Cape Bank and Boardwalk Bank on January 31, 2008 created the largest community bank headquartered in Atlantic and Cape May Counties, New Jersey, with a total of 18 branches providing complimentary branch coverage. The merger resulted in a well-capitalized community oriented bank with a significant commercial loan presence. For the three years prior to the merger both banks had experienced strong asset quality and financial performance. The severe economic recession has affected the merged financial institution as a whole, as well as the loan portfolios of each of the constituent banks to the merger. Subsequently, the Bank received regulatory approval for the closing of two branches in Cape May County, effective on December 3, 2010 and February 4, 2011.

At December 31, 2010, the Company had total assets of $1.061 billion compared to $1.073 billion at December 31, 2009. For the twelve months ended December 31, 2010 and 2009, the Company had total revenues of $53.3 million and $55.5 million, respectively. Net income for the twelve months ended December 31, 2010 totaled $4.0 million compared to a net loss of $17.9 million for the twelve months ended December 31, 2009. At December 31, 2010, the Company had total deposits of $753.1 million and total stockholders' equity of $132.2 million.

Cape Bank

General

Cape Bank is a New Jersey chartered savings bank originally founded in 1923. We are a community bank focused on providing deposit and loan products to retail customers and to small and mid-sized businesses from our main office located at 225 North Main Street, Cape May Court House, New Jersey 08210, and 15 branch offices located in Atlantic and Cape May Counties, New Jersey and a loan production office (opened in February 2011) located in Burlington County, New Jersey. The Bank received regulatory approval for the closing of two branches in Cape May County, which were effective on December 3, 2010 and February 4, 2011. We attract deposits from the general public and use those funds to originate a variety of loans, including commercial mortgages, commercial business loans, residential mortgage loans, home equity loans and lines of credit and construction loans. Our retail and business banking deposit products include savings accounts, checking accounts, money market accounts, and certificates of deposit with terms ranging from 30 days to 84 months. At December 31, 2010, 93.4% of our loan portfolio was secured by real estate and over 60.6% of our portfolio was commercial related loans. We also maintain an investment portfolio.

We offer banking services to individuals and businesses predominantly located in our primary market area of Cape May and Atlantic Counties, New Jersey. The Company opened a loan production office in Burlington County, New Jersey in February 2011. Our business and results of operations are significantly affected by local and national economic conditions, as well as market interest rates. The severe recession of 2008 and 2009, and the continued economic weakness throughout 2010 in the local and national economies has significantly increased our level of non-performing loans and assets and loan foreclosure activity. Non-performing loans as a percentage of total loans increased to 5.54% at December 31, 2010 from 4.14% at December 31, 2009 as a result of the classification to non-performing loans of $11.8 million in troubled debt restructurings that were performing in accordance with their repayment terms. Non-performing assets (non-performing loans, other real estate owned and non-accruing investment securities) as a percentage of total assets increased to 4.41% at December 31, 2010 from 3.55% at December 31, 2009. The ratio of our allowance for loan losses to total loans decreased to 1.60% at December 31, 2010, from 1.66% at December 31, 2009. Loan charge-offs were $8.8 million for the twelve months ended December 31, 2010 compared to $11.7 million for the twelve months ended December 31, 2009. Of $8.8 million of loans charged-off during 2010, $2.0 million were fully reserved for as of December 31, 2009. Our total loan portfolio decreased from $802.8 million at December 31, 2009 to $784.9 million at December 31, 2010, primarily as a result of decreased originations of commercial business loans and home equity loans and lines of credit. We believe our existing loan underwriting practices are appropriate in the current market environment while continuing to address the local credit needs. Total deposits increased $16.5 million from $736.6 million at December 31, 2009 to $753.1 million at December 31, 2010. Increases in our core deposit products — NOW and money market accounts of $35.8 million, non-interest bearing checking accounts of $5.9 million and savings accounts of $4.9 million —more than offset a reduction in certificates of deposit of $30.1 million.

Our principal business is acquiring deposits from individuals and businesses in the communities surrounding our offices and using these deposits to fund loans and other investments. We offer personal and business checking accounts, commercial mortgage loans, residential mortgage loans, construction loans, home equity loans and lines of credit and other types of commercial and consumer loans. At December 31, 2010, our retail market area primarily included the area surrounding our 17 offices located in Cape May and Atlantic Counties, New Jersey. Subsequently, in February 2011, the Company opened a loan production office in Burlington County, New Jersey and closed a branch office in Cape May County. The Company currently has 16 branch offices and one loan production office.

Our website address is www.capebanknj.com. Information on our website is not and should not be considered a part of this Annual Report on Form 10-K. Our website contains a direct link to our filings with the Securities and Exchange Commission, including copies of Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these filings, if any. Copies may also be obtained, without charge, by written request to Investor Relations, 225 Main Street, Cape May Court House, New Jersey 08210. The telephone number at our main office is (609) 465-5600.

Market Area

Our primary market area consists of Cape May and Atlantic Counties, which includes communities along the barrier islands of the New Jersey shore and the mainland areas. While the economies along the New Jersey shore are more seasonal in nature, the mainland areas are comprised of year-round communities. The economy of our market area is impacted by the gaming industry, a variety of service businesses, vacation-related businesses concentrated along the coastal areas and, to a lesser degree, commercial fishing and agriculture. In addition, nearby Atlantic City is a major tourist destination, centered around its large gaming industry, and is an important regional economic hub. The recently opened loan production office in Burlington County, New Jersey is an effort to expand the Bank's presence and diversify its customer base in the southwestern region of the State. The severe national and local economic recession that began in late 2007 has had a significant negative impact on our market area. Unemployment rates had risen steadily from 2007 to 2009 in both Atlantic and Cape May Counties, reaching levels of 13.9% and 16.4% respectively at December 2009. While these levels of unemployment did decline during 2010, the unemployment rates in Atlantic County and Cape May County were 12.5% and 13.2% at December 31, 2010, respectively. This decline in the unemployment rates was directionally consistent with declines at the state and national level. Both residential and commercial real estate values have declined during this recession. Residential real estate values have decreased by approximately 16.0% within our market area during the past three years. Additionally, the number of residential building permits issued declined from 2008 to 2009 but leveled off during 2010 at 2009 levels. The gaming industry in New Jersey has been adversely affected by the recession and gaming competition from neighboring States. Commercial real estate (industrial, office and retail) values remain depressed on a national level compared to 2007 levels, commercial real estate rents have declined each year since 2007 and commercial real estate vacancy rates have increased each year since 2007. The Company believes that this information, both nationally and regionally, is consistent with the Atlantic City metropolitan area.

While we do not have loans outstanding to this industry, the employment or businesses of many of our customers are affected by the gaming industry, and weakness in this industry has adversely affected other sectors of the local community. We believe the financial health of the gaming industry within our market affects our success, however neither our market area nor Cape Bank is solely dependent on this industry. The Atlantic City casino industry has experienced declines in many areas of their business, such as:

a. casino revenue in total was down 9.6% in 2010 from 2009;

b. all 11 casinos had revenue declines during the period 2009 to 2010;

c. 2010 was the worst year for casino revenue during the past 10 years;

d. employment levels at the casinos has declined consistently since 2007;

e. visitors to Atlantic City have declined consistently from 2007 to 2009 (2010 data not yet available); and

f. 2009 net income per casino indicates that 7 of 11 casinos reported losses for the year.

In addition to the national, regional and local economies negatively affecting Atlantic City casinos, they have also been negatively affected by competition from casinos in Pennsylvania and Delaware. Pennsylvania currently has 10 operating casinos with the potential of an additional four casinos. These casinos have both slot machines and gaming tables. The impact of Delaware casinos on the Atlantic City casino market is not as significant, as Delaware currently has only three casinos which are limited to slot machines.

The State of New Jersey is making efforts to contribute to the revitalization of Atlantic City in the following ways:

a. Established a New Jersey State-run Tourism District within Atlantic City.

b. Tax reimbursement incentives for the Revel Casino (assuming financing is obtained by the Revel) up to $261 million of which $125 million will be used to fund various upgrades to the Boardwalk and other parts of the city that surround the Revel Casino. These tax incentives are being provided by New Jersey's Economic Development Authority under the Economic Redevelopment and Growth Grant Program which is designated to stimulate jobs and investment. It is anticipated the construction of the Revel Casino will create 2,000 construction jobs and upon completion, which is estimated to be June 2012, 5,500 full time positions will be created.

c. Consideration of permitting "small" (minimum 200 rooms and gaming floor area of 24,000 square feet) casino hotels in Atlantic City, and interest in this market has been expressed by certain companies.

d. Casino Reinvestment Development Authority ("CRDA") will oversee operations of the Atlantic City Convention and Visitors Authority.

e. A discount shopping outlet in Atlantic City is expanding and the CRDA is assisting with this project by lending the developer $9 million towards this project.

Notwithstanding the recession, the year-round residency increased in both Cape May and Atlantic Counties from 2009 to 2010. Median household income has remained relatively stable in each county for the past three years, and was $55,300 for Atlantic County and $53,500 for Cape May County during 2010. For the State of New Jersey, median household income during 2010 was $72,500.

Competition

We face significant competition in attracting deposits and originating loans. Our most direct competition for deposits historically has come from the many financial institutions operating in our market area, including commercial banks, savings banks, savings and loan associations and credit unions, and, to a lesser extent, from other financial service companies such as brokerage firms and insurance companies. Several large holding companies operate banks in our market area, and these institutions are significantly larger than Cape Bank and, therefore, have significantly greater resources. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2010, which is the most recent date for which data are available from the Federal Deposit Insurance Corporation, we held approximately 14.4% of the deposits in Cape May County, which was the 2nd largest market share out of the 14 financial institutions with offices in Cape May County, and we held approximately 8.9% of the deposits in Atlantic County, which was the 5th largest market share of the 16 financial institutions with offices in Atlantic County. On a combined market basis we held approximately 10.9% of the deposits which was the 3rd largest market share of 21 financial institutions.

Our competition for loans comes primarily from financial institutions in our market area and, to a lesser extent, from other financial service providers, such as mortgage companies and mortgage brokers. Our market area has a large number of competitors offering real estate lending products. Data is not available to determine our competitive position among this group. Competition for deposits and the origination of loans could limit our growth in the future.

Lending Activities

We offer a variety of loans, including commercial mortgages, commercial loans, residential mortgage loans, home equity loans and lines of credit, and construction loans. Our commercial mortgage loan portfolio at December 31, 2010, comprised 52.7% of our total loan portfolio, which was greater than any other loan category.

Loans are presented in Management's Discussion and analysis according to type of loan utilized for management reporting purposes, whereas certain disclosures within Note 4 — Loans Receivable are presented in accordance with

FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses".

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, excluding loans held for sale, by type of loan at the dates indicated.

	At December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)									
Real estate loans:										
Commercial mortgage	$ 413,487	52.7%	$ 412,475	51.3%	$ 411,809	51.8%	$ 199,777	43.0%	$ 183,091	40.6%
Residential mortgage	258,047	32.9%	244,897	30.5%	226,963	28.5%	175,809	37.8%	183,692	40.7%
Construction	15,191	1.9%	28,839	3.6%	54,187	6.8%	38,554	8.3%	38,669	8.6%
Home equity loans and lines of credit	47,875	6.1%	52,806	6.6%	46,850	5.9%	37,308	8.0%	36,998	8.2%
Commercial business loans	48,223	6.1%	62,685	7.8%	54,319	6.8%	12,018	2.6%	7,773	1.7%
Other consumer loans	2,207	0.3%	1,284	0.2%	1,388	0.2%	1,257	0.3%	919	0.2%
Total loans	$ 785,030	100.0%	$ 802,986	100.0%	$ 795,516	100.0%	$ 464,723	100.0%	$ 451,142	100.0%
Less:										
Allowance for loan losses	12,538		13,311		11,240		4,121		4,009	
Deferred loan fees, net	174		202		407		666		755	
Total loans, net	$ 772,318		$ 789,473		$ 783,869		$ 459,936		$ 446,378	

Loan Portfolio Maturities and Yields. The following tables summarize the scheduled maturities of our loan portfolio at December 31, 2010 and December 31, 2009. Demand loans, loans having no stated repayment schedule at maturity and overdraft loans are reported as being due in one year or less. Maturities are based on final contractual payment date and do not reflect the effect of prepayments and scheduled principal amortization.

	Commercial Mortgage Loans		Residential Mortgage Loans		Construction Loans		Home Equity Loans and Lines of Credit	
At December 31, 2010	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(dollars in thousands)							
Due During the Years Ending December 31,								
2011	$ 7,377	5.57%	$ 347	3.27%	$ 13,825	4.76%	$ 142	4.11%
2012	2,748	6.96%	740	5.44%	—	—	345	5.37%
2013	6,473	6.62%	1,186	5.25%	1,200	5.75%	807	5.63%
2014 to 2015	2,309	6.31%	1,628	5.68%	—	—	2,210	5.44%
2016 to 2020	8,324	6.93%	22,992	5.37%	166	6.50%	11,931	5.21%
2021 to 2025	48,495	6.80%	43,007	4.96%	—	—	31,331	5.15%
2026 to 2028	31,361	7.10%	4,788	5.26%	—	—	1,109	3.75%
2029 to 2031	52,853	6.52%	27,677	5.20%	—	—	—	—
2032 to 2033	64,674	6.79%	12,132	5.65%	—	—	—	—
2034 to 2035	33,961	6.35%	36,707	5.17%	—	—	—	—
2036 to 2038	81,048	6.64%	45,124	6.05%	—	—	—	—
2039 and beyond	73,864	6.17%	61,719	5.14%	—	—	—	—
Total	$413,487	6.58%	$ 258,047	5.33%	$ 15,191	4.86%	$ 47,875	5.15%

	Commercial Business Loans		Other Consumer Loans (1)		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(dollars in thousands)					
Due During the Years Ending December 31,						
2011	$ 34,962	5.54%	$ 1,153	11.40%	$ 57,806	5.46%
2012	3,279	5.50%	34	11.97%	7,146	6.08%
2013	1,656	6.53%	24	13.72%	11,346	6.32%
2014 to 2015	3,195	6.47%	17	13.50%	9,359	6.06%
2016 to 2020	3,514	6.89%	—	—	46,927	5.72%
2021 to 2025	334	6.53%	979	4.27%	124,146	5.73%
2026 to 2028	653	6.55%	—	—	37,911	6.76%
2029 to 2031	—	—	—	—	80,530	6.07%
2032 to 2033	442	4.25%	—	—	77,248	6.60%
2034 to 2035	188	7.25%	—	—	70,856	5.74%
2036 to 2038	—	—	—	—	126,172	6.43%
2039 and beyond	—	—	—	—	135,583	5.70%
Total	$ 48,223	5.75%	$ 2,207	8.29%	$ 785,030	6.00%

(1) Includes overdrawn DDA accounts.

	Commercial Mortgage Loans		Residential Mortgage Loans		Construction Loans		Home Equity Loans and Lines of Credit	
At December 31, 2009	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(dollars in thousands)							
Due During the Years Ending December 31,								
2010	$ 12,934	6.35%	$ 436	5.89%	$ 16,593	5.40%	$ 1,757	4.59%
2011	784	5.21%	157	7.72%	98	6.00%	682	6.66%
2012	8,801	6.14%	967	5.65%	783	5.96%	407	6.80%
2013 to 2014	2,016	6.09%	2,987	5.61%	308	6.50%	3,577	5.88%
2015 to 2019	7,230	6.81%	25,015	5.43%	172	6.91%	10,902	5.47%
2020 to 2024	32,543	6.70%	43,504	5.22%	844	6.06%	31,126	5.54%
2025 to 2027	39,744	7.12%	5,209	6.32%	3,185	6.77%	2,613	4.71%
2028 to 2030	46,648	6.44%	27,902	5.26%	533	6.43%	568	6.12%
2031 to 2032	55,406	7.21%	3,633	6.60%	2,040	7.55%	306	7.92%
2033 to 2034	48,907	6.22%	30,753	5.51%	652	6.90%	755	8.14%
2035 to 2037	47,204	7.43%	43,983	5.92%	84	5.88%	—	—
2038 and beyond	110,258	6.18%	60,351	5.93%	3,547	6.01%	113	6.50%
Total	$ 412,475	6.64%	$ 244,897	5.64%	$ 28,839	5.89%	$ 52,806	5.56%

	Commercial Business Loans		Other Consumer Loans (1)		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(dollars in thousands)					
Due During the Years Ending December 31,						
2010	$ 49,726	5.24%	$ 63	5.26%	$ 81,509	5.44%
2011	2,290	4.97%	30	10.95%	4,041	5.48%
2012	799	8.45%	56	11.52%	11,813	6.29%
2013 to 2014	3,857	6.47%	27	13.67%	12,772	6.06%
2015 to 2019	4,157	6.83%	—	—	47,476	5.78%
2020 to 2024	974	6.08%	1,108	4.87%	110,099	5.76%
2025 to 2027	65	7.00%	—	—	50,816	6.89%
2028 to 2030	—	—	—	—	75,651	6.00%
2031 to 2032	354	7.75%	—	—	61,739	7.19%
2033 to 2034	463	4.25%	—	—	81,530	5.96%
2035 to 2037	—	—	—	—	91,271	6.70%
2038 and beyond	—	—	—	—	174,269	6.09%
Total	$ 62,685	5.47%	$ 1,284	5.51%	$ 802,986	6.14%

(1) Includes overdrawn DDA accounts.

The following table sets forth the scheduled repayments of fixed and adjustable rate loans at December 31, 2010 and December 31, 2009 that are contractually due within one year and after one year.

	At December 31, 2010						
	Fixed Rate			Adjustable Rate			
	Due Within One Year	Due After One Year	Total	Due Within One Year	Due After One Year	Total	Total Loans
	(in thousands)						
Real estate loans:							
Commercial mortgage	$ 7,323	$ 21,455	$ 28,778	$ 54	$ 384,655	$ 384,709	$ 413,487
Residential mortgage	345	219,078	219,423	2	38,622	38,624	258,047
Construction	1,499	1,366	2,865	12,326	—	12,326	15,191
Home equity loans and lines of credit	120	23,115	23,235	22	24,618	24,640	47,875
Commercial business loans	6,392	9,460	15,852	28,570	3,801	32,371	48,223
Other consumer loans	1,146	73	1,219	7	981	988	2,207
Total	$ 16,825	$ 274,547	$ 291,372	$ 40,981	$ 452,677	$ 493,658	$ 785,030

	At December 31, 2009						
	Fixed Rate			Adjustable Rate			
	Due Within One Year	Due After One Year	Total	Due Within One Year	Due After One Year	Total	Total Loans
	(in thousands)						
Real estate loans:							
Commercial mortgage	$ 6,999	$ 13,764	$ 20,763	$ 5,935	$ 385,777	$ 391,712	$ 412,475
Residential mortgage	433	201,057	201,490	3	43,404	43,407	244,897
Construction	6,009	12,069	18,078	10,584	177	10,761	28,839
Home equity loans and lines of credit	235	30,303	30,538	1,522	20,746	22,268	52,806
Commercial business loans	5,048	10,307	15,355	44,678	2,652	47,330	62,685
Other consumer loans	51	105	156	12	1,116	1,128	1,284
Total	$ 18,775	$ 267,605	$ 286,380	$ 62,734	$ 453,872	$ 516,606	$ 802,986

The following table sets forth fixed and adjustable rate loans at December 31, 2010 and at December 31, 2009 as a percentage of the total loan portfolio.

	Percentage of Total Loan Portfolio At December 31, 2010 (dollars in thousands)				
	Fixed Rate	Percent of Total Loans	Adjustable Rate	Percent of Total Loans	Total
Real estate loans:					
Commercial mortgage	$ 28,778	3.7%	$ 384,709	49.0%	$ 413,487
Residential mortgage	219,423	27.9%	38,624	4.9%	258,047
Construction	2,865	0.4%	12,326	1.6%	15,191
Home equity loans and lines of credit	23,235	3.0%	24,640	3.1%	47,875
Commercial business loans	15,852	2.0%	32,371	4.1%	48,223
Other consumer loans	1,219	0.2%	988	0.1%	2,207
Total	$ 291,372	37.2%	$ 493,658	62.8%	$ 785,030

	Percentage of Total Loan Portfolio At December 31, 2009 (dollars in thousands)				
	Fixed Rate	Percent of Total Loans	Adjustable Rate	Percent of Total Loans	Total
Real estate loans:					
Commercial mortgage	$ 20,763	2.6%	$ 391,712	48.7%	$ 412,475
Residential mortgage	201,490	25.1%	43,407	5.4%	244,897
Construction	18,078	2.3%	10,761	1.3%	28,839
Home equity loans and lines of credit	30,538	3.8%	22,268	2.8%	52,806
Commercial business loans	15,355	1.9%	47,330	5.9%	62,685
Other consumer loans	156	—	1,128	0.2%	1,284
Total	$ 286,380	35.7%	$ 516,606	64.3%	$ 802,986

The Bank's fixed rate loans increased as a percentage of total loans to 37.2% at December 31, 2010 from 35.7% at December 31, 2009. This increase in fixed rate loans resulted from the predominately fixed rate residential loan portfolio increasing at a faster rate than the predominately adjustable rate commercial loan portfolio. Having a larger percentage of the loan portfolio in adjustable rate loans helps us better manage interest rate risk. During the past two years while market interest rates fell to historically low levels, we were able to maintain a net interest margin of 3.66% and 3.54% for 2010 and 2009, respectively. This resulted from the decrease in the yield on our interest-earning assets being more than offset by the decrease in the cost of our interest-bearing liabilities. Based on our interest rate risk modeling, when market interest rates rise our net interest income will be negatively affected based on the assumptions used in our analysis located in the section within this report entitled *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Management of Market Risk"*.

The following table sets forth fixed and adjustable rate loans at December 31, 2010 maturing within ten years, twenty years and over twenty years as a percentage of the total loan portfolio.

	Fixed Rate at December 31, 2010 (dollars in thousands)						
	Within Ten Years	Percent of Total Loans	Ten to Twenty Years	Percent of Total Loans	Over Twenty Years	Percent of Total Loans	Total
Real estate loans:							
Commercial mortgage	$ 18,158	2.3%	$ 2,005	0.3%	$ 8,615	1.1%	$ 28,778
Residential mortgage	25,496	3.2%	73,694	9.4%	120,233	15.3%	219,423
Construction	2,865	0.4%	—	0.0%	—	0.0%	2,865
Home equity loans and lines of credit	9,522	1.2%	13,713	1.7%	—	0.0%	23,235
Commercial business loans	14,739	1.9%	926	0.1%	187	0.0%	15,852
Other consumer loans	1,219	0.2%	—	0.0%	—	0.0%	1,219
Total loans	$ 71,999	9.2%	$ 90,338	11.5%	$129,035	16.4%	$291,372

	Adjustable Rate at December 31, 2010 (dollars in thousands)						
	Within Ten Years	Percent of Total Loans	Ten to Twenty Years	Percent of Total Loans	Over Twenty Years	Percent of Total Loans	Total
Real estate loans:							
Commercial mortgage	$ 9,072	1.2%	$112,332	14.3%	$ 263,305	33.5%	$384,709
Residential mortgage	1,397	0.2%	1,028	0.1%	36,199	4.6%	38,624
Construction	12,326	1.6%	—	0.0%	—	0.0%	12,326
Home equity loans and lines of credit	5,913	0.8%	18,727	2.4%	—	0.0%	24,640
Commercial business loans	31,867	4.0%	61	0.0%	443	0.1%	32,371
Other consumer loans	9	0.0%	979	0.1%	—	0.0%	988
Total loans	$ 60,584	7.8%	$133,127	16.9%	$ 299,947	38.2%	$493,658

	Total Loans at December 31, 2010 (dollars in thousands)						
	Within Ten Years	Percent of Total Loans	Ten to Twenty Years	Percent of Total Loans	Over Twenty Years	Percent of Total Loans	Total
Real estate loans:							
Commercial mortgage	$ 27,230	3.5%	$114,337	14.6%	$ 271,920	34.6%	$413,487
Residential mortgage	26,893	3.4%	74,722	9.5%	156,432	19.9%	258,047
Construction	15,191	2.0%	—	0.0%	—	0.0%	15,191
Home equity loans and lines of credit	15,435	2.0%	32,440	4.1%	—	0.0%	47,875
Commercial business loans	46,606	5.9%	987	0.1%	630	0.1%	48,223
Other consumer loans	1,228	0.2%	979	0.1%	—	0.0%	2,207
Total loans	$ 132,583	17.0%	$223,465	28.4%	$ 428,982	54.6%	$785,030

The following table sets forth fixed and adjustable rate loans at December 31, 2009 maturing within ten years, twenty years and over twenty years as a percentage of the total loan portfolio.

	Fixed Rate at December 31, 2009 (dollars in thousands)						
	Within Ten Years	Percent of Total Loans	Ten to Twenty Years	Percent of Total Loans	Over Twenty Years	Percent of Total Loans	Total
Real estate loans:							
Commercial mortgage	$ 16,542	2.1%	$ 1,725	0.2%	$ 2,496	0.3%	$ 20,763
Residential mortgage	27,958	3.5%	74,436	9.3%	99,096	12.3%	201,490
Construction	7,272	0.9%	4,484	0.6%	6,322	0.8%	18,078
Home equity loans and lines of credit	11,662	1.5%	17,501	2.1%	1,375	0.3%	30,538
Commercial business loans	14,026	1.7%	974	0.1%	355	0.0%	15,355
Other consumer loans	156	0.0%	—	0.0%	—	0.0%	156
Total loans	$ 77,616	9.7%	$ 99,120	12.3%	$109,644	13.7%	$286,380

	Adjustable Rate at December 31, 2009 (dollars in thousands)						
	Within Ten Years	Percent of Total Loans	Ten to Twenty Years	Percent of Total Loans	Over Twenty Years	Percent of Total Loans	Total
Real estate loans:							
Commercial mortgage	$ 15,223	1.8%	$ 96,439	12.0%	$280,050	34.9%	$391,712
Residential mortgage	1,604	0.2%	1,279	0.2%	40,524	5.0%	43,407
Construction	10,682	1.3%	79	0.0%	—	0.0%	10,761
Home equity loans and lines of credit	5,663	0.7%	16,605	2.1%	—	0.0%	22,268
Commercial business loans	46,803	5.9%	65	0.0%	462	0.1%	47,330
Other consumer loans	20	0.0%	25	0.0%	1,083	0.2%	1,128
Total loans	$ 79,995	9.9%	$114,492	14.3%	$322,119	40.2%	$516,606

	Total Loans at December 31, 2009 (dollars in thousands)						
	Within Ten Years	Percent of Total Loans	Ten to Twenty Years	Percent of Total Loans	Over Twenty Years	Percent of Total Loans	Total
Real estate loans:							
Commercial mortgage	$ 31,765	3.9%	$ 98,164	12.2%	$282,546	35.2%	$ 412,475
Residential mortgage	29,562	3.7%	75,715	9.4%	139,620	17.4%	244,897
Construction	17,954	2.2%	4,563	0.6%	6,322	0.8%	28,839
Home equity loans and lines of credit	17,325	2.2%	34,106	4.2%	1,375	0.2%	52,806
Commercial business loans	60,829	7.6%	1,039	0.1%	817	0.1%	62,685
Other consumer loans	176	0.0%	25	0.0%	1,083	0.1%	1,284
Total loans	$ 157,611	19.6%	$213,612	26.6%	$431,763	53.8%	$ 802,986

Fixed rate long-term loans present interest rate risk to the Bank and will constrain net income in a rising interest rate environment. The magnitude of this long-term risk associated with fixed rate long-term loans is factored into our Management of Market Risk analysis. The Bank's Cumulative Gap Analysis with assumptions results in the Bank being liability sensitive through 5 years.

The following table indicates our commercial loan portfolio concentrations sorted by the North American Industry Classification System (NAICS) code as of December 31, 2010:

Commercial Loan Concentrations
December 31, 2010

Accomodation and Food Services	29.4%
Real Estate and Rental and Leasing	23.8%
Retail Trade	11.3%
Health Care and Social Assistance	6.9%
Construction	6.7%
Arts, Entertainment and Recreation	6.5%
Other Services	5.8%
Professional, Scientific, Technical and Information Services	2.5%
Agriculture, Forestry, Fishing and Hunting	1.9%
Transportation and Warehousing	1.4%
Wholesale Trade	1.2%
Manufacturing	1.1%
Administrative, Educational and Support Services	0.8%
Finance and Insurance	0.7%
	100.0%

Commercial Mortgage Loans. At December 31, 2010, commercial mortgage loans totaled $413.5 million, or 52.7% of our total loan portfolio, which was greater than any other loan category, including one-to-four family residential mortgage loans.

We offer commercial mortgage loans secured by real estate primarily with interest rates that adjust every three to five years. We originate a variety of commercial mortgage loans generally for terms of up to 30 years and payments based on an amortization schedule of up to 30 years. These loans are typically based on the U.S. Treasury rate and adjust every three to five years. Commercial mortgage loans also are originated for the acquisition and development of land. Commercial mortgage loans for the acquisition and development of land are typically based upon the prime interest rate as published in *The Wall Street Journal* with interest rate floors. Commercial mortgage loans for developed real estate are originated with loan-to-value ratios of up to 75%, while loans for only the acquisition of land are generally originated with a maximum loan to value ratio of 50%. The loan-to-value ratio is defined as the lesser of the actual acquisition cost or the estimated value determined by an independent appraiser.

Loans secured by commercial real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential mortgage loans. Of primary concern in commercial mortgage lending is the borrower's creditworthiness and cash flow potential of the project. Repayments of loans secured by income-producing properties often depend on the successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy, to a greater extent than residential mortgage loans. See *"Risk Factors — Our Emphasis on Commercial Real Estate and Commercial Business Loans May Continue to Expose us to Increased Lending Risks"*. To monitor cash flows on income-producing properties, we require borrowers and loan guarantors, if any, to provide annual financial statements and rent rolls where applicable. In reaching a decision whether to make a commercial mortgage loan, we consider and review a cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. An environmental report from a third party is obtained on all commercial real estate loans up to $1 million. Loans in excess of $1 million may require a Phase I or Phase II analysis when the possibility exists that hazardous materials may have existed on the site, or the site may have been affected by adjoining properties that handled hazardous materials. It is the practice of the Company that for commercial real estate loans to obtain appraisals for the collateral securing the loan when the loan has become 90 days delinquent or if information is obtained indicating insufficient cash flow to support the loan. For these collateral dependent loans an FASB ASC Topic No. 310 Receivables analysis is performed and any resulting charge-offs are recorded. It is not the Company's practice to test collateral value to loan balance for loans that are performing consistent with contractual terms or are less than 90 days delinquent, as the value of collateral does not necessarily affect the repayment capacity of the borrower. The exception to this would

be acquisition and development loans of which the Company currently has 12 loans with balances of $6.5 million, or 1.6% of the commercial mortgage loan portfolio as of December 31, 2010.

In addition, if loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired from the time of origination or most recent appraisal, then the Company may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition. At December 31, 2010 the Company had no commercial real estate loans that were unsecured. The Company did have, as of December 31, 2010, 27 loans totaling $1.4 million of unsecured commercial loans, of which the largest was $276,000. The Company's current practice when originating a commercial real estate loan is to use the commercial real estate as collateral, but, as noted above, the extension of credit is based on many other factors in addition to the value of the collateral. As a matter of practice, loan-to-value ratios seldom exceed 75%. If a loan is in a performing status it is not the practice of this Company to obtain current appraised values of the collateral. The Company's practice regarding loans delinquent 90 days or greater is discussed previously within this document.

Although year-end non-performing loans showed a significant increase due to an increase of $11.8 million in troubled debt restructurings which are performing in accordance with their modified terms, delinquencies in the commercial mortgage loan portfolio showed improvement at year-end 2010. At December 31, 2010, 50 commercial mortgage loans totaling $19.6 million were 30 days or more delinquent and 46 of such commercial mortgage loans totaling $18.2 million were more than 90 days or more delinquent. By comparison, at December 31, 2009, 54 commercial mortgage loans totaling $22.3 million were 30 days or more delinquent with 48 of such commercial mortgage loans totaling $20.6 million being more than 90 days delinquent.

One-to-Four Family Residential Mortgage Loans. At December 31, 2010, one-to-four family residential mortgage loans totaled $258.0 million, or 32.9% of our total loan portfolio. We offer two types of residential mortgage loans: fixed rate loans and adjustable rate loans. We offer fixed rate mortgage loans with terms of up to 30 years. We offer adjustable rate mortgage loans with interest rates and payments that adjust annually after an initial fixed period of one, three, five or seven years. Interest rates and payments on our adjustable rate loans generally are adjusted to a rate equal to a percentage above the U.S. Treasury Bill Constant Maturity Index. The maximum amount by which the interest rate may be increased or decreased is generally 2.0% per adjustment period and the maximum interest rate increase over the life of the loan is generally 6.0% over the initial interest rate on the loan. We have the facility to sell, and will sell conforming fixed rate loans we originate with terms of up to 30 years with servicing released to manage interest rate risk.

Borrower demand for adjustable rate loans compared to fixed rate loans is a function of the level of market interest rates, the expectations of changes in interest rates, and the difference between the interest rates and loan fees offered for fixed rate mortgage loans as compared to adjustable rate mortgage loans. The relative amount of fixed rate and adjustable rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

Our general policy is not to make high loan-to-value loans (defined as loans with a loan-to-value ratio of 80% or more) without mortgage insurance; however, we do offer loans with loan-to-value ratios of up to 95% with mortgage insurance, including our first-time home owner loan program. We require all properties securing mortgage loans to be appraised by a board approved independent appraiser. We require title insurance on all first mortgage loans secured by a residence, and borrowers must obtain hazard insurance. Additionally, we require flood insurance for loans on properties located in a flood zone.

Cape Bank has also provided a limited number of interest only loans which allow the borrower to pay only the interest due on the loan for the initial term and then rates adjust annually and payments are fully amortized until maturity. At times, the balances on such loans may exceed the value of the collateral held by Cape Bank, which could increase the likelihood of a borrower defaulting on the loan. Cape Bank has a portfolio of $4.4 million in interest only loans, all of which were current at December 31, 2010. At December 31, 2009 these loans totaled $4.8 million. This program is no longer offered.

As a result of our lending standards we do not offer, or have, any payment option adjustable rate loans or sub-prime loans.

Generally, adjustable rate loans may better insulate Cape Bank from interest rate risk as compared to fixed rate loans. In a rising interest rate environment, however, the monthly mortgage payment on adjustable rate loans would also increase which could cause an increase in delinquencies and defaults. To mitigate the risk associated with increases in monthly mortgage payments on adjustable rate loans, we adhere to underwriting guidelines by initially qualifying each borrower at a higher interest rate. In addition, although adjustable rate mortgage loans make our assets more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

The following table indicates the amount and percent of residential mortgage loans that are single family and multi-family as of December 31, 2010 and 2009:

	At December 31,			
	2010		2009	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Single Family Mortgage Loans	$ 243,902	94.5%	$ 228,964	93.5%
Multi-Family Mortgage Loans	14,145	5.5%	15,933	6.5%
Total	$ 258,047	100.0%	$ 244,897	100.0%

The following table segregates loans with original loan-to-value ratios greater than 80% and less than 80%:

	At December 31,			
	2010		2009	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Loan to Value greater than 80%	$ 3,196	1.2%	$ 3,347	1.4%
Loan to Value less than or equal to 80%	254,851	98.8%	241,550	98.6%
Total Residential Mortgage Loans	$ 258,047	100.0%	$ 244,897	100.0%

(1) All loans with an original loan-to-value greater than 80% were single family loans for both periods presented.

Commercial Business Loans. At December 31, 2010, commercial business loans totaled $48.2 million, or 6.1% of our total loan portfolio. We offer commercial business loans to professionals, sole proprietorships and small businesses in our market area. We offer term loans for capital improvements and equipment acquisition. These loans are typically based on a competitive fixed market rate. These loans may be secured by business assets other than real estate, such as business equipment and inventory and are backed by personal guarantees.

When making commercial business loans, we consider the financial statements of the borrower and guarantors, the borrower's payment history of both corporate and personal debt, the debt service capabilities of the borrower and guarantors, the projected cash flows of the business, the viability of the industry in which the customer operates and the value of the collateral.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to repay from his or her employment or other income, and which are secured by residential real property, the value of which tends to be more easily ascertainable, commercial business loans have greater risk and typically are made on the basis of the borrower's ability to repay from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We have generally required these loans to have debt service coverage of at least 1.20, and we generally require personal guarantees. See *"Risk Factors — Our Emphasis on Commercial Real Estate and Commercial Business Loans May Continue to Expose us to Increased Lending Risks."*

Construction Loans. Construction loans totaled $15.2 million, or 1.9% of our total loan portfolio at December 31, 2010. We offer interim construction financing secured by residential property for the purpose of constructing one-to-four family homes. Our construction program offers two types of loans: short-term interest only or construction/permanent loans. The short-term loans require monthly interest only payments based on the amount of funds disbursed. The construction/permanent loans require interest-only payments during the construction phase, and convert to a fully amortized fixed rate loan at the end of the interest-only period. Under both programs, construction must be completed within 12 months of the initial disbursement date for one-to-four family homes, and for commercial construction loans the term is a maximum of 24 months. The maximum loan-to-value ratio will be 80% of the appraised value. While providing us with a comparable, and in some cases, higher yield than conventional mortgage loans, construction loans may involve a higher level of risk. For example, if a project is not completed and the borrower defaults, we may have to hire another contractor to complete the project at a higher cost. Also, a project may be completed, but may not be saleable, resulting in the borrower defaulting and Cape Bank taking title to the property. It is an established and acceptable practice in construction/project lending to build in an interest reserve. The interest reserve is for the purpose of servicing the debt during the construction and initial lease up period when cash flow is typically insufficient to meet that need. The interest reserve is not to be used for debt service after the project is completed and has had sufficient time to lease up or otherwise perform in accordance with original projections. Under certain circumstances, it may be permissible to re-establish a depleted interest reserve for debt service if additional collateral is obtained from the borrower or guarantor(s). The collateral in question must be suitable with regards to value, margin requirements and marketability and should be unrelated to the project under evaluation. The re-establishment of an interest reserve must be approved by the appropriate lending authorities. Interest reserves may also be considered for use with tract subdivisions to provide debt service until cash flow is generated from unit sales.

Home Equity Loans and Lines of Credit. We generally offer home equity loans and lines of credit with a maximum combined loan-to-value ratio of 80% based on the appraised value of the property. Home equity loans have fixed rates of interest and are originated with terms of up to 15 years. Home equity lines of credit have adjustable interest rates and are based upon the prime interest rate as published in *The Wall Street Journal* with a floor of 5.5% on lines of $250,000 and greater. We hold a first or second mortgage position on the homes that secure our home equity loans and lines of credit.

Other Consumer Loans. We offer consumer loans secured by certificates of deposit held at Cape Bank, the pricing of which is based upon the rate of the certificate of deposit. We will offer such loans up to 90% of the principal balance of the certificate of deposit. We also offer unsecured loans with terms of up to four years. Our unsecured loans bear a substantially higher interest rate than our secured loans and lines of credit. For more information on our loan commitments, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."*

Unsecured loans and lines of credit generally have greater risk than residential mortgage loans. At December 31, 2010 and 2009, there was $83,000 and $113,000 respectively, of unsecured loans. Repayments of these loans depends on the borrower's financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Loan Originations, Sales, Purchases and Participations. Loan originations come from a number of sources, including existing customers, walk-in traffic, advertising and referrals from customers. From time to time, we will participate in loans originated by other banks to supplement our loan portfolio. During 2010, we did not participate in loans originated by other banks and we have none in our loan portfolio as of December 31, 2010. We are permitted to review all of the documentation relating to any loan in which we participate. However, in a purchased participation loan, we do not service the loan and thus are subject to the policies and practices of the lead lender with regard to monitoring delinquencies, pursuing collections and instituting foreclosure proceedings. Cape Bank services loans for other financial institutions, which generally consists of collecting mortgage payments, disbursing payments to investors and, where necessary, instituting foreclosure proceedings. A mortgage servicing asset of

approximately $7,000 and $11,000 as of December 31, 2010 and December 31, 2009, respectively, was recorded relating to the servicing of loans for others, and is included in other assets on our balance sheet.

Loan Underwriting. The Company adheres to underwriting guidelines that provide for continuity and completeness of process and are summarized as follows: a comprehensive and thorough review of (i) the financial information of applicant(s)and any guarantor(s), including current and historical balance sheet and income data, (at least two (2) years),-balance sheet, income and cash flow projections, when appropriate and credit checks; (ii) collateral valuation, including appraisals (based on regulatory requirements) on real estate-based loans; (iii) loan terms, pricing and covenants appropriate to risk; (iv) a review of the character and integrity of the borrower, including interviews of the proposed borrower if warranted , and (v) analysis of relevant industry data . We also review the purpose of a proposed loan which assists in determining the terms of such loan, i.e. short-term notes should not be utilized to finance long-term investments or capital expenditures.

The Company general practice is not to make new loans or additional loans to a borrower or related interest of a borrower who is past due in principal or interest more than 90 days. In limited circumstances, the Company would advance an existing borrower new money to facilitate the completion of a project, with expectations that the full amount of the new advance plus reduction of the delinquent outstanding principal and interest would occur within one year of granting the additional funds.

The Company assesses a borrower's income or cash flow expectations, the Company's collateral position and a borrower's financial outlook when temporarily restructuring loan terms. Based on that assessment the Company would then determine its course of action. Generally, in a troubled situation, on a loan with a long term maturity, the maturity date is more often shortened or left unchanged than it is extended. An exception to this would be when a loan either has matured or is near maturity, the maturity date would be extended, but not for more than twelve months. Because cash flow is often a problem for a struggling borrower, the interest rate is usually reduced for a period of time, typically twelve months. Occasionally, the Company splits the loan into two separate notes: note structured on terms that are supported by the borrower's ability to repay and the other note structured on more lenient terms and/or possibly partially for fully written down.

Correspondent Lending Relationships. Cape Bank has residential correspondent banking relationships with other financial institutions which enable us to sell conforming loans that we originate on a servicing—released, non-recourse basis that we would normally not retain in our loan portfolio because of interest rate risk or they do not conform to our standard underwriting guidelines. These correspondent relationships enable us to offer a full range of residential loan products and compete more effectively for residential loans within our market area. During the year ended December 31, 2010, Cape Bank sold approximately $15.3 million of loans. The amount of loans sold varies according to market pricing and the portfolio needs of Cape Bank.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures recommended by management and reviewed and approved by our Board of Directors and management. The Board of Directors has granted loan approval authority to certain officers or groups of officers up to prescribed limits, based on the type of loan, whether the loan is secured or unsecured and the officer's position and experience. Individuals have joint authority up to assigned levels. Management Loan Committee approves loans for borrowing relationships up to $5 million, Directors Loan Committee approves loans for borrowing relationships up to $10 million and the Bank's Board of Directors approves loans for borrowing relationships over $10 million. All loans extended to Regulation O defined parties are approved by the Banks Board of Directors.

Loans-to-One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited by regulation to generally 15% of our stated capital and reserves. At December 31, 2010, our regulatory limit on loans-to-one borrower was $17.0 million. At that date, our largest lending relationship was $14.4 million, consisting of 14 loans and was secured by commercial real estate and residential real estate. Of the $14.4 million, $11.8 million (7 loans) was restructured in the third quarter of 2010. At December 31, 2010 these loans were performing in accordance with their terms.

Loan Commitments. We issue commitments for fixed and adjustable rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our loan commitments expire after 60 days.

Non-Performing and Problem Assets

When a loan is 15 days past due, we send the borrower a late charge notice. If the loan delinquency is not corrected, other collection procedures are implemented, including telephone calls and collection letters. We attempt personal, direct contact with the borrower to determine the reason for the delinquency, to ensure that the borrower correctly understands the terms of the loan and to emphasize the importance of making payments on or before the due date. If necessary, subsequent late charges and delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, we send the borrower a demand for payment. If the account is not made current by the 120th day of delinquency, we may refer the loan to legal counsel. Any of our loan officers can shorten these time frames in consultation with Executive Management.

Generally, loans are placed on non-accrual status when payment of principal or interest is 90 days or more delinquent unless the loan is considered well-secured and in the process of collection. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt. When loans are placed on a non-accrual status, unpaid accrued interest is fully reversed. The loan may be returned to accrual status if both principal and interest payments are brought current and factors indicating doubtful collection no longer exist. Our management reports to the Board of Directors Loan Committee on a quarterly basis all loans on the Watch List and all Classified Loans.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
	(dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
Commercial mortgage (1)	$ 27,781	$ 25,132	$ 12,117	$ 3,887	$ 3,381
Residential mortgage	2,449	2,081	692	—	48
Construction	3,980	1,298	4,109	—	—
Home equity and line of credit	363	398	—	—	—
Commercial business loans	6,254	3,085	3,287	54	141
Other consumer loans	—	—	92	11	16
Total non-accrual loans	40,827	31,994	20,297	3,952	3,586
Loans greater than 90 days delinquent and still accruing:					
Real estate loans:					
Commercial mortgage	—	—	—	—	—
Residential mortgage	2,207	1,170	504	39	225
Construction	—	—	—	—	—
Home equity and line of credit	432	84	250	16	—
Commercial business loans	—	—	—	—	—
Other consumer loans	—	—	—	—	—
Total loans 90 days and still accruing	2,639	1,254	754	55	225
Total non-performing loans	43,466	33,248	21,051	4,007	3,811
Other real estate owned	3,255	4,817	798	—	—
Non-accrual investment securities	71	—	—	—	—
Total non-performing assets	$ 46,792	$ 38,065	$ 21,849	$ 4,007	$ 3,811
Performing TDRs	$ 7,732	$ —	$ —	$ —	$ —
Ratios:					
Non-performing loans to total loans	5.54%	4.14%	2.65%	0.86%	0.84%
Non-performing assets to total assets	4.41%	3.55%	2.00%	0.63%	0.62%

(1) includes $11.8 million in non-accruing TDRs paying in accordance with restructured terms.

For the years ended December 31, 2010, 2009 and 2008, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $1.9 million, $1.8 million and $1.2 million, respectively. Income recorded for such loans was $383,000, $49,000 and $10,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(dollars in thousands)			
At December 31, 2010						
Real estate loans:						
Commercial mortgage	1	$ 94	46	$ 18,250	47	$ 18,344
Residential mortgage	4	477	26	4,655	30	5,132
Construction	—	—	9	3,980	9	3,980
Home equity loans and lines of credit	2	103	9	795	11	898
Commercial business loans	0	—	27	4,031	27	4,031
Other consumer loans	2	16	—	—	2	16
Total	9	$ 690	117	$ 31,711	126	$ 32,401
At December 31, 2009						
Real estate loans:						
Commercial mortgage	4	$ 802	48	$ 20,592	52	$ 21,394
Residential mortgage	3	1,551	16	3,251	19	4,802
Construction	—	—	4	1,298	4	1,298
Home equity loans and lines of credit	1	50	6	482	7	532
Commercial business loans	3	101	12	3,085	15	3,186
Other consumer loans	—	—	—	—	—	—
Total	11	$ 2,504	86	$ 28,708	97	$ 31,212
At December 31, 2008						
Real estate loans:						
Commercial mortgage	7	$ 4,142	26	$ 12,117	33	$ 16,259
Residential mortgage	2	105	8	1,196	10	1,301
Construction	—	—	8	4,109	8	4,109
Home equity loans and lines of credit	—	—	1	250	1	250
Commercial business loans	8	1,909	12	3,287	20	5,196
Other consumer loans	5	122	5	89	10	211
Total	22	$ 6,278	60	$ 21,048	82	$ 27,326
At December 31, 2007						
Real estate loans:						
Commercial mortgage	4	$ 3,234	5	$ 3,887	9	$ 7,121
Residential mortgage	4	601	1	39	5	640
Construction	—	—	—	—	—	—
Home equity loans and lines of credit	—	—	—	—	—	—
Commercial business loans	—	—	3	54	3	54
Other consumer loans	2	72	5	21	7	93
Total	10	$ 3,907	14	$ 4,001	24	$ 7,908
At December 31, 2006						
Real estate loans:						
Commercial mortgage	—	$ —	5	$ 3,381	5	$ 3,381
Residential mortgage	6	252	3	273	9	525
Construction	—	—	—	—	—	—
Home equity loans and lines of credit	—	—	—	—	—	—
Commercial business loans	—	—	3	141	3	141
Other consumer loans	2	33	2	16	4	49
Total	8	$ 285	13	$ 3,811	21	$ 4,096

Classification of Loans. Our policies provide for the classification of loans based on an analysis of the credit conditions of the borrower and the value of the collateral when appropriate. There is no specific credit metrics used to determine the risk rating.

Risk Rating 1-5 — Acceptable credit quality ranging from High Pass (cash or near cash as collateral) to Management Attention/Pass (acceptable risk) with some deficiency in one or more of the following areas: management experience, debt service coverage levels, balance sheet leverage, earnings trends and the industry of the borrower.

Risk Rating 6 — Watch List reflects loans that management believes warrant special consideration and may be loans that are delinquent or current in their payments. These loans have potential weakness which increases their risk to the bank and have shown some signs of weakness but have fallen short of being a Substandard loan.

Management believes that the Substandard category is best considered in three discrete classes: RR 7.0 "performing substandard loans;" RR 7.5; and RR 7.9

Risk Rating 7.0 — The class is mostly populated by customers that have a history of repayment (less than 2 delinquencies in the past year) but exhibit some signs of weakness manifested in either cash flow or collateral. In some cases, while cash flow is below the policy levels, the customer is in a cash business and has never presented financial reports that reflect sufficient cash flow for a global cash flow coverage ratio of 1.20.

Risk Rating 7.5 — These are loans that share many of the characteristics of the RR 7.0 loans as they relate to cash flow and/or collateral, but have the further negative of historic delinquencies. These loans have not yet declined in quality to require a FASB ASC Topic No. 310 Receivables analysis, but nonetheless this class has a greater likelihood of migration to a more negative risk rating.

Risk Rating 7.9 — These loans have undergone a FASB ASC Topic No. 310 Receivables analysis or have a specific reserve. For those that have a FASB ASC Topic No. 310 Receivables analysis, no general reserve is allowed. More often than not, those loans in this class with specific reserves have had the reserve placed by Management pending information to complete a FASB ASC Topic No. 310 Receivables analysis. Upon completion of the FASB ASC Topic No. 310 Receivables analysis reserves are adjusted or charged off.

Our classified assets total includes $40.8 million of non-performing loans at December 31, 2010.

Other Real Estate Owned. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as other real estate owned. When property is acquired it is recorded at the lower of cost or estimated fair market value, less the cost to sell, at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At December 31, 2010, we had $3.3 million in other real estate owned compared to $4.8 million at December 31, 2009.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. In determining the allowance for loan losses, management considers the losses inherent in our loan portfolio and changes in the type and volume of loan activities, along with the general economic and real estate market conditions. A description of our methodology in establishing our allowance for loan losses is set forth in the section *"Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Allowance for Loan Losses."* The allowance for loan losses as of December 31, 2010 was maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable. However, this analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment. The economic

information located within the Market Area section of this report was considered by management and used as a factor in our analysis of determining the adequacy of our general allowance for loan losses.

In addition, as an integral part of their examination process, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance have authority to periodically review our allowance for loan losses. Such agencies may require that we recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or For the Years ended December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands)				
Balance at beginning of year	$ 13,311	$ 11,240	$ 4,121	$ 4,009	$ 3,792
Allowance from acquired entity	—	—	3,791	—	—
Charge-offs:					
Real estate loans:					
Commercial mortgage	(4,159)	(8,043)	(2,406)	—	—
Residential mortgage	(677)	(239)	(572)	—	—
Construction	(1,160)	(2,378)	(1,806)	—	—
Commercial business loans	(2,751)	(872)	(786)	(119)	—
Other consumer loans	(90)	(124)	(138)	(113)	(128)
Total charge-offs	(8,837)	(11,656)	(5,708)	(232)	(128)
Recoveries:					
Real estate loans:					
Commercial mortgage	436	406	—	—	—
Construction	—	114	—	—	—
Commercial business loans	103	18	—	—	—
Other consumer loans	29	30	27	43	33
Total recoveries	568	568	27	43	33
Net (charge-offs) recoveries	(8,269)	(11,088)	(5,681)	(189)	(95)
Provision for loan losses	7,496	13,159	9,009	357	312
Reclassification to other liabilities for reserve on off-balance sheet items	—	—	—	(56)	—
Balance at end of year	$ 12,538	$ 13,311	$ 11,240	$ 4,121	$ 4,009
Ratios:					
Net charge-offs to average loans outstanding	1.05%	1.37%	0.74%	0.06%	0.02%
Allowance for loan losses to non-performing loans at end of year	28.84%	40.04%	53.39%	102.85%	105.20%
Allowance for loan losses to total loans at end of year	1.60%	1.66%	1.41%	0.89%	0.89%

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2010		2009		2008	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(dollars in thousands)					
Real estate loans:						
Commercial mortgage	$ 9,809	82.7%	$ 9,571	71.9%	$ 6,829	51.8%
Residential mortgage	879	7.4%	2,048	15.4%	1,696	28.5
Construction	736	6.2%	388	2.9%	1,477	6.8
Home equity loans and lines of credit	195	1.6%	771	5.8%	346	5.9
Commercial business loans	236	2.0%	492	3.7%	809	6.8
Other consumer loans	13	0.1%	41	0.3%	83	0.2
Total allocated allowance	11,868	100.0%	13,311	100.0%	11,240	100.0%
Unallocated	670		—		—	
Total	$ 12,538		$ 13,311		$ 11,240	

	At December 31,			
	2007		2006	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(dollars in thousands)			
Real estate loans:				
Commercial mortgage	$ 2,381	43.0%	$ 2,165	40.6%
Residential mortgage	978	37.8	1,071	40.7
Construction	336	8.3	370	8.6
Home equity loans and lines of credit	208	8.0	222	8.2
Commercial business loans	97		79	1.7
Other consumer loans	121	2.6	102	0.2
Total allocated allowance	4,121	0.3	4,009	100.0%
Unallocated	—	100.0%	—	
Total	$ 4,121		$ 4,009	

Investment Activities

We have authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various U.S. Government sponsored enterprises, federal agencies and state and municipal governments, school districts and utility authorities, mortgage-backed securities and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in corporate securities (equity as well as debt) and mutual funds. As a member of the Federal Home Loan Bank of New York, we also are required to maintain an investment in Federal Home Loan Bank of New York stock.

At December 31, 2010, our investment portfolio, excluding Federal Home Loan Bank stock, totaled $157.4 million and consisted primarily of municipal bonds, mortgage-backed securities, including collateralized mortgage obligations, collateralized debt obligations, U.S. Government and agency securities, including securities issued by U.S. Government sponsored enterprises. Our entire investment portfolio is classified as available-for-sale (AFS) after reclassifying the held-to-maturity portion of the portfolio to AFS effective December 31, 2009.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return on our investment. Our Board of Directors has the overall responsibility for the investment portfolio, including approval of our investment policy, which is reviewed and approved annually. The Management Investment Committee (a subcommittee of ALCO), consisting of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Controller, meets on a monthly basis and is responsible for implementation of the investment policy and monitoring our investment performance. Our Board of Directors reviews the status of our investment portfolio on a monthly basis.

Municipal Securities. We invest in municipal bonds issued by counties, cities, school districts and utility authorities; primarily general obligation and some revenue bonds. Our policy allows us to purchase such securities rated "A" or higher. No more than 20% of our investment portfolio can be invested in obligations of local or municipal entities without approval of our Board of Directors. As of December 31, 2010, our municipal securities portfolio consisted of issuers within the State of New Jersey in the amount of $4.5 million and issuers within other states consisted of $20.9 million.

U.S. Government and Federal Agency Obligations. While U.S. Government and federal agency securities generally provide lower yields than other investments in our securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and as an interest rate risk hedge in the event of significant mortgage loan prepayments.

Mortgage-Backed Securities. We invest in mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Investment in mortgage-backed securities enables us to achieve positive interest rate spreads with minimal administrative expense, and lower our credit risk as a result of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae.

Mortgage-backed securities are created by pooling mortgages and issuing a security with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single family or multi-family mortgages, although we invest primarily in mortgage-backed securities backed by one-to-four family mortgages. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as Cape Bank. Some securities pools are guaranteed as to payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Finally, mortgage-backed securities are assigned lower risk weightings for purposes of calculating our risk-based capital level.

Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments. Aside from this traditional risk, the current economic environment and resulting decline in real estate values has created additional risks. Mortgage backed securities may have individual loans in which the outstanding balance due is greater than the current value of the home. This could result in the borrower defaulting.

Collateralized Mortgage Obligations. Collateralized Mortgage Obligations (CMOs) are debt securities issued by a special-purpose entity that aggregates pools of mortgages and mortgage-backed securities and creates different classes of securities with varying maturities and amortization schedules, as well as a residual interest, with each class possessing different risk characteristics. The cash flows from the underlying collateral are generally divided into "tranches" or classes that have descending priorities with respect to the distribution of principal and interest cash flows, while cash flows on pass-through mortgage-backed securities are distributed pro rata to all security holders. With the exception of 2 private label (non-agency) securities which totaled $4.5 million at December 31, 2010, one of which has a below investment grade credit rating, all of the securities are backed by U.S. Government agencies or Government sponsored enterprises. The non-agency CMOs are performing according to their contractual terms. See the *Securities Impairment* section of Item 7 (*Management' Discussion and Analysis of Financial Condition and Result of Operations*) for information related to the risks associated with the non-agency CMOs.

Collateralized Debt Obligations. We own 24 collateralized debt obligation securities (CDOs) that are backed by trust preferred securities, 16 of which have been principally issued by bank holding companies and 8 of which have been principally issued by insurance companies. All of the CDO securities have below investment grade credit ratings. During 2010, we recorded a $3.4 million charge to earnings for the credit-related portion of other-than-temporary impairment (OTTI). Given the current illiquidity in the market for these securities, determining their estimated fair value requires substantial judgment and estimation of factors that are not currently observable. Because of changes in the creditworthiness of the underlying financial institutions, market conditions, and other factors, it is possible that, in future reporting periods, we could deem more of our CDOs to be OTTI. Such a

determination would require us to write down their value and incur a non-cash OTTI charge. See *Note 3 — Investment Securities — of the Notes to Consolidated Financial Statements* for more information related to our CDO portfolio.

Investment Securities Portfolio. The following tables set forth the composition of our investment securities portfolio.

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)					
Investment securities available-for-sale:						
Debt securities:						
U.S. Government and agency obligations	$ 72,470	$ 71,735	$ 46,004	$ 45,972	$ 31,296	$ 31,766
Corporate bonds	17,994	18,135	10,851	11,046	4,975	4,777
Municipal bonds	25,811	25,406	33,901	34,381	11,024	10,715
Collateralized debt obligations	9,715	1,134	13,038	1,456	11,832	3,033
Mortgage-backed securities:						
GNMA pass-through certificates	2,318	2,368	677	693	773	763
FHLMC pass-through certificates	3,299	3,433	5,338	5,513	20,449	20,771
FNMA pass-through certificates	16,542	17,266	26,612	27,588	33,465	33,397
Collateralized mortgage obligations	17,728	17,930	26,514	26,166	10,017	9,433
Total securities available-for-sale	$ 165,877	$ 157,407	$ 162,935	$ 152,815	$ 123,831	$ 114,655

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)					
Investment securities held-to-maturity:						
Municipal bonds	$ —	$ —	$ —	$ —	$ 24,582	$ 25,154
U.S. Government and agency obligations	—	—	—	—	—	—
Mortgage-backed securities:						
GNMA pass-through certificates	—	—	—	—	17	18
FHLMC pass-through certificates	—	—	—	—	2,670	2,715
FNMA pass-through certificates	—	—	—	—	10,897	11,203
Collateralized mortgage obligations	—	—	—	—	9,922	10,111
Grantor Trust (money market fund)	—	—	—	—	737	737
Total securities held-to-maturity	$ —	$ —	$ —	$ —	$ 48,825	$ 49,938

Effective December 31, 2009 the Company reclassified the Held-to-Maturity portion of its investment portfolio, which had a market value of $44.5 million and an amortized cost of $43.0 million, to Available-for-Sale.

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2010 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal securities yields have not been adjusted to a tax-equivalent basis, which as of December 31, 2010 was 5.72%.

	One Year or Less		More than One Year		More than Five Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(dollars in thousands)										
Investment securities available-for-sale:											
Debt securities:											
U.S. Government and agency obligations	$ 3,000	1.22%	$ 67,470	1.56%	$ 2,000	2.00%	$ —	$ —	$ 72,470	$ 71,735	1.56%
Corporate bonds	2,517	2.75%	15,477	2.44%	—	—	—	—	17,994	18,135	2.48%
Municipal bonds	2,013	3.35%	7,521	3.56%	6,105	3.70%	10,172	4.48%	25,811	25,406	3.94%
Collateralized debt obligations	—	—	—	—	—	—	9,715	2.41%	9,715	1,134	2.41%
Mortgage-backed securities:											
GNMA pass-through certificates	—	—	—	—	180	3.52%	2,138	4.36%	2,318	2,368	4.29%
FHLMC pass-through certificates	7	6.94%	297	5.26%	5	1.97%	2,990	3.53%	3,299	3,433	3.69%
FNMA pass-through certificates	1,839	6.20%	294	5.17%	2,756	4.86%	11,653	4.39%	16,542	17,266	4.68%
Collateralized mortgage obligations	—	—	3,138	3.77%	1,831	4.56%	12,759	3.23%	17,728	17,930	3.46%
Total securities available-for-sale	$ 9,376	3.07%	$ 94,197	1.96%	$ 12,877	3.80%	$ 49,427	3.67%	$ 165,877	$ 157,407	2.68%

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. We obtain deposits within our market area primarily by offering a broad selection of deposit accounts, including non-interest-bearing demand deposits (such as checking accounts), interest-bearing demand accounts (such as NOW and money market accounts), savings accounts and certificates of deposit. At December 31, 2010, we also had $79.0 million of deposit accounts from a variety of local municipal relationships. At December 31, 2010, we had $31.6 million of brokered deposits, or 4.2% of our total deposits. Included in the brokered deposits were $10.8 million of reciprocal certificates of deposits offered under the Certificate of Deposit Account Registry Service® ("CDARS"), a program in which Cape Bank participates. Under CDARS, participating banks are able to match customer's deposits that would otherwise exceed the limits for FDIC insurance with certificates of deposits offered at other participating banks and thereby provide FDIC insurance to these excess deposits.

We also offer a variety of deposit accounts designed for the businesses operating in our market area. Our business banking deposit products include a commercial checking account, a commercial money market account and a checking account specifically designed for small businesses. We offer bill paying and cash management services through our online banking system. Additionally we offer commercial customers our remote deposit capture product.

Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the interest rates offered by our competition, the interest rates available on borrowings, rates on brokered deposits, our liquidity needs, and customer preferences. We generally review our deposit mix and deposit pricing weekly. Our deposit pricing strategy generally has been to offer competitive rates on all types of deposit products, and to periodically offer special rates in order to attract deposits of a specific type or term.

The following table sets forth the distribution of our average total deposit accounts, by account type, for the periods indicated.

	For the year ended December 31,					
	2010			2009		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(dollars in thousands)					
Non-interest bearing	$ 69,439	9.0%	n/a	$ 68,364	9.0%	n/a
Savings accounts	82,146	10.7	0.38%	80,248	10.6	0.48%
NOW and money market	270,206	35.2	0.80%	236,984	31.3	0.89%
Certificates of deposit	346,322	45.1	1.77%	371,664	49.1	2.66%
Total deposits	$ 768,113	100.0%	1.12%	$ 757,260	100.0%	1.64%

	For the year ended December 31, 2008		
	Average Balance	Percent	Weighted Average Rate
	(dollars in thousands)		
Non-interest bearing	$ 68,158	9.4%	n/a
Savings accounts	82,309	11.3	1.29%
NOW and money market	224,647	30.8	1.81%
Certificates of deposit	353,501	48.5	3.55%
Total deposits	$ 728,615	100.0%	2.43%

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At December 31,		
	2010	2009	2008
	(in thousands)		
Interest Rate			
Less than 2.00%	$ 232,374	$ 162,486	$ 22,382
2.00% – 2.99%	38,270	113,358	79,179
3.00% – 3.99%	10,405	23,881	170,565
4.00% – 4.99%	23,066	33,737	74,656
5.00% – 5.99%	2,668	3,449	9,403
6.00% – 6.99%	—	—	8
Total	$ 306,783	$ 336,911	$ 356,193

The following table sets forth the amount and maturities of certificates of deposit at December 31, 2010.

	Period to Maturity at December 31, 2010					
	Less Than or Equal to a Year	More Than One to Two Years	More Than Two to Three Years	More Than Three to Four Years	More Than Four Years	Total
	(in thousands)					
Interest Rate						
Less than 2.00%	$ 203,821	$ 23,175	$ 3,183	$ 974	$ 1,221	$ 232,374
2.00% – 2.99%	4,234	18,228	4,911	1,269	9,628	38,270
3.00% – 3.99%	4,183	1,055	2,318	2,276	573	10,405
4.00% – 4.99%	7,241	7,731	8,094	—	—	23,066
5.00% – 5.99%	1,065	1,603	—	—	—	2,668
Total	$ 220,544	$ 51,792	$ 18,506	$ 4,519	$ 11,422	$ 306,783

As of December 31, 2010, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $136.3 million. The following table sets forth the maturity of these certificates as of December 31, 2010.

	At December 31, 2010
	(in thousands)
Maturities	
Three months or less	$ 47,871
Over three months through six months	33,462
Over six months through one year	24,120
Over one year to three years	24,073
Over three years	6,733
Total	$ 136,259

Borrowings. We have the ability to borrow from the Federal Home Loan Bank of New York to supplement our investable funds. The Federal Home Loan Bank functions as a central credit bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness.

Our borrowings consist of advances and repurchase agreements from the Federal Home Loan Bank of New York totaling $159.6 million at December 31, 2010. Additionally, we had $10.0 million in repurchase agreements with Citigroup at December 31, 2010. At December 31, 2010, we had access to additional Federal Home Loan Bank advances of up to $67.7 million based on our unused qualifying collateral available to support such advances. In addition, we have access to funding of $10.0 million through the discount window at the Federal Reserve Bank of Philadelphia based on qualifying collateral that has been pledged to support such borrowings. The following table

sets forth information concerning balances and interest rates on all of our borrowings at the dates and for the period indicated.

	2010		
	FHLB Borrowings	Repurchase Agreements	Total
	(dollars in thousands)		
Average daily balance during the year	$ 123,307	$ 37,594	$ 160,901
Average interest rate during the year	3.49%	4.30%	3.68%
Maximum month-end balance during the year	$ 165,182	$ 37,605	$ 202,787
Weighted average interest rate at year-end	3.09%	3.46%	3.36%

Personnel

As of December 31, 2010, we had 190 full-time employees and 23 part-time employees, none of whom is represented by a collective bargaining unit. We believe we have a good relationship with our employees.

SUPERVISION AND REGULATION

General

Federal law allows a state savings bank, such as Cape Bank, that qualifies as a "qualified thrift lender" (discussed below), to elect to be treated as a savings association for purposes of the savings and loan holding company provisions of the Home Owners' Loan Act, as amended ("HOLA"). Such election results in its holding companies being regulated as savings and loan holding companies by the Office of Thrift Supervision ("OTS") rather than as bank holding companies regulated by the Board of Governors of the Federal Reserve System. At the time of its mutual to stock conversion, Cape Bank elected to be treated as a savings association under the applicable provisions of the HOLA. Accordingly, Cape Bancorp is a savings and loan holding company and is required to file certain reports with, and is subject to examination by, and otherwise must comply with the rules and regulations of the OTS. Cape Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Cape Bank is a New Jersey-chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). Cape Bank is subject to extensive regulation, examination and supervision by the Commissioner of the New Jersey Department of Banking and Insurance (the "Commissioner") as its chartering authority, and by the FDIC as the deposit insurer and its primary federal regulator. Cape Bank must file reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC conduct periodic examinations to assess Cape Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank may engage and is intended primarily for the protection of the deposit insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in these laws or regulations, whether by the New Jersey Department of Banking and Insurance (the "Department"), the FDIC, the OTS or the U.S. Congress, could have a material adverse impact on Cape Bancorp, Cape Bank and our operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes in the regulation of federal savings banks such as the Bank. Under the Dodd-Frank Act, the OTS will be eliminated. Responsibility for the supervision and regulation of federal savings banks will be transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The transfer of regulatory functions will take place over a transition period of up to one year from the Dodd-Frank Act enactment date of July 21, 2010, subject to a possible six-month extension. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as Cape Bancorp, will be transferred to the Federal Reserve Board, which currently supervises bank

holding companies. Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Cape Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

In addition to eliminating the Office of Thrift Supervision and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of securitized loans to retain a percentage of the risk for the transferred loans, regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations can not yet be fully assessed. However, there is significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for Cape Bank and Cape Bancorp.

Certain of the regulatory requirements that are or will be applicable to Cape Bank and Cape Bancorp are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Cape Bank and Cape Bancorp and is qualified in its entirety by reference to the actual statutes and regulations.

New Jersey Banking Regulation

Activity Powers. Cape Bank derives its lending, investment and other activity powers primarily from the applicable provisions of the New Jersey Banking Act and its related regulations. Under these laws and regulations, New Jersey savings banks, including Cape Bank, generally may invest in: real estate mortgages; consumer and commercial loans; specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies; certain types of corporate equity securities; and certain other assets.

A savings bank may also invest pursuant to a "leeway" power that permits investments not otherwise permitted by the New Jersey Banking Act. "Leeway" investments must comply with a number of limitations on the individual and aggregate amounts of "leeway" investments. A savings bank may also exercise trust powers upon approval of the Department. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Department by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers is further limited by federal law and the related regulations. Cape Bank does not have any investments due to provisions provided under leeway powers. See *"—Federal Banking Regulation—Activity Restrictions on State-Chartered Banks"* below.

Loan-to-One Borrower Limitations. With certain specified exceptions, a New Jersey chartered savings bank may not make loans or extend credit to a single borrower and to entities related to the borrower in an aggregate amount that would exceed 15% of the bank's capital funds. A savings bank may lend an additional 10% of the bank's capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act. Cape Bank currently complies with applicable loans-to-one borrower limitations.

Dividends. Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by Cape Bank. Cape Bank has not paid dividends. See *"—Federal Banking Regulation—Prompt Corrective Action"* below.

Minimum Capital Requirements. Regulations of the Department impose on New Jersey chartered depository institutions, including Cape Bank, minimum capital requirements similar to those imposed by the FDIC on insured state banks. See *"—Federal Banking Regulation—Capital Requirements."*

Examination and Enforcement. The Department may examine Cape Bank whenever it deems an examination advisable. The Department examines Cape Bank at least once every two years, alternating annual examinations with the FDIC. The Department may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Department has ordered the activity to be terminated, to show cause at a hearing before the Commissioner of the Department why such person should not be removed.

Federal Banking Regulation

Banks and their holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2010, the Company and Bank meet all capital adequacy requirements to which it is subject.

Capital Requirements. FDIC regulations require banks to maintain minimum levels of capital. The FDIC regulations define two tiers, or classes, of capital.

Tier 1 capital is comprised of the sum of:

- common stockholders' equity, excluding the unrealized appreciation or depreciation, net of tax, from available-for-sale securities;
- non-cumulative perpetual preferred stock, including any related retained earnings; and
- minority interests in consolidated subsidiaries minus all intangible assets, other than qualifying servicing rights and any net unrealized loss on marketable equity securities.

The components of Tier 2 capital currently include:

- cumulative perpetual preferred stock;
- certain perpetual preferred stock for which the dividend rate may be reset periodically;
- hybrid capital instruments, including mandatory convertible securities;
- term subordinated debt;
- intermediate term preferred stock;
- allowance for loan losses; and
- up to 45% of pre-tax net unrealized holding gains on available-for-sale equity securities with readily determinable fair market values.

The allowance for loan losses includible in Tier 2 capital is limited to a maximum of 1.25% of risk-weighted assets (as discussed below). Overall, the amount of Tier 2 capital that may be included in total capital cannot exceed 100% of Tier 1 capital. The FDIC regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System, of not less than 3% of Tier 1 capital to total assets.

For all other banks, the minimum leverage capital requirement is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution.

The FDIC regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of an institution's exposure to declines in the economic value of a bank's capital due to changes in interest rates when assessing the bank's capital adequacy. Under such a risk assessment, examiners evaluate a bank's capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. According to the agencies, applicable considerations include:

- the quality of the bank's interest rate risk management process;
- the overall financial condition of the bank; and
- the level of other risks at the bank for which capital is needed.

Institutions with significant interest rate risk may be required to hold additional capital. The agencies also issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies' evaluation of interest rate risk in connection with capital adequacy.

As of December 31, 2010, Cape Bank was considered "well-capitalized" under FDIC guidelines.

Activity Restrictions on State-Chartered Banks. Federal law and FDIC regulations generally limit the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the FDIC.

Before making a new investment or engaging as principal in a new activity that is not permissible for a national bank or otherwise permissible under federal law or FDIC regulations, an insured bank must seek approval from the FDIC to make such investment or engage in such activity. The FDIC will not approve the activity unless the bank meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC deposit insurance fund. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a "financial subsidiary" are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments, real estate investment or development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank's total assets or $50 million. The bank must have policies and procedures to assess the financial subsidiary's risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary's assets with the bank's and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. State-chartered savings banks may retain subsidiaries in existence as of March 11, 2000 and may engage in activities that are not authorized under federal law. Although Cape Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries, it currently is not engaging in such activities and has no plans to do so.

Federal Home Loan Bank System. Cape Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of New York, Cape Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount at least equal to

1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, 1/20th of its borrowings from the Federal Home Loan Bank, or 0.3% of assets, whichever is greater. As of December 31, 2010, Cape Bank was in compliance with this requirement.

Enforcement. The FDIC has extensive enforcement authority over insured savings banks, including Cape Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

Prompt Corrective Action. The Federal Deposit Improvement Act established a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FDIC, as well as the other federal banking regulators, adopted regulations governing the supervisory actions that may be taken against undercapitalized institutions. The regulations establish five categories, consisting of "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". The FDIC's regulations define the five capital categories as follows:

An institution will be treated as "well-capitalized" if:

- its ratio of total capital to risk-weighted assets is at least 10%;
- its ratio of Tier 1 capital to risk-weighted assets is at least 6%; and
- its ratio of Tier 1 capital to total assets is at least 5%, and it is not subject to any order or directive by the FDIC to meet a specific capital level.

An institution will be treated as "adequately capitalized" if:

- its ratio of total capital to risk-weighted assets is at least 8%;
- its ratio of Tier 1 capital to risk-weighted assets is at least 4%; and
- its ratio of Tier 1 capital to total assets is at least 4% (3% if the bank receives the highest rating under the Uniform Financial Institutions Rating System) and it is not a well-capitalized institution.

An institution will be treated as "undercapitalized" if:

- its ratio of total capital to risk-based capital is less than 8%;
- its ratio of Tier 1 capital to risk-weighted assets is less than 4%; and
- its ratio of Tier 1 capital to total assets is less than 4% (or less than 3% if the institution receives the highest rating under the Uniform Financial Institutions Rating System).

An institution will be treated as "significantly undercapitalized" if:

- its ratio of total capital to risk-weighted assets is less than 6%;
- its ratio of Tier 1 capital to risk-weighted assets is less than 3%; or
- its leverage ratio is less than 3%.

An institution that has a tangible capital to total assets ratio equal to or less than 2% would be deemed to be "critically undercapitalized."

The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is "critically undercapitalized." For this purpose, "critically undercapitalized" means having a ratio of tangible

capital to total assets of less than 2%. The FDIC may also appoint a conservator or receiver for a state bank on the basis of the institution's financial condition or upon the occurrence of certain events, including:

- insolvency, or when the assets of the bank are less than its liabilities;
- substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices;
- existence of an unsafe or unsound condition to transact business;
- likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; or
- insufficient capital, or the incurring or likely incurring of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment of capital without federal assistance.

Cape Bank is in compliance with the Prompt Corrective Action rules.

Insurance of Deposit Accounts. Cape Bank is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts at Cape Bank are insured by the FDIC, generally up to a maximum of $100,000 for each separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. However, in view of the recent economic crisis, the FDIC increased the deposit insurance available on all deposit accounts to $250,000, effective until December 31, 2013. That level of coverage was made permanent by the Dodd-Frank Act. In addition, certain noninterest-bearing transaction accounts maintained with financial institutions participating in the FDIC's Temporary Liquidity Guarantee Program were fully insured regardless of the dollar amount until June 30, 2010, later extended until December 31, 2010. Cape Bank has opted to participate in the FDIC's Temporary Liquidity Guarantee Program. See *"—Temporary Liquidity Guarantee Program."* The Dodd-Frank Act further extended unlimited insurance coverage for certain non-interest bearing transaction accounts through December 31, 2012.

The FDIC imposes an assessment for deposit insurance against all depository institutions. That assessment is based on the risk category of each institution, which is derived from examination and supervisory information. The FDIC first establishes an institution's initial base assessment rate based upon the risk category, with less risky institution paying lower rates. That initial base assessment rate ranges, from 12 to 45 basis points, depending upon the risk category of the institution. The initial base assessment is then adjusted (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate are generally based upon an institution's levels of unsecured debt, secured liabilities and brokered deposits. The total base assessment rate, as adjusted, ranges from 7 to 77.5 basis points of the institution's assessable deposits. The FDIC may adjust the scale uniformly, except when no adjustment may deviate more than three basis points from the base scale without notice and comment.

On May 22, 2009, the FDIC issued a final rule that imposed a special five basis point assessment on each FDIC-insured depository institution's assets minus its Tier 1 capital, on June 30, 2009, which was collected on September 30, 2009. The special assessment was capped at 10 basis points of an institution's domestic deposits.

Subsequently the FDIC adopted a rule pursuant to which all insured depository institutions were required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. That pre-payment, which was due on December 30, 2009, amounted to $449,000 for the Bank. The amount of prepayment was determined based on certain assumptions, including an annual 5% growth rate in the assessment base through the end of 2012. The pre-payment was been recorded as a prepaid expense asset at December 31. 2009 and will be amortized to expense over three years.

Most recently, the Dodd-Frank Act required the FDIC to revise its risk-based assessment procedures to base it on average total assets less tangible capital, rather than deposits. The FDIC has issued a final rule that will implement that directive effective April 1, 2011.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The Federal Deposit Insurance Corporation must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation and the Federal Deposit Insurance Corporation has recently exercised that discretion by establishing a long range fund ratio 2.00%.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that might lead to termination of our deposit insurance.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2010, the annualized FICO assessment was equal to 1.02 basis points for each $100 in domestic deposits maintained at an institution.

Temporary Liquidity Guarantee Program. The FDIC's Temporary Liquidity Guarantee Program has two components. One guarantees newly issued senior unsecured debt of a participating organization, up to certain limits established for each institution, issued between October 14, 2008 and June 30, 2009. The FDIC will pay the unpaid principal and interest on a FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. The guarantee will remain in effect until June 30, 2012. In return for the FDIC's guarantee, participating institutions must pay the FDIC a fee based on the amount and maturity of the debt. Cape Bank determined not to participate in this component of the Temporary Liquidity Guarantee Program.

The other component of the program provided full federal deposit insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount, until June 30, 2010. The FDIC subsequently extended the program until December 31, 2010. An annualized 15 basis point assessment on balances in noninterest-bearing transaction accounts that exceeded the existing deposit insurance limit of $250,000 were assessed on a quarterly basis to insured depository institutions that have not opted out of this component of the Temporary Liquidity Guarantee Program. Cape Bank participated in this component of the Temporary Liquidity Guarantee Program. This program is no longer in effect, as the Dodd-Frank Act requires all insured financial institutions to provide noninterest-bearing deposit transaction accounts with full deposit insurance without limit through December 31, 2012. This coverage is separate from, and in addition to, coverage a depositor has with respect to other accounts at an insured depository institution. Such accounts include only traditional, noninterest demand deposit (or checking) accounts that allow for an unlimited number of transfers and withdrawals at any time, whether held by a business, individual or other type of depositor. Although not encompassed within the Dodd-Frank Act, Interest on Lawyers Trust Accounts were subsequently included by Congress in late 2010 and will also receive full deposit insurance until December 31, 2012. Negotiated Order of Withdrawal ("NOW") accounts are not provided with this coverage. Insured financial institutions are not permitted to opt out of this insurance program and the FDIC will not charge a separate DIF assessment for this coverage.

U.S. Treasury's Troubled Asset Relief Program Capital Purchase Program. The Emergency Economic Stabilization Act of 2008 provides the U.S. Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. One of the provisions resulting from the legislation is the Troubled Asset Relief Program Capital Purchase Program (CPP), which provides for direct equity investment in perpetual preferred stock by the U.S. Treasury Department in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. The CPP provides for a minimum

investment of one percent of total risk-weighted assets and a maximum investment equal to the lesser of three percent of total risk-weighted assets or $25 billion. Participation in the program is not automatic and is subject to approval by the U.S. Treasury Department. Cape Bancorp determined not to participate in the CPP.

Transactions with Affiliates of Cape Bank. Transactions between an insured bank, such as Cape Bank, and any of its affiliates is governed by Sections 23A and 23B of the Federal Reserve Act and implementing regulations. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. Generally, a subsidiary of a bank that is not also a depository institution or financial subsidiary is not treated as an affiliate of the bank for purposes of Sections 23A and 23B.

Section 23A:

- limits the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such bank's capital stock and retained earnings, and limits all such transactions with all affiliates to an amount equal to 20% of such capital stock and retained earnings; and

- requires that all such transactions be on terms that are consistent with safe and sound banking practices.

The term "covered transaction" includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amounts. In addition, any covered transaction by a bank with an affiliate and any purchase of assets or services by a bank from an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those that would be provided to a non-affiliate. At December 31, 2010, the Company had no covered transactions.

Prohibitions Against Tying Arrangements. Banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the bank or its affiliates or not obtain services of a competitor of the institution.

Community Reinvestment Act and Fair Lending Laws. All FDIC insured banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low and moderate income neighborhoods. In connection with its examination of a state chartered savings bank, the FDIC is required to assess the bank's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice. Cape Bank received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

Loans to a Bank's Insiders

Federal Regulation. A bank's loans to its executive officers, directors, any owner of 10% or more of its stock (each, an insider) and any of certain entities affiliated with any such person (an insider's related interest) are subject to the conditions and limitations imposed by Sections 22(g) and 22(h) of the Federal Reserve Act and its implementing regulations. Under these restrictions, the aggregate amount of the loans to any insider and the insider's related interests may not exceed the loans to one borrower limit applicable to national banks, which is comparable to the loans to one borrower limit applicable to Cape Bank. See *"—New Jersey Banking Regulation—Loans to One Borrower Limitation"*. All loans by a bank to all insiders and insiders' related interests in the aggregate may not exceed the bank's unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer's children and certain loans secured by the officer's primary residence, may not exceed the lesser of (i) $100,000 or (ii) the greater of $25,000 or 2.5% of the bank's unimpaired capital and surplus. Federal regulation also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the bank, with any

interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider's related interests, would exceed either (i) $500,000 or (ii) the greater of $25,000 or 5% of the bank's unimpaired capital and surplus. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons.

An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

In addition, federal law prohibits extensions of credit to a bank's insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

New Jersey Regulation. Provisions of the New Jersey Banking Act impose conditions and limitations on the liabilities to a savings bank of its directors and executive officers and of corporations and partnerships controlled by such persons, that are comparable in many respects to the conditions and limitations imposed on the loans and extensions of credit to insiders and their related interests under federal law, as discussed above. The New Jersey Banking Act also provides that a savings bank that is in compliance with federal law is deemed to be in compliance with such provisions of the New Jersey Banking Act.

The USA PATRIOT Act

The USA PATRIOT Act of 2001 gave the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA PATRIOT Act also required the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting. We have policies, procedures and systems designed to ensure compliance with these regulations.

Holding Company Regulation

General. Cape Bancorp is a unitary savings and loan holding company subject to OTS regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. In addition, the OTS has enforcement authority over Cape Bancorp's non-savings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to Cape Bank.

Pursuant to the Dodd-Frank Act regulatory restructuring, the OTS' authority over savings and loan holding companies will be transferred to the Federal Reserve Board on July 21, 2011, subject to a possible six month extension.

As a unitary savings and loan holding company, Cape Bancorp is permitted to engage in those activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4 (c) (8) of the Bank Holding Company Act, subject to the prior approval of the OTS, and certain additional activities authorized by OTS regulations.

The OTS also takes the position that its capital distribution regulations apply to state savings banks in savings and loan holding company structures. Those regulations impose limitations upon all capital distributions by an institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and prior approval of the OTS is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OTS regulations (*i.e.*, generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution, or the distribution would otherwise be contrary to a statute, regulation or agreement with the OTS. If an application is not required, the institution must still provide prior notice to the OTS of the capital distribution if, like Cape Bank, it is a subsidiary of a holding company. In the event Cape Bank's capital fell below its regulatory requirements or the OTS notified it that it was in need of increased supervision, Cape Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Unlike bank holding companies, savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate the inclusion of certain instruments from tier 1 capital, such as trust preferred securities, that are currently includable for bank holding companies. There is a five year transition period from the July 21, 2010 date of enactment of the Dodd-Frank Act before the capital requirements will apply to savings and loan holding companies.

The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must promulgate regulations implementing the "source of strength" policy that requires holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Acquisition of Control. Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the OTS. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of any company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the OTS must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community, the effectiveness of each parties' anti-money laundering program, and competitive factors.

Under the federal Change in Bank Control Act, a notice must be submitted to the OTS if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company. An acquisition of "control" can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or as otherwise defined by the OTS. Under the Change in Bank Control Act, the OTS has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and

managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Qualified Thrift Lender Test. In order for Cape Bancorp to be regulated as savings and loan holding company by the OTS (rather than as a bank holding company by the Board of Governors of the Federal Reserve System), Cape Bank must qualify as a "qualified thrift lender" under OTS regulations or satisfy the "domestic building and loan association" test under the Internal Revenue Code. Under the qualified thrift lender test, a savings institution is required to maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangible assets, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine out of each 12 month period. At December 31, 2010, Cape Bank maintained 68.7% of its portfolio assets in qualified thrift investments. Cape Bank also met the Qualified Thrift Lender test in each of the prior four quarters.

Federal Securities Laws

Cape Bancorp's common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Cape Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Cape Bancorp common stock held by persons who are affiliates (generally officers, directors and principal stockholders) of Cape Bancorp may not be resold without registration or unless sold in accordance with certain resale restrictions. If Cape Bancorp meets specified current public information requirements, each affiliate of Cape Bancorp is able to sell in the public market, without registration, a limited number of shares in any three month period.

ITEM 1A. RISK FACTORS

The risks set forth below, in addition to the other risks described in this Annual Report on Form 10-K, may adversely affect our business, financial condition and operating results. In addition to the risks set forth below and the other risks described in this annual report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

The United States Economy Was In A Significant Recession. A Prolonged Economic Downturn, Especially One Affecting Our Geographic Market Area, Will Continue to Materially Affect our Business and Financial Results.

The United States economy entered a recession in the fourth quarter of 2007. Throughout the course of 2008 and 2009, economic conditions continued to worsen, due initially to the fallout from the collapse of the sub-prime mortgage market. While we did not originate or invest in sub-prime mortgages, our lending business is tied, in large part, to the housing market. Declines in home prices, increases in foreclosures and higher unemployment have adversely affected the credit performance of real estate-related loans, resulting in the write-down of asset values. The continuing housing slump also has resulted in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on our construction, residential and commercial mortgage loans. Further, the ongoing concern about the stability of the financial markets in general has caused many lenders to reduce or cease providing funding to borrowers. These conditions may also cause a further reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses. Median home sales prices in Atlantic County declined from 2009 to 2010 by 5.3% while in Cape May County the median home sales price increased by 13.1%, however the number of sales in both counties decreased for the third quarter of 2009 compared to the third quarter of 2010. Unemployment in Atlantic and Cape May County was 12.5% and 13.2%

respectively as of December 2010. Additionally residential building permits, which have been declining since 2008, have leveled off in both counties from 2009 to 2010.

Continuing Weakness in the Financial Services Industry And the Credit Markets May Subject Us to Additional Regulation.

As a result of the financial crisis, the potential exists for the promulgation of new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, which are expected to result in the issuance of many formal enforcement orders. Negative developments in the financial services industry and the credit markets, and the impact of new legislation in response to these developments, may negatively affect our operations by restricting our business operations, including our ability to originate or sell loans and pursue business opportunities. Compliance with such regulation also will likely increase our costs.

Our Emphasis on Commercial Real Estate Loans and Commercial Business Loans May Continue to Expose us to Increased Lending Risks.

At December 31, 2010, $428.7 million, or 54.6% of our loan portfolio, consisted of commercial real estate loans, including commercial construction loans. Commercial real estate loans constitute a greater percentage of our loan portfolio than any other loan category, including residential mortgage loans, which totaled $258.0 million, or 32.9% of our total loan portfolio, at December 31, 2010. In addition, at December 31, 2010, $48.2 million, or 6.1% of our loan portfolio, consisted of commercial business loans.

Commercial real estate loans and commercial business loans generally expose a lender to a greater risk of loss than one-to-four family residential loans. Repayment of commercial real estate and commercial business loans generally depends, in large part, on sufficient income from the property or the borrower's business to cover operating expenses and debt service. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Changes in economic conditions that are beyond the control of the borrower and lender could affect the value of the security for the loan, the future cash flow of the affected property, or the marketability of a construction project with respect to loans originated for the acquisition and development of property. See *"Business—Lending Activities"*.

Our Continuing Concentration of Loans in Our Primary Market Area May Increase Our Risk.

Our success depends primarily on the general economic conditions in the counties in which we conduct business, and in the Jersey shore community in general. Unlike large banks that are more geographically diversified, we provide banking and financial services to customers primarily in Cape May and Atlantic Counties, New Jersey. The local economic conditions in our market area have a significant impact on our loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. Should the economic downturn limit discretionary spending, many of the seasonal and vacation oriented businesses may suffer. In addition, the gaming industry is a significant economic force in our market and has already suffered a serious decline in revenues due to the economy and increased regional competition. This situation may worsen in the future. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control, would affect the local economic conditions and could adversely affect our financial condition and results of operations. Additionally, because we have a significant amount of commercial real estate loans, decreases in tenant occupancy also may have a negative effect on the ability of many of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

The Atlantic City casino industry has experienced declines in many areas of their business, such as:

a. casino revenue in total was down 9.6% in 2010 from 2009;

b. all 11 casinos had revenue declines during the period 2009 to 2010;

c. 2010 was the worst year for casino revenue during the past 10 years;

d. employment levels at the casinos has declined consistently since 2007;

e. visitors to Atlantic City have declined consistently from 2007 to 2009 (2010 data not yet available); and

f. 2009 net income per casino indicates that 7 of 11 casinos reported losses for the year.

In addition to the national, regional and local economies negatively effecting Atlantic City casinos, they have also been negatively affected by competition from casinos in Pennsylvania and Delaware. Pennsylvania currently has 10 operating casinos with the potential of an additional four casinos. These casinos have both slot machines and gaming tables. The impact of Delaware casinos on the Atlantic City casino market is not as significant as Delaware currently only has three casinos which are limited to slot machines.

The State of New Jersey is making efforts to contribute to the revitalization of Atlantic City in the following ways:

a. Established a New Jersey State-run Tourism District within Atlantic City.

b. Tax reimbursement incentives for the Revel Casino (assuming financing is obtained by the Revel) up to $261 million of which $125 million will be used to fund various upgrades to the Boardwalk and other parts of the city that surround the Revel Casino. These tax incentives are being provided by New Jersey's Economic Development Authority under the Economic Re-development and Growth Grant Program which is designated to stimulate jobs and investment. It is anticipated the construction of the Revel Casio will create 2,000 construction jobs and upon completion, which is estimated to be June 2012, 5,500 full time positions will be created.

c. Consideration of permitting "small" (minimum 200 rooms and gaming floor area of 24,000 square feet) casino hotels in Atlantic City, and interest in this market has been expressed by certain companies.

d. Casino Reinvestment Development Authority ("CRDA") will oversee operations of the Atlantic City Convention and Visitors Authority.

e. A discount shopping outlet in Atlantic City is expanding and the CRDA is assisting with this project by lending the developer $9 million towards this project.

Future Changes in Interest Rates Could Reduce Our Profits

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

the interest income we earn on our interest-earning assets, such as loans and securities; and

the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The potential exists for the Federal Reserve Bank to raise the target Fed Funds rate in 2011. An increase in interest rates will present us with the challenge of managing interest rate risk with a cumulative three year liability sensitive balance sheet. As detailed in *"—Net Interest Income Analysis",* a rising interest rate environment indicates that net interest income would decrease over a one-year horizon. This analysis assumes instantaneous and sustained rate shock intervals of 100 and 200 basis points on a static balance sheet. Management will focus on several strategies to negate such effects, such as extending long-term liabilities, increasing core deposit balances, reducing the amount of long term fixed rate loans in the portfolio, and shortening the average life of investments within the investment portfolio.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates normally results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their loans in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to

the rates we earned on the prepaid loans or securities. Alternatively, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable rate loans.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2010, the fair value of our available for sale investment securities totaled $157.4 million and the amortized cost of such securities was $165.9 million. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholders' equity.

We evaluate interest rate sensitivity by estimating the change in Cape Bank's net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets and liabilities. At December 31, 2010, in the event of an immediate 100 basis point increase in interest rates, we would experience a 1.5% decrease in net portfolio value and a $1.0 million decrease in net interest income. See *"Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk"*.

An Inadequate Allowance for Loan Losses Would Negatively Affect Our Results of Operations.

We are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to avoid losses. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results. Volatility and deterioration in the broader economy may also increase our risk of credit losses. The determination of an appropriate level of allowance for loan losses is an inherently uncertain process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control, and charge-offs may exceed current estimates. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as, including, but not limited to: the risk characteristics of various classifications of loans; previous loan loss experience; specific loans that have loss potential; delinquency trends; the estimated fair market value of the collateral; current economic conditions; the views of our regulators; and geographic and industry loan concentrations. If any of our evaluations are incorrect and borrower defaults result in losses exceeding our allowance for loan losses, our results of operations could be significantly and adversely affected. We cannot be certain that our allowance will be adequate to cover probable loan losses inherent in our portfolio.

Future Legislative or Regulatory Actions Responding to Perceived Financial and Market Problems Could Impair Our Rights Against Borrowers

There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit a lender's ability to foreclose on mortgage collateral. If proposals such as these, or other proposals limiting our rights as a creditor, are implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor. Should such legislation be implemented Cape Bank could be directly impacted for those loans held directly within the portfolio. Such legislation could also have a major impact on loans underlying and collateralizing mortgage-backed securities and thus indirectly affect Cape by decreasing the value of securities held in the investment portfolio.

We Are Subject to Extensive Regulatory Oversight

We and our subsidiaries are subject to extensive regulation and supervision. Regulators have intensified their focus on bank lending criteria and controls, and on the USA PATRIOT Act's anti-money laundering and Bank Secrecy Act compliance requirements. There is also increased scrutiny of our compliance with the rules enforced by the Office of Foreign Assets Control. In order to comply with regulations, guidelines and examination procedures in the anti-money laundering area, we have been required to adopt new policies and procedures and to install new systems. We cannot be certain that the policies, procedures and systems we have in place meet every aspect of current regulation. Therefore, there is no assurance that in every instance we are in full compliance with these requirements. Our failure to comply with these and other regulatory requirements can lead to, among other remedies, administrative enforcement actions, and legal proceedings. In addition, recently enacted, proposed and future legislation and regulations have had, will continue to have or may have significant impact on the financial services

industry. Regulatory or legislative changes could make regulatory compliance more difficult or expensive for us, and could cause us to change or limit some of our products and services, or the way we operate our business.

The Need to Account for Assets at Market Prices May Adversely Affect Our Results of Operations.

We report certain assets, including investments and securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we carry these assets on our books at their fair value, we may incur losses even if the asset in question presents minimal credit risk. Given the continued disruption in the capital markets, we may be required to recognize other-than-temporary impairments in future periods with respect to securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of the securities and our estimation of the anticipated recovery period.

Other-Than-Temporary Impairment (OTTI) Could Reduce Our Earnings.

We evaluate our investment securities for OTTI as required by FASB ASC Topic No. 320, "Investments — Debt and Equity Securities". When a decline in fair value below cost is deemed to be other-than-temporary, the impairment must be recognized as a charge to earnings to the extent it is related to credit losses. In determining whether or not OTTI exists, management considers several factors, including the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, adverse changes to projected cash flows, credit rating downgrades, and our intentions with regard to selling the securities or whether it is more likely than not that we will be required to sell the securities prior to the anticipated recovery in fair value. The greatest risk of OTTI exists in our investment securities portfolio and in particular with the CDO and non-agency CMO securities that we own. As of December 31, 2010, if these securities were deemed to be OTTI and the entire amount was related to credit losses, the pro forma reduction to our net income would be approximately $0.69 per share.

Lack of Consumer Confidence in Financial Institutions May Decrease Our Level of Deposits.

Our level of deposits may be affected by lack of consumer confidence in financial institutions, which have caused fewer depositors to be willing to maintain deposits that are not FDIC insured accounts. This may cause depositors to withdraw deposits and place them in other institutions or to invest uninsured funds in investments perceived as being more secure, such as securities issued by the U.S. Treasury. These consumer preferences may force us to pay higher interest rates to retain deposits and may constrain liquidity as we seek to meet funding needs caused by reduced deposit levels.

A Breach of Information Security Could Negatively Affect Our Earnings.

Increasingly, we depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. We cannot be certain all our systems are entirely free from vulnerability to attack, despite safeguards we have instituted. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Disruptions to our vendors' systems may arise from events that are wholly or partially beyond our vendors' control (including, for example, computer viruses or electrical or telecommunications outages). If information security is breached, despite the controls we have instituted, information can be lost or misappropriated, resulting in financial loss or costs to us or damages to others. These costs or losses could materially exceed the amount of insurance coverage, if any, which would adversely affect our earnings.

Changes in the Value of Goodwill and Intangible Assets Could Reduce Our Earnings.

We are required by U.S. generally accepted accounting principles to test goodwill and other intangible assets for impairment at least annually. Testing for impairment of goodwill and intangible assets involves the identification of reporting units and the estimation of fair values. The estimation of fair values involves a high degree of judgment and subjectivity in the assumptions used. As of December 31, 2010, if our goodwill and intangible assets were fully impaired and we were required to charge-off all of our goodwill, the pro forma reduction to our net income would be approximately $1.86 per share.

Our Expenses May Increase as a Result of Possible Increases in FDIC Insurance Premiums.

The FDIC imposes an assessment against financial institutions for deposit insurance. Due to the number of failed financial institutions and the fact that the insurance fund is below statutory requirements, additional assessments may be required. The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

If Our Investment in The Federal Home Loan Bank Of New York is Classified as Other-Than-Temporarily Impaired or as Permanently Impaired, Our Earnings and Stockholders' Equity Could Decrease.

We own common stock of the Federal Home Loan Bank of New York. We hold this stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank of New York's advance program. The aggregate cost and fair value of our Federal Home Loan Bank common stock as of December 31, 2010 was $8.7 million based on its par value. There is no market for our Federal Home Loan Bank common stock.

Published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of New York, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of New York common stock could be impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders' equity to decrease by the after-tax amount of the impairment charge.

If the Federal Home Loan Bank of New York Stops Paying Dividends, This Will Negatively Affect Our Earnings.

We received dividends of $416,000 on our Federal Home Loan Bank of New York stock in 2010. However, no assurances can be given that these dividends will continue to be paid in the future. The failure of the Federal Home Loan Bank to pay dividends in the future will cause our earnings to decrease.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company currently conducts business from its main office located at 225 North Main Street, Cape May Court House, New Jersey, 08210, from its additional 15 branch offices located throughout Atlantic and Cape May Counties, New Jersey, and from a loan production office located in Burlington County, New Jersey (opened in February 2011). At December 31, 2010, the aggregate net book value of premises and equipment was $25.2 million. With the exception of the potential remodeling of certain facilities to provide for the efficient use of work space and/or to maintain an appropriate appearance, each property is considered reasonably adequate for current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) No equity securities were sold during the year ended December 31, 2010 that were not registered under the Securities Act.

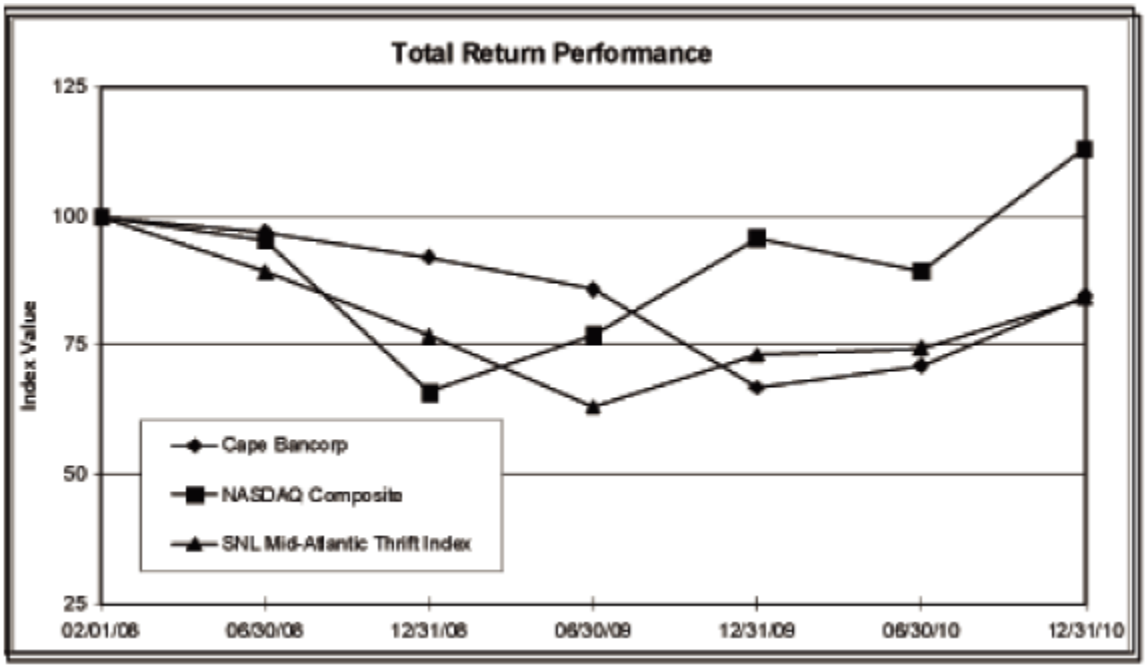
Stock Performance Graph

The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

We completed our initial public offering on January 31, 2008. In the offering, we sold 7,820,000 shares of our common stock at $10.00 per share to Cape Bank's depositors, Cape Bank's tax qualified employee benefit plans and the general public in subscription, community and syndicated offerings. We also issued 547,400 shares of our common stock and contributed $782,000 in cash to The CapeBank Charitable Foundation. In addition, we issued 4,946,121 shares of our common stock to former shareholders of Boardwalk Bancorp as merger consideration. As a result of the transactions, we have 13,313,521 issued and outstanding shares.

Our common stock began trading on the Nasdaq Stock Market under the symbol "CBNJ" on February 1, 2008, and the per share closing price of one share of the Company's common stock on that date was $10.05. The following graph represents $100 invested in our common stock at the $10.05 per share closing price on February 1, 2008. The graph illustrates the comparison of the cumulative total returns on the common stock of the Company with (a) the cumulative total return on stocks included in the NASDAQ Composite Index; and (b) the cumulative total return on stocks included in the SNL Mid-Atlantic Thrift Index.

There can be no assurance that our stock performance will continue in the future with the same or similar trend depicted in the graph below. We will not make or endorse any predictions as to future stock performance.



				Period Ending			
Index	**02/01/08**	**06/30/08**	**12/31/08**	**06/30/09**	**12/31/09**	**06/30/10**	**12/31/10**
Cape Bancorp	100.00	97.01	92.04	85.87	66.87	71.14	84.58
NASDAQ Composite	100.00	95.38	65.94	77.13	95.84	89.50	113.23
SNL Mid-Atlantic Thrift Index	100.00	89.18	76.78	63.09	73.23	74.47	84.07

The following table sets forth the range of high and low bid information for the Company's common stock as reported on NASDAQ for the period beginning January 1, 2009. Quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

	2010		**2009**	
	High	**Low**	**High**	**Low**
First Quarter	$ 8.07	$ 5.86	$ 9.13	$ 6.70
Second Quarter	$ 8.06	$ 6.89	$ 9.00	$ 6.60
Third Quarter	$ 7.74	$ 7.10	$ 8.95	$ 7.25
Fourth Quarter	$ 8.90	$ 7.34	$ 7.28	$ 5.79

(b) Not applicable

(c) There were no issuer repurchases of securities during the fourth quarter of the December 31, 2010 fiscal year.

ITEM 6. SELECTED FINANCIAL DATA

The following information is derived from the audited consolidated financial statements of Cape Bancorp. For additional information, reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of Cape Bancorp and related notes included elsewhere in this Annual Report.

	At December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Selected Financial Condition Data:					
Total assets	$1,061,042	$1,072,821	$1,090,735	$ 613,811	$ 609,764
Cash and cash equivalents	$ 14,997	$ 13,513	$ 22,501	$ 15,631	$ 17,492
Investment securities available for sale, at fair value	$ 157,407	$ 152,815	$ 114,655	$ 62,128	$ 62,484
Investment securities held to maturity	$ —	$ —	$ 48,825	$ 45,140	$ 38,731
Loans held for sale	$ 1,224	$ 398	$ —	$ 350	$ 766
Loans, net	$ 772,318	$ 789,473	$ 783,869	$ 459,936	$ 446,378
Federal Home Loan Bank of New York stock, at cost	$ 8,721	$ 10,275	$ 11,602	$ 3,848	$ 5,268
Bank owned life insurance	$ 28,252	$ 27,210	$ 26,446	$ 15,421	$ 14,503
Deposits	$ 753,068	$ 736,587	$ 711,130	$ 465,648	$ 435,829
Borrowings	$ 169,637	$ 203,981	$ 234,484	$ 65,000	$ 99,000
Total stockholders' equity	$ 132,154	$ 126,548	$ 140,725	$ 72,829	$ 68,943

	Years ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Selected Operating Data:					
Interest income	$ 50,269	$ 54,533	$ 58,127	$ 36,629	$ 34,357
Interest expense	14,539	19,028	24,253	17,146	14,875
Net interest income	35,730	35,505	33,874	19,483	19,482
Provision for loan losses	7,496	13,159	9,009	357	312
Net interest income after provision for loan losses	28,234	22,346	24,865	19,126	19,170
Non-interest income	2,851	932	(10,793)	3,992	4,438
Non-interest expense	28,534	29,168	64,717	18,391	16,379
Income (loss) before income tax expense	2,551	(5,890)	(50,645)	4,727	7,229
Income tax expense (benefit)	(1,490)	12,011	(8,154)	1,299	2,228
Net income (loss)	$ 4,041	$ (17,901)	$ (42,491)	$ 3,428	$ 5,001

	At or for the years ended December 31,				
	2010	2009	2008	2007	2006
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net income to average total assets)	0.38%	(1.64%)	(3.86%)	0.56%	0.84%
Return on equity (ratio of net income to average equity)	3.06%	(12.89%)	(24.47%)	4.81%	7.58%
Earnings (loss) per share	$ 0.33	$ (1.45)	$ (3.49)	n/a	n/a
Average interest rate spread (1)	3.46%	3.27%	3.14%	3.02%	3.14%
Net interest margin (2)	3.66%	3.54%	3.48%	3.50%	3.56%
Efficiency ratio (3)	68.59%	69.19%	167.31%	78.34%	68.47%
Non-interest expense to average total assets	2.68%	2.67%	5.87%	2.99%	2.74%
Average interest-earning assets to average interest-bearing liabilities	113.67%	114.11%	113.67%	115.76%	115.73%
Asset Quality Ratios:					
Non-performing assets to total assets	4.41%	3.55%	1.93%	0.63%	0.62%
Non-performing loans to total loans	5.54%	4.14%	2.65%	0.86%	0.84%
Allowance for loan losses to non-performing loans	28.84%	40.04%	53.39%	102.85%	105.20%
Allowance for loan losses to total loans	1.60%	1.66%	1.41%	0.89%	0.89%
Capital Ratios:					
Total capital (to risk-weighted assets)	13.90%	12.71%	14.25%	17.33%	17.59%
Tier I capital (to risk-weighted assets)	12.65%	11.45%	13.00%	16.34%	16.59%
Tier I capial (to average assets)	9.96%	9.37%	9.87%	11.11%	11.00%
Equity to assets	12.46%	11.80%	12.90%	11.49%	11.31%
Other Data:					
Number of full service offices	17	18	18	13	13
Full time equivalent employees	205	201	202	133	132

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.

(2) Represents net interest income as a percent of average interest-earning assets.

(3) Represents non-interest expense divided by the sum of net interest income and non-interest income. Recalculating the 2008 efficiency ratio excluding the Goodwill Impairment ($31.751 million) and CapeBank Charitable Foundation Contribution ($6.2 million) results in an efficiency ratio of 69.2%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Cape Bank was organized in 1923. Over the years, we have expanded primarily through internal growth. On January 31, 2008, we completed our mutual-to-stock conversion and initial public stock offering, and our acquisition of Boardwalk Bancorp and Boardwalk Bank. The merger of Cape Savings Bank (now Cape Bank) and Boardwalk Bancorp on January 31, 2008 created the largest community bank headquartered in Atlantic and Cape May Counties, with a total of 18 branches providing complimentary branch coverage. At December 31, 2010, we had total assets of $1.061 billion. The merger resulted in a well-capitalized community oriented bank with a significant commercial loan presence and an experienced executive management team. For the three years prior to the merger both banks had experienced strong asset quality and financial performance. The severe economic recession has affected the merged financial institution as a whole, as well as the loan portfolios of each of the constituent banks to the merger.

Our principal business is acquiring deposits from individuals and businesses in the communities surrounding our offices and using these deposits to fund loans and other investments. We also offer personal and business checking accounts, commercial mortgage loans, residential mortgage loans, construction loans, home equity loans and lines of credit and other types of commercial and consumer loans. Our customers consist primarily of individuals and small and mid-sized businesses. At December 31, 2010, our retail market area primarily included the area surrounding our 17 offices located in Cape May and Atlantic Counties, New Jersey.

During 2011, Cape Bank will emphasize the following:

1) Managing our credit underwriting and administration through the economic recovery.

2) Managing non-performing assets to performing status or disposal.

3) Managing net interest income in a potentially rising rate environment.

Managing our credit underwriting and administration through the economic recovery:

Based on our experience during the credit crisis and economic downturn, we have taken steps to improve our credit underwriting and administration. Changes in the Commercial Loan and Credit Departments were significant during the most recent quarter as each of our new Chief Lending Officer (CLO) and Chief Credit Officer (CCO) had the opportunity to introduce their new approaches and credit culture. The CLO has undertaken a review of all credit files to update and reanalyze the credits to achieve an "audit ready" credit file. The CCO has taken over the active management of all credits that are rated "Substandard."

The two new lending executives' assessment of the existing loan risk rating system resulted in the process being significantly revised to a more traditional bank loan rating scheme, which has also led to some additional consideration of troubled credits. Performing loans with a solid history of payment would not have been adversely classified in the past. Under the new approach, global cash flow analysis dictates loan classification (with some adjustment made for collateral value), which has resulted in more "Classified" loans. As a result, there are loans placed in the Substandard category despite the fact that they are still performing according to their terms; such loans had not been so designated in the past.

The Bank's management also has a "Watch List" meeting two months every quarter to review criticized loans over $500 thousand, in addition to presenting a quarterly report to the Board of Directors.

The CLO has introduced a more rigorous program of external credit training and has actively mentored our relationship managers. The training has inculcated the cash flow approach to the credit culture and created a more uniform approach to credit presentations.

Beginning in 2009, the Bank has continued to de-emphasize extensions of credit to both the hospitality and restaurant industries. The current loan portfolio has high concentrations in both segments which have experienced considerable weakness during the economic downturn.

For 2011, we anticipate a gradual decrease in the amount of problem assets based on improvement of national and local economic trends, including the local unemployment rate declining, residential building permits leveling off and the economic activity occurring in the Atlantic City area related to casinos that was previously discussed in this document. The Bank's local market has had specific economic development with the Revel Casino Hotel obtaining permanent financing with expected completion by the summer of 2012. It is anticipated that this construction project may produce approximately 2,000 jobs and the finished project may result in approximately 5,500 jobs within the Bank's market area.

Loan demand within our market area is expected to remain moderate during 2011. Median home sales prices in Atlantic County declined from 2009 to 2010 by 5.3% while in Cape May County the median home sales price increased by 13.1%. The number of home sales in both counties decreased from the third quarter of 2009 compared to the third quarter of 2010. Additionally we have been able to sell some of our other real estate owned properties, which may indicate that potential purchasers believe that market values are not likely to decrease further.

Managing non-performing assets to performing status or disposal:

Our non-performing assets began to increase in 2008, and continued to increase through 2010. The deterioration in our local real estate market began during the first quarter of 2008 and continued to decline through 2009. Median home sales prices are mixed within our market area as noted previously. Residential building permits for Atlantic and Cape May Counties have leveled off for both Atlantic and Cape May Counties in 2010 at 2009 levels, although still below 2008 levels, which may be an indication that a floor has been reached. Unemployment has also affected non-performing assets and has increased from December 2008 to December 2010 in both Atlantic and Cape May Counties by 31% and 10% respectively, although the unemployment rate did decline in such counties from 2009 to 2010. These negative economic trends have contributed to a significant increase in non-performing assets from $3.95 million at December 31, 2007 to $46.8 million at December 31, 2010. This increase was affected by the sustained national recession and by the significant increase in our total loan portfolio during the period. The ratio of our allowance for loan losses to non-performing loans decreased from 102.85% in 2007 to 28.84% in 2010; net charge-offs to average loans increased from 0.06% in 2007 to 1.05% in 2010; impaired loans increased from $4.0 million in 2007 to $59.7 million in 2010; and delinquent loans increased from $15.7 million at December 31, 2007 to $34.7 million at December 31, 2010. Delinquent loans also increased in number during this same time period.

Management has given significant attention to these assets during the past year, including adding experienced staff, and has developed processes to actively manage delinquencies from their inception at 15 days delinquent to their resolution, either through charge-off or foreclosure or working with borrowers to bring their loans current. Our approach is to identify impaired loans, determine the loss amount if any, and recognize the appropriate loss at that time.

Reducing the level of non-performing assets during the upcoming year will improve our results of operations by converting non-earning assets to earning assets and reducing the expense of managing non-performing assets, which will benefit our interest income, net interest margin and net income. While loan demand is expected to remain moderate during 2011, there is some evidence that continued economic deterioration may have leveled off or slightly improved during the fourth quarter of 2010 through the beginning of 2011. Moreover, residential building permits have stabilized and unemployment within Atlantic and Cape May Counties did decline from 2009 to 2010 by 10.1% and 19.5% respectively.

Managing net interest income in a potentially rising rate environment:

The potential exists for the Federal Reserve Bank to raise the target Fed Funds rate in 2011. An increase in interest rates will present us with the challenge of managing interest rate risk with a cumulative one year liability sensitive balance sheet. As detailed in *"—Net Interest Income Analysis"*, a rising interest rate environment indicates that net interest income would decrease over a one-year horizon. This analysis assumes instantaneous and sustained rate shock intervals of 100 and 200 basis points on a static balance sheet. Management will focus on several

strategies to negate such effects, such as extending long-term liabilities, increasing core deposit balances, reducing the amount of long term fixed rate loans in the portfolio, and shortening the average life of investments within the investment portfolio. These strategies are discussed in more detail in the "Management of Market Risk" herein.

2011 Outlook

Our market area has been significantly affected by the severe economic recession which has affected unemployment and real estate values. Unemployment in Atlantic and Cape May County was 12.5% and 13.2% respectively as of December 2010. Median home sales prices have declined in Atlantic County but increased in Cape May County when comparing Q3 2009 to Q3 2010, while residential building permits, which have been declining since 2008, have leveled off in both counties from 2009 to 2010.

During 2011, Cape Bank will be focusing on core banking practices with an emphasis on managing non-performing assets. We intend to adhere to our existing loan underwriting practices, which we believe are appropriate in the current market. The recognition of additional goodwill impairment is dependent on many variables, some of which are not directly controllable by Cape Bank. However, with expected decreases in non-performing assets and a steady net interest margin and efficiency ratio, additional goodwill impairment is not probable. Our capital remains strong at Cape Bank and there is no expectation of raising additional capital through government programs or by any other means during 2011.

Income. Our primary source of income is net interest income. Net interest income is the difference between interest income (which is the income that we earn on our loans and investments) and interest expense (which is the interest that we pay on our deposits and borrowings). Changes in levels of market interest rates affect our net interest income. During the past three years the Bank's yield curve has steepened as rates tied to the prime rate have decreased as the Federal Reserve has decreased the targeted Fed Funds Rate from a high of 5.25% in 2007 to its current low of 0.25%. Mid and long-term rates have remained in a tighter range than short-term rates during the past three years. As the Bank's yield curve steepened during the past three years, our net interest margin increased each year; although we incurred a loss in both 2008 and 2009 we did record net income of $4.0 million for 2010. These losses were primarily the result of expenses related to OTTI, goodwill impairment, provision for loan losses and a deferred tax asset valuation allowance. These items and others are discussed in more detail within the Management Discussion and Analysis section of this report.

The Bank's net interest margin has trended upward from 3.48% in 2008 to 3.54% in 2009, and to 3.66% in 2010. This improvement is the result of the yield on our earning assets declining 84 basis points from 2008 to 2010 and our cost of funds declining 116 basis points during the same time period. During the period from 2008 to 2010 our yield curve steepened as a result of short term rates dropping consistent with the decline in the Fed Funds rate. During this three year period the Commercial, Residential Mortgage and Consumer loan portfolios all decline in yield from 2008 to 2010 by 22 basis points, 45 basis points and 49 basis points respectively. The investment portfolio declined in yield from 2008 to 2010 from 4.31% to 2.62% or 169 basis points. This significant decline of yield within the investment portfolio was contributed to by the sale of high yielding investment to garner gains while the reinvestment of these proceeds were into short-term investments anticipating a rise in interest rates in the future. The cost of funds during the same three year period dropped significantly in conjunction with the decrease in the Fed Funds Rate. For the period from 2008 to 2010 the cost of interest-bearing demand accounts decreased 62 basis points, savings accounts decreased 91 basis points, money market accounts decreased 144 basis points and certificates of deposit decreased 179 basis points.

The historically low interest rate environment, which has been significantly influenced by the target Fed Funds rate of 0.0% to 0.25% set by the Federal Reserve in the fourth quarter of 2008, has benefitted the Bank's net interest income as our cost of funds decreased more than the decrease in the yield on our assets during the twelve month period ended December 31, 2010. We do not expect to continue to benefit significantly from the downward repricing of our liabilities during 2011; however we do expect our net interest margin to be maintained at or near its current level. The full positive impact of the variable yield curve has been mitigated by the significant increase in our nonperforming loans and assets, which has reduced our net interest income.

The anticipated increase in market interest rates, driven by the target Fed Funds rate set by the Federal Reserve, would cause compression in the Bank's net interest margin. The magnitude of this potential change is discussed in more detail in the "Management of Market Risk" herein.

A secondary source of income is non-interest income, which is revenue that we receive from providing other products and services. Most of our non-interest income consists of service charges (primarily service charges on deposit accounts, which include overdraft charges). We also recognize non-interest income/loss from the sale or other-than-temporary-impairment of loans and securities.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a monthly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings. In accordance with FASB ASC Topic No. 450 Contingencies, we establish provisions for loan losses which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, external factors such as competition and regulatory, adverse situations that may affect a borrower's ability to repay a loan and the levels of delinquent loans.

Generally, loans are placed on non-accrual status when payment of principal or interest is 90 days or more delinquent unless the loan is considered well-secured and in the process of collection. Loans are also placed on non-accrual status when they are less than 90 days delinquent, if collection of principal or interest in full is in doubt. This determination is normally the result of the review of the borrower's financial statements or other information that is obtained by the Bank.

All loans that are on non-accrual status are reviewed by management monthly to determine if a specific reserve or charge-off is appropriate. At this point in the delinquency collection efforts, the primary consideration is collateral value. When the Bank has a current appraisal, generally less than 12 months old, and management agrees that the property has not deteriorated in value since the appraisal, then management will analyze the loan in accordance with FASB ASC Topic No. 310 Receivables. When a current appraisal is not available, the Bank will request one. Upon receipt of the appraisal, we will review the loan in accordance with FASB ASC Topic No. 310 Receivables. Prior to receipt of an appraisal, management will consider, based on its knowledge of the market and other available information pertinent to the particular loan being reviewed, allocating a specific reserve for that loan. Loans are charged off partially or in full based on upon the results of a completed FASB ASC Topic No. 310 Receivables analysis.

The amount of the allowance is based on management's judgment of probable losses, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses and make provisions for loan losses on a quarterly basis.

Expenses. The non-interest expenses we incur in operating our business consist of salaries and employee benefits expenses, data processing expenses, occupancy expenses, depreciation, amortization and maintenance expenses and other miscellaneous expenses, such as advertising, insurance, professional services and printing and supplies expenses.

Our largest non-interest expense is salaries and employee benefits, which consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for health insurance, retirement plans and other employee benefits. We will recognize additional annual employee compensation expenses from our employee stock ownership plan, our Equity Incentive Plan and any additional stock-based benefit plans that we may adopt in the future.

In 2007, the FDIC began assessing most insured banks and savings banks deposit insurance premiums ranging from five cents to seven cents for every $100 of deposits. Assessment credits have been provided to institutions that paid high premiums in the past. According to information provided by the FDIC, in 2008 Cape Bank received an assessment credit of approximately $390,000. The amount of the credit that offset our deposit insurance premium expense in 2008 was $213,500 which represented the remaining balance of the credit. The FDIC imposed a special 5

basis point assessment on total assets as of June 30, 2009, which was paid on September 30, 2009 and totaled $499,000.

Anticipated Increase in Non-Interest Expense

As a result of our public offering in 2008, our non-interest expense increased because of the increased costs associated with operating as a public company. These additional expenses consist primarily of accounting and legal fees, expenses of shareholder communications and meetings, and increased compensation expenses associated with our employee stock ownership plan ("ESOP") and any additional stock-based benefit plans that are approved by our shareholders. On August 25, 2008, our shareholders approved the Cape Bancorp, Inc. 2008 Equity Incentive Plan. The Equity Incentive Plan authorizes up to 1,863,892 shares of Company common stock pursuant to grants of restricted stock awards, incentive stock options, non-qualified stock options and stock appreciation rights; provided, however, that no more than 1,331,352 shares may be issued or delivered in the aggregate pursuant to the exercise of stock options or stock appreciation rights, and no more than 532,540 shares may be issued or delivered pursuant to restricted stock awards. During 2010, the Company issued 740,000 incentive stock options to certain employees at prices ranging from $7.27 per share to $8.50 per share. In addition, in 2010, 23,600 non-qualified stock options were issued to directors at a price of $7.68 per share. See *"Note 13 — Benefit Plans"*.

The actual expense that will be recorded for the ESOP will be determined by the market value of our common stock as shares are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, any increases in our stock price above $10.00 per share and any accelerated repayment of the loan will increase the annual ESOP expense. Similarly, any decrease in our stock price would decrease the annual ESOP expense. Further, the actual expense of the stock awards under the 2008 Equity Incentive Plan will be determined by the fair market value of the common stock on the grant date, which may be greater or less than $10.00 per share, and the actual expense of stock options under the 2008 Equity Incentive Plan will be based on the grant-date fair value of the options, which will be affected by a number of factors, including the market value of our common stock, the term and vesting period of the stock options, our dividend yield and other valuation assumptions contained in the option pricing model that we ultimately use.

Critical Accounting Policies

In the preparation of our consolidated financial statements, we have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States. Our significant accounting policies are described in *Note 2 of the Notes to Consolidated Financial Statements*.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Actual results could differ from these judgments and estimates under different conditions, resulting in a change that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses. We consider the allowance for loan losses to be a critical accounting policy. The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment.

In evaluating the allowance for loan losses, management considers historical loss factors, the mix of the loan portfolio (types of loans and amounts), geographic and industry concentrations, current national and local economic conditions and other factors related to the collectability of the loan portfolio, including underlying collateral values and estimated future cash flows. All of these estimates are susceptible to significant change. Groups of homogenous loans are evaluated in the aggregate under FASB ASC Topic No. 450 Contingencies, using historical loss factors adjusted for economic conditions and other environmental factors. Other environmental factors include trends in delinquencies and classified loans, loan concentrations by loan category and by property type, seasonality of the portfolio, internal and external analysis of credit quality, and single and total credit exposure. Certain loans that

indicate underlying credit or collateral concerns may be evaluated individually for impairment in accordance with FASB ASC Topic No. 310 Receivables. If a loan is impaired and repayment is expected solely from the collateral, the difference between the outstanding balance and the value of the collateral will be charged off. For potentially impaired loans where the source of repayment may include other sources of repayment, the evaluation may factor these potential sources of repayment and indicate the need for a specific reserve for any potential shortfall. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as projected events change.

Management reviews the level of the allowance quarterly. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the FDIC and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. *See Note 2 — Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements*.

Securities Impairment. The Company's investment portfolio includes 24 securities in pooled trust preferred collateralized debt obligations, 16 of which have been principally issued by bank holding companies, and 8 of which have been principally issued by insurance companies. The portfolio also includes 2 private label (non-agency) collateralized mortgage obligations ("CMO"). With the exception of 1 non-agency collateralized mortgage obligation, all of the aforementioned securities have below investment grade credit ratings. These investments may pose a higher risk of future impairment charges by the Company as a result of the current downturn in the U.S. economy and its potential negative effect on the future performance of the bank issuers and underlying mortgage loan collateral.

Through December 31, 2010 all 16 of the bank-issued pooled trust preferred collateralized debt obligation securities have had OTTI recognized in earnings due to credit impairment. Of those securities, 11 have been completely written off and the 5 remaining bank-issued CDOs have a total book value of $2.0 million and a fair value of $71,000 at December 31, 2010. These write-downs were a direct result of the impact that the credit crisis has had on the underlying collateral of the securities. Consequently many bank issuers have failed causing them to default on their security obligations while recent stress tests and potential recommendations by the U.S. Government and the banking regulators have resulted in some bank trust preferred issuers electing to defer future payments of interest on such securities. At December 31, 2010 the CDO securities principally issued by insurance companies, none of which have been OTTI, had an aggregate book value of $7.7 million and a fair value of $1.1 million. A continuation of issuer defaults and elections to defer payments could adversely affect valuations and result in future impairment charges.

Approximately $4.5 million of the collateralized mortgage obligations are non-agency and consist of 2 securities. One of those securities had an unrealized loss of $39,000 at December 31, 2010. While we have determined this unrealized loss to be temporary, a continued downturn in the financial markets could cause us to reassess our determination. Deteriorating financial conditions may cause delinquencies in the underlying mortgage loan collateral to deteriorate such that we no longer receive monthly payments on the security, thereby increasing the likelihood of OTTI.

Income Taxes. The Company is subject to the income and other tax laws of the United States and the State of New Jersey. These laws are complex and are subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provisions for income and other taxes, management must make judgments and estimates about the application of these inherently complex laws, related regulations and case law. In the process of preparing the Company provision and tax returns, management attempts to make reasonable interpretations of applicable tax laws. These interpretations are subject to challenge by the taxing authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

The Company and its subsidiaries file a consolidated federal income tax return and separate entity state income tax returns. The provision for federal and state income taxes is based on income and expenses, as reported in the

consolidated financial statements, rather than amounts reported on the Company's federal and state income tax returns. When income and expenses are recognized in different periods for tax purposes than for book purposes, applicable deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Deferred federal and state tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2010, a valuation allowance in the amount of approximately $13.7 million had been established against the Company's deferred tax assets.

On a quarterly basis, management assesses the reasonableness of its effective federal and state tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year.

Business Strategy

Our business strategy is to operate and grow a profitable community-oriented financial institution. We believe that we have created an infrastructure within the organization to address the issues surrounding our troubled credits which will afford the opportunity to return more aggressively to servicing the traditional banking needs of our customers. We plan to achieve this by:

- Pursuing loan growth, particularly commercial loans. Efforts will focus on both Atlantic and Cape May counties and Burlington and Camden counties with the new loan production office
- Using underwriting standards that will minimize the potential for future problem loans
- Returning to active engagement with both existing relationships and potential customers
- Being alert to opportunities to maintain non-interest income
- Originating residential mortgages both for sale and for the portfolio

Pursuing loan growth, particularly commercial loans. Efforts will focus on both Atlantic and Cape May counties and Burlington and Camden counties with the new loan production office.

We have been growing our commercial loan portfolio over the past several years. This includes loans for the operation of customers' businesses (lines of credit, equipment loans, working capital) and loans for commercial real estate (often the operating headquarters of a customer in a service business). This focus stems in part from management's belief that community banking can successfully fulfill a need by providing services to small and mid-sized businesses. In the process of fulfilling this community need, commercial relationships also provide great benefit to the community bank. Commercial loans can be priced attractively with variable rate features that ameliorate interest rate risk. Commercial relationships often include demand accounts which offer value both in interest rate risk management and in net interest margin. We believe that this strategy has a likelihood of success due the knowledge of the local market and connections to the local business community provided by both management and the board of directors.

Our recent experience with troubled credits has provided valuable lessons and led to improvements in our underwriting and credit administration. We control risk through underwriting and collateral requirements. Credit administration monitors concentrations of credit by industry, collateral type and location of collateral. Regular financial reporting from borrowers is required and monitored and most credits require annual reviews through the loan committees.

At December 31, 2010, we had $428.7 million and $48.2 million of commercial real estate loans (including commercial construction loans) and commercial business loans, representing 54.6% and 6.1% of total loans, respectively. At December 31, 2009, we had $441.3 million and $62.7 million of commercial real estate loans

(including commercial construction loans) and commercial business loans, representing 55.0% and 7.8% of total loans, respectively. Commercial loans help diversify our loan portfolio and help improve the interest rate sensitivity of our assets. Our maximum loans-to-one borrower limit was $17.0 million at December 31, 2010, although we do not expect to have any lending relationship that would reach this limit.

Using underwriting standards that will minimize the potential for future problem loans

The changes in credit management brought about through the new CLO and CCO managers are the direct result of the Bank's intention to improve the underwriting standards of the bank. Credits are evaluated on the strength of traditional cash flows, and to a lesser extent, the value of any collateral whether real estate or other. Under this newer model, the CCO is a direct report to the Chief Executive Officer (CEO) and is responsible for loan policy and the quality of credit underwriting and administration. The credit culture being introduced by the new team should provide greater protection for the bank from risks inherent in commercial lending.

Returning to active engagement with both existing relationships and potential customers

The recent economic downturn impacted both the focus of the bank and businesses within our market. The Bank's energies were focused on dealing with troubled credits. Customers of the bank were frightened by developments and unwilling or unable to consider new ventures. There are indications that this is changing. The bank has quantified and segregated problem credits and put them under the direction of a qualified team of work out officers. With this issue contained, it allows for the bank to refocus on engaging with existing customers to expand our relationship both through products and credits. For our customers, a return to a more normal economy appears to have generated a cautious optimism that may prompt plans for new ventures or business expansion. We believe that these changes coupled with a renewed engagement with our customers will increase the potential for expanding profitable relationships.

Being alert to opportunities to maintain non-interest income

Community banks primarily rely on interest income. Non-interest income is a welcome secondary source of revenue although opportunities for such income are limited. Recent regulation has created situations that could limit non-interest income, particularly as it relates to overdraft fees. Management feels that regulatory pressure will continue as the regulatory environment seeks to control or minimize fees assessed to consumers.

Originating residential mortgages both for sale and for the portfolio

Cape Bank has always been active in residential lending in its market. The residential loan portfolio has had a good credit performance and the origination efforts has provided a source of non-interest income through sales in the secondary market. These efforts will continue both as a means to service the needs of the retail customer and as a source of fee income through the sales of loans. While more attention will be given to sales, management anticipates some production to result in loans that will be housed in the bank's loan portfolio.

Comparison of Financial Condition at December 31, 2010 and December 31, 2009

The Company's total assets decreased by $11.8 million, or 1.1%, to $1.061 billion at December 31, 2010 from $1.073 billion at December 31, 2009.

Cash and cash equivalents increased $1.5 million or 11.0%, to $15.0 million at December 31, 2010 from $13.5 million at December 31, 2009.

Interest-bearing time deposits increased to $9.4 million at December 31, 2010 from $7.5 million at December 31, 2009, an increase of $1.9 million or 25.6%. The Company invests in time deposits of other banks generally for terms of one year and not to exceed $250,000, which is the amount currently insured by the Federal Deposit Insurance Corporation.

Total loans decreased $17.9 million, or 2.2%, to $784.9 million at December 31, 2010 from $802.8 million at December 31, 2009. Net loans decreased by $17.2 million, net of a decrease in the allowance for loan losses of

$773,000. Delinquent loans increased $248,000 to $34.7 million or 4.4% of total loans at December 31, 2010 from $34.4 million, or 4.3% of total loans, at December 31, 2009. Total delinquent loans by portfolio at December 31, 2010 were $19.6 million of commercial mortgages, $5.9 million of residential mortgages, $4.0 million of construction loans, $4.0 million of commercial business loans, $1.1 million of home equity loans and $16,000 of other consumer loans. Delinquent loan balances by number of days delinquent were: 31 to 59 days — $2.3 million; 60 to 89 days — $690,000; and 90 days and greater — $31.7 million.

At December 31, 2010, the Company had $43.5 million in non-performing loans, or 5.54% of total loans, compared to $33.2 million, or 4.14% of total loans, at December 31, 2009. This increase resulted from the classification to non-performing loans of $11.8 million in troubled debt restructurings that were performing in accordance with their repayment terms at December 31, 2010. At December 31, 2010, non-performing loans by loan portfolio category were as follows: $27.8 million of commercial mortgage loans; $2.4 million of residential mortgage loans; $4.0 million of construction loans; $6.2 million of commercial business loans; and $363,000 of home equity loans.

At December 31, 2010, commercial loans that were non-performing loans had collateral type concentrations of $12.5 million (11 loans or 33%) secured by B&B and hotels, $11.4 million (24 loans or 30%) secured by commercial buildings and equipment, $5.1 million (11 loans or 13%) secured by restaurant properties, $3.5 million (20 loans or 9%) secured by residential, duplex and multi-family properties, $3.4 million (10 loans or 9%) secured by land and building lots, $1.6 million (6 loans or 4%) secured by retail stores, and $646,000 (2 loans or 2%) secured by marina properties. The three largest relationships in this category of non-performing loans are $11.8 million, $4.1 million, and $2.5 million.

We believe we have appropriately charged-off or established adequate loss reserves on problem loans that we have identified. For 2011, we anticipate a gradual decrease in the amount of problem assets. This improvement is due, in part, to our disposing of assets collateralizing loans that have gone through foreclosure. We are aggressively managing all loan relationships, and where necessary, we will continue to apply our loan work-out experience to protect our collateral position and actively negotiate with mortgagors to resolve these non-performing loans.

Total investment securities increased by $4.6 million, or 3.0%, to $157.4 million at December 31, 2010 from $152.8 million at December 31, 2009. At December 31, 2010, all of the Company's investment securities were classified as available-for-sale (AFS). Effective December 31, 2009, the Company reclassified the held-to-maturity (HTM) portion of its portfolio to AFS. HTM securities with a market value of $44.5 million and an amortized cost of $43.0 million were reclassified to AFS. This change in classification provides flexibility and enables the Company to respond more effectively to changes in market value of the investment portfolio as well as enhancing its sources of liquidity. The increase in the portfolio occurred primarily from reinvesting some of the funds generated from the decline in loans. Increases of $25.8 million in U.S. Government and agency obligations and $7.1 million in corporate bonds were partially offset by declines of $9.0 million in municipal bonds, $19.0 million in mortgage-backed securities and $300,000 in CDOs. The decrease in municipal bonds and mortgage-backed securities is largely the result of selling securities. Management's decision to sell those securities was driven by 2 objectives: 1) a desire to recognize gains before market prices were adversely impacted by rising interest rates and 2) the Company's strategy to manage interest rate risk by replacing longer duration securities with shorter duration securities. By doing so the Company realized gains of $832,000 in 2010 while shortening the duration of the portfolio and positioning the Company to capitalize in anticipation of rising interest rates. The Company also experienced additional OTTI related to its CDO portfolio during the year. This segment of the portfolio has been adversely impacted by the continued downturn in the economy which has caused many bank issuers to fail and therefore default on their obligations while others have elected to defer future payments of interest on such securities. At December 31, 2010, these securities had a cost basis of $9.7 million and a fair market value of $1.1 million. The Company also recorded a $3.4 million charge to earnings during the year related to the credit loss portion of impairment.

Total deposits increased by $16.5 million, or 2.2%, to $753.1 million at December 31, 2010, from $736.6 million at December 31, 2009.

Certificates of deposit decreased $30.1 million, or 8.9%, to $306.8 million at December 31, 2010 from $336.9 million at December 31, 2009, and NOW and money market accounts increased $35.8 million, or 13.9%, to $293.7 million at December 31, 2010 from $257.9 million at December 31, 2009. Non-interest bearing deposits increased

$5.9 million, or 9.5%, to $68.3 million at December 31, 2010 from $62.4 million at December 31, 2009. Savings deposits increased $4.9 million or 6.2% to $84.3 million at December 31, 2010 from $79.4 million at December 31, 2009.

Total borrowings decreased $34.3 million, or 16.8%, to $169.6 million at December 31, 2010 from $203.9 million at December 31, 2009. At December 31, 2010, our borrowings to assets ratio decreased to 16.0% from 19.0% at December 31, 2009. Borrowings to total liabilities decreased to 18.3% at December 31, 2010 from 21.6% at December 31, 2009.

Stockholders' equity increased $5.6 million, or 4.4%, to $132.1 million at December 31, 2010, from $126.5 million at December 31, 2009. The increase in equity was primarily attributable to the net income of $4.0 million and a decrease in accumulated other comprehensive loss, net of tax, of $1.1 million. At December 31, 2010, stockholders' equity totaled $132.1 million, or 12.46% of total assets, and tangible equity totaled $109.1 million or 10.51% of total tangible assets.

Comparison of Operating Results for the Years Ended December 31, 2010 and 2009

General. The Company recorded net income of $4.0 million, or $.33 per share for the year ended December 31, 2010 compared to a net loss of $17.9 million, or $1.45 per share for the year ended December 31, 2009. The $21.9 million year over year increase in net income is primarily attributable to reductions in the following expenses: $5.7 million in the loan loss provision, $1.7 million in OTTI charges, $973,000 in salaries and employee benefits, and $462,000 in Federal Deposit Insurance premiums. In addition, the year ended December 31, 2009 included a one-time $12.0 million tax expense related to the establishment of a deferred tax asset valuation allowance. Net interest income increased $225,000, or 0.63%, to $35.7 million for the year ended December 31, 2010 compared to $35.5 million for the year ended December 31, 2009 due to an increase in the net interest margin to 3.66% for the year ended December 31, 2010 from 3.54% for the year ended December 31, 2009.

Interest Income. Interest income decreased $4.3 million, or 7.8%, to $50.2 million for the year ended December 31, 2010, from $54.5 million for the year ended December 31, 2009. The decrease for the year resulted primarily from a $2.8 million, or 35.7%, decrease in interest income on investments, and a $1.4 million, or 3.1%, decrease on interest income on loans. Average loan balances for the year ended December 31, 2010, decreased $17.5 million, or 2.2% to $789.1 million from $806.6 million for the year ended December 31, 2009. Due to the economic downturn, loan demand has not been sufficient to offset monthly principal reductions, pay-offs, charge-offs and the transfer of loans to OREO resulting in the decline in average loan balances. The average yield on the loan portfolio decreased 5 basis points to 5.72% for the year ended December 31, 2010 from 5.77% for the year ended December 31, 2009, primarily due to competition for new loan originations in a lower interest rate environment.

The average balance of the investment portfolio decreased $13.4 million, or 7.2%, to $171.2 million for the year ended December 31, 2010 from $184.6 million for the year ended December 31, 2009. The average yield on investments decreased 128 basis points to 2.91% for the year ended December 31, 2010 from 4.19% for the year ended December 31, 2009. The decrease in average balance is primarily a result of the impact from the sale of $31.7 million in mortgage-backed securities during June and August of 2009. The decline in yield is largely due to the first quarter 2010 write-off of $590,000 in accrued interest receivable related to bank-issued CDO securities and the implementation of a strategy to shorten the duration of the investment portfolio. Interest income was adversely impacted by this strategy in the short-term because longer duration, higher yielding mortgage-backed securities and municipal bonds were sold in 2009 and 2010 and partially replaced with callable, short-term U.S. Government and agency obligations and corporate bonds, which have yields that are below the portfolio average. Other contributing factors include interest rates on adjustable mortgage-backed securities repricing down, and callable U.S. Government and agency obligations being called and replaced at lower coupon rates.

Interest Expense. Interest expense decreased $4.5 million, or 23.6%, to $14.5 million for the year ended December 31, 2010, from $19.0 million for the year ended December 31, 2009. The decrease in interest expense resulted from lower rates on all interest-bearing deposit products, particularly certificates of deposit.

Interest expense on certificates of deposit decreased $3.8 million, or 37.9%, to $6.1 million for the year ended December 31, 2009, from $9.9 million for the year ended December 31, 2008. The average rate paid on certificates

of deposit decreased 89 basis points to 1.77% for the year ended December 31, 2010, from 2.66% for the year ended December 31, 2009, while the average balance of certificates of deposit decreased $25.4 million, or 6.8% to $346.3 million for the year ended December 31, 2010, from $371.7 million for the year ended December 31, 2009. Interest expense on NOW (interest-bearing demand accounts) and money market accounts increased $49,000, or 2.3%, to $2.2 million for the year ended December 31, 2010, from $2.1 million for the year ended December 31, 2009. The average rate paid on NOW and money market accounts decreased 9 basis points to 0.80% for the year ended December 31, 2010, from 0.89% for the year ended December 31, 2009. The average balance of NOW and money market accounts increased $33.2 million, or 14.0%, to $270.2 million for the year ended December 31, 2010, from $237.0 million for the year ended December 31, 2009. Interest expense on savings accounts decreased $69,000 to $316,000 for the year ended December 31, 2010, from $385,000 for the year ended December 31, 2009. The average rate paid on savings deposits decreased 10 basis points to 0.38% for the year ended December 31, 2010, from 0.48% for the year ended December 31, 2009, while the average balance of savings accounts increased $1.9 million, or 2.4% to $82.1 million for the year ended December 31, 2010, from $80.2 million for the year ended December 31, 2009. The average balance of NOW and money market accounts includes both indexed priced and fixed rate municipal account relationships for the year ended December 31, 2010, with an average balance of $28.5 million and an average rate of 0.49%, compared to an average balance of $24.4 million and an average rate of 0.43% for the year ended December 31, 2009.

Interest expense on borrowings (primarily Federal Home Loan Bank of New York advances) decreased $721,000, or 10.9%, to $5.9 million for the year ended December 31, 2010 from $6.6 million for the year ended December 31, 2009. The average balance of borrowings declined $30.4 million, or 15.9%, to $160.9 million for the year ended December 31, 2010, from $191.3 million for the year ended December 31, 2009. The average rate paid on borrowings increased 21 basis points to 3.68% for the year ended December 31, 2010, from 3.47% for the year ended December 31, 2009. This increase is primarily attributable to a decline in the average balance of lower costing overnight advances for the year ended December 31, 2010 compared to the year ended December 31, 2009.

Net Interest Income. Net interest income increased $225,000, or 0.6%, to $35.7 million for the year ended December 31, 2010, from $35.5 million for the year ended December 31, 2009. Our net interest margin increased by 12 basis points to 3.66% for the year ended December 31, 2010, from 3.54% for the year ended December 31, 2009. The increase in net interest income resulted from having more rate sensitive liabilities tied to short term interest rates reprice to lower rates than rate sensitive assets. In particular, significant interest expense savings was realized from all deposit products due to pricing strategies implemented during the year. The ratio of average interest earning assets to average interest bearing liabilities decreased to 113.67% during the year ended December 31, 2010, from 114.11% for the year ended December 31, 2009.

Provision for Loan Losses. In accordance with FASB ASC Topic No. 450 Contingencies, we establish provisions for loan losses which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, external factors such as competition and regulatory, adverse situations that may affect a borrower's ability to repay a loan and the levels of delinquent loans.

Generally, loans are placed on non-accrual status when payment of principal or interest is 90 days or more delinquent unless the loan is considered well secured and in the process of collection. Loans are also placed on non-accrual status when they are less than 90 days delinquent, if collection of principal or interest in full is in doubt. This determination is normally the result of the review of the borrower's financial statements or other information that is obtained by the Bank.

All loans that are on non-accrual status are reviewed by management monthly to determine if a specific reserve or charge-off is appropriate. At this point in the delinquency collection efforts, the primary consideration is collateral value. When the Bank has a current appraisal, generally less than six months old, and management agrees that the property has not deteriorated in value since the appraisal, then management will analyze the loan in accordance with FASB ASC Topic No. 310 Receivables. When a current appraisal is not available, the Bank will request one. Upon receipt of the appraisal, we will review the loan in accordance with FASB ASC Topic No. 310 Receivables. Prior to receipt of an appraisal, management will consider, based on its knowledge of the market and

other available information pertinent to the particular loan being reviewed, allocating a specific reserve for that loan. Loans are charged-off partially or in full based on upon the results of a completed FASB ASC Topic No. 310 Receivables analysis. We also perform a FASB ASC Topic No. 310 Receivables analysis on loans that are not collateralized by real estate.

The amount of the allowance is based on management's judgment of probable losses, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses and make provisions for loan losses on a quarterly basis.

We recorded a provision for loan losses of $7.5 million for the year ended December 31, 2010 compared to $13.2 million for the year ended December 31, 2009 resulting from lower charge-offs in 2010 compared to 2009. The ratio of the allowance for loan losses to non-performing loans (coverage ratio) decreased to 28.84% at December 31, 2010, from 40.04% at December 31, 2009 primarily due to the classification of $11.8 million in troubled debt restructurings as non-performing loans. For the year ended December 31, 2010, charge-offs were $8.8 million compared to $11.7 million for the year ended December 31, 2009, resulting primarily from lower charge-offs on real estate-related loans. Included in the 2010 charge-offs of $8.8 million were partial charge-offs totaling $4.5 million. The amount of non-performing loans for which the full loss has been charged-off to total loans is 0.51%. The amount of non-performing loans for which the full loss has been charged-off to total non-performing loans is 9.9%. The coverage ratio is already net of loan charge-offs. Loan loss recoveries were $568,000 for both the year ended December 31, 2010 and the year ended December 31, 2009.

Our allowance for loans losses decreased by $773,000 or 5.8%, to $12.5 million at December 31, 2010, from $13.3 million at December 31, 2009. The ratio of our allowance for loan loss to total loans decreased to 1.60% at December 31, 2010, from 1.66% at December 31, 2009.

Non-Interest Income. Non-interest income increased $1.9 million to $2.8 million for the year ended December 31, 2010, from $932,000 for the year ended December 31, 2009. The increase resulted from the Bank recognizing a reduced other-than-temporary impairment charge on investment securities which totaled $3.4 million for the year ended December 31, 2010 compared to an impairment charge of $5.1 million for the year ended December 31, 2009. Net gains on sales of investment securities totaled $832,000 for the year ended December 31, 2010 compared to $1.2 million for the year ended December 31, 2009 and net gains on sales of loans totaled $168,000 for the 2010 period compared to $130,000 for the 2009 period. Net gains on the sale of other real estate owned totaled $271,000 for the year ended December 31, 2010 compared to net losses of $323,000 for the year ended December 31, 2009. Additionally, the year ended December 31, 2009 included $464,000 of BOLI insurance proceeds.

Non-Interest Expense. Non-interest expense decreased $634,000 to $28.5 million for the year ended December 31, 2010 from $29.2 million for the year ended December 31, 2009. For the year ended December 31, 2010, salaries and employee benefits decreased $973,000, or 6.5%. This resulted primarily from a $1.3 million charge for the year ended December 31, 2009 related to payments made under the employment agreement of the Company's former President and Chief Executive Officer. For the year ended December 31, 2010, FDIC insurance premiums were $1.3 million compared to $1.7 for the year ended December 31, 2009, a decrease of $462,000, or 26.7%. Loan related expenses increased $193,000 for the year ended December 31, 2010 resulting from increased expenses related to non-performing loans. In addition, year-to-year, occupancy and equipment expenses increased $179,000, data processing expenses increased $182,000, telecommunication expenses increased $133,000 and expenses related to other real estate owned increased $328,000. Costs related to professional services (audit and legal) declined $192,000.

Income Tax Expense. For the year ended December 31, 2010 income tax expense was a benefit of $1.5 million, compared to tax expense of $12.0 million for the year ended December 31, 2009. The 2010 tax benefit is primarily due to the release of a $2.0 million valuation allowance. The release of the valuation allowance was due to estimated taxable income through December 31, 2010 and the anticipated implementation of a business planning strategy which would result in the recognition of a capital gain. Tax expense for 2009 is primarily a result of recording a deferred tax asset valuation allowance of $16.0 million after it was determined that it was "more likely than not" that a portion of the deferred tax assets of the Company would not be realized.

Comparison of Operating Results for the Years Ended December 31, 2009 and 2008

General. The Company recorded a net loss of $17.9 million for the year ended December 31, 2009 compared to a net loss of $42.5 million for the year ended December 31, 2008. The 2009 loss primarily resulted from a $12.0 million tax expense related to the establishment of a deferred tax asset valuation allowance, a $13.2 million provision for loan losses, and an other-than-temporary impairment charge of $5.1 million on our investment securities. The loss for 2008 was primarily the result of a non-cash goodwill impairment charge of $31.8 million, an other-than-temporary impairment charge of $15.6 million on our investment securities, a $9.0 provision for loan losses, our contribution of $3.8 million to The CapeBank Charitable Foundation, net of taxes, and approximately $785,000 of expenses, net of taxes, that resulted from the acquisition of Boardwalk Bancorp and name changes. These expenses were partially offset by a tax benefit of $8.2 million and increased net interest income resulting from the acquisition of Boardwalk Bancorp.

Interest Income. Interest income decreased $3.6 million, or 6.2%, to $54.5 million for the year ended December 31, 2009, from $58.1 million for the year ended December 31, 2008. The decrease for the year resulted primarily from a $1.9 million, or 38.5%, decrease in interest income on taxable investments and a $1.4 million, or 3.0%, decrease on interest income on loans. Average loans for the year ended December 31, 2009, increased $38.1 million, or 5.0% to $806.6 million from $768.5 million for the year ended December 31, 2008. The average yield on the loan portfolio decreased 48 basis points to 5.77% for the year ended December 31, 2009 from 6.25% for the year ended December 31, 2008, resulting from a decline in short term interest rates, higher levels of non-performing loans, indexed loans repricing at lower rates, and competition for new loan originations in a lower interest rate environment.

The average balance of the investment portfolio decreased $9.3 million, or 4.8%, to $184.6 million for the year ended December 31, 2009 from $193.9 million for the year ended December 31, 2008. The average yield on investments decreased 89 basis points to 4.19% for the year ended December 31, 2009 from 5.08% for the year ended December 31, 2008. The decrease in average balance is primarily a result of the sale of adjustable rate agency MBS securities, which had a carrying value of $31.7 million, during the second and third quarters of 2009. The decline in the average yield reflects a lower interest rate environment which negatively affected both the repricing of our adjustable rate MBS portfolio and U.S. Government and agency obligations where called securities were replaced at substantially lower coupon rates. Additionally, interest income includes $333,000 in charged off interest receivables related to 6 CDO securities which were fully written off.

Interest Expense. Interest expense decreased $5.2 million, or 21.5%, to $19.0 million for the year ended December 31, 2009, from $24.2 million for the year ended December 31, 2008. The decrease in interest expense resulted from the bank lowering interest rates on all interest-bearing deposit products in response to the decline in short term interest rates that occurred at the end of 2008.

Interest expense on NOW (interest-bearing demand accounts) and money market accounts decreased $2.0 million, or 47.8%, to $2.1 million for the year ended December 31, 2009, from $4.1 million for the year ended December 31, 2008, and interest expense on certificates of deposit decreased $2.7 million, or 21.3%, to $9.9 million for the year ended December 31, 2009, from $12.6 million for the year ended December 31, 2008. The average rate paid on NOW and money market accounts decreased 92 basis points to 0.89% for the year ended December 31, 2009, from 1.81% for the year ended December 31, 2008. The average balance of NOW and money market accounts increased $12.4 million, or 5.5%, to $237.0 million for the year ended December 31, 2009, from $224.6 million for the year ended December 31, 2008. The average rate paid on certificates of deposit decreased 89 basis points to 2.66% for the year ended December 31, 2009, from 3.55% for the year ended December 31, 2008, while the average balance of certificates of deposit increased $18.2 million, or 5.1% to $371.7 million for the year ended December 31, 2009, from $353.5 million for the year ended December 31, 2008. Interest expense on savings accounts decreased $677,000 to $385,000 for the year ended December 31, 2009, from $1.1 million for the year ended December 31, 2008. The average rate paid on savings deposits decreased 81 basis points to 0.48% for the year ended December 31, 2009, from 1.29% for the year ended December 31, 2008, while the average balance of savings accounts decreased $2.1 million, or 2.5% to $80.2 million for the year ended December 31, 2009, from $82.3 million for the year ended December 31, 2008. The average balance of NOW and money market accounts includes indexed priced municipal accounts for the year ended December 31, 2009, with an average balance of $24.4 million

and an average rate of 0.43%, compared to an average balance of $20.3 million and an average rate of 1.94% for the year ended December 31, 2008.

Interest expense on borrowings (primarily Federal Home Loan Bank of New York advances) increased $68,000, or 1.0%, to $6.638 million for the year ended December 31, 2009 from $6.657 million for the year ended December 31, 2008. The average balance of borrowings declined $1.9 million, or 1.0%, to $191.3 million for the year ended December 31, 2009, from $193.2 million for the year ended December 31, 2008. The average rate paid on borrowings increased 7 basis points to 3.47% for the year ended December 31, 2009, from 3.40% for the year ended December 31, 2008.

Net Interest Income. Net interest income increased $1.6 million, or 4.8%, to $35.5 million for the year ended December 31, 2009, from $33.9 million for the year ended December 31, 2008. Our net interest margin increased by 6 basis points to 3.54% for the year ended December 31, 2009, from 3.48% for the year ended December 31, 2008. The increase in net interest income resulted from having more rate sensitive liabilities tied to short term interest rates reprice to lower rates than rate sensitive assets. In particular, significant interest expense savings was realized from all deposit products due to pricing strategies implemented during the year. The ratio of average interest earning assets to average interest bearing liabilities increased to 114.1% during the year ended December 31, 2009, from 113.9% for the year ended December 31, 2008.

Provision for Loan Losses. In accordance with FASB ASC Topic No. 450 Contingencies, we establish provisions for loan losses which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, external factors such as competition and regulatory, adverse situations that may affect a borrower's ability to repay a loan and the levels of delinquent loans.

Generally, loans are placed on non-accrual status when payment of principal or interest is 90 days or more delinquent unless the loan is considered well secured and in the process of collection. Loans are also placed on non-accrual status when they are less than 90 days delinquent, if collection of principal or interest in full is in doubt. This determination is normally the result of the review of the borrower's financial statements or other information that is obtained by the Bank.

All loans that are on non-accrual status are reviewed by management monthly to determine if a specific reserve or charge-off is appropriate. At this point in the delinquency collection efforts, the primary consideration is collateral value. When the Bank has a current appraisal, generally less than six months old, and management agrees that the property has not deteriorated in value since the appraisal, then management will analyze the loan in accordance with FASB ASC Topic No. 310 Receivables. When a current appraisal is not available, the Bank will request one. Upon receipt of the appraisal, we will review the loan in accordance with FASB ASC Topic No. 310 Receivables. Prior to receipt of an appraisal, management will consider, based on its knowledge of the market and other available information pertinent to the particular loan being reviewed, allocating a specific reserve for that loan. Loans are charged off partially or in full based on upon the results of a completed FASB ASC Topic No. 310 Receivables analysis. We also perform a FASB ASC Topic No. 310 Receivables analysis on loans that are not collateralized by real estate.

The amount of the allowance is based on management's judgment of probable losses, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses and make provisions for loan losses on a quarterly basis.

We recorded a provision for loan losses of $13.2 million for the year ended December 31, 2009 compared to $9.0 million for the year ended December 31, 2008. The increase in the provision for losses over the prior year reflected the continued credit deterioration in our market area. The ratio of the allowance for loan losses to non-performing loans decreased to 40.0% at December 31, 2009, from 53.4% at December 31, 2008. This ratio is negatively affected when a loan is charged-off. For the year ended December 31, 2009, charge-offs were $11.7 million compared to $5.7 million for the year ended December 31, 2008, resulting primarily from increased charge-offs on real estate-related loans. Included in the 2009 charge-offs of $11.7 million were partial charge-offs totaling

$6.5 million. The amount of non-performing loans for which the full loss has been charged-off to total loans was 0.0063%. The amount of non-performing loans for which the full loss has been charged-off to total non-performing loans was 13.2%. This 13.2% represents the charge-off rate for non-performing loans for which the full loss has been charged-off. The coverage ratio is already net of loan charge-offs. Loan loss recoveries for the year ended December 31, 2009 were $568,000 compared to $27,000 for the year ended December 31, 2008.

Our allowance for loans losses increased by $2.1 million, or 18.8%, to $13.3 million at December 31, 2009, from $11.2 million at December 31, 2008. The ratio of our allowance for loan loss to total loans increased to 1.66% at December 31, 2008, from 1.41% at December 31, 2008.

Non-Interest Income. Non-interest income increased $11.7 million to $932,000 for the year ended December 31, 2009, from $(10.8) million for the year ended December 31, 2008. The increase resulted from the Bank recognizing an other-than-temporary impairment charge on investment securities totaling $5.1 million for the year ended December 31, 2009 compared to an impairment charge of $15.6 million for the year ended December 31, 2008 of which $14.5 million related to collateralized debt obligations and $1.1 million related to Fannie Mae and Freddie Mac preferred stock. Gains on sales of investment securities totaled $1.2 million for the year ended December 31, 2009 compared to $40,000 for the year ended December 31, 2008 and net gains on sales of loans totaled $130,000 for the 2009 period compared to $36,000 for the 2008 period. Net losses on the sale of other real estate owned totaled $323,000 for the year ended December 31, 2009. In addition, for the year ended December 31, 2008, a $149,000 charge to non-interest income was recognized resulting from the retirement of old equipment and replacement of signage associated with the acquisition of Boardwalk Bank.

Non-Interest Expense. Non-interest expense decreased $35.5 million to $29.2 million for the year ended December 31, 2009 from $64.7 million for the year ended December 31, 2008. The year-to-year decrease resulted primarily from a non-cash goodwill impairment charge totaling $31.8 million for the year ended December 31, 2008 and a $6.3 million expense related to the formation of The CapeBank Charitable Foundation in 2008. For the year ended December 31, 2009, salaries and employee benefits increased $599,000, or 4.2%. This resulted primarily from a $1.3 million charge related to payments made under the employment agreement of the Company's former President and CEO, partially offset by reduced pension plan costs of $605,000. For the year ended December 31, 2009, FDIC insurance premiums were $1.7 million compared to $525,000 for the year ended December 31, 2008, an increase of $1.2 million, or 229.3%. Loan related expenses increased $1.5 million for the year ended December 31, 2009 resulting from increased expenses related to non-performing loans. In addition, year-to-year, advertising costs declined $219,000, professional services (audit and legal) declined $172,000 and consulting fees declined $242,000.

Income Tax Expense. For the year ended December 31, 2009 income tax expense was $12.0 million, compared to a tax benefit of $8.2 million for the year ended December 31, 2008. Tax expense for 2009 is primarily a result of recording a deferred tax asset valuation allowance of $16.0 million after it was determined that it was "more likely than not" that a portion of the deferred tax assets of the Company will not be realized. The 2008 tax benefit resulted from a pre-tax loss that was partially offset by the disallowance of the $31.8 million goodwill impairment charge.

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Years Ended December 31,								
	2010			2009			2008		
	Average Balance	Interest Income/ Expense	Average Yield	Average Balance	Interest Income/ Expense	Average Yield	Average Balance	Interest Income/ Expense	Average Yield
	(dollars in thousands)								
Assets									
Interest-earning deposits	$ 16,727	$ 157	0.94%	$ 13,212	$ 230	1.74%	$ 10,024	$ 275	2.74%
Investments	171,213	4,980	2.91%	184,578	7,742	4.19%	193,921	9,854	5.08%
Loans	789,101	45,132	5.72%	806,586	46,561	5.77%	768,458	47,998	6.25%
Total interest-earning assets	977,041	50,269	5.15%	1,004,376	54,533	5.43%	972,403	58,127	5.98%
Noninterest-earning assets	102,325			101,894			138,464		
Allowance for loan losses	(12,739)			(12,268)			(8,955)		
Total assets	$ 1,066,627			$ 1,094,002			$ 1,101,912		
Liabilities and Stockholders' Equity									
Interest-bearing demand accounts	$ 114,917	401	0.35%	$ 108,665	414	0.38%	$ 106,826	1,030	0.96%
Savings accounts	82,146	316	0.38%	80,248	385	0.48%	82,309	1,062	1.29%
Money market accounts	155,289	1,767	1.14%	128,319	1,705	1.33%	117,821	3,029	2.57%
Certificates of deposit	346,323	6,138	1.77%	371,664	9,886	2.66%	353,501	12,562	3.55%
Borrowings	160,901	5,917	3.68%	191,256	6,638	3.47%	193,203	6,570	3.40%
Total interest-bearing liabilities	859,576	14,539	1.69%	880,152	19,028	2.16%	853,660	24,253	2.84%
Noninterest-bearing deposits	69,438			68,364			68,158		
Other liabilities	5,647			6,603			6,417		
Total liabilities	934,661			955,119			928,235		
Stockholders' equity	131,966			138,883			173,677		
Total liabilities and stockholders' equity	$ 1,066,627			$ 1,094,002			$ 1,101,912		
Net interest income		$ 35,730			$ 35,505			$ 33,874	
Net interest spread			3.46%			3.27%			3.14%
Net interest margin			3.66%			3.54%			3.48%
Net interest income and margin (tax equivalent basis) (1)		$ 36,314	3.72%		$ 36,155	3.60%		$ 34,441	3.54%
Ratio of average interest-earning assets to average interest-bearing liabilities	113.67%			114.11%			113.91%		

(1) In order to present pre-tax income and resultant yields on tax-exempt investments on a basis comparable to those on taxable investments, a tax equivalent yield adjustment is made to interest income. The tax equilvalent adjustment has been computed using a Federal income tax rate of 35%, and has the effect of increasing interest income by $584,000, $650,000 and $567,000 for the years ended December 31, 2010, 2009 and 2008 respectively. The average yield on investments increased to 3.25% from 2.91% for the year ended December 31, 2010, increased to 4.55% from 4.19% for the year ended December 31, 2009, and increased to 5.52% from 5.08% for the year ended December 31, 2008.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	For the Year Ended December 31, 2010 Compared to December 31, 2009			For the Year Ended December 31, 2009 Compared to December 31, 2008		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
		(in thousands)			(in thousands)	
Interest Earning Assets						
Interest-earning deposits	$ 51	$ (124)	$ (73)	$ 73	$ (118)	$ (45)
Investments	(532)	(2,230)	(2,762)	(487)	(1,625)	(2,112)
Loans	(1,100)	(329)	(1,429)	2,256	(3,693)	(1,437)
Total interest income	(1,581)	(2,683)	(4,264)	1,842	(5,436)	(3,594)
Interest-Bearing Liabilities						
Interest-bearing demand accounts	23	(36)	(13)	18	(634)	(616)
Savings accounts	9	(78)	(69)	(26)	(651)	(677)
Money market accounts	325	(263)	62	248	(1,572)	(1,324)
Certificates of deposit	(640)	(3,108)	(3,748)	612	(3,288)	(2,676)
Borrowings	(1,111)	390	(721)	(72)	140	68
Total interest expense	(1,394)	(3,095)	(4,489)	780	(6,005)	(5,225)
Total net interest income	$ (187)	$ 412	$ 225	$ 1,062	$ 569	$ 1,631

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, interest rate risk is a significant risk to our net interest income and earnings. Our assets, consisting primarily of mortgage-related assets, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, we have an Interest Rate Risk Committee of the Board, which meets quarterly, as well as an Asset/Liability Committee. The Asset/Liability Committee meets monthly and is comprised of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Lending Officer, Senior Vice President of Residential Lending, Senior Vice President of Retail Banking and our Controller. The Interest Rate Risk Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for recommending to our Board of Directors the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:

- originating commercial loans that generally tend to have shorter repricing or reset periods and higher interest rates than residential mortgage loans;
- investing in shorter duration investment grade corporate securities, U.S. Government agency obligations and mortgage-backed securities;
- obtaining general financing through lower cost deposits, brokered deposits and advances from the Federal Home Loan Bank;
- originating adjustable rate and short-term consumer loans;
- selling a portion of our long-term residential mortgage loans; and

- lengthening the terms of borrowings and deposits.

By shortening the average maturity of our interest-earning assets by increasing our investments in shorter term loans, as well as loans with variable interest rates, it helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates.

Net Portfolio Value Analysis. We compute amounts by which the net present value of our interest-earning assets and interest-bearing liabilities (net portfolio value or "NPV") would change in the event of a range of assumed changes in market interest rates. Our simulation model uses a discounted cash flow analysis to measure the interest rate sensitivity of net portfolio value. We estimate the economic value of these assets and liabilities under the assumption that interest rates experience an instantaneous and sustained increase of 100 or 200 basis points or decrease of 100 or 200 basis points.

Net Interest Income Analysis. In addition to NPV calculations, we analyze our sensitivity to changes in interest rates through our net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for a twelve-month period. We then calculate what the net interest income would be for the same period under the assumption that interest rates experience an instantaneous and sustained increase of 100 or 200 basis points or decrease of 100 or 200 basis points.

The table below sets forth, as of December 31, 2010, our calculation of the estimated changes in our net portfolio value and net interest income that would result from the designated instantaneous and sustained changes in interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

	Net Portfolio Value			Net Interest Income		
Changes in Interest Rates (basis points) (1)	Estimated NPV (2)	Increase (decrease) in Estimated NPV Amount	Increase (decrease) in Estimated NPV Percent	Estimated Net Interest Income	Increase (decrease) in Estimated Net Interest Income Amount	Increase (decrease) in Estimated Net Interest Income Percent
	(dollars in thousands)					
+200	$ 170,683	$ (8,753)	-4.88%	$ 34,282	$ (2,220)	-6.08%
+100	$ 176,765	$ (2,671)	-1.49%	$ 35,457	$ (1,045)	-2.86%
0	$ 179,436			$ 36,502		
-100	$ 164,098	$ (15,338)	-8.55%	$ 37,866	$ 1,364	3.74%
-200	$ 148,525	$ (30,911)	-17.23%	$ 36,027	$ (475)	-1.30%

(1) Assumes an instantaneous and sustained uniform change in interest rates at all maturities.

(2) NPV is the discounted present value of expected cash flows from interest-earning assets and interest-bearing liabilities.

The table above indicates that at December 31, 2010, in the event of a 100 basis point increase in interest rates, we would experience a 1.5% decrease in net portfolio value and a $1.0 million decrease in net interest income. In the event of a 100 basis point decrease in interest rates, we would experience an 8.6% decrease in net portfolio value and a $1.4 million increase in net interest income.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk through changes in net portfolio value and net interest income. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value and net interest income information presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and assume that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although interest rate risk calculations provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and

do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Liquidity and Capital Resources

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through our core deposit base and the maturity or repayment of loans and other interest-earning assets, including investments. Proceeds from the maturity, redemption, and return of principal of investment securities totaled $112.0 million during 2010 and were used either for liquidity or to invest in securities of similar quality as our current investment portfolio. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of New York, borrowings through the discount window at the Federal Reserve Bank of Philadelphia and access to certificates of deposit through brokers. We can also raise cash through the sale of earning assets, such as loans and marketable securities. As of December 31, 2010, the Company's entire investment portfolio, with a fair market value of $157.4 million, was classified as available-for-sale. Effective December 31, 2009, the Company reclassified its held-to-maturity securities, which had a fair market value of $44.5 million and an amortized cost of $43.0 million, as available-for-sale.

Liquidity risk arises from the possibility that we may not be able to meet our financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk, our Board of Directors has established a Liquidity Management Policy and Contingency Funding Plan that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements based on limits approved by our Board of Directors. This policy designates our Asset/Liability Committee ("ALCO") as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by our Chief Financial Officer and the Treasury Department. Liquidity stress testing is performed annually, useless circumstance dictate more frequently, and all testing results are reported to the Board of Directors.

Cape Bank's long-term liquidity source is a large core deposit base and a strong capital position. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. The level of deposits during any period is sometimes influenced by factors outside of management's control, such as the level of short-term and long-term market interest rates and yields offered on competing investments, such as money market mutual funds. Deposits increased $16.5 million, or 2.2%, during 2010, and comprised 81.1% of total liabilities at December 31, 2010, as compared to 77.8% at December 31, 2009.

Cape Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2010, Cape Bank exceeded all regulatory capital requirements. Cape Bank is considered "well capitalized" under regulatory guidelines. Capital stress testing is performed annually, useless circumstance dictate more frequently, and all testing results are reported to the Board of Directors. See *"Supervision and Regulation—Federal Banking Regulation—Capital Requirements"* and *Note 15, "Regulatory Matters" of the Notes to Consolidated Financial Statements*.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we originate. In addition, we routinely enter into commitments to sell mortgage loans; such amounts are not significant to our operations. For additional information, *see Note 12, "Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk" of the Notes to Consolidated Financial Statements*.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities and agreements with respect to investments.

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2010. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
Contractual Obligations	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**	**Total**
			(in thousands)		
Borrowings	$ 45,600	$ 45,000	$ 45,000	$ 34,037	$ 169,637
Operating leases	—	—	—	—	—
Capitalized leases	—	—	—	—	—
Purchase obligations	—	—	—	—	—
Certificates of deposit	220,544	70,298	15,941	—	306,783
Other long-term liabilities	—	—	—	—	—
Total	$ 266,144	$ 115,298	$ 60,941	$ 34,037	$ 476,420
Commitments to extend credit	$ 73,647	$ —	$ —	$ —	$ 73,647

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles. Generally accepted accounting principles generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on our performance than the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For information regarding market risk see *Item 7- "Management's Discussion and Analysis of Financial Condition and Results of Operation"*.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements are included in Part III, Item 15 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the "Evaluation Date"). Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Changes in internal controls

There were no significant changes made in our internal control over financial reporting during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Management report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Directors of Cape Bancorp, Inc.; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Cape Bancorp, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment we believe that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

Cape Bancorp's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. This report appears on page F-1.

The Sarbanes-Oxley Act Section 302 Certifications have been filed with the SEC as exhibit 31.1 and exhibit 31.2 to this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning directors and executive officers of Cape Bancorp is incorporated herein by reference from the Proxy Statement, specifically the section captioned *"Proposal I—Election of Directors"*.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the Proxy Statement, specifically the section captioned *"Executive Compensation"*.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain owners and management is incorporated herein by reference from the Proxy Statement, specifically the section captioned *"Voting Securities and Principal Holder Thereof"*.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning relationships and transactions is incorporated herein by reference from the Proxy Statement, specifically the section captioned *"Transactions with Certain Related Persons"*.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference from the Proxy Statement, specifically the section captioned *"Proposal II-Ratification of Appointment of Auditors"*.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following documents are filed as part of this Form 10-K.

(A) Report of Independent Registered Public Accounting Firm

(B) Consolidated Balance Sheets as of December 31, 2010 and 2009

(C) Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008

(D) Consolidated Statements of Changes in Equity for the years ended December 31, 2010, 2009 and 2008

(E) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008

(F) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

3.1	Articles of Incorporation of Cape Bancorp, Inc. [1]
3.2	Amended and Restated Bylaws of Cape Bancorp, Inc. [2]
4	Form of Common Stock Certificate of Cape Bancorp, Inc. [1]
10.1	Form of Employee Stock Ownership Plan [1]
10.2	Employment Agreement for Robert J. Boyer [3]
10.3	Employment Agreement for Michael D. Devlin [4]
10.4	Change in Control Agreement for Guy Hackney [4]
10.5	Change in Control Agreement for James McGowan, Jr. [4]
10.6	Change in Control Agreement for Michele Pollack [4]
10.7	Change in Control Agreement for Donald Dodson [4]
10.8	Form of Director Retirement Plan [1]
10.9	2008 Equity Incentive Plan [5]
14	Code of Ethics [6]
21	Subsidiaries of Registrant
23.1	Consent of KPMG LLP
23.2	Consent of Crowe Horwath LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated by reference to the Registration Statement on Form S-1 of Cape Bancorp, Inc.. (file no. 333-146178), originally filed with the Securities and Exchange Commission on September 19, 2007.

(2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2008.

(3) Incorporated by reference to the Company's Current Report filed on November 4, 2010, indicating that such agreement would not be renewed.

(4) Incorporated by reference to the Company's Current Report filed on October 6, 2010.

(5) Incorporated by reference to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on July 16, 2008.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 2007 filed with the Securities and Exchange Commission on March 31, 2008.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPE BANCORP, INC.

Date: March 11, 2011

By: /s/ Michael D. Devlin
Michael D. Devlin
Chief Executive Officer and President
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Michael D. Devlin Michael D. Devlin	Chief Executive Officer and President (Principal Executive Officer)	March 11, 2011
/s/ Guy Hackney Guy Hackney	Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2011
/s/ James J. Lynch James J. Lynch	Director	March 11, 2011
/s/ Roy Goldberg Roy Goldberg	Director	March 11, 2011
/s/ Mark A. Benevento Mark A. Benevento	Director	March 11, 2011
/s/ Agostino R. Fabietti Agostino R. Fabietti	Director	March 11, 2011
/s/ Robert F. Garrett, III Robert F. Garrett, III	Director	March 11, 2011
/s/ Frank J. Glaser Frank J. Glaser	Director	March 11, 2011
/s/ Louis H Griesbach, Jr. Louis H. Griesbach, Jr.	Director	March 11, 2011
/s/ David C. Ingersoll, Jr. David C. Ingersoll, Jr.	Director	March 11, 2011
/s/ Joanne D. Kay Joanne D. Kay	Director	March 11, 2011
/s/ Matthew J. Reynolds Matthew J. Reynolds	Director	March 11, 2011
/s/ Thomas K. Ritter Thomas K. Ritter	Director	March 11, 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF
CAPE BANCORP AND SUBSIDIARIES

* * *

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cape Bancorp, Inc.:

We have audited Cape Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2010, and our report dated March 11, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Philadelphia, Pennsylvania
March 11, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cape Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Cape Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments of debt securities due to the adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," (included in FASB ASC Topic 320, *Investments — Debt and Equity Securities),* as of April 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Philadelphia, Pennsylvania
March 11, 2011

Crowe Horwath LLP
Independent Member Crowe Horwath International

Report of Independent Registered Public Accounting Firm

Cape Bancorp, Inc.
Cape May Court House, New Jersey

We have audited the accompanying consolidated statement of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the Company's operations and its cash flows for year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Livingston, New Jersey
March 16, 2009

CAPE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(in thousands)	
ASSETS		
Cash & due from financial institutions	$ 10,181	$ 9,573
Interest-bearing bank balances	4,816	3,940
Cash and cash equivalents	14,997	13,513
Interest-bearing time deposits	9,361	7,451
Investment securities available for sale, at fair value (amortized cost of $165,877 and $162,935 respectively)	157,407	152,815
Loans held for sale	1,224	398
Loans, net of allowance of $12,538 and $13,311 respectively	772,318	789,473
Accrued interest receivable	4,029	4,630
Premises and equipment, net	25,212	26,383
Other real estate owned	3,255	4,817
Federal Home Loan Bank (FHLB) stock, at cost	8,721	10,275
Prepaid FDIC insurance premium	3,195	4,377
Deferred income taxes	6,054	3,956
Bank owned life insurance (BOLI)	28,252	27,210
Goodwill	22,575	22,575
Intangible assets, net	445	585
Assets held for sale	479	1,828
Other assets	3,518	2,535
Total assets	$ 1,061,042	$ 1,072,821
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 68,267	$ 62,365
Interest-bearing deposits	684,801	674,222
Borrowings	169,637	203,981
Advances from borrowers for taxes and insurance	554	542
Accrued interest payable	714	807
Other liabilities	4,915	4,356
Total liabilities	928,888	946,273
Stockholders' Equity		
Common stock, $.01 par value: authorized 100,000,000 shares; issued 13,324,521 shares in 2010 and 13,313,521 shares in 2009; outstanding 13,313,521 shares at December 31, 2010 and 2009	133	133
Additional paid-in capital	126,864	126,695
Treasury stock at cost - 11,000 shares	(85)	—
Unearned ESOP shares	(9,380)	(9,806)
Accumulated other comprehensive loss, net	(5,590)	(6,645)
Retained earnings	20,212	16,171
Total stockholders' equity	132,154	126,548
Total liabilities & stockholders' equity	$ 1,061,042	$ 1,072,821

See accompanying notes to consolidated financial statements.

CAPE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2010	2009	2008
	(dollars in thousands, except share data)		
Interest income:			
Interest on loans	$ 45,132	$ 46,561	$ 47,998
Interest and dividends on investments			
Taxable	1,612	2,961	4,811
Tax-exempt	1,189	1,359	1,290
Interest on mortgage-backed securities	2,336	3,652	4,028
Total interest income	50,269	54,533	58,127
Interest expense:			
Interest on deposits	8,622	12,390	17,683
Interest on borrowings	5,917	6,638	6,570
Total interest expense	14,539	19,028	24,253
Net interest income before provision for loan losses	35,730	35,505	33,874
Provision for loan losses	7,496	13,159	9,009
Net interest income (expense) after provision for loan losses	28,234	22,346	24,865
Non-interest income:			
Service fees	3,427	3,011	3,202
Net gains on sale of loans	168	130	36
Net income from BOLI	1,042	1,041	1,005
Net rental income	233	318	342
Gain on sale of investment securities held for sale, net	832	1,195	40
Net gain (loss) on sale of OREO	271	(323)	1
Gain (loss) on disposal of other assets	30	(7)	(158)
Other	273	700	379
Gross other-than-temporary impairment losses	(5,382)	(7,538)	(15,640)
Less: Portion of loss recognized in other comprehensive income	1,957	2,405	—
Net other-than-temporary impairment losses	(3,425)	(5,133)	(15,640)
Total non-interest income	2,851	932	(10,793)
Non-interest expense:			
Salaries and employee benefits	13,977	14,950	14,351
Occupancy and equipment	3,659	3,480	3,618
Federal insurance premiums	1,267	1,729	525
Data processing	1,341	1,159	1,370
Charitable Foundation contribution	—	—	6,256
Loan related expenses	2,037	1,844	280
Advertising	397	358	577
Telecommunications	985	852	870
Professional services	624	816	988
Goodwill impairment	—	—	31,751
OREO expenses	956	628	4
Other operating	3,291	3,343	4,127
Total non-interest expense	28,534	29,168	64,717
Income (loss) before income taxes	2,551	(5,890)	(50,645)
Income tax expense (benefit)	(1,490)	12,011	(8,154)
Net income (loss)	$ 4,041	$ (17,901)	$ (42,491)
Earnings (loss) per share (see Note 16):			
Basic	$ 0.33	$ (1.45)	$ (3.49)
Diluted	$ 0.33	$ (1.45)	$ (3.49)
Weighted average number of shares outstanding:			
Basic	12,351,902	12,312,714	12,280,494
Diluted	12,354,952	12,312,714	12,280,494

CAPE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2010, 2009 and 2008

	Common Stock	Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
				(in thousands)			
Balance, December 31, 2007	$ —	$ —	$ —	$ —	$ 293	$ 72,536	$ 72,829
Net loss	—	—	—	—	—	(42,491)	(42,491)
Net unrealized losses, net of reclassification adjustments and taxes	—	—	—	—	(6,315)	—	(6,315)
Total comprehensive loss							(48,806)
Conversion from mutual to stock company and simultaneous acquisition of Boardwalk Bancorp	133	126,832	—	(10,658)	—	—	116,307
ESOP shares earned	—	(31)	—	426	—	—	395
Balance, December 31, 2008	133	126,801	—	(10,232)	(6,022)	30,045	140,725
Net loss	—	—	—	—		(17,901)	(17,901)
Net unrealized gains, net of reclassification adjustments and taxes	—	—	—	—	3,404	—	3,404
Total comprehensive loss							(14,497)
Cumulative effect adjustment to reclassify non-credit component of previously recorded other-than-temporary impairment	—	—	—	—	(4,027)	4,027	—
ESOP shares earned	—	(106)	—	426	—	—	320
Balance, December 31, 2009	133	126,695	—	(9,806)	(6,645)	16,171	126,548
Net income	—	—	—	—	—	4,041	4,041
Stock option compensation expense	—	268	—	—	—	—	268
Restricted stock compensation expense	—	8	—	—	—	—	8
Net unrealized gains, net of reclassification adjustments and taxes	—	—	—	—	1,055	—	1,055
Total comprehensive income							5,372
Common stock repurchased - 11,000 shares	—	—	(85)	—	—	—	(85)
ESOP shares earned	—	(107)	—	426	—	—	319
Balance, December 31, 2010	$ 133	$ 126,864	$ (85)	$ (9,380)	$ (5,590)	$ 20,212	$ 132,154

CAPE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2010	2009	2008
		(in thousands)	
Cash flows from operating activities			
Net income (loss)	$ 4,041	$ (17,901)	$ (42,491)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	7,496	13,159	9,009
Net gain on the sale of loans	(168)	(130)	(36)
Net (gain) loss on the sale of other real estate owned	(271)	323	(1)
Write-down of other real estate owned	501	513	—
Impairment of goodwill	—	—	31,751
Loss on impairment of securities	3,425	5,133	15,640
Net gain on sale of investments	(832)	(1,195)	(40)
(Gain) loss on disposal of other assets	(30)	7	158
Write-down of assets held for sale	—	198	241
Earnings on BOLI	(1,042)	(1,041)	(1,006)
Originations of loans held for sale	(16,471)	(10,971)	(1,794)
Proceeds from sales of loans	15,645	10,573	2,144
Depreciation and amortization	1,910	1,850	1,327
ESOP and stock-based compensation expense	596	320	395
Stock issuance for charitable contribution	—	—	5,474
Deferred income taxes	(2,694)	11,537	(8,372)
Changes in assets and liabilities that (used) provided cash:			
Accrued interest receivable	601	106	785
Other assets	1,589	(4,400)	3,457
Accrued interest payable	(93)	29	(146)
Other liabilities	559	1,323	(5,074)
Net cash provided by operating activities	14,762	9,433	11,421
Cash flows from investing activities			
Proceeds from sales of AFS securities	16,889	31,708	2,535
Proceeds from calls, maturities, and principal repayments of HTM securities	—	8,643	6,723
Proceeds from calls, maturities, and principal repayments of AFS securities	112,031	83,884	67,649
Purchases of HTM securities	—	(2,998)	(7,940)
Purchases of AFS securities	(134,323)	(108,976)	(57,186)
Redemption (purchase) of Federal Home Loan Bank stock	1,554	1,327	(3,925)
Repurchase of common stock	(85)	—	—
Proceeds from sale of other real estate owned	5,082	1,786	169
Increase in interest-bearing time deposits	(1,909)	(1,917)	(1,869)
(Increase) decrease in loans, net	5,601	(26,448)	(20,481)
Purchase of property and equipment, net	(281)	(551)	(1,918)
Acquisition of Boardwalk Bancorp	—	—	(46,839)
Net cash provided by (used in) investing activities	4,559	(13,542)	(63,082)
Cash flows from financing activities			
Net increase (decrease) in deposits	16,502	25,614	(74,084)
Increase (decrease) in advances from borrowers for taxes and insurance	11	(43)	(65)
Increase in long-term borrowings	5,000	50,000	40,000
Repayments of long-term borrowings	(30,000)	(14,000)	(36,212)
Net change in short-term borrowings	(9,350)	(66,450)	83,300
Net proceeds from stock issuance in conversion	—	—	39,871
Net cash provided by (used in) financing activities	(17,837)	(4,879)	52,810
Net increase (decrease) in cash and cash equivalents	1,484	(8,988)	1,149
Cash and cash equivalents at beginning of year	13,513	22,501	21,352
Cash and cash equivalents at end of year	$ 14,997	$ 13,513	$ 22,501
Supplementary disclosure of cash flow information:			
Cash paid during period for:			
Interest	$ 14,632	$ 18,999	$ 23,875
Income taxes, net of refunds	$ 1,465	$ 17	$ 1,209
Supplementary disclosure of non-cash financing and investing activities:			
Fair value of held to maturity securities reclassified to available for sale	$ —	$ 44,523	$ —
Transfers from loans to other real estate owned	$ 3,750	$ 7,087	$ 966
Stock subscriptions applied to equity	$ —	$ —	$ 21,500
Issuance of stock to charitable foundation	$ —	$ —	$ 5,474
Issuance of stock for acquisition of Boardwalk Bancorp	$ —	$ —	$ 49,461

See accompanying notes to consolidated financial statements.

NOTES TO AUDITED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION

Cape Bancorp ("Company") is a Maryland corporation that was incorporated on September 14, 2007 for the purpose of becoming the holding company of Cape Bank (formerly Cape Savings Bank) in connection with Cape Bank's mutual-to-stock conversion, Cape Bancorp's initial public offering and simultaneous acquisition of Boardwalk Bancorp, Inc. ("Boardwalk Bancorp"), Linwood, New Jersey and its wholly-owned New Jersey chartered bank subsidiary, Boardwalk Bank. As a result of these transactions, Boardwalk Bancorp was merged with, and into, Cape Bancorp and Boardwalk Bank was merged with, and into, Cape Bank. As of January 31, 2008, Cape Savings Bank changed its name to Cape Bank.

Cape Bank ("Bank") is a New Jersey-chartered stock savings bank. The Bank provides a complete line of business and personal banking products through its sixteen full service branch offices located throughout Atlantic and Cape May counties in southern New Jersey and a loan production office in Burlington County (opened in February 2011). The Bank received regulatory approval for the closing of two branches in Cape May County. These closings were effective as of the close of business December 3, 2010 and the close of business February 4, 2011.

The Bank competes with other banking and financial institutions in its primary market areas. Commercial banks, savings banks, savings and loan associations, credit unions and money market funds actively compete for savings and time certificates of deposit and all types of loans. Such institutions, as well as consumer financial and insurance companies, may be considered competitors of the Bank with respect to one or more of the services it renders.

The Bank is subject to regulations of certain state and federal agencies, and accordingly, the Bank is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank's business is particularly susceptible to future state and federal legislation and regulations.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation: The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (US GAAP).

We have prepared the consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

The consolidated financial statements include the accounts of Cape Bancorp, Inc. and its subsidiaries, all of which are wholly-owned. Significant intercompany balances and transactions have been eliminated. In the opinion of management, all accounting entries and adjustments, including normal recurring accruals, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been made. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the filing of the consolidated financial statements with the SEC.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America (or with U.S. generally accepted accounting principles), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, deferred taxes, evaluation of investment securities for other-than-temporary impairment and fair values of financial instruments are particularly subject to change.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, overnight deposits, federal funds sold and interest-bearing bank balances. The Federal Reserve Bank required reserves of $657,000 as of December 31, 2010 and $668,000 as of December 31, 2009 are included in these balances.

Interest-Bearing Time Deposits: Interest-bearing time deposits are held to maturity, are carried at cost and have original maturities greater than three months.

Investment Securities: Effective December 31, 2009, all held to maturity securities were reclassified as available for sale. Investment securities classified as available for sale are carried at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of equity, net of related income tax effects. Gains and losses on sales of investment securities are recognized upon realization utilizing the specific identification method.

When the fair value of a debt security has declined below the amortized cost at the measurement date, an entity that intends to sell a security or is more likely than not to sell the security before the recovery of the security's cost basis, the entity must recognize the other-than-temporary impairment (OTTI) in earnings. For a debt security with a fair value below the amortized cost at the measurement date where it is more likely than not that an entity will not sell the security before the recovery of its cost basis, but an entity does not expect to recover the entire cost basis of the security, the security is considered other-than-temporarily impaired. The related other-than-temporary impairment loss on the debt security will be recognized in earnings to the extent of the credit losses with the remaining impairment loss recognized in accumulated other comprehensive income. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, cash flow, stress testing analysis on securities when applicable, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Allowance for Loan Losses: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, net of unearned interest, deferred loan fees and costs, and reduced by an allowance for loan losses. Interest on loans is accrued and credited to operations based upon the principal amounts outstanding. The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely.

Recognition of interest income is discontinued when, in the opinion of management, the collectability of such interest becomes doubtful. A commercial loan is classified as non-accrual when the loan is 90 days or more delinquent, or when in the opinion of management, the collectability of such loan is in doubt. Consumer and residential loans are classified as non-accrual when the loan is 90 days or more delinquent with a loan to value ratio greater than 70 percent. Loan origination fees and certain direct origination costs are deferred and amortized over the life of the related loans as an adjustment to the yield on loans receivable in a manner which approximates the interest method.

All interest accrued, but not received, for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Commercial loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Payments are generally applied to reduce the principal balance but, in certain situations, the application of payments may vary. Consumer and residential loans are returned to accrual status when their delinquency becomes less than 90 days and/or the loan to value ratio is less than 70%.

The allowance for loan losses is maintained at an amount management deems adequate to cover probable incurred losses. In determining the level to be maintained, management evaluates many factors including current economic trends, industry experience, historical loss experience, industry loan concentrations, the borrowers' ability to repay and repayment performance, estimated collateral values, changes in loan policies and procedures, changes in loan volume, delinquency and troubled asset trends, loan management and personnel, internal and external loan review, total credit exposure of the individual or entity, and external factors including competition, legal, regulatory

and seasonal factors. In the opinion of management, the allowance is adequate to absorb probable loan losses. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary based on changes in economic conditions or any of the other factors used in management's determination. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. Charge-offs to the allowance are made when the loan is transferred to other real estate owned or a determination of loss is made.

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Included in the allowance for loan losses at December 31, 2010 was an impairment reserve for troubled debt restructurings (TDRs) in the amount of $431,000.

Other Real Estate Owned: Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as other real estate owned and is initially recorded at the lower of cost or estimated fair market value, less the estimated cost to sell, at the date of foreclosure, thereby establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 7 years.

Federal Home Loan Bank of New York (FHLB) Stock: The Bank is a member of the FHLB of New York. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Cash dividends are reported as income.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which range from 5 to 13 years. Other intangible assets are assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Bank Owned Life Insurance (BOLI): The Bank has an investment of bank owned life insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees and directors. The Bank is the owner and beneficiary of the policies and in accordance with FASB Accounting Standards Codification (ASC) Topic 325 "Investments in Insurance Contracts", the amount recorded is the cash surrender value, which is the amount realizable.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Defined Benefit Plan: The Bank participates in a multi-employer defined benefit plan. The plan was amended to freeze participation to new employees commencing January 1, 2008. Employees who became eligible to participate prior to January 1, 2008, will continue to accrue a benefit under the plan. The Bank accrues pension costs as incurred. The plan was further amended to freeze benefits as of December 31, 2008 for all employees eligible to participate prior to January 1, 2008.

401(k) Plan: The Bank maintains a tax-qualified defined contribution plan for all salaried employees of Cape Bank who have satisfied the 401(k) Plan's eligibility requirements. The Bank's matching contribution under the Plan is equal to 100% of the participant's contribution on up to 3% of the participant's salary contributed to the plan and 50% of contributions on the next 2% of salary contributed by the participant, with a maximum potential matching contribution of 4%.

Employee Stock Ownership Plan (ESOP): The cost of shares issued to the ESOP, but not yet earned is shown as a reduction of equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts and the shares become outstanding for earnings per share computations. As of December 31, 2010, 127,809 shares have been allocated to eligible participants in the Cape Bank Employee Stock Ownership Plan.

Stock Benefit Plan: The Company has an Equity Incentive Plan (the "Stock Benefit Plan") under which incentive and non-qualified stock options, stock appreciation rights (SARs) and restricted stock awards (RSAs) may be granted periodically to certain employees and directors. Under the fair value method of accounting for stock options, the fair value is measured on the date of grant using the Black-Scholes option pricing model with market assumptions. This amount is amortized as salaries and employee benefits expense on a straight-line basis over the vesting period. Option pricing models require the use of highly subjective assumptions, including expected stock price volatility, which, if changed, can significantly affect fair value estimates.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The principal types of accounts resulting in differences between assets and liabilities for financial statement and tax purposes are the allowance for loan losses, deferred compensation, deferred loan fees, charitable contributions, depreciation and other-than-temporary impairment charges. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against net deferred tax assets when management has concluded that it is not more likely than not that a portion or all will be realized.

Beginning with the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* included in FASB ASC Subtopic 740-10 — *Income Taxes — Overall*, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of Interpretation 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

The Company records interest and penalties related to uncertain tax positions as non-interest expense.

Earnings Per Share: Basic earnings (loss) per common share is the net income (loss) divided by the weighted average number of common shares outstanding during the period. ESOP shares are not considered outstanding for this calculation unless earned. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock option and restricted stock awards, if any.

Comprehensive Income (Loss): Comprehensive income (loss) includes net income as well as certain other items which result in a change to equity during the period. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity as follows:

	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
		(in thousands)	
December 31, 2010			
Unrealized holding gains arising during the period	$ 1,015	$ (379)	$ 636
Non-credit related unrealized loss on other-than-temporarily impaired CDOs	(1,957)	665	(1,292)
Reclassification adjustment for gain on sale of AFS securities	(832)	283	(549)
Reclassification adjustment for credit related OTTI included in net income	3,425	(1,165)	2,260
Other comprehensive income, net	$ 1,651	$ (596)	$ 1,055
December 31, 2009			
Unrealized holding gains arising during the period	$ 3,625	$ (1,233)	$ 2,392
Non-credit related unrealized loss on other-than-temporarily impaired CDOs	(2,405)	818	(1,587)
Reclassification adjustment for gain on sale of AFS securities	(1,195)	406	(789)
Reclassification adjustment for credit related OTTI included in net income	5,133	(1,745)	3,388
Other comprehensive income, net	$ 5,158	$ (1,754)	$ 3,404
December 31, 2008			
Unrealized holding losses arising during the period	$ (25,247)	$ 8,722	$ (16,525)
Reclassification adjustment for gain on sale of AFS securities	(40)	14	(26)
Reclassification adjustment for net losses realized in net income	15,640	(5,404)	10,236
Other comprehensive loss, net	$ (9,647)	$ 3,332	$ (6,315)

Operating Segments: While the chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Effect of Newly Issued Accounting Standards:

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires reporting entities to make new disclosures about recurring and nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances and settlements, on a gross basis, in the reconciliation of Level 3 fair value measurements. ASU 2010-06 also requires disclosure of fair value measurements by “class” instead of by “major category” as well as any changes in valuation techniques used during the reporting period. For disclosures of Level 1 and Level 2 activity, fair value measurements by “class” and changes in valuation techniques, ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, with disclosures for previous comparative periods prior to adoption not required. The adoption of this portion of ASU 2010-06 on January 1, 2010 did not have a material impact on the Company’s financial condition or results of operations. For the reconciliation of Level 3 fair value measurements, ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this portion of ASU 2010-06 is not expected to have a material impact on the Company’s consolidated financial condition or results of operations.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28). ASU 2010-28 provides guidance on (i) the circumstances under which step 2 of the goodwill impairment test must be performed for reporting units with zero or negative carrying amounts, and (ii) the qualitative factors to be taken into account when performing step 2 in determining whether it is more likely than not that an impairment exists. ASU 2010-28 is effective for public entities with fiscal years beginning after December 15, 2010, with early adoption prohibited. Upon initial application, all entities having reporting units with zero or negative carrying amounts are required to assess whether it is more likely than not that impairment exists and any resulting goodwill impairment should be recognized as a cumulative-effect adjustment to opening retained earnings in the period of adoption. The adoption of ASU 2010-28 is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (ASU 2010-29). ASU 2010-29 clarifies that pro forma revenue and earnings for a business combination occurring in the current year should be presented as though the business combination occurred as of the beginning of the year or, if comparative financial statements are presented, as though the business combination took place as of the beginning of the comparative year. ASU 2010-29 also amends existing guidance to expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring adjustments directly attributable to the business combination included in the pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations consummated on or after the start of the first annual reporting period beginning after December 15, 2010, with early adoption permitted. The adoption of ASU 2010-29 is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

In January 2011, the FASB issued ASU No. 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). For public entities, ASU 2011-01 delays the effective date for certain disclosures about loans modified under troubled debt restructurings included in ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20). The new effective date for the loans modified under troubled debt restructuring disclosures will be concurrent with the effective date of FASB's proposed ASU, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. ASU 2011-01 does not change the effective date for other disclosures required by public entities in ASU 2010-20. The adoption of ASU 2011-01 once effective is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

In April 2009, FASB issued new authoritative accounting guidance under FASB ASC Topic 320, "Investments—Debt and Equity Securities" regarding the recognition and presentation of other-than-temporary impairments, which modified the requirement in existing accounting guidance to demonstrate the intent and ability to hold an investment security for a period of time sufficient to allow for any anticipated recovery in fair value. When the fair value of a debt security has declined below the amortized cost at the measurement date, an entity that intends to sell a security or is more-likely-than-not to sell the security before the recovery of the security's cost basis, must recognize the other-than-temporary impairment in earnings. For a debt security with a fair value below the amortized cost at the measurement date where it is more-likely-than-not that an entity will not sell the security before the recovery of its cost basis, but an entity does not expect to recover the entire cost basis of the security, the security is considered other-than-temporarily impaired. The related other-than-temporary impairment loss on the debt security will be recognized in earnings to the extent of the credit losses with the remaining impairment loss recognized in accumulated other comprehensive income. This standard is effective for interim and annual periods ending after June 15, 2009. As a result of this standard the Company recorded a cumulative effect adjustment net of tax of $4.1 million to retained earnings for the non-credit portion of OTTI previously recognized as well as recognized a charge to earnings for credit losses incurred in the period of adoption.

NOTE 3 — INVESTMENT SECURITIES

The amortized cost, gross unrealized gains or losses and the fair value of the Bank's investment securities available for sale at December 31, 2010 and December 31, 2009 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
December 31, 2010				
Investment securities available for sale				
Debt securities				
U.S. Government and agency obligations	$ 72,470	$ 52	$ (787)	$ 71,735
Municipal bonds	25,811	456	(861)	25,406
Collateralized debt obligations	9,715	—	(8,581)	1,134
Corporate bonds	17,994	187	(46)	18,135
Total debt securities	$ 125,990	$ 695	$ (10,275)	$ 116,410
Mortgage-backed securities				
GNMA pass-through certificates	$ 2,318	$ 50	$ —	$ 2,368
FHLMC pass-through certificates	3,299	134	—	3,433
FNMA pass-through certificates	16,542	765	(41)	17,266
Collateralized mortgage obligations	17,728	309	(107)	17,930
Total mortgage-backed securities	$ 39,887	$ 1,258	$ (148)	$ 40,997
Total securities available for sale	$ 165,877	$ 1,953	$ (10,423)	$ 157,407

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
December 31, 2009				
Investment securities available for sale				
Debt securities				
U.S. Government and agency obligations	$ 46,004	$ 96	$ (128)	$ 45,972
Municipal bonds	33,901	953	(473)	34,381
Collateralized debt obligations	13,038	58	(11,640)	1,456
Corporate bonds	10,851	195	—	11,046
Total debt securities	$ 103,794	$ 1,302	$ (12,241)	$ 92,855
Mortgage-backed securities				
GNMA pass-through certificates	$ 677	$ 16	$ —	$ 693
FHLMC pass-through certificates	5,338	175	—	5,513
FNMA pass-through certificates	26,612	1,001	(25)	27,588
Collateralized mortgage obligations	26,514	567	(915)	26,166
Total mortgage-backed securities	$ 59,141	$ 1,759	$ (940)	$ 59,960
Total securities available for sale	$ 162,935	$ 3,061	$ (13,181)	$ 152,815

Effective December 31, 2009 the Company reclassified the Held-to-Maturity (HTM) portion of its investment portfolio, which had a market value of $44.5 million and an amortized cost of $43.0 million, to Available-for-Sale (AFS). This change in classification provides flexibility and enables the Company to respond more effectively to changes in market value of the investment portfolio as well as enhances its sources of liquidity.

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2010.

	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
U.S. Government and agency obligations	$ 52,688	$ (787)	$ —	$ —	$ 52,688	$ (787)
Municipal bonds	6,853	(220)	2,916	(641)	9,769	(861)
Corporate bonds	9,427	(46)	—	—	9,427	(46)
Collateralized debt obligations	35	(364)	1,099	(8,217)	1,134	(8,581)
Mortgage-backed securities	6,675	(110)	3,140	(38)	9,815	(148)
Total temporarily impaired investment securities	$ 75,678	$ (1,527)	$ 7,155	$ (8,896)	$ 82,833	$ (10,423)

The table below indicates the length of time individual securities, both held to maturity and available for sale, have been in a continuous unrealized loss position at December 31, 2009.

	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
U.S. Government and agency obligations	$ 16,877	$ (128)	$ —	$ —	$ 16,877	$ (128)
Municipal bonds	578	(8)	3,988	(465)	4,566	(473)
Corporate bonds	—	—	—	—	—	—
Collateralized debt obligations	90	(3,329)	1,308	(8,311)	1,398	(11,640)
Mortgage-backed securities	7,496	(116)	2,718	(824)	10,214	(940)
Total temporarily impaired investment securities	$ 25,041	$ (3,581)	$ 8,014	$ (9,600)	$ 33,055	$ (13,181)

Management evaluates investment securities to determine if they are other-than-temporarily impaired on at least a quarterly basis. The evaluation process applied to each security includes, but is not limited to, the following factors: whether the security is performing according to its contractual terms, determining if there has been an adverse change in the expected cash flows for investments within the scope of FASB Accounting Standards Codification (ASC) Topic 325, “Investments Other”, the length of time and the extent to which the fair value has been less than cost, whether the Company intends to sell, or would more likely than not be required to sell an impaired debt security before a recovery of its amortized cost basis, credit rating downgrades, the percentage of performing collateral that would need to default or defer to cause a break in yield and/or a temporary interest shortfall, and a review of the underlying issuers.

At December 31, 2010, the Company’s investment securities portfolio consisted of 332 securities, 31 of which were in an unrealized loss position. The gross unrealized losses in the Company’s investment securities portfolio related primarily to the collateralized debt obligation securities, which are discussed in detail below, and accounted for 82.3% of the gross unrealized losses at December 31, 2010. The remaining securities consist of investments that are backed by the U.S. Government or U.S. sponsored agencies which the government has affirmed its commitment to support, municipal obligations and corporate bonds which had unrealized losses that were caused by changing credit spreads in the market as a result of the current economic environment and an increase in mid to long-term interest rates in the latter part of 2010. Because the Company has no intention to sell these securities, nor is it more likely than not that we will be required to sell these securities, the Company does not consider those investments to be OTTI.

As of December 31, 2010, the book value of our pooled trust preferred collateralized debt obligations totaled $9.7 million with an estimated fair value of $1.1 million and is comprised of 24 securities. Of those, 16 have been principally issued by bank holding companies (PreTSL deals, MM Comm I, and Alesco VI), and 8 have been principally issued by insurance companies (I-PreTSL deals). All of our pooled securities are mezzanine tranches and possess credit ratings below investment grade. As of December 31, 2010, 16 of our securities had no excess subordination and 8 of our securities had excess subordination which ranged from 2.8% to 14.3% of the current performing collateral. Excess subordination is the amount by which the underlying performing collateral exceeds the outstanding bonds in the current class, plus all senior classes. It is a static measure of credit enhancement, but does not incorporate structural elements of the CDO. Management utilizes excess subordination as a measure to identify which tranches are at a greater risk for a future break in cash flows. However, a current subordination deficit or "zero excess subordination" does not indicate the tranche will not ultimately receive all principal and interest due. For example, this measure does not consider the potential for recovery of issuers that are currently deferring payments. Some issuers have elected to defer payments, which contractually they are permitted to do for a period of up to 5 years, even though going concern issues may not exist. This supports management's position that a deferral is not necessarily indicative of a default or that a default is imminent. On average, deferring issuers within our CDO portfolio comprise approximately 60% of the total dollar value related to issuer defaults and deferrals. As such, our assumptions used in the calculation of discounted cash flows anticipate a 15% recovery rate on deferring issuers as compared to no recovery of issuers that have defaulted. The recovery rate assumption represents management's best estimate based on current facts and circumstances. In addition, due to projected discounted cash flows that do not support the receipt of interest, the Company is not accruing interest on any of the bank issued CDO securities. Accordingly, these securities are considered non-performing assets.

The following table provides additional information related to our pooled trust preferred collateralized debt obligations as of December 31, 2010:

Pooled Trust Preferred Collateralized Debt Obligations
(dollars in thousands)

Deal	Number of Securities	Class	Book Value	Fair Value	Unrealized Loss	Realized Loss	Moody's/ Fitch Ratings	Current Number of Performing Issuers	Amount of Deferrals and Defaults as a % of Current Collateral	Excess Subordination as a % of Current Performing Collateral
PreTSL II	2	Mezzanine	$ 419	$ 15	$ (403)	$ (635)	Ca/C	23	37.70%	0.00%
PreTSL VI.....	1	Mezzanine	43	1	(41)	(16)	Ca/D	2	81.00%	0.00%
PreTSL XIX.....	1	Mezzanine	1,168	20	(1,148)	(614)	C/C	52	24.60%	0.00%
I-PreTSL I	2	Mezzanine	1,833	251	(1,582)	—	NR/CCC	16	17.36%	9.11%
I-PreTSL II.....	2	Mezzanine	2,715	375	(2,340)	—	NR/B	29	4.87%	14.33%
I-PreTSL III	3	Mezzanine	2,701	375	(2,326)	—	B2/CCC	24	11.16%	10.75%
I-PreTSL IV	1	Mezzanine	439	63	(376)	—	Ba2/CCC	29	11.58%	2.82%
MM Comm I	1	Mezzanine	399	35	(364)	(1,153)	NR/C	7	61.80%	0.00%
Total	13		$ 9,715	$ 1,134	$ (8,581)	$ (2,418)				

Lack of liquidity in the market for trust preferred collateralized debt obligations, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the impairment on these securities. The table above excludes 11 CDO securities which have been completely written-off and, therefore, have no book value. The realized loss associated with these securities is $14.5 million.

The following table provides additional information related to our pooled trust preferred collateralized debt obligations as of December 31, 2009:

Pooled Trust Preferred Collateralized Debt Obligations
(dollars in thousands)

Deal	Number of Securities	Class	Book Value	Fair Value	Unrealized Loss	Realized Loss	Moody's/ Fitch Ratings	Current Number of Performing Issuers	Amount of Deferrals and Defaults as a % of Current Collateral	Excess Subordination as a % of Current Performing Collateral
PreTSL II	2	Mezzanine	$ 582	$ 17	$ (565)	$ (422)	Ca/CC	27	31.10%	0.00%
PreTSL VI	1	Mezzanine	52	6	(46)	(5)	Caa1/CCC	3	68.71%	0.00%
PreTSL XIX	2	Mezzanine	2,739	48	(2,691)	(815)	Ca/C	60	16.42%	0.00%
PreTSL XX	1	Mezzanine	67	13	(54)	(1,685)	NR/C	54	26.23%	0.00%
PreTSL XXI	1	Mezzanine	—	13	13	(1,736)	NR/C	57	26.27%	0.00%
PreTSL XXII	1	Mezzanine	277	18	(259)	(2,320)	NR/C	74	24.48%	0.00%
PreTSL XXIII	1	Mezzanine	416	3	(413)	(29)	NR/CC	105	19.49%	0.00%
PreTSL XXIV	3	Mezzanine	210	20	(190)	(2,364)	Ca/C	69	29.44%	0.00%
PreTSL XXV	2	Mezzanine	—	22	22	(2,948)	NR/C	53	30.96%	0.00%
I-PreTSL I	2	Mezzanine	1,827	299	(1,528)	—	NR /BB	16	17.36%	7.38%
I-PreTSL II	2	Mezzanine	2,706	447	(2,259)	—	NR /BB	29	4.81%	14.32%
I-PreTSL III	3	Mezzanine	2,693	448	(2,245)	—	B2/BB	24	11.16%	8.49%
I-PreTSL IV	1	Mezzanine	437	75	(362)	—	Ba2/B	31	4.16%	8.30%
MM Comm I	1	Mezzanine	1,032	20	(1,012)	(554)	Ca/CCC	9	45.74%	0.00%
Alesco VI	1	Mezzanine	—	7	7	(615)	Ca/CC	49	31.39%	0.00%
Total	24		$ 13,038	$ 1,456	$ (11,582)	$ (13,493)				

On a quarterly basis, we evaluate our investment securities for other-than-temporary impairment. As required by FASB ASC Topic No. 320, "Investments — Debt and Equity Securities", if we do not intend to sell a debt security, and it is not more likely than not that we will be required to sell the security, an OTTI write-down is separated into a credit loss portion and a portion related to all other factors. The credit loss portion is recognized in earnings as net OTTI losses, and the portion related to all other factors is recognized in accumulated other comprehensive income, net of taxes. The credit loss portion is defined as the difference between the amortized cost of the security and the present value of the expected future cash flows for the security. The Company has evaluated these securities and determined that the decreases in estimated fair value are temporary with the exception of 16 bank issued pooled trust preferred CDO securities. The Company's estimate of projected cash flows it expected to receive was less than the securities' carrying value resulting in a net credit impairment charge to earnings for the year ending December 31, 2010 of $3.4 million. As a result of adopting certain provisions of FASB ASC Topic No. 320 (formerly FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments") in 2009, we were required to record a cumulative effect adjustment to reclassify the portion of previously recorded other-than-temporary impairment charges that were not related to credit losses from retained earnings to accumulated other comprehensive income. Impairment charges related to these securities were recorded during 2008 and the first quarter of 2009 in the amount of $14.5 million and $1.5 million, respectively. We reclassified $6.1 million, $4.0 million net of tax, of these previously recorded OTTI charges from retained earnings to accumulated other comprehensive income as a cumulative effect adjustment.

Our CDOs are beneficial interests in securitized financial assets within the scope of FASB ASC Topic No. 325, "Investments — Other", and are therefore evaluated for OTTI using management's estimate of future cash flows. If these estimated cash flows determine that it is probable an adverse change in cash flows has occurred, then OTTI would be recognized in accordance with FASB ASC Topic No. 320. The Company uses a third party model ("model") to assist in calculating the present value of current estimated cash flows to the previous estimate. The present value of the expected cash flows is calculated based on the contractual terms of the security, and is discounted at a rate equal to the effective interest rate implicit in the security at the date of acquisition.

The model also takes into account individual defaults and deferrals that have already occurred by any participating issuer within the pool of entities that make up the security's underlying collateral. With regard to expected defaults and deferrals, the Company performs an ongoing analysis of these securities utilizing both readily available market data and analytical models obtained from the third party. On a quarterly basis we evaluate the underlying collateral of each pooled trust preferred security in our portfolio to determine the appropriate default/deferral assumptions to use in our calculation of discounted cash flows. This process entails obtaining each security's issuer list which include the most recent financial and credit quality metrics. We then identify issuers that

have metrics that are similar to those that have defaulted or are deferring payments. As part of our evaluation we consider such measures as liquidity, capital adequacy, profitability, and credit quality and analyze ratios such as ROAA, net interest margin, tier 1 risk based capital, tangible equity to tangible assets, Texas ratio, reserves to loans and non-performing loans to loans. Our evaluation also takes into consideration current economic indicators as well as recent default/deferral trends of underlying issuers. Management then develops a projected default/deferral rate for each security based on this analysis. This rate is then applied to the cash flow model developed by the third party to calculate the present value of discounted cash flows for each security. The model assumptions relative to expected recoveries of defaulted issuers and deferring issuers were discussed earlier in this Note. Furthermore, we perform back-testing by comparing actual default/deferral rates to previous projections. The results are used to refine future projections on a continuous basis. Lastly, we continually evaluate the securities for the potential of future impairment by reviewing the FDIC failed bank list and deferral announcements made by the underlying issuers of each CDO security in our portfolio.

In general, CDOs are callable within five to ten years of issuance with a quarterly call frequency. Due to current market conditions, the cost to refinance or issue capital at a lower rate than what is currently outstanding, and the limited history of CDOs, prepayments are difficult to predict. The model assumes that prepayments will be limited to those issuers that are acquired by large banks with low financing costs. A 1% annual prepayment assumption has been used in the model and is indicative of management's belief that consolidation in the banking industry will occur over the next several years as market conditions begin to improve. Additionally, commencing with a date ten years from the issuance date, the Trustee can solicit bids in an auction format for the purchase of all the outstanding collateral securities. The highest bid will be accepted that is at least equal to the sum of the outstanding liabilities at par plus accrued and unpaid interest. However, given the uncertain future of the CDO market, credit quality issues with the underlying issuers, and a decline in market value, the model assumes that a successful call auction is highly unlikely. Therefore, the model expects that the securities will extend through their full 30-year maturity.

The amortized cost and fair value of debt securities and mortgage-backed securities available for sale at December 31, 2010, by contractual maturities, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year or less	$ 7,530	$ 7,568
Due after one year but within five years	90,468	90,169
Due after five years but within ten years	8,105	8,195
Due after ten years	19,887	10,478
Mortgage-backed securities	39,887	40,997
Total investment securities	$ 165,877	$ 157,407

The following table presents a summary of the cumulative credit related OTTI charges recognized as components of earnings for CDO securities still held by the Company at December 31, 2010 and 2009 (in thousands):

	For the year ended December 31,	
	2010	2009
Beginning balance of cumulative credit losses on CDO securities (1)	$ (13,493)	$ (9,899)
Additional credit losses for which other than temporary impairment was previously recognized	(3,425)	(3,594)
Ending balance of cumulative credit losses on CDO securities, December 31, 2010	$ (16,918)	$ (13,493)

(1) On April 1, 2009, we recognized a cumulative effect adjustment based upon FASB guidance regarding the recognition and presentation of other-than-temporary impairment and determined that $9.9 million of previously recorded OTTI write-downs represented credit losses.

Gross realized gains on sales of investment securities during 2010 were $962,000, compared to $1.2 million during 2009. The Company also realized gross losses of $130,000 during 2010 from the sale of a corporate bond security. There were no losses realized by the Company in 2009 related to security sales. Proceeds were $16.9 million in 2010 related to sales of municipal bonds, corporate bonds, agency MBS and CMO securities, and a private label CMO, and $31.7 million in 2009 related to sales of FHLMC and FNMA adjustable rate MBS securities.

As of December 31, 2010, the fair value of all securities available for sale that were pledged to secure public fund deposits, short-term borrowings, repurchase agreements, and for other purposes required by law, was $57.2 million. At December 31, 2009 the corresponding amount was $57.5 million.

NOTE 4 — LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31,	
	2010	2009
	(in thousands)	
Commercial mortgage	$ 413,487	$ 412,475
Residential mortgage	258,047	244,897
Construction	15,191	28,839
Home equity loans and lines of credit	47,875	52,806
Commercial business loans	48,223	62,685
Other consumer loans	2,207	1,284
Loans receivable, gross	785,030	802,986
Less:		
Allowance for loan losses	12,538	13,311
Deferred loan fees	174	202
Loans receivable, net	$ 772,318	$ 789,473

Activity in the allowance for loan losses is as follows:

	2010	2009	2008
	(in thousands)		
Balance at beginning of year	$ 13,311	$ 11,240	$ 4,121
Allowance from acquired entity	—	—	3,791
Provisions charged to operations	7,496	13,159	9,009
Charge-offs	(8,837)	(11,656)	(5,708)
Recoveries	568	568	27
Balance at end of year	$ 12,538	$ 13,311	$ 11,240

The following table summarizes activity related to the allowance for loan losses by category for the year ended December 31, 2010:

	At or for the Years ended December 31, 2010 (in thousands)								
	Commercial Secured by Real Estate	Commercial Term Loans	Construction	Other Commercial (1)	Residential Mortgage	Home Equity & Lines of Credit	Other Consumer	Unallocated	Total
Balance at beginning of year	$ 8,109	$ 128	$ 388	$ 1,826	$ 2,048	$ 771	$ 41	$ —	$ 13,311
Charge-offs	(5,156)	—	(1,160)	(1,754)	(677)	—	(90)	—	(8,837)
Recoveries	472	9	—	58	—	—	29	—	568
Provision for loan losses	6,090	(53)	1,508	334	(510)	(576)	33	670	7,496
Balance at end of year	$ 9,515	$ 84	$ 736	$ 464	$ 861	$ 195	$ 13	$ 670	$ 12,538

(1) includes commercial lines of credit

Impaired loans at December 31, 2010 and 2009 were as follows:

	December 31, 2010	December 31, 2009
	(in thousands)	
Non-accrual loans (1)	$ 40,827	$ 31,994
Loans delinquent greater than 90 days and still accruing	2,639	1,254
Troubled debt restructured loans	7,732	—
Loans less than 90 days and still accruing	8,514	—
Total impaired loans	$ 59,712	$ 33,248

(1) includes $11.8 million in non-accruing TDRs paying in accordance with restructured terms.

	December 31, 2010	December 31, 2009
	(in thousands)	
Impaired loans with no allocated allowance for loan losses	$ 30,389	$ 26,020
Impaired loans with an allocated allowance for loan losses	29,323	7,228
Total	$ 59,712	$ 33,248
Amount of the allowance for loan losses allocated	$ 4,234	$ 3,016

	2010	2009
	(in thousands)	
Average of individually impaired loans during year	$ 41,910	$ 31,833
Interest income recognized during impairment	$ 383	$ 49
Cash basis interest income recognized	$ —	$ —

As of December 31, 2010 and 2009, non-performing loans had a principal balance of approximately $43.5 million and $33.2 million respectively. Loan balances past due 90 days or more and still accruing interest, but which management expects will eventually be paid in full, amounted to approximately $2.6 million and $1.3 million at December 31, 2010 and 2009, respectively. The amount of interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $1.9 million, $1.8 million, and $1.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The following table presents impaired loans at December 31, 2010.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
Impaired loans with a related allowance					
Commercial secured by real estate	$ 21,449	$ 21,689	$ 3,510	$ 21,826	$ 273
Commercial secured by other	—	—	—	—	—
Construction	4,966	4,966	603	4,623	—
Other commercial	2,223	2,249	67	2,166	—
Residential mortgage	619	663	19	183	5
Home equity loans and lines of credit	66	66	35	66	—
Other consumer loans	—	—	—	—	—
Unallocated	—	—	—	—	—
Impaired loans with a related allowance	$ 29,323	$ 29,633	$ 4,234	$ 28,864	$ 278
Impaired loans with no related allowance					
Commercial secured by real estate	$ 18,923	$ 24,426	$ —	$ 20,999	$ 84
Commercial secured by other	86	411	—	337	—
Construction	3,980	6,671	—	2,790	—
Other commercial	2,162	3,398	—	2,362	—
Residential mortgage	4,508	4,903	—	4,600	21
Home equity loans and lines of credit	730	772	—	576	—
Other consumer loans	—	—	—	—	—
Unallocated	—	—	—	—	—
Impaired loans with no related allowance	$ 30,389	$ 40,581	$ —	$ 31,664	$ 105
Total impaired loans					
Commercial secured by real estate	$ 40,372	$ 46,115	$ 3,510	$ 42,825	$ 357
Commercial secured by other	86	411	—	337	—
Construction	8,946	11,637	603	7,413	—
Other commercial	4,385	5,647	67	4,528	—
Residential mortgage	5,127	5,566	19	4,783	26
Home equity loans and lines of credit	796	838	35	642	—
Other consumer loans	—	—	—	—	—
Unallocated	—	—	—	—	—
Total impaired loans	$ 59,712	$ 70,214	$ 4,234	$ 60,528	$ 383

The following table presents loans by past due status at December 31, 2010.

	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent and Accruing	Total Delinquent and Accruing	Non-accrual	Current	Total Loans
				(in thousands)			
Real estate loans:							
Commercial mortgage	$ 1,305	$ 94	$ —	$ 1,399	$ 27,781	$ 384,307	$ 413,487
Residential mortgage	796	477	2,207	3,480	2,449	252,118	258,047
Construction	—	—	—	—	3,980	11,211	15,191
Home equity loans and lines of credit	164	103	432	699	363	46,813	47,875
Commercial business loans	—	—	—	—	6,254	41,969	48,223
Other consumer loans	—	16	—	16	—	2,191	2,207
Total	$ 2,265	$ 690	$ 2,639	$ 5,594	$ 40,827	$ 738,609	$ 785,030

Our policies provide for the classification of loans based on an analysis of the credit conditions of the borrower and the value of the collateral when appropriate. There is no specific credit metrics used to determine the risk rating.

Risk Rating 1-5 — Acceptable credit quality ranging from High Pass (cash or near cash as collateral) to Management Attention/Pass (acceptable risk) with some deficiency in one or more of the following areas: management experience, debt service coverage levels, balance sheet leverage, earnings trends and the industry of the borrower.

Risk Rating 6 — Watch List reflects loans that management believes warrant special consideration and may be loans that are delinquent or current in their payments. These loans have potential weakness which increases their risk to the bank and have shown some signs of weakness but have fallen short of being a Substandard loan.

Management believes that the Substandard category is best considered in three discrete classes: RR 7.0 "performing substandard loans;" RR 7.5; and RR 7.9

Risk Rating 7.0 — The class is mostly populated by customers that have a history of repayment (less than 2 delinquencies in the past year) but exhibit some signs of weakness manifested in either cash flow or collateral. In some cases, while cash flow is below the policy levels, the customer is in a cash business and has never presented financial reports that reflect sufficient cash flow for a global cash flow coverage ratio of 1.20.

Risk Rating 7.5 — These are loans that share many of the characteristics of the RR 7.0 loans as they relate to cash flow and/or collateral, but have the further negative of historic delinquencies. These loans have not yet declined in quality to require a FASB ASC Topic No. 310 Receivables analysis, but nonetheless this class has a greater likelihood of migration to a more negative risk rating.

Risk Rating 7.9 — These loans have undergone a FASB ASC Topic No. 310 Receivables analysis or have a specific reserve. For those that have a FASB ASC Topic No. 310 Receivables analysis, no general reserve is allowed. More often than not, those loans in this class with specific reserves have had the reserve placed by Management pending information to complete a FASB ASC Topic No. 310 Receivables analysis. Upon completion of the FASB ASC Topic No. 310 Receivables analysis reserves are adjusted or charged off.

The following table presents commercial loans by credit quality indicator at December 31, 2010.

	Risk Ratings					
	Grades 1-5	Grade 6	Grade 7	Grade 7.5	Grade 7.9	Total
	(in thousands)					
Commercial secured by real estate	$ 348,166	$ 12,064	$ 23,720	$ 14,248	$ 26,730	$ 424,928
Commercial term loans	4,887	14	—	—	86	4,987
Construction	3,725	120	2,400	—	8,946	15,191
Other commercial	24,262	1,252	3,297	822	2,162	31,795
	$ 381,040	$ 13,450	$ 29,417	$ 15,070	$ 37,924	$ 476,901

The following table presents consumer loans by credit quality indicator at December 31, 2010.

	Current	30-89 Days Delinquent	Non-accrual	Impaired Loans	Total
	(in thousands)				
Real estate loans:					
Residential mortgage	$ 252,118	$ 1,273	$ 2,449	$ 2,207	$ 258,047
Home equity loans and lines of credit	46,813	267	363	432	47,875
Other consumer loans	2,191	16	—	—	2,207
Total consumer loans	$ 301,122	$ 1,556	$ 2,812	$ 2,639	$ 308,129

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at December 31, 2010 and 2009 are as follows:

	December 31,	
	2010	2009
	(in thousands)	
Mortgage loan portfolios serviced	$ 3,265	$ 4,414

Custodial escrow balances maintained in connection with serviced loans were $19,000 and $27,000 at December 31, 2010 and 2009, respectively.

Loans to principal officers, directors, and their affiliates were as follows:

	December 31,	
	2010	2009
	(in thousands)	
Beginning balance	$ 9,023	$ 9,355
New loans/advances	300	5,550
Effect of changes in composition of related parties	5,634	(42)
Repayments	(404)	(5,840)
Ending balance	$ 14,553	$ 9,023

NOTE 5 — FAIR VALUE

FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures" establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Collateralized debt obligation securities which are issued by financial institutions and insurance companies were historically priced using Level 2 inputs, the decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely. The once active market has become comparatively inactive. As such, these investments are now priced using Level 3 inputs.

The Company obtained the pricing for these securities from an independent third party who prepared the valuations using a market valuation approach. Information such as historical and current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions and insurance companies, are utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. When the fair value of the collateral is based on an observable market price or current appraised value, the Company records the impaired loans as a Level 2 valuation. When management determines the fair value of the collateral is further impaired below the appraised value, or there is no observable market price or appraised value, the Company records the loan as a Level 3 valuation. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2010			Fair Value Measurements at December 31, 2009		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
		(in thousands)			(in thousands)	
Investment securities available for sale:						
U.S. Government and agency obligations	$ —	$ 71,735	$ —	$ —	$ 45,972	$ —
Municipal bonds	—	25,406	—	—	34,381	—
Collateralized debt obligations	—	—	1,134	—	—	1,456
Corporate bonds	—	18,135	—	—	11,046	—
Mortgage-backed securities	—	40,997	—	—	59,960	—
Total securities available for sale	$ —	$ 156,273	$ 1,134	$ —	$ 151,359	$ 1,456

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	CDO Securities Available for Sale	
	Twelve months ended December 31,	
	2010	2009
	(in thousands)	
Beginning balance	$ 1,456	$ 3,033
Accretion of discount	102	238
Payments received	—	(2)
Increase in amortized cost (1)	—	6,103
Unrealized holding gain (loss)	3,001	(2,783)
Other-than-temporary impairment included in earnings	(3,425)	(5,133)
Ending balance	$ 1,134	$ 1,456

(1) Increase is due to FASB guidance regarding the recognition and presentation of other-than-temporary impairments.

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2010			Fair Value Measurements at December 31, 2009		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
		(in thousands)			(in thousands)	
Assets:						
Impaired loans (1):						
Commercial secured by real estate	$ —	$ 35,891	$ 4,481	$ —	$ 25,132	$ —
Commercial term loans	—	86	—	—	—	—
Construction	—	8,657	289	—	1,298	—
Other commercial	—	3,947	438	—	—	—
Residential mortgage	—	5,127	—	—	3,251	—
Home equity loans	—	796	—	—	482	—
Total impaired loans	$ —	$ 54,504	$ 5,208	$ —	$ 33,248	$ —
Other real estate owned:						
Commercial	$ —	$ 2,257	$ —	$ —	$ 3,532	$ —
Residential mortgage	—	998	—	—	1,285	—
Total other real estate owned	$ —	$ 3,255	$ —	$ —	$ 4,817	$ —
Loans held for sale	$ —	$ 1,224	$ —	$ —	$ 398	$ —
Assets held for sale	$ —	$ 479	$ —	$ —	$ 1,828	$ —
Goodwill	$ —	$ —	$ 22,575	$ —	$ —	$ 22,575
Other intangibles	$ —	$ —	$ 445	$ —	$ —	$ 585

(1) Includes loans delinquent 90 days, loans less than 90 days delinquent but not accruing and troubled debt restructured loans.

Other real estate owned properties are recorded at the lower of cost or estimated fair market value at the date of foreclosure, less the estimated cost to sell. Fair market value is estimated by using professional real estate appraisals.

The following disclosure of estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	At December 31, 2010		At December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets				
Cash and cash equivalents	$ 14,997	$ 14,997	$ 13,513	$ 13,513
Interest-bearing time deposits	$ 9,361	$ 9,440	$ 7,451	$ 7,539
Investment securities	$ 157,407	$ 157,407	$ 152,815	$ 152,815
Loans held for sale	$ 1,224	$ 1,224	$ 398	$ 398
Loans receivable	$ 772,318	$ 780,277	$ 789,473	$ 788,421
FHLB Stock	$ 8,721	$ 8,721	$ 10,275	$ 10,275
Bank owned life insurance	$ 28,252	$ 28,252	$ 27,210	$ 27,210
Accrued interest receivable	$ 4,029	$ 4,029	$ 4,630	$ 4,630
Liabilities				
Savings deposits	$ 84,312	$ 84,312	$ 79,368	$ 79,368
NOW, checking and MMDA deposits	$ 361,973	$ 361,973	$ 320,308	$ 320,308
Certificates of deposit	$ 306,783	$ 309,897	$ 336,911	$ 340,084
Borrowings	$ 169,637	$ 174,553	$ 203,981	$ 199,718
Accrued interest payable	$ 714	$ 714	$ 807	$ 807

The carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, and accrued interest receivable and payable.

Investment securities — The fair value is determined as previously described.

Loans held for sale — The fair value is equal to the carrying value since the time from when a loan is closed and settled is generally not more than two weeks.

Loans — The fair values of all loans are estimated by discounting the estimated future cash flows using the Company's interest rates currently offered for loans with similar terms to borrowers of similar credit quality which is not an exit price under FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures". The carrying value and fair value of loans include the allowance for loan losses.

FHLB stock — Ownership in equity securities of FHLB of New York is restricted and there is no established market for their resale. The carrying amount is a reasonable estimate of fair value.

Deposits — The fair value of deposits with no stated maturity, such as money market deposit accounts, checking accounts and savings accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered by the Company for deposits of similar size, type and maturity.

Borrowings — The fair value of borrowings, which includes Federal Home Loan Bank of New York advances and securities sold under agreement to repurchase, is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered for borrowings of similar maturity and terms.

The Company's unused loan commitments, standby letters of credit and undisbursed loans have no carrying amount and have been estimated to have no realizable fair value. Historically, a majority of the unused loan commitments have not been drawn upon. *See Note 12, "Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk" of Notes to Consolidated Financial Statements,* for additional information.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2010 and 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date; and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 6 — OTHER REAL ESTATE OWNED

At December 31, 2010, other real estate owned totaled $3.3 million and consisted of three residential properties and eight commercial properties. At December 31, 2009, other real estate owned totaled $4.8 million and consisted of three residential properties and seven commercial properties. Other real estate owned is presented net of an allowance for losses, if any. At December 31, 2010 the allowance for losses on foreclosed real estate totaled $305,000. At December 31, 2009 there was no allowance for losses on foreclosed real estate.

For the twelve months ended December 31, 2010, the Company added $3.8 million of property to OREO and sold eight commercial OREO properties and four residential OREO properties with an aggregate carrying value totaling $4.8 million, including three commercial OREO properties and one residential OREO property with an aggregate carrying value of $862,000 sold in the fourth quarter of 2010. Net gains on the sale of OREO totaled $271,000 for the twelve months ended December 31, 2010, of which $16,000 was recorded in the fourth quarter, compared to net losses on OREO sales of $323,000 for the twelve months ended December 31, 2009.

Net expenses applicable to OREO for the twelve months ended December 31, 2010 and 2009 totaled $669,000 and $946,000, respectively, which included provisions for losses on the sale of OREO of $501,000 for the twelve months ended December 31, 2010, and $513,000 for the twelve months ended December 31, 2009.

As of the date of this filing, the Company has agreements of sale for two OREO properties with an aggregate carrying value totaling $454,000. In 2011, the Company has added two commercial OREO properties with a carrying value of $1.1 million. In addition, in 2011, three commercial OREO properties with an aggregate carrying value of $716,000 and one residential OREO property with an aggregate carrying value of $86,000 were sold. The Company recorded a net gain in the amount of $75,000 related to the sales in 2011.

NOTE 7 — PREMISES AND EQUIPMENT

Premises and equipment, summarized by major classification, are as follows:

	Estimated Useful Lives	2010	2009
		(in thousands)	
Land, buildings, and improvements	10 – 39 years	$ 30,451	$ 30,451
Furniture and equipment	3 – 7 years	10,251	9,977
Construction-in-progress	—	28	388
Total		40,730	40,816
Accumulated depreciation		(15,518)	(14,433)
Premises and equipment, net		$ 25,212	$ 26,383

Depreciation expense for the years ended December 31, 2010, 2009, and 2008 was approximately $1.4 million, $1.5 million, and $1.6 million, respectively.

NOTE 8 — GOODWILL AND INTANGIBLE ASSETS

The change in the balance for goodwill during the year is as follows:

	2010	2009
	(in thousands)	
Beginning balance	$ 22,575	$ 22,575
Acquired goodwill	—	—
Impairment	—	—
Other, net	—	—
Ending balance	$ 22,575	$ 22,575

FASB ASC Topic No. 350-20, “Goodwill” requires a company to perform an impairment test on goodwill annually, or more frequently if events or changes in circumstance indicate that the asset might be impaired, by computing the fair value of such goodwill to its recorded or carrying amount. If the carrying amount of goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess.

The Company tested goodwill for impairment during the fourth quarter of 2010. The Company has one reporting unit, Community Banking, and as such evaluated goodwill at the Community Banking reporting unit level. This test involved estimating the fair value of the Company using financial data and market prices as of December 31, 2010 and utilizing the control premium approach. The results of this test indicated that goodwill was not impaired. The Company continues to evaluate goodwill on a quarterly basis.

Due to credit deterioration in the Company’s loan and securities portfolio, the Company determined that it was appropriate to test for goodwill impairment during the fourth quarter of 2008. The company used a three step valuation approach of the Company. These three measurements included the comparable transaction approach including applications of various metrics from bank sale transactions for institutions comparable to the Company; the control premium approach including application of a market-derived multiple of tangible book value; and the discounted cash flow approach, including estimations of the present value of future cash flows.

Once it is determined that the fair value is materially less than the carrying value, FASB ASC Topic No. 350-20 requires a company to calculate the implied fair value of goodwill and compare it to the carrying amount of goodwill. At December 31, 2008, the amount of excess of the carrying amount of goodwill over the implied amount of goodwill is the amount of the impairment loss, which was calculated at $31.8 million by management.

Acquired intangible assets at year end are as follows:

	2010		2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)		(in thousands)	
Amortized intangible assets:				
Core deposit intangibles	$ 565	$ 231	$ 565	$ 165
Other customer relationship intangibles	485	374	485	300
Total	$ 1,050	$ 605	$ 1,050	$ 465

The aggregate amortization expense for the years ended December 31, 2010, 2009 and 2008 was $140,000, $201,000 and $264,000, respectively.

The estimated amortization expense for each of the next five years and thereafter is as follows:

	(in thousands)
2011	$ 110
2012	$ 98
2013	$ 43
2014	$ 32
2015	$ 31
Thereafter	$ 131

NOTE 9 — DEPOSITS

Deposits are as follows:

	December 31,	
	2010	2009
	(in thousands)	
Savings accounts	$ 84,312	$ 79,368
NOW accounts and money market funds	293,706	257,943
Non-interest bearing checking	68,267	62,365
Certificates of deposit of less than $100,000	170,524	201,303
Certificates of deposit of $100,000 or more	136,259	135,608
	$ 753,068	$ 736,587

Interest expense by deposit type was as follows:

	For the Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Savings accounts	$ 316	$ 385	$ 1,062
NOW accounts and money market funds	2,168	2,119	4,059
Certificates of deposit	6,138	9,886	12,562
	$ 8,622	$ 12,390	$ 17,683

Certificates of deposit were scheduled to mature contractually within the following periods:

	(in thousands)
2011	$ 220,544
2012	51,792
2013	18,506
2014	4,519
2015	11,422
	$ 306,783

Deposits held at the Bank by related parties, which include officers, directors, and companies in which directors of the Board have a significant ownership interest, approximated $7.0 million and $3.4 million at December 31, 2010 and 2009, respectively.

NOTE 10 — BORROWINGS

At December 31, 2010, the Bank had available borrowing capacity under a continuing borrowing agreement with the Federal Home Loan Bank of New York (FHLB) to borrow up to 100% of the book value of qualified 1 to 4 family loans secured by residential properties and various commercial loans secured by commercial real estate subject to FHLB approval. At December 31, 2010 and 2009, $11.5 million of these advances were callable on various dates. Interest rates ranged from 0.36% to 5.31% at December 31, 2010, and from 0.32% to 5.31% at December 31, 2009.

Outstanding borrowings mature as follows:

	December 31, 2010		
	FHLB Borrowings	Repurchase Agreements	Total
2011	$ 45,600	$ —	$ 45,600
2012	25,000	—	25,000
2013	20,000	—	20,000
2014	25,000	—	25,000
2015	12,500	7,500	20,000
Thereafter	4,030	30,007	34,037
Principal due	$ 132,130	$ 37,507	$ 169,637

At December 31, 2010 and 2009, the Bank had qualified 1 to 4 family loans and commercial loans of approximately $199.2 million and $193.8 million, respectively, which served as collateral to cover outstanding advances on the Federal Home Loan Bank of New York borrowings.

Securities sold under agreement to repurchase totaled $37.5 million at December 31, 2010 are fixed rate, and are collateralized by securities with a carrying amount of $42.5 million. At December 31, 2009, securities sold under agreements to repurchase totaled $37.5 million, were fixed rate, and were collateralized by securities with a carrying amount of $43.0 million. At maturity, the securities underlying the agreement are returned to the Company. At December 31, 2010 and 2009, repurchase agreements totaling $37.5 million were callable on various dates, at par by the repurchase agreement counter-party.

The following table sets forth fixed and variable rate FHLB borrowings and the respective weighted average interest rate at December 31, 2010 and 2009.

	FHLB Borrowings			
	December 31, 2010		December 31, 2009	
	Balance	Weighted Average Rate at Year End	Balance	Weighted Average Rate at Year End
	(dollars in thousands)		(dollars in thousands)	
Fixed rate advances	$ 111,530	3.77%	$ 174,031	3.83%
Variable rate advances	20,600	0.40%	29,950	0.32%
Total	$ 132,130	3.36%	$ 203,981	3.32%

Additional information regarding FHLB Borrowings and securities sold under agreements to repurchase is as follows:

	2010			2009		
	FHLB Borrowings	Repurchase Agreements	Total	FHLB Borrowings	Repurchase Agreements	Total
	(dollars in thousands)			(dollars in thousands)		
Average daily balance during the year	$ 123,307	$ 37,594	$ 160,901	$ 153,582	$ 37,674	$ 191,256
Average interest rate during the year	3.49%	4.30%	3.68%	3.27%	4.30%	3.47%
Maximum month-end balance during the year	$ 165,182	$ 37,605	$ 202,787	$ 193,897	$ 37,778	$ 231,675
Weighted average interest rate at year-end	3.09%	3.46%	3.36%	3.09%	4.32%	3.32%

NOTE 11 — INCOME TAXES

Income tax benefit for the year ended December 31, 2010 was primarily impacted by the release of a $2.0 million valuation allowance. The release of the valuation allowance was due to estimated taxable income through December 31, 2010 and the anticipated implementation of a business planning strategy which would result in the recognition of a capital gain. These items allowed for additional deferred tax assets to be realizable.

Income tax expense (benefit) was as follows:

	For the Years Ended December 31,		
	2010	2009	2008
	(in thousands)		
Current expense:			
Federal	$ 1,211	$ 464	$ 440
State	10	10	23
Total current	1,221	474	463
Deferred (benefit):			
Federal	(766)	(3,176)	(7,333)
State	57	(801)	(1,249)
Total deferred	(709)	(3,977)	(8,582)
Change in valuation allowance	(2,002)	15,514	(35)
Income tax expense (benefit)	$ (1,490)	$ 12,011	$ (8,154)

Effective tax rate differs from the federal statutory rate of 34% applied to income before income taxes due to the following:

	For the Years Ended December 31,		
	2010	2009	2008
Tax statutory rate	34.0%	(34.0%)	(34.0%)
Adjustments resulting from:			
Goodwill impairment	—	—	21.3
State tax benefit, net of federal income tax expense	1.7	(8.9)	(1.6)
Tax-exempt income	(15.8)	(7.8)	(0.9)
Income on bank owned life insurance	(13.9)	(8.7)	(0.7)
Change in valuation reserve	(66.6)	263.4	—
Other	2.3	(0.1)	(0.2)
Effective tax rate	(58.3%)	203.9%	(16.1%)

Year-end deferred tax assets and liabilities were due to the following:

	December 31,	
	2010	2009
	(in thousands)	
Deferred tax assets:		
Other than temporary impairment	$ 5,697	$ 4,533
Allowance for loan losses	4,809	4,949
Charitable foundation contribution carryforward	2,251	2,457
Purchase accounting adjustments	2,057	1,816
Non-accrual loan interest income	2,166	1,819
Deferred compensation	557	584
Net operating losses	459	534
Net unrealized loss on available for sale securities	2,880	3,496
AMT credit carryforward	169	557
Other	215	357
Valuation allowance	(13,745)	(15,747)
	7,515	5,355
Deferred tax liabilities:		
Depreciation	(980)	(860)
Deferred loan fees	(478)	(533)
Other	(3)	(6)
	(1,461)	(1,399)
Net deferred tax asset	$ 6,054	$ 3,956

As a result of adopting certain provisions of FASB ASC Topic No. 320 (formerly FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments") in April 2009, we were required to record a cumulative effect adjustment to reclassify the portion of previously recorded other-than-temporary impairment charges that were not related to credit losses from retained earnings to accumulated other comprehensive income. The tax effect of this adjustment, a $2.1 million deferred tax asset related to previously recorded OTTI, was reclassified as a deferred tax asset on net unrealized losses on available for sale securities.

During the third quarter of 2009, the Company established a valuation allowance of approximately $16.0 million against a significant portion of its deferred tax assets after concluding that it was more likely than not that a portion of the deferred tax asset would not be realized. A valuation allowance was not necessary for the deferred tax asset related to the unrealized investment losses as the realization of this component of the deferred tax assets is not dependent on future taxable income. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in

which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. In recording the valuation allowance in the third quarter of 2009, Management considered both the positive and negative evidence available related to these factors and the cumulative loss position for the most recent three years ended December 31, 2009. This cumulative loss was primarily caused by the significant loan loss provisions and OTTI charges made during recent periods.

At December 31, 2010, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances.

The Company has approximately $7.4 million of state net operating losses that will expire between 2015 and 2029. Additionally, the Company has approximately $169,000 of AMT tax credits to offset the difference between regular tax and alternative minimum tax. The deferred tax assets related to these items are subject to a valuation allowance as noted above.

Pursuant to FASB ASC Topic No. 740, "Income Taxes" the Company is not required to provide deferred taxes on its tax loan loss reserve as of the base year. The amount of this reserve on which no deferred taxes have been provided is $7,878,000 for 2010 and 2009. This reserve could be recognized as taxable income and create a current and/or deferred tax liability using the income tax rates then in effect if any portion of this tax reserve is subsequently used for purposes other than to absorb loan losses. The related amount of deferred tax liability is approximately $3,146,000 for 2010 and 2009.

The following is a roll-forward of the Bank's FASB ASC Topic No. 740 unrecognized tax benefits:

	2010	2009
	(in thousands)	
Balance at January 1	$ 353	$ 353
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years	—	—
Reductions for tax positions of prior years	—	—
Reductions due to the statute of limitations	—	—
Settlements	—	—
Balance at December 31	$ 353	$ 353

Of this total, $353,000 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The total amount of interest and penalties recorded in the income statement for the year ended December 31, 2010 and 2009 was $56,000 and $52,000 and the amount accrued for interest and penalties at December 31, 2010 and 2009 was $108,000 and $52,000, respectively.

The Bank is subject to U.S. federal income tax as well as income tax of the state of New Jersey. The Bank is no longer subject to examination by the Internal Revenue Service for years before 2007 and by the state of New Jersey for years before 2006.

NOTE 12 — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Bank is a 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 are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

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

At December 31, 2010 and 2009, the Bank had outstanding commitments (substantially all of which expire within one year) to originate residential mortgage loans, construction loans, commercial real estate and consumer loans. These commitments were comprised of fixed and variable rate loans.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support contracts entered into by customers. Most guarantees extend for one year. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2010 the Bank had $1.2 million of letters of credit outstanding to borrowers of non-performing loans. The Bank defines the fair value of these letters of credit as the fees paid by the customer or similar fees collected on similar instruments.

The Bank amortizes the fees collected over the life of the instrument. The Bank generally obtains collateral, such as real estate or liens on customer assets for these types of commitments. The Bank's potential liability would be reduced by proceeds obtained in liquidation of the collateral held.

The Bank had the following off-balance sheet financial instruments whose contract amounts represent credit risk:

	At December 31, 2010		At December 31, 2009	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 11,564	$ 2,614	$ 10,915	$ 1,236
Unused lines of credit	$ —	$ 52,328	$ —	$ 56,323
Construction loans in process	$ 719	$ 1,042	$ 2,786	$ 7,403
Standby letters of credit	$ —	$ 5,380	$ —	$ 6,929

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 3.75% to 6.25% and maturities ranging from one to thirty years.

The Bank provides loans primarily in Atlantic and Cape May counties, New Jersey, to borrowers that share similar attributes. In addition, in February 2011, the Bank opened a loan production office in Burlington County.

A substantial portion of the Bank's debtors' ability to honor their contracts is dependent upon the economic conditions of these regions of New Jersey.

NOTE 13 — BENEFIT PLANS

Defined Benefit Plan

The Bank participates in a multi-employer defined benefit plan. Contributions to this plan by the Bank during the years ended December 31, 2010, 2009 and 2008 were $195,000, $164,000, and $817,000, respectively. Total compensation expense recorded under this plan during the years ended December 31, 2010, 2009 and 2008, was approximately $219,000, $476,000, and $975,000, respectively. During 2007, the plan was amended to freeze participation to new employees effective January 1, 2008. The plan was further amended to freeze benefits as of December 31, 2008 for all employees eligible to participate prior to January 1, 2008.

401K Plan

The Bank maintains a 401(k) plan for employees, a tax-qualified defined contribution plan, for all employees of the Bank who have satisfied the 401(k) plan's eligibility requirements. Prior to January 1, 2008, the Bank made matching contributions to the accounts of plan participants in an amount equal to 100% of the participants' contributions, up to 6% of their salary. The Bank charged approximately $287,000, $304,000, and $324,000, to employer contributions for the 401(k) plan for the years ended December 31, 2010, 2009 and 2008, respectively. Effective January 1, 2008, the Bank amended the matching contribution formula so that matching contributions will be equal to 100% of the participants' contributions on up to 3% of the participants' salary contributed to the plan and 50% of the participants' contributions on the next 2% of salary contributed by the participants, with a maximum potential matching contribution of 4%.

Employee Stock Ownership Plan

On January 1, 2008, the Bank adopted an Employee Stock Ownership Plan ("ESOP"). The ESOP borrowed $10.7 million from the Company and used the funds to purchase 1,065,082 shares of the Company. The loan has an interest rate that is determined January 1st of each year and is based on the prime rate as published in *The Wall Street Journal* on the first business day of the calendar year. The interest rate for 2010 and 2009 was 3.25% and has an amortization schedule of 25 years. The loan is secured by the shares. Shares purchased are held by the trustee in a loan suspense account and are released from the suspense account on a pro rata basis as the loan is repaid by the Bank over a period not to exceed 25 years. The trustee allocates shares to participants based on compensation as described in the Cape Bank Employee Stock Ownership Plan, in the year of allocation. Employees are eligible to participate in the ESOP after attainment of age 21 and completion of one year of service.

The Company has not declared a dividend and as a result, no dividend income was recorded for the years ended December 31, 2010 and 2009. The Company recorded ESOP compensation expense of $319,000 and $320,000 for the years ended December 31, 2010 and 2009, respectively.

Shares held by the ESOP were as follows:

	At December 31,	
	2010	2009
	(dollars in thousands)	
Allocated to participants	127,809	85,206
Distributed to participants	—	—
Unearned shares	937,273	979,876
Total ESOP shares	1,065,082	1,065,082
Fair value of unearned shares	$ 7,967	$ 6,585

Director Retirement Plan

The Bank maintains an amended and restated director retirement plan for its directors, represented by individual agreements with the directors. In accordance with each director's retirement agreement, the director is entitled to a normal retirement benefit upon termination of service on or after the director's normal retirement age, equal to 2.5% times the director's years of service with Cape Bank (not to exceed a benefit equal to 50%) of the average of the greatest fees earned by a director during any five consecutive calendar years. This benefit is payable to the director in equal monthly installments for a period of 10 years or the director's lifetime, whichever is greater. In December 2008, the individual agreements were amended to comply with the final regulations issued under Section 409A of the Internal Revenue Code and to freeze future benefit accruals as of October 31, 2008. In accordance with these amendments, the agreements were modified to require a specified dollar amount to be paid to the director in January 2009, in complete satisfaction of all rights under the director retirement plan. Accordingly, in January 2009, the directors received $8,604 from the plan. In addition, the individual agreements were also modified to specify the total benefit that would be paid to each director and to specify that the total benefit would be paid in 120 monthly installments upon the occurrence of retirement, death or a change in control. The director could elect a lump sum benefit in the event of death or a change in control if such election was made prior to December 31, 2008.

Expense for these plans related to both active and retired participants totaled $46,000, $52,000, and $216,000, for the years ended December 31, 2010, 2009 and 2008, respectively. The total compensation liability for these plans was $1,054,000 and $1,135,000 at December 31, 2010 and 2009, respectively. On January 4, 2008, $4,596,000 related to the phantom restricted stock and phantom stock option plans was disbursed. In addition, $127,000 in payments were made to retired directors.

Equity Incentive Plan

The Company has an Equity Incentive Plan under which incentive and non-qualified stock options, stock appreciation rights (SARs), and restricted stock awards (RSAs) may be granted periodically to certain employees and directors. Generally, stock options are granted with an exercise price equal to fair market value at the date of grant and expire in 10 years from the date of grant. Generally, stock options granted vest over a five-year period commencing on the first anniversary of the date of grant. Under the plan, 1,331,352 stock options are available to be issued.

Under the fair value method of accounting for stock options, the fair value for all stock options granted under the Equity Incentive Plan is measured on the date of grant using the Black-Scholes option pricing model with market assumptions. This amount is amortized as salaries and employee benefits on a straight-line basis over the vesting period. Option pricing models require the use of highly subjective assumptions, including expected stock price volatility, which, if changed, can significantly affect fair value estimates.

During 2010, the Company issued 740,000 incentive stock options to certain employees at prices ranging from $7.27 per share to $8.50 per share. In addition, in 2010, 23,600 non-qualified stock options were issued to directors at a price of $7.68 per share. The following table presents the weighted average per share fair value of options granted and the assumptions used, based on the Black-Scholes option pricing methodology:

Assumption	December 31, 2010
Expected average risk-free interest rate	2.46%
Expected average life (in years)	6.5
Expected volatility	41.63%
Expected dividend yield	0.00%
Weighted average per share fair value	$ 3.30

Stock option activity for the twelve months ended December 31, 2010 was as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at January 1, 2010	—	$ —	—
Granted	763,600	7.30	—
Forfeited	—	—	—
Outstanding at December 31, 2010	763,600	$ 7.30	9.5 years
Exercisable at December 31, 2010	—	$ —	—
Aggregate Intrinsic Value at December 31, 2010	—	$ —	—

The expected average risk-free rate is based on the U.S. Treasury yield curve on the day of grant. The expected average life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and expected option exercise activity. Expected volatility is based on historical volatilities of the Company's common stock as well as the historical volatility of the stocks of the Company's peer banks. The expected dividend yield is based on the expected dividend yield over the life of the option and the Company's historical information.

On July 1, 2010, the Company issued 11,000 restricted stock awards to directors at a price of $7.68 per share. The restricted stock awards will vest in five equal annual installments, with the first installment becoming exercisable on the first anniversary of the date of grant, or July 1, 2011.

Restricted stock activity for the twelve months ended December 31, 2010 was as follows:

	Restricted Common Shares	Weighted Average Fair Value at Grant Date
Outstanding at January 1, 2010	—	$ —
Granted	11,000	7.68
Forfeited	—	—
Outstanding at December 31, 2010	11,000	$ 7.68

At December 31, 2010, unrecognized compensation costs on unvested stock options and restricted stock awards was $2.3 million which will be amortized on a straight-line basis over the remaining vesting period.

Stock-based compensation expense and related tax effects recognized for the twelve months ended December 31, 2010 was as follows. There were no stock-based compensation expenses for the twelve month periods ended December 31, 2009 and 2008:

	2010 (in thousands)
Compensation expense:	
Common stock options	$ 268
Restricted common stock	8
Total compensation expense	276
Tax benefit	5
Net income effect	$ 271

At December 31, 2010, 763,600 options were outstanding, leaving 567,752 options available to be issued. Based on the option agreements, there were no vested or exercisable options as of December 31, 2010.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Leases: Lessor — the Bank leases portions of three of its buildings to various lessees under noncancelable operating leases with the following minimum future rentals due at December 31, 2010:

	(in thousands)
Due in one year or less	$ 155
Due after one year	58
	$ 213

Lessees are also responsible for their proportionate share of common area maintenance expenses. These leases convert to a month-to-month tenancy agreement after completion of the original lease term.

Lessee — A subsidiary, Cape Delaware Investment Company, whose office is in the state of Delaware, leases its office space under a cancelable lease agreement. In addition, in 2008, the Bank leased office space in New Jersey for two loan production offices. Rent expense for the years ended December 31, 2010, 2009 and 2008, approximated $10,000, $14,000, and $58,000, respectively.

From time to time, the Bank may be a defendant in legal proceedings arising out of the normal course of business. In management's opinion, the financial position and results of operations of the Bank would not be affected materially by the outcome of such legal proceedings.

NOTE 15 — REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2010, the Company and Bank meet all capital adequacy requirements to which it is subject.

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 I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

As of December 31, 2010 and 2009, the Bank was categorized 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 I risk-based, and Tier I 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 actual capital amounts, ratios and minimum regulatory guidelines for Cape Bank are as follows:

	Actual		Per Regulatory Guidelines			
			Minimum		"Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
December 31, 2010						
Risk based capital ratios:						
Tier I	$ 103,092	12.65%	$ 32,598	4.00%	$ 48,897	6.00%
Total capital	$ 113,313	13.90%	$ 65,216	8.00%	$ 81,520	10.00%
Leverage ratio	$ 103,092	9.96%	$ 41,402	4.00%	$ 51,753	5.00%
December 31, 2009						
Risk based capital ratios:						
Tier I	$ 98,256	11.45%	$ 34,325	4.00%	$ 51,488	6.00%
Total capital	$ 109,013	12.71%	$ 68,616	8.00%	$ 85,769	10.00%
Leverage ratio	$ 98,256	9.37%	$ 41,945	4.00%	$ 52,431	5.00%

Management believes that under the current and proposed regulations, the Company and the Bank will continue to meet its minimum capital requirements in the foreseeable future.

Regulatory capital levels reported above differ for both Cape Bancorp and Cape Bank from their total capital respectively, computed in accordance with accounting principles general accepted in the United States (GAAP), as follows:

	At December 31,	
	2010	2009
	(in thousands)	
Total capital, computed in accordance with GAAP	$ 120,523	$ 114,772
Accumulated other comprehensive (gain) loss	5,590	6,645
Intangible assets	(1)	(1)
Disallowed goodwill and other disallowed intangible assets	(23,020)	(23,160)
Tier I (tangible) capital	103,092	98,256
Allowance for loan losses	10,221	10,757
Total regulatory capital	$ 113,313	$ 109,013

NOTE 16 — EARNINGS PER SHARE

Earnings Per Common Share: Basic earnings per common share is the net income (loss) divided by the weighted average number of common shares outstanding during the period. ESOP shares are not considered outstanding for this calculation unless earned. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock option and restricted stock awards, if any. Earnings per share for the year ended December 31, 2008 is calculated on earnings since the date of conversion on January 31, 2008.

The following is the earnings per share calculation for the periods ended December 31, 2010, 2009 and 2008, respectively. At December 31, 2010, options to purchase 763,600 shares were dilutive, and accordingly were included in determining diluted earnings per common share. Restricted stock was dilutive and is included in the earnings per share calculation. There were no potentially dilutive common shares at or for the periods ended December 31, 2009 and 2008.

	Year ended December 31,		
	2010	2009	2008
	(in thousands, except share data)		
Net income (loss)	$ 4,041	$ (17,901)	$ (42,491)
Weighted average shares outstanding	12,351,902	12,312,714	12,280,494
Basic earnings (loss) per share	$ 0.33	$ (1.45)	$ (3.49)
Diluted weighted average shares outstanding	12,354,952	12,312,714	12,280,494
Diluted basic earnings (loss) per share	$ 0.33	$ (1.45)	$ (3.49)

NOTE 17 — ACQUISITION OF BOARDWALK BANCORP

On January 31, 2008, Cape Bancorp, Inc. acquired Boardwalk Bancorp, Inc, as previously discussed in *Note 1 — Organization*. Boardwalk Bancorp Inc.'s results of operations have been reflected in Cape Bancorp's consolidated statements of income beginning as of the acquisition date, January 31, 2008. The pro forma condensed consolidated income statement for the year ended December 31, 2008 is shown as if the merger occurred as of January 1, 2008:

	Year ended December 31, 2008
	(in thousands)
Interest and dividend income	$ 60,517
Interest expense	25,612
Net interest income	34,905
Provision for loan losses	9,009
Net interest income after provision for loan losses	25,896
Non-interest income	(10,672)
Non-interest expense	67,291
Income (loss) before income taxes	(52,067)
Income tax expense (benefit)	(8,360)
Net income (loss)	$ (43,707)
Basic EPS	$ (3.56)

Non-interest expense for the year ended December 31, 2008 includes a $31.8 million non-cash goodwill impairment charge and a $6.3 million expense for a contribution to the charitable foundation established and funded in connection with the stock conversion. Non-interest income for the year ended December 31, 2008 includes a $15.6 million charge for other-than-temporary impairment on investment securities.

NOTE 18 — CAPE BANCORP (PARENT COMPANY)

The Parent Company's condensed balance sheets at December 31, 2010 and 2009 and the related condensed statements of income and cash flows for the years ended December 31, 2010, 2009 and 2008 follow:

Condensed Balance Sheets

	December 31,	
	2010	2009
	(in thousands)	
ASSETS		
Non-interest bearing balances with bank subsidiary	$ 2,070	$ 1,782
Loans due from bank subsidiary	9,814	10,116
Investment in bank subsidiary	120,523	114,772
Other assets	159	69
Total assets	$ 132,566	$ 126,739
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 412	$ 191
Total liabilities	412	191
Stockholders' Equity		
Common stock	133	133
Additional paid in capital	126,864	126,695
Treasury stock at cost — 11,000 shares	(85)	—
Unearned ESOP shares	(9,380)	(9,806)
Accumulated other comprehensive loss	(5,590)	(6,645)
Retained earnings	20,212	16,171
Total stockholders' equity	132,154	126,548
Total liabilities and stockholders' equity	$ 132,566	$ 126,739

Condensed Statements of Income

	Years ended December 31,		
	2010	2009	2008
	(in thousands)		
Income:			
Interest income from bank subsidiary	$ 327	$ 338	$ 611
Total income	327	338	611
Expense:			
Interest expense	—	—	28
Legal expense	45	207	249
Investor relations expense	31	68	99
Audit and consulting fees	243	8	51
Subscriptions and publications	83	68	29
Other non-interest expenses	21	13	15
Total expense	423	364	471
Income (loss) before income taxes and equity in undistributed net income (loss) of subsidiaries	(96)	(26)	140
Income tax expense (benefit)	(29)	(27)	64
Income before equity in undistributed net income (loss) of subsidiaries	(67)	1	76
Equity in undistributed net income (loss) of bank subsidiary	4,108	(17,902)	(42,567)
Net income (loss)	$ 4,041	$ (17,901)	$ (42,491)

Condensed Statements of Cash Flows

	Years ended December 31,		
	2010	2009	2008
	(in thousands)		
Cash flows from operating activities:			
Net income (loss)	$ 4,041	$ (17,901)	$ (42,491)
Adjustments to reconcile net income to cash provided by operating activities:			
Equity in undistributed net income (loss) of bank subsidiary	(4,108)	17,902	42,567
Stock-based compensation expense	8	—	—
Change in other assets and other liabilities, net	130	60	61
Net cash provided by operating activities	71	61	137
Cash flows from investing activities:			
Capital contribution to bank subsidiary	—	—	(115,034)
Loan to ESOP to finance purchase of shares	—	—	(10,658)
Repayment of ESOP loan	302	294	248
Purchase of Treasury Stock	(85)	—	—
Net cash provided by (used in) investing activities	217	294	(125,444)
Cash flows from financing activities:			
Issuance of common stock related to initial public offering	—	—	126,734
Net cash provided by financing activities	—	—	126,734
Net increase in cash and cash equivalents	288	355	1,427
Cash and cash equivalents at beginning of year	1,782	1,427	—
Cash and cash equivalents at end of year	$ 2,070	$ 1,782	$ 1,427

Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by Cape Bank. See "—Federal Banking Regulation—Prompt Corrective Action".

NOTE 19 — SELECTED QUARTERLY DATA (UNAUDITED)

	Year Ended December 31, 2010				Year Ended December 31, 2009			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands)				(in thousands)			
Interest income	$ 12,220	$ 12,655	$ 12,829	$ 12,565	$ 13,189	$ 13,409	$ 13,992	$ 13,943
Interest expense	3,277	3,558	3,736	3,968	4,260	4,487	5,074	5,207
Net interest income	8,943	9,097	9,093	8,597	8,929	8,922	8,918	8,736
Provision for loan losses	2,844	2,700	1,708	244	785	9,765	1,864	745
Net interest income (expense) after provision for loan losses	6,099	6,397	7,385	8,353	8,144	(843)	7,054	7,991
Non-interest income (expense)	1,886	1,388	732	(1,155)	908	888	(431)	(433)
Non-interest expense	7,123	6,899	7,418	7,094	7,822	6,609	6,653	8,084
Income (loss) before income taxes	862	886	699	104	1,230	(6,564)	(30)	(526)
Income tax expense (benefit)	—	(959)	—	(531)	—	12,571	(133)	(427)
Net income (loss)	$ 862	$ 1,845	$ 699	$ 635	$ 1,230	$ (19,135)	$ 103	$ (99)

	Year Ended December 31, 2008			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands)			
Interest income	$ 14,471	$ 15,154	$ 15,048	$ 13,454
Interest expense	5,664	6,084	6,288	6,217
Net interest income	8,807	9,070	8,760	7,237
Provision for loan losses	6,860	1,308	558	283
Net interest income after provision for loan losses	1,947	7,762	8,202	6,954
Non-interest income	(11,997)	(870)	975	1,099
Non-interest expense	38,251	6,722	7,470	12,274
Income (loss) before income taxes	(48,301)	170	1,707	(4,221)
Income tax expense (benefit)	(6,125)	(424)	370	(1,975)
Net income	$ (42,176)	$ 594	$ 1,337	$ (2,246)