

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2016 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. 000-51338

PARKE BANCORP, INC.

(Exact name of Registrant as specified in its Charter)

New Jersey

(State or other Jurisdiction of
Incorporation or Organization)

65-1241959

(I.R.S. Employer Identification No.)

601 Delsea Drive, Washington Township, New Jersey

(Address of Principal Executive Offices)

08080

(Zip Code)

Registrant's telephone number, including area code: **856-256-2500**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$0.10 par value

Name of Each Exchange on Which Registered

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Capital Market on June 30, 2016, was approximately \$66.1 million.

As of March 17, 2017 there were issued and outstanding 6,880,714 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders for the Fiscal Year Ended December 31, 2016 (Parts II and IV)
2. Portions of the Proxy Statement for the 2017 Annual Meeting of Shareholders. (Parts II and III)

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016
INDEX

	<u>Page</u>
<u>PART 1</u>	
Item 1. Business	<u>1</u>
Item 1A. Risk Factors	<u>14</u>
Item 1B. Unresolved Staff Comments	<u>14</u>
Item 2. Properties	<u>14</u>
Item 3. Legal Proceedings	<u>15</u>
Item 4. Mine Safety Disclosures	<u>15</u>
 <u>PART II</u>	
Item 5. Market for Common Equity, Related stockholder Matters and Issuer Purchases of Equity Securities	<u>15</u>
Item 6. Selected Financial Data	<u>15</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>15</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>15</u>
Item 8. Financial Statements and Supplementary Data	<u>15</u>
Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure	<u>15</u>
Item 9A. Controls and Procedures	<u>16</u>
Item 9B. Other Information	<u>16</u>
 <u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	<u>16</u>
Item 11. Executive Compensation	<u>16</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>16</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>17</u>
Item 14. Principal Accountant Fees and Services	<u>17</u>
 <u>PART IV</u>	
Item 15. Exhibits and Financial Statement Schedules	<u>17</u>
Signatures	

Forward-Looking Statements

Parke Bancorp, Inc. (the "Company") may from time to time make written or oral "forward-looking statements," including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits hereto), in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company's wholly-owned subsidiary, Parke Bank (the "Bank"), conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Bank and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; changes in consumer spending and saving habits; and the success of the Company at managing the risks resulting from these factors.

The Company cautions that the listed factors are not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

PART I

Item 1. Business

General

The Company is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of the Bank. The Company commenced operations on June 1, 2005, upon completion of the reorganization of the Bank into the holding company form of organization following approval of the reorganization by shareholders of the Bank at its 2005 Annual Meeting of Shareholders. The Company's business and operations primarily consist of its ownership of the Bank.

The Bank is a commercial bank, which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through offices in Northfield, Galloway Township, Washington Township and Collingswood, New Jersey, and two offices in Philadelphia, Pennsylvania. The Bank is a full service bank, with an emphasis on providing personal and business financial services to individuals and small to mid-sized businesses in Gloucester, Atlantic and Cape May Counties in New Jersey and the Philadelphia area in Pennsylvania. At December 31, 2016, the Company had assets of \$1.0 billion, loans net of unearned income of \$852.0 million, deposits of \$788.7 million and equity of \$127.1 million.

The Bank focuses its commercial loan originations on small and mid-sized businesses (generally up to \$25 million in annual sales). Commercial loan products include residential and commercial real estate construction loans; working capital loans and lines of credit; demand, term and time loans; and equipment, inventory and accounts receivable financing. Residential construction loans in tract development are also included in the commercial loan category. The Bank also offers a range of deposit products to its commercial customers. Commercial customers also have the ability to use overnight depository, ACH, wire transfer services and merchant capture electronic check processing services.

The Bank's retail banking activities emphasize consumer deposit and checking accounts. An extensive range of these services is offered by the Bank to meet the varied needs of its customers in all age groups. In addition to traditional products and services, the Bank offers contemporary products and services, such as debit cards, Internet banking and online bill payment. Retail lending activities by the Bank include residential mortgage loans, home equity lines of credit, fixed rate second mortgages, new and used auto loans and overdraft protection.

Market Area

Substantially all of the Bank's business is with customers in its market areas of Southern New Jersey and the Philadelphia area of Pennsylvania. Most of the Bank's customers are individuals and small and medium-sized businesses which are dependent upon the regional economy. Adverse changes in economic and business conditions in the Bank's markets could adversely affect the Bank's borrowers, their ability to repay their loans and to borrow additional funds, and consequently the Bank's financial condition and performance.

Additionally, most of the Bank's loans are secured by real estate located in Southern New Jersey and the Philadelphia area. A decline in local economic conditions could adversely affect the values of such real estate. Consequently, a decline in local economic conditions may have a greater effect on the Bank's earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse.

Competition

The Bank faces significant competition, both in making loans and attracting deposits. The Bank's competition in both areas comes principally from other commercial banks, thrift and savings institutions, including savings and loan associations and credit unions, and other types of financial institutions, including brokerage firms and credit card companies. The Bank faces additional competition for deposits from short-term money market mutual funds and other corporate and government securities funds.

Most of the Bank's competitors, whether traditional or nontraditional financial institutions, have a longer history and significantly greater financial and marketing resources than does the Bank. Among the advantages certain of these institutions have over the Bank are their ability to finance wide-ranging and effective advertising campaigns, to access international money markets and to allocate their investment resources to regions of highest yield and demand. Major banks operating in the primary market area offer certain services, such as international banking and trust services, which are not offered directly by the Bank.

In commercial transactions, the Bank's legal lending limit to a single borrower enables the Bank to compete effectively for the business of individuals and smaller enterprises. However, the Bank's legal lending limit is considerably lower than that of various competing institutions, which have substantially greater capitalization. The Bank has a relatively smaller capital base than most other competing institutions which, although above regulatory minimums, may constrain the Bank's effectiveness in competing for loans.

Lending Activities

Composition of Loan Portfolio. Set forth below is selected data relating to the composition of the Bank's loan portfolio by type of loan at the dates indicated. ⁽¹⁾ As of December 31, 2016, no one industry sector concentration exceeded 10% of total loans. Refer to pages 3 through 4 for descriptions of the loan categories presented.

At December 31,										
2016		2015		2014		2013		2012		
Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	
(Amounts in thousands, except percentages)										
Commercial and Industrial	\$ 26,774	3.1%	\$ 27,140	3.6%	\$ 30,092	4.2%	\$ 23,001	3.5%	\$ 21,925	3.5%
Real Estate Construction:										
Residential	8,825	1.0	7,750	1.0	5,859	0.8	7,389	1.1	7,331	1.2
Commercial	58,469	6.9	45,245	6.0	47,921	6.7	43,749	6.7	41,875	6.6
Real Estate Mortgage:										
Commercial - Owner Occupied	123,898	14.5	172,040	22.7	176,649	24.8	170,122	26.0	157,616	25.0
Commercial - Non-Owner Occupied	268,123	31.5	256,471	33.8	237,918	33.4	220,364	33.7	221,731	35.2
Residential - 1 to 4 Family	309,340	36.3	213,266	28.1	171,894	24.1	148,160	22.6	140,164	22.3
Residential - Multifamily	39,804	4.7	18,113	2.4	25,173	3.5	24,103	3.7	21,181	3.4
Consumer	16,720	2.0	18,476	2.4	17,555	2.5	17,653	2.7	17,889	2.8
Total Loans	<u>\$ 851,953</u>	<u>100.0%</u>	<u>\$ 758,501</u>	<u>100.00%</u>	<u>\$ 713,061</u>	<u>100.0%</u>	<u>\$ 654,541</u>	<u>100.00%</u>	<u>\$ 629,712</u>	<u>100.00%</u>

(1) Amounts presented include adjustments for related unamortized deferred costs and fees.

Loan Maturity. The following table sets forth the contractual maturity of certain loan categories at December 31, 2016 .

	Due within one year	Due after one through five years	Due after five years	Total
	(Amounts in thousands)			
Commercial and Industrial	\$ 5,537	\$ 12,909	\$ 8,328	\$ 26,774
Real Estate Construction:				
Residential	2,473	1,070	5,282	8,825
Commercial	30,314	9,052	19,103	58,469
Real Estate Mortgage:				
Commercial - Owner Occupied	9,378	29,481	85,039	123,898
Commercial - Non-Owner Occupied	16,635	57,785	193,703	268,123
Residential - 1 to 4 Family	12,210	17,110	280,020	309,340
Residential – Multifamily	6,817	6,084	26,903	39,804
Consumer	24	196	16,500	16,720
Total Loans	<u>\$ 83,388</u>	<u>\$ 133,687</u>	<u>\$ 634,878</u>	<u>\$ 851,953</u>

The following table sets forth the dollar amount of loans in certain loan categories due one year or more after December 31, 2016 , which have predetermined interest rates and which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 5,102	\$ 16,135	\$ 21,237
Real Estate Construction:			
Residential	714	5,638	6,352
Commercial	7,292	20,863	28,155
Real Estate Mortgage:			
Commercial - Owner Occupied	14,823	99,697	114,520
Commercial - Non-Owner Occupied	32,050	219,438	251,488
Residential - 1 to 4 Family	100,874	196,256	297,130
Residential - Multifamily	2,381	30,606	32,987
Consumer	16,459	237	16,696
Total Loans	<u>\$ 179,695</u>	<u>\$ 588,870</u>	<u>\$ 768,565</u>

Commercial and Industrial Loans. The Bank originates secured loans for business purposes. Loans are made to provide working capital to businesses in the form of lines of credit, which may be secured by accounts receivable, inventory, equipment or other assets. The financial condition and cash flow of commercial borrowers are closely monitored by means of corporate financial statements, personal financial statements and income tax returns. The frequency of submissions of required financial information depends on the size and complexity of the credit and the collateral that secures the loan. The Bank's general policy is to obtain personal guarantees from the principals of the commercial loan borrowers. Such loans are made to businesses located in the Bank's market area.

Commercial business loans generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the mobility of collateral, the effects of general economic conditions and the increased difficulty of evaluating and monitoring these types of loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property the value of which tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired.

Real Estate Development and Construction Loans. The Bank originates construction loans to individuals and real estate developers in its market area. The advantages of construction lending are that the market is typically less competitive than more standard mortgage products, the interest rate typically charged is a variable rate, which permits the Bank to protect against sudden changes in its costs of funds, and the fees or "points" charged by the Bank to its customers can be amortized over the shorter term of a construction loan, typically, one to two years, which permits the Bank to recognize income received over a shorter period of time.

The Bank provides interim real estate acquisition development and construction loans to builders and developers. Real estate development and construction loans to provide interim financing on the property are based on acceptable percentages of the appraised value of the property securing the loan in each case. Real estate development and construction loan funds are disbursed periodically at pre-specified stages of completion. Interest rates on these loans are generally adjustable. The Bank carefully monitors these loans with on-site inspections and control of disbursements. These loans are generally made on properties located in the Bank's market area.

Development and construction loans are secured by the properties under development and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely in the value of the underlying property, the Bank considers the financial condition and reputation of the borrower and any guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information.

Loans to residential builders are for the construction of residential homes for which a binding sales contract exists and the prospective buyers have been pre-qualified for permanent mortgage financing. Loans to residential developers are made only to developers with a proven sales record. Generally, these loans are extended only when the borrower provides evidence that the lots under development will be sold to potential buyers satisfactory to the Bank.

The Bank also originates loans to individuals for construction of single family dwellings. These loans are for the construction of the individual's primary residence. They are typically secured by the property under construction, occasionally include additional collateral (such as a second mortgage on the borrower's present home), and commonly have maturities of six to twelve months.

Construction financing is labor intensive for the Bank, requiring employees of the Bank to expend substantial time and resources in monitoring and servicing each construction loan to completion. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and development, the accuracy of projections, such as the sales of homes or the future leasing of commercial space, and the accuracy of the estimated cost (including interest) of construction. Substantial deviations can occur in such projections. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. Also, a construction loan that is in default can cause problems for the Bank such as designating replacement builders for a project, considering alternate uses for the project and site and handling any structural and environmental issues that might arise.

Commercial Real Estate Mortgage Loans. The Bank originates mortgage loans secured by commercial real estate. Such loans are primarily secured by office buildings, retail buildings, warehouses and general purpose business space. Although terms may vary, the Bank's commercial mortgages generally have maturities of twenty years, but re-price within five years.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than one-to four-family residential mortgage loans. Of primary concern in commercial and multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties are often dependent on the successful operation or management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

The Bank seeks to reduce the risks associated with commercial mortgage lending by generally lending in its primary market area and obtaining periodic financial statements and tax returns from borrowers. It is also the Bank's general policy to obtain personal guarantees from the principals of the borrowers and assignments of all leases related to the collateral.

Residential Real Estate Mortgage Loans. The Bank originates adjustable and fixed-rate residential mortgage loans. Such mortgage loans are generally originated under terms, conditions and documentation acceptable to the secondary mortgage market. Although the Bank has placed all of these loans into its portfolio, a substantial majority of such loans can be sold in the secondary market or pledged for potential borrowings.

Consumer Loans. The Bank offers a variety of consumer loans. These loans are typically secured by residential real estate or personal property, including automobiles. Home equity loans (closed-end and lines of credit) are typically made up to 80% of the appraised or assessed value of the property securing the loan in each case, less the amount of any existing prior liens on the property, and generally have maximum terms of ten years, although the Bank does offer a 90% loan to value product if certain conditions related to the borrower and property are satisfied. The interest rates on second mortgages are generally fixed, while interest rates on home equity lines of credit are variable.

Loans to One Borrower. Federal regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus. At December 31, 2016, the Bank's loan to one borrower limit was approximately \$23.3 million and the Bank had no borrowers with loan balances in excess of this amount. At December 31, 2016, the Bank's largest loan to one borrower was a loan for commercial real estate, with a balance of \$20.4 million that was secured by the real estate. At December 31, 2016, this loan was current and performing in accordance with the terms of the loan agreement.

The size of loans which the Bank can offer to potential borrowers is less than the size of loans which many of the Bank's competitors with larger capitalization are able to offer. The Bank may engage in loan participations with other banks for loans in excess of the Bank's legal lending limits. However, no assurance can be given that such participations will be available at all or on terms which are favorable to the Bank and its customers.

Non-Performing and Problem Assets

Non-Performing Assets. Non-accrual loans are those on which the accrual of interest has ceased. Loans are generally placed on non-accrual status if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more unless the collateral is considered sufficient to cover principal and interest and the loan is in the process of collection. Interest accrued, but not collected at the date a loan is placed on non-accrual status, is reversed and charged against interest income. Subsequent cash receipts are applied either to the outstanding principal or recorded as interest income, depending on management's assessment of ultimate collectibility of principal and interest. Loans are returned to an accrual status when the borrower's ability to make periodic principal and interest payments has returned to normal (i.e., brought current with respect to principal or interest or restructured) and the paying capacity of the borrower and/or the underlying collateral is deemed sufficient to cover principal and interest.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above. Total impaired loans, which include non-accrual loans and performing TDRs, were \$36.4 million, \$42.2 million, \$61.5 million, \$68.9 million and \$87.6 million at December 31 2016, 2015, 2014, 2013, and 2012, respectively. Included in impaired loans at December 31, 2016, 2015, 2014, 2013 and 2012 were \$28.1 million, \$32.2 million, \$42.2 million, \$51.0 million and \$67.1 million of loans classified as troubled debt restructurings as defined within accounting guidance and regulatory literature.

The following table sets forth information regarding non-accrual loans at the dates indicated.

	At December 31,				
	2016	2015	2014	2013	2012
	(Amounts in thousands, except percentages)				
Loans accounted for on a non-accrual basis:					
Commercial and Industrial	\$ 159	\$ 740	\$ 61	\$ 122	\$ 248
Real Estate Construction:					
Residential	—	—	238	967	799
Commercial	3,241	5,204	10,773	9,908	12,958
Real Estate Mortgage:					
Commercial - Owner Occupied	430	358	735	976	1,218
Commercial - Non-Owner Occupied	3,958	4,002	8,624	10,853	19,228
Residential - 1 to 4 Family	3,095	3,255	6,367	12,914	10,072
Residential – Multifamily	308	—	—	99	2,838
Consumer	107	—	94	115	188
Total non-accrual loans	11,298	13,559	26,892	35,954	47,549
Accruing loans delinquent 90 days or more:					
Commercial and Industrial	—	—	—	—	—
Real Estate Construction:					
Residential	—	—	—	—	—
Commercial	—	—	—	—	—
Real Estate Mortgage:					
Commercial - Owner Occupied	—	—	—	—	—
Commercial - Non-Owner Occupied	—	—	—	—	—
Residential - 1 to 4 Family	—	—	—	—	—
Residential – Multifamily	—	—	—	—	—
Consumer	—	—	—	—	—
Total	—	—	—	—	—
Total non-performing loans	\$ 11,298	\$ 13,559	\$ 26,892	\$ 35,954	\$ 47,549
Total non-performing loans as a percentage of loans	1.3%	1.8%	3.8%	5.5%	7.6%

As of December 31, 2016, there were \$10.6 million in loans which were not then on non-accrual status, a TDR or otherwise but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-performing in the future.

When a loan is more than 30 days delinquent, the borrower is contacted by mail or phone and payment is requested. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower. In certain instances, the Company may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs. If the loan continues in a delinquent status for 90 days or more, the Company generally will initiate foreclosure proceedings.

Classified Assets. Federal Regulations provide for a classification system for problem assets of insured institutions. Under this classification system, problem assets of insured institutions are classified as substandard, doubtful or loss. An asset is considered "substandard" if it involves more than an acceptable level of risk due to a deteriorating financial condition, unfavorable history of the borrower, inadequate payment capacity, insufficient security or other negative factors within the industry, market or management. Substandard loans have clearly defined weaknesses that can jeopardize the timely payments of the loan.

Assets classified as "doubtful" exhibit all of the weaknesses defined under the Substandard Category but with enough risk to present a high probability of some principal loss on the loan, although not yet fully ascertainable in amount. Assets classified as "loss" are those considered un-collectable or of little value, even though a collection effort may continue after the classification and potential charge-off.

The Bank also internally classifies certain assets as "other assets especially mentioned" ("OAEM"); such assets do not demonstrate a current potential for loss but are monitored in response to negative trends which, if not reversed, could lead to a substandard rating in the future.

When an insured institution classifies problem assets as either "substandard" or "doubtful," it may establish specific allowances for loan losses in an amount deemed prudent by management. When an insured institution classifies problem assets as "loss," it is required either to establish an allowance for losses equal to 100% of that portion of the assets so classified or to charge off such amount. All of the Bank's loans rated "substandard" and worse are also on non-accrual and deemed impaired.

At December 31, 2016, the Bank had assets classified as follows:

	Loan Balance
	(Amounts in thousands)
OAEM	17,554
Substandard	21,906
	<u>\$ 39,460</u>

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate owned is acquired, it is recorded at its fair value less disposal costs. Management also periodically performs valuations of real estate owned and establishes allowances to reduce book values of the properties to their net realizable values when necessary. Any write-down of real estate owned is charged to operations. Real estate owned at December 31, 2016 was \$10.5 million. The real estate owned consisted of 16 properties, the largest being a condominium development located in Absecon, New Jersey at \$3.3 million.

Allowance for Losses on Loans. It is the policy of management to provide for possible losses on all loans in its portfolio, whether classified or not. A provision for loan losses is charged to operations based on management's evaluation of the inherent losses estimated to have occurred in the Bank's loan portfolio.

Management's judgment as to the level of probable losses on existing loans is based on its internal review of the loan portfolio, including an analysis of the borrower's current financial position; the level and trends in delinquencies, non-accruals and impaired loans; the consideration of national and local economic conditions and trends; concentrations of credit; the impact of any changes in credit policy; the experience and depth of management and the lending staff; and any trends in loan volume and terms. In determining the collectability of certain loans, management also considers the fair value of any underlying collateral. However, management's determination of the appropriate allowance level, which is based upon the factors outlined above, which are believed to be reasonable, may or may not prove to be valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required.

The following table sets forth information with respect to the Bank's allowance for losses on loans at the dates and for the periods indicated.

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance at beginning of the period	\$ 16,136	\$ 18,043	\$ 18,560	\$ 18,936	\$ 19,323
Charge-offs:					
Commercial and Industrial	(76)	(1,554)	(395)	(4)	(66)
Real Estate Construction:					
Residential	—	(238)	—	—	(1,326)
Commercial	(1,081)	(2,745)	(16)	—	(310)
Real Estate Mortgage:					
Commercial - Owner Occupied	—	—	(476)	(77)	(1,058)
Commercial - Non-Owner Occupied	(154)	(638)	(50)	(2,641)	(3,848)
Residential - 1 to 4 Family	(704)	(504)	(2,841)	(554)	(1,531)
Residential - Multifamily	(45)	—	—	(8)	—
Consumer	(6)	(1)	(31)	(3)	(38)
Total charge-offs:	(2,066)	(5,680)	(3,809)	(3,287)	(8,177)
Recoveries:					
Commercial and Industrial	8	121	—	—	—
Real Estate Construction:					
Residential	—	—	5	—	490
Commercial	—	—	—	—	—
Real Estate Mortgage:					
Commercial - Owner Occupied	1	66	5	1	—
Commercial - Non-Owner Occupied	—	398	—	—	—
Residential - 1 to 4 Family	39	148	32	210	—
Residential - Multifamily	—	—	—	—	—
Consumer	—	—	—	—	—
Total recoveries:	48	733	42	211	490
Net charge-offs	(2,018)	(4,947)	(3,767)	(3,076)	(7,687)
Provision for loan losses	1,462	3,040	3,250	2,700	7,300
Balance at end of period	\$ 15,580	\$ 16,136	\$ 18,043	\$ 18,560	\$ 18,936
Period-end loans outstanding (net of deferred costs/fees)	\$ 851,953	\$ 758,501	\$ 713,061	\$ 654,541	\$ 629,712
Average loans outstanding	\$ 800,677	\$ 731,032	\$ 669,771	\$ 644,735	\$ 612,342
Allowance as a percentage of period end loans	1.83%	2.13%	2.53%	2.84%	3.01%
Net loans charged off as a percentage of average loans outstanding	0.26%	0.78%	0.57%	0.51%	1.34%

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the Bank's allowance for loan losses by loan category at the dates indicated and the related percentage of the loans in the portfolio. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses that may occur within the loan category as the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

At December 31,									
2016		2015		2014		2013		2012	
Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans
(Amounts in thousands, except percentages)									
\$ 1,188	3.1%	\$ 952	3.6%	\$ 1,679	4.2%	\$ 591	3.5%	\$ 470	3.5%
268	1.0	247	1.0	316	0.8	414	1.1	845	1.2
2,496	6.9	2,501	6.0	3,015	6.7	948	6.7	1,115	6.6
2,082	14.5	3,267	22.7	3,296	24.8	4,735	26.0	4,095	25.0
3,889	31.5	3,838	33.8	4,962	33.4	7,530	33.7	7,379	35.2
4,916	36.3	4,802	28.1	4,156	24.1	3,612	22.6	4,384	22.3
505	4.7	254	2.4	357	3.5	389	3.7	312	3.4
236	2.0	275	2.4	262	2.5	341	2.7	336	2.8
\$ 15,580	100.0%	\$ 16,136	100.0%	\$ 18,043	100.0%	\$ 18,560	100.0%	\$ 18,936	100.0%

Investment Activities

General. The investment policy of the Company is established by senior management and approved by the Board of Directors. It is based on asset and liability management goals and is designed to provide a portfolio of high quality investments that foster interest income within acceptable interest rate risk and liquidity guidelines. In accordance with accounting guidance, the Company classifies the majority of its portfolio of investment securities as “available for sale” with the remainder, which are municipal bonds, as “held to maturity.” At December 31, 2016, the Bank’s investment policy allowed investments in instruments such as: (i) U.S. Treasury obligations, (ii) U.S. government agency or government-sponsored agency obligations, (iii) local municipal obligations, (iv) mortgage-backed securities, (v) certificates of deposit, and (vi) investment grade corporate bonds, trust preferred securities and mutual funds. The Board of Directors may authorize additional investments.

Composition of Investment Securities Portfolio. The following table sets forth the carrying value of the Bank’s investment securities portfolio at the dates indicated. For additional information, see Note 3 of the Notes to the Consolidated Financial Statements. At December 31, 2016, no one issuer of investment securities represented 10% or more of the Company’s stockholders’ equity.

At December 31,			
	2016	2015	2014
(Amounts in thousands)			
<u>Securities Held to Maturity :</u>			
State and political subdivisions	\$ 2,224	\$ 2,181	\$ 2,141
<u>Securities Available for Sale :</u>			
Corporate debt obligations	1,011	1,031	522
Residential mortgage-backed securities	43,240	40,821	26,947
Collateralized mortgage obligations	166	253	390
Collateralized debt obligations	437	462	349
Total securities available for sale	44,854	42,567	28,208
Total	\$ 47,078	\$ 44,748	\$ 30,349

Investment Portfolio Maturities. The following table sets forth information regarding the scheduled maturities, amortized costs, estimated fair values, and weighted average yields for the Bank’s investment securities portfolio at December 31, 2016, by contractual maturity. The following table does not take into consideration the effects of scheduled repayments or the effects of possible prepayments.

At December 31, 2016

	One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities		
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Fair Value
(Amounts in thousands, except yields)									
Securities Held to Maturity :									
State and political subdivisions	\$ —	—%	\$ 1,212	4.47	\$ 1,012	—%	\$ 2,224	2.44%	\$ 2,411
Securities Available for Sale :									
U.S. government sponsored entities	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Corporate debt obligations	—	—	500	4.75	500	8.13	1,000	6.44	1,011
Residential mortgage-backed securities	48	3.81	1,116	2.87	42,366	2.44	43,530	2.45	43,240
Collateralized mortgage obligations	57	4.00	—	—	103	4.50	160	4.32	166
Collateralized debt obligations	—	—	—	—	746	—	746	—	437
Total securities available for sale	105	3.91	1,616	3.45	43,715	2.47	45,436	2.51	44,854
Total	\$ 105	3.91%	\$ 2,828	3.89%	\$ 44,727	2.41%	\$ 47,660	2.50%	\$ 47,265

Sources of Funds

General. Deposits are the major external source of the Bank's funds for lending and other investment purposes. In addition to deposits, the Bank derives funds from the amortization, prepayment or sale of loans, maturities of investment securities and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

Deposits. The Bank offers individuals and businesses a wide variety of accounts, including checking, savings, money market accounts, individual retirement accounts and certificates of deposit. Deposits are obtained primarily from communities that the Bank serves, however, the Bank held brokered deposits of \$51.2 million and \$20.9 million at December 31, 2016 and 2015, respectively. Brokered deposits are a more volatile source of funding than core deposits and do not increase the deposit franchise of the Bank. In a rising rate environment, the Bank may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with the Bank, they may need to be replaced with borrowings which could increase the Bank's cost of funds and negatively impact its interest rate spread, financial condition and results of operation. To mitigate the potential negative impact associated with brokered deposits, the Bank joined Promontory Interfinancial Network ("Promontory") during 2007 to secure an additional alternative funding source. Promontory provides the Bank an additional source of external funds through their weekly CDARS™ settlement process. The rates are comparable to brokered deposits and can be obtained within a shorter period time than brokered deposits. The Bank's CDARS™ deposits included within the brokered deposit total amounted to \$51.2 million, \$20.9 million and \$20.3 million at December 31, 2016, 2015 and 2014, respectively.

The following tables detail the average amount, the average rate paid, and the percentage of each category to total deposits for the most recent three years ended December 31.

	2016		
	Average Balance	Yield/Rate	Percent of Total
(Amounts in thousands, except percentages)			
NOWs	\$ 32,499	0.50%	4.49%
Money markets	123,017	0.51%	17.01
Savings	175,163	0.53%	24.22
Time deposits	284,018	1.17%	39.28
Brokered CDs	45,961	0.83%	6.36
Total interest-bearing deposits	660,658	0.82%	
Non-interest bearing demand deposits	62,483		8.64
Total deposits	\$ 723,141		100.00%

	2015		
	Average Balance	Yield/Rate	Percent of Total
	(Amounts in thousands, except percentages)		
NOWs	\$ 31,318	0.49%	4.75%
Money markets	112,180	0.50%	17.00
Savings	188,392	0.53%	28.56
Time deposits	251,816	1.13%	38.17
Brokered CDs	30,337	0.62%	4.60
Total interest-bearing deposits	614,043	0.77%	
Non-interest bearing demand deposits	45,656		6.92
Total deposits	\$ 659,699		100.00%

	2014		
	Average Balance	Yield/Rate	Percent of Total
	(Amounts in thousands, except percentages)		
NOWs	\$ 27,771	0.50%	4.35%
Money markets	101,090	0.55%	15.85
Savings	210,380	0.59%	32.98
Time deposits	255,372	1.08%	40.04
Brokered CDs	6,785	0.72%	1.06
Total interest-bearing deposits	601,398	0.79%	
Non-interest bearing demand deposits	36,493		5.72
Total deposits	\$ 637,891		100.00%

The following table indicates the amount of the Bank's certificates of deposit of \$100,000 or more by time remaining until maturity as of December 31, 2016 .

Maturity Period	Certificates of Deposit
	(Amounts in thousands)
Within three months	\$ 24,433
Three through twelve months	94,332
Over twelve months	34,346
Total	\$ 153,111

Borrowings. Borrowings consist of subordinated debt and advances from the FHLB and other parties. Borrowings from the FHLB outstanding during 2016 , 2015 , and 2014 , had maturities of ten years or less and cannot be prepaid without penalty.

The following table sets forth information regarding the Bank's borrowings:

	December 31,		
	2016	2015	2014
	(Amounts in thousands, except rates)		
Amount outstanding at year end	\$ 79,650	\$ 98,053	\$ 62,755
Weighted average interest rates at year end	1.57%	1.45%	1.33%
Maximum outstanding at any month end	\$ 103,053	\$ 98,053	\$ 64,139
Average outstanding	\$ 89,720	\$ 80,729	\$ 62,800
Weighted average interest rate during the year	1.49%	1.32%	1.33%

Subsidiary Activities

The largest subsidiary of the Company is the Bank. Effective April 29, 2016, the Company sold its 51% interest in the assets of 44 Business Capital LLC ("44BC"), and certain related assets held by the Bank, to Berkshire Hills Bancorp, Inc. and its wholly owned banking subsidiary, Berkshire Bank for total consideration of \$50.7 million.

Personnel

At December 31, 2016, the Bank had 67 full-time and 19 part-time employees.

Regulation

Set forth below is a brief description of certain laws that relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Holding Company Regulation

General. The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the "BHC Act"), and is regulated by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Federal Reserve Board has enforcement authority over the Company and the Company's non-bank subsidiary which also permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary bank. The Company is required to file periodic reports of its operations with, and is subject to examination by, the Federal Reserve. This regulation and oversight is generally intended to ensure that the Company limits its activities to those allowed by law and that it operates in a safe and sound manner without endangering the financial health of its subsidiary bank.

Under the BHCA, the Company must obtain the prior approval of the Federal Reserve before it may acquire control of another bank or bank holding company, merge or consolidate with another bank holding company, acquire all or substantially all of the assets of another bank or bank holding company, or acquire direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the Company would directly or indirectly own or control more than 5% of such shares.

Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the BHC Act on extensions of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries, and on the taking of such stock or securities as collateral for loans to any borrower. Furthermore, under amendments to the BHC Act and regulations of the Federal Reserve Board, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or provision of credit or providing any property or services. Generally, this provision provides that a bank may not extend credit, lease or sell property, or furnish any service to a customer on the condition that the customer provide additional credit or service to the bank, to the bank holding company, or to any other subsidiary of the bank holding company or on the condition that the customer not obtain other credit or service from a competitor of the bank, the bank holding company, or any subsidiary of the bank.

Extensions of credit by the Bank to executive officers, directors, and principal shareholders of the Bank or any affiliate thereof, including the Company, are subject to Section 22(h) of the Federal Reserve Act, which among other things, generally prohibits loans to any such individual where the aggregate amount exceeds an amount equal to 15% of a bank's unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral.

Source of Strength Doctrine. A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the policy of the Federal Reserve that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve regulations, or both.

Non-Banking Activities. The business activities of the Company, as a bank holding company, are restricted by the BHC Act. Under the BHC Act and the Federal Reserve Board's bank holding company regulations, the Company may only engage in, or acquire or control voting securities or assets of a company engaged in, (1) banking or managing or controlling banks and other subsidiaries authorized under the BHC Act and (2) any BHC Act activity the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks to be a proper incident thereto. These include any incidental activities necessary to carry on those activities, as well as a lengthy list of activities that the Federal Reserve Board has determined to be so closely related to the business of banking as to be a proper incident thereto.

Financial Modernization. The Gramm-Leach-Bliley Act permits greater affiliation among banks, securities firms, insurance companies, and other companies under a new type of financial services company known as a "financial holding company." A financial

holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The Act also permits the Federal Reserve and the Treasury Department to authorize additional activities for financial holding companies if they are “financial in nature” or “incidental” to financial activities. A bank holding company may become a financial holding company if it and each of its subsidiary banks is well capitalized and well managed, and each of its subsidiary banks has at least a “satisfactory” CRA rating. A financial holding company must provide notice to the Federal Reserve within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible. The Company has not submitted notice to the Federal Reserve Board of its intent to be deemed a financial holding company.

Regulatory Capital Requirements. The Federal Reserve has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHC Act. The Federal Reserve’s capital adequacy guidelines are similar to those imposed on the Bank by the FDIC. See “Regulation of the Bank-Regulatory Capital Requirements” and “Recent Amendments to Regulatory Capital Requirements.” The Federal Reserve, however, has adopted a policy statement that exempts bank holding companies with less than \$1.0 billion in consolidated assets that are not engaged in significant non-banking or off-balance sheet activities and that do not have a material amount of debt or equity securities registered with the SEC from its regulatory capital requirements. As long as their bank subsidiaries are well capitalized, such bank holding companies need only maintain a pro forma debt to equity ratio of less than 1.0 in order to pay dividends and repurchase stock and to be eligible for expedited treatment on applications.

Federal Securities Law. The Company’s common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), and the Company is subject to the periodic reporting and other requirements of Section 12(b) of the 1934 Act, as amended.

Regulation of the Bank

The Bank operates in a highly regulated industry. This regulation and supervision establishes a comprehensive framework of activities in which a bank may engage and is intended primarily for the protection of the deposit insurance fund and depositors and not shareholders of the Bank.

Any change in applicable statutory and regulatory requirements, whether by the New Jersey Department of Banking and Insurance, the FDIC, or the United States Congress could have a material adverse impact on the Bank, and its operations. The adoption of regulations or the enactment of laws that restrict the operations of the Bank or impose burdensome requirements upon it could reduce its profitability and could impair the value of the Bank’s franchise which could hurt the trading price of the Bank’s stock.

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision, and control of the New Jersey Department of Banking and Insurance. As an FDIC-insured institution, the Bank is subject to regulation, supervision and control of the FDIC, an agency of the federal government. The regulations of the FDIC and the New Jersey Department of Banking and Insurance affect virtually all activities of the Bank, including the minimum level of capital the Bank must maintain, the ability of the Bank to pay dividends, the ability of the Bank to expand through new branches or acquisitions and various other matters.

Federal Deposit Insurance. The Bank’s deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased from \$100,000 to \$250,000.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution’s ranking in one of four risk categories based on their examination ratings and capital ratios. The assessment base is the institution’s average consolidated assets less average tangible equity. Insured banks with more than \$1.0 billion in assets must calculate quarterly average assets based on daily balances while smaller banks and newly chartered banks may use weekly averages. In the case of a merger, the average assets of the surviving bank for the quarter must include the average assets of the merged institution for the period in the quarter prior to the merger. Average assets are reduced by goodwill and other intangibles. Average tangible equity equals Tier 1 capital. For institutions with more than \$1.0 billion in assets, average tangible equity is calculated on a weekly basis while smaller institutions may use the quarter-end balance.

Prior to July 1, 2016, the base assessment rate for insured institutions in Risk Category I ranged between 5 to 9 basis points and for institutions in Risk Categories II, III, and IV, the assessment rate was 14, 23 and 35 basis points, respectively. An institution’s assessment rate may be reduced based on the amount of its outstanding unsecured long-term debt and for institutions in Risk Categories II, III and IV may be increased based on their brokered deposits. Risk Categories are eliminated for institutions with more than \$10 billion in assets which will be assessed at a rate between 5 and 35 basis points.

Effective July 1, 2016, the FDIC amended its assessment regulations for banks with less than \$10 billion in assets to replace the previous risk categories with updated financial ratios that are designed to better predict the risk of failure of insured institutions. The amended rules became effective during the first quarter after the reserve ratio of the Deposit Insurance Fund reached 1.15% and will remain in effect until the reserve ratio reaches 2.0%. The amended regulations set a maximum rate that

banks rated CAMELS 1 or 2 may be charged and a minimum rate that CAMELS 3, 4 and 5 banks may be charged. Under the amended rules, the FDIC uses a bank's weighted average CAMELS component ratings and the following financial measures to determine assessments: Tier 1 leverage ratio; ratio of net income before taxes to total assets; ratio of non-performing loans to gross assets; and ratio of other real estate owned to gross assets. In addition, assessments take into consideration core deposits to total assets, one-year asset growth and a loan mix index. The loan mix measures the extent to which a bank's total assets include higher risk loans. To calculate the loan mix index, each category of loan in the bank's portfolio (other than credit card loans) would be divided by the bank's total assets to determine the percentage of assets represented by that loan category. Each percentage is then multiplied by that loan category's historical weighted average industry-wide charge-off rate. The sum of these numbers determines the loan mix index value for that bank. The amended regulations are intended to be revenue neutral to the FDIC but to shift premium payments to higher risk institutions. Most institutions are expected to see lower premiums. A companion regulation assesses banks over \$10 billion in assets at higher rates for two years in accordance with the requirements of the Dodd-Frank Act.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged .01% of insured deposits on an annualized basis in fiscal year 2016. These assessments will continue until the FICO bonds mature in 2017.

Regulatory Capital Requirements. The FDIC has promulgated capital adequacy requirements for state-chartered banks that, like the Bank, are not members of the Federal Reserve System. Effective January 1, 2015, the capital adequacy requirements were substantially revised to conform them to the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as "Basel III". The final rule applies to all depository institutions as well as to all top-tier bank and savings and loan holding companies that are not subject to the Federal Reserve Board's Small Bank Holding Company Policy Statement.

Under the FDIC's revised capital adequacy regulations, the Bank is required to meet four minimum capital standards: (1) "Tier 1" or "core" capital leverage ratio equal to at least 4% of total adjusted assets, (2) a common equity Tier 1 capital ratio equal to 4.5% of risk-weighted assets, (3) a Tier 1 risk-based ratio equal to 6% of risk-weighted assets, and (4) a total capital ratio equal to 8% of total risk-weighted assets. Common equity Tier 1 capital is defined as common stock instruments, retained earnings, any common equity Tier 1 minority interest and, unless the bank has made an "opt-out" election, accumulated other comprehensive income, net of goodwill and certain other intangible assets. Tier 1 or core capital is defined as common equity Tier 1 capital plus certain qualifying subordinated interests and grandfathered capital instruments. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, qualifying subordinated instruments and certain grandfathered capital instruments. An institution's risk-based capital requirements are measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. Risk weightings range from 0% for cash to 100% for property acquired through foreclosure, commercial loans, and certain other assets to 150% for exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

In addition to higher capital requirements, the new capital rules will require banks and covered financial institution holding companies to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement will be phased in over four years beginning January 1, 2016. The fully phased-in capital buffer requirement will effectively raise the minimum required risk-based capital ratios to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital on a fully phased-in basis.

In assessing an institution's capital adequacy, the FDIC takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary.

Prompt Corrective Regulatory Action . Under applicable federal statutes, the federal bank regulatory agencies are required to take "prompt corrective action" with respect to institutions that do not meet specified minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, under capitalized, significantly under capitalized and critically under capitalized. Under the FDIC's prompt corrective action regulations, an institution is deemed to be "well capitalized" if it has a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 8.0% or greater, a Common Equity Tier 1 risk-based capital ratio of 6.5% or better and a leverage ratio of 5.0% or greater. An institution is "adequately capitalized" if it has a Total Risk-Based Capital Ratio of 8.0% or greater, a Tier 1 Risk-Based Capital Ratio of 6.0% or greater, a Common Equity Tier 1 Capital Ratio of 4.5% or better and a Leverage Ratio of 4.0% or greater. An institution is "under capitalized" if it has a Total Risk-Based Capital Ratio of less than 8.0%, a Tier 1 Risk-Based Capital ratio of less than 6.0%, a Common Equity Tier 1 ratio of less than 4.5% or a Leverage Ratio of less than 4.0%. An institution is deemed to be "significantly under capitalized" if it has a Total Risk-Based Capital Ratio of less than 6.0%, a Tier 1 Risk-Based Capital Ratio of less than 4.0%, a Common Equity Tier 1 ratio of less than 3.0% or a Leverage Ratio of less than 3.0%. An institution is considered to be "critically under capitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%

The prompt corrective action regulations provide for the imposition of a variety of requirements and limitations on institutions that fail to meet the above capital requirements. In particular, the FDIC may require any non-member bank that is not “adequately capitalized” to take certain action to increase its capital ratios. If the non-member bank’s capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the bank’s activities may be restricted.

At December 31, 2016, the Bank qualified as “well capitalized” under the prompt corrective action rules.

Volcker Rule. On July 21, 2015, banking entities, which include insured depository institutions, their holding companies and affiliates of either, became subject to regulations implementing the so-called Volcker Rule of the Dodd-Frank Act, which prohibits proprietary trading for the entity’s own account in certain financial instruments, including securities, derivatives, futures and options but excluding loans, physical commodities and foreign exchange and currency. Under the rules adopted by the federal financial regulatory agencies, the purchase or sale of a financial instrument that has been held for less than 60 days is presumed to be proprietary trading for the purpose of short-term resale or benefiting from short-term price movements or for another prohibited purpose unless the banking organization can demonstrate a contrary purpose. Purchases and sales of financial instruments pursuant to repurchase and reverse repurchase agreements or securities lending agreements, however, are excluded from the definition of proprietary trading. Also excluded from the definition of proprietary trading are purchases and sales of financial instruments where the bank is acting solely as agent for a customer, as trustee for a pension or deferred compensation plan or in connection with the collection of debts previously contracted. Purchases and sales of highly liquid securities that are not reasonably expected to result in short-term trading gains and in an amount consistent with near-term funding needs are excluded from proprietary trading if conducted pursuant to a documented liquidity management plan. Certain proprietary trading activities are permitted if conducted in connection with underwriting or market-making activities or risk-mitigating hedging activities. Proprietary trading is also permitted in U.S. government, agency and government sponsored-enterprise securities and obligations of states and political subdivisions and the FDIC but not in derivatives of the foregoing.

The Volcker Rule also prohibits banking entities from sponsoring or directly or indirectly acquiring as principal any ownership interest in a “covered fund” unless permitted by the rule. For purposes of this prohibition, a covered fund is any investment fund such as a hedge or private equity fund that would be required to register as an investment company under SEC rules but for the statutory exemptions for funds held by not more than 100 persons or owned solely by high net worth investors, any exempt or substantively similar non-exempt commodity pool and certain foreign investment funds. Excluded from the definition of covered fund are wholly owned subsidiaries of a banking entity or its affiliates, certain permissible joint ventures, insurance company separate accounts for which the banking entity is a beneficiary provided the banking entity does not control investment decisions on the underlying assets or participate in the profits for the separate account except in accordance with supervisory guidance regarding bank owned life insurance, certain vehicles for loan and other permissible securitizations, small business investment companies, public welfare companies permitted under the National Bank Act, business development companies, registered investment companies and investment funds exempt from SEC registration under other statutory provisions. Investments in pooled trust preferred securities are permitted if acquired before December 10, 2013 and the banking entity reasonably believes that the trust preferred securities in the pool were issued prior to May 19, 2010 by depository institution holding companies with less than \$15 billion in assets or by mutual holding companies.

The Volcker Rule prohibits a banking entity from engaging in certain covered transactions, including loans, securities and asset purchases, with any covered fund for which it serves as investment manager, advisor or sponsor or that it organizes and offers. Any transactions with a covered fund must be on terms as favorable to the banking entity as transactions with non-affiliates. Finally, the Volcker Rule prohibits any otherwise permitted proprietary trading or covered fund activity that would involve a material conflict of interest between the banking entity and its customers, result in a material exposure of the banking entity to high risk assets or trading strategies or would pose a threat to the safety and soundness of the banking entity or the financial stability of the United States.

Item 1A. Risk Factors

This item is not applicable as the Company is a “smaller reporting company.”

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

(a) Properties.

The Company’s and the Bank’s main office is located in Washington Township, Gloucester County, New Jersey, in an office building of approximately 13,000 square feet. The main office facilities include teller windows, a lobby area, drive-through windows, automated teller machine, a night depository, and executive and administrative offices. In December 2002, the Bank executed its lease option to purchase the building for \$1.5 million.

The Bank also conducts business from a full-service office in Northfield, New Jersey, a full-service office in Washington Township, Gloucester County, New Jersey, a full-service office in Philadelphia, Pennsylvania, and a full-service office in Galloway Township, NJ. These offices were opened by the Bank in September 2002, February 2003, August 2006 and May 2010, respectively. The Northfield office and the Philadelphia office are leased. The Washington Township office was purchased in February 2003. The Bank opened two new offices, a full service office in Collingswood, New Jersey, opened in September 2016, and a full service office in Philadelphia, Pennsylvania, opened December 2016. Both the new offices are leased. Management considers the physical condition of all offices to be good and adequate for the conduct of the Bank's business. At December 31, 2016, net property and equipment totaled approximately \$5.2 million.

Item 3. Legal Proceedings

On June 19, 2015, Devon Drive Lionville, LP, North Charlotte Road Pottstown, LP, Main Street Peckville, LP, Rhoads Avenue Newtown Square, LP, VG West Chester Pike, LP, 1301 Phoenix, LP, John M. Shea and George Spaeder (collectively, the "Plaintiffs"), filed suit in the U.S. District Court for the Eastern District of Pennsylvania, against Parke Bancorp, Inc., Parke Bank and ParkeBank's President and Chief Executive Officer and Senior Vice President (collectively the "Parke Parties") alleging civil violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), among other claims, seeking compensatory and punitive damages. The allegations stem from a series of loans made by Parke Bank to the various Plaintiffs which subsequently went into default. The Plaintiffs are alleging that funds of one or more of the Plaintiffs were used to repay loans of another. The Parke Parties believe the material allegations of wrongdoing are without merit and intend to vigorously defend against the claims asserted in this litigation. The Parke Parties have filed a motion to dismiss all of the claims asserted against the Parke Parties on the grounds that, among other things, the claims asserted were addressed in prior litigation between the parties, including foreclosure actions, resolved in favor of the Parke Parties.

Item 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

- (a) The information contained under the section captioned "Market Prices and Dividends" in the Company's 2016 Annual Report is incorporated herein by reference.
- (b) Not applicable.

Treasury Stock: The Company, in 2015, announced Plans to purchase up to 500,000 shares of its own stock. In 2016 there were 294 shares of Treasury stock purchased. In addition the Company issued a 10% stock dividend or 3,874 shares, to Treasury shares held in street name.

Item 6. Selected Financial Data

The information contained under the section captioned "Selected Financial Data" in the 2016 Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Sensitivity and Liquidity — Rate Sensitivity Analysis" in the Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Company's financial statements listed under Item 15 are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Annual Report on Form 10-K such disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting

1. Management's Annual Report on Internal Control Over Financial Reporting.

Management's report on the Company's internal control over financial reporting appears in the Company's financial statements that are contained in the 2016 Annual Report filed as Exhibit 13 to this Annual Report on Form 10-K. Such report is incorporated herein by reference.

2. Changes in internal control over financial reporting .

During the last quarter of the year under report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the headings "Section 16(a) Beneficial Ownership Reporting Compliance", "Proposal I - Election of Directors" and "Corporate Governance" in the Company's Proxy Statement for its 2017 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of the Code of Ethics will be furnished without charge upon written request to the Chief Financial Officer, Parke Bancorp, Inc., 601 Delsea Drive, Washington Township, New Jersey, 08080.

There have been no material changes to the procedures by which security holders may recommend nominees to the Registrant's Board of Directors since the date of the Registrant's last proxy statement mailed to its stockholders.

Item 11. Executive Compensation

The information contained in the sections captioned "Executive Compensation" and "Director Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners

The information contained in the section captioned "Principal Holders of our Common Stock" in the Proxy Statement is incorporated herein by reference.

(b) Security Ownership of Management

The information contained in the sections captioned "Principal Holders of our Common Stock" and "Proposal I – Election of Directors" in the Proxy Statement is incorporated herein by reference.

(c) Management of the Registrant knows of no arrangements, including any pledge by any person of securities of the Registrant, the operation of which may at a subsequent date result in a change in control of the Registrant.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2016, with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

	(a) Number of Securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders			
2015 Equity incentive plan	156,860	\$10.39	343,140
Total	156,860	\$10.39	343,140

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained in the sections captioned “Related Party Transactions” and “Corporate Governance” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained in the section captioned “Proposal II - Ratification of Appointment of Auditors” in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Listed below are all financial statements and exhibits filed as part of this report.

- 1 The following financial statements and the independent auditors’ report included in the Annual Report are incorporated herein by reference:
 - Management’s Report on Internal Controls
 - Report of Independent Registered Public Accounting Firm
 - Consolidated Balance Sheets as of December 31, 2016 and 2015
 - Consolidated Statements of Income for the Years Ended December 31, 2016 and 2015
 - Consolidated Statements of Equity for the Years Ended December 31, 2016 and 2015
 - Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015
 - Notes to Consolidated Financial Statements
- 2 Schedules omitted as they are not applicable.
- 3 The following exhibits are included in this Report or incorporated herein by reference:
 - 3.1 Certificate of Incorporation of Parke Bancorp, Inc. ⁽¹⁾
 - 3.2 Bylaws of Parke Bancorp, Inc. ⁽¹⁾
 - 3.3 Certificate of Amendment setting forth the terms of the Registrant’s 6.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series B ⁽²⁾

4.1	Specimen stock certificate of Parke Bancorp, Inc. ⁽¹⁾
10.1	Amended Employment Agreement Between Bancorp, Bank and Vito S. Pantilione ⁽³⁾
10.2	Supplemental Executive Retirement Plan ⁽¹⁾
10.3	1999 Stock Option Plan ⁽¹⁾
10.4	2002 Stock Option Plan ⁽¹⁾
10.5	2003 Stock Option Plan ⁽¹⁾
10.6	2005 Stock Option Plan ⁽⁴⁾
10.7	2015 Equity Incentive Plan ⁽⁵⁾
10.8	SERP Agreement with Elizabeth A. Milavsky ⁽⁶⁾
10.9	SERP Agreement with John F. Hawkins ⁽⁶⁾
10.10	Management Change in Control Severance Agreement with Elizabeth A. Milavsky ⁽³⁾
10.11	Management Change in Control Severance Agreement with John F. Hawkins ⁽³⁾
10.12	Management Change in Control Severance Agreement with David Middlebrook
10.13	Management Change in Control Severance Agreement with Paul Palmieri
10.14	Management Change in Control Severance Agreement with Daniel Sulpizio
10.15	Management Change in Control Severance Agreement with Ralph Gallo
10.16	Management Change in Control Severance Agreement with Dolores Calvello
13	Annual Report to Shareholders for the fiscal year ended December 31, 2016
21	Subsidiaries of the Registrant
23	Consent of RSM US LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of CEO & CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Schema Document *
101.CAL	XBRL Calculation Linkbase Document *
101.LAB	XBRL Labels Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *
101.DEF	XBRL Definition Linkbase Document *

* Submitted as Exhibits 101 to this Form 10-K are documents formatted in XBRL (Extensible Business Reporting Language).

(1) Incorporated by reference to the Company's Registration Statement on Form S-4 filed with the SEC on January 31, 2005.

(2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 24, 2013.

(3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 20, 2016.

(4) Incorporated by reference to the Company's Definitive Proxy Statement filed with the SEC on December 20, 2005.

(5) Incorporated by reference to the Company's Registration Statement on Form S-8 filed with the SEC on November 16, 2015 (333-208051).

(6) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 22, 2016.

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.

PARKE BANCORP, INC.

Dated: March 17, 2017

By: /s/ Vito S. Pantilione
Vito S. Pantilione
President, Chief Executive Officer and Director

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 17, 2017.

/s/ Celestino R. Pennoni
Celestino R. Pennoni
Chairman of the Board and Director

/s/ Vito S. Pantilione
Vito S. Pantilione
President, Chief Executive Officer and Director

/s/ Fred G. Choate
Fred G. Choate
Director

/s/ Daniel J. Dalton
Daniel J. Dalton
Director

/s/ Arret F. Dobson
Arret F. Dobson
Director

/s/ Anthony Jannetti
Anthony Jannetti
Director

/s/ Edward Infantolino
Edward Infantolino
Director

/s/ Jeffrey H. Krippitz
Jeffrey H. Krippitz
Director

/s/ Jack C. Sheppard, Jr.
Jack C. Sheppard, Jr.
Director

/s/ John F. Hawkins
John F. Hawkins
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

PARKE BANCORP, INC.

2016 ANNUAL REPORT TO SHAREHOLDERS

PARKE BANCORP, INC.
2016 ANNUAL REPORT TO SHAREHOLDERS

TABLE OF CONTENTS

	Page
Section One	
Letter to Shareholders.....	1
Selected Financial Data.....	3
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	4
Market Prices and Dividends.....	13
Management's Report on Internal Control Over Financial Reporting.....	15
Section Two	
Report of Independent Registered Public Accounting Firm.....	1
Consolidated Financial Statements.....	2
Notes to Consolidated Financial Statements.....	7
Officers and Corporate Information.....	41



To Our Shareholders:

2016 was a memorable year for many reasons. The Presidential election will go down as one of the most fiercely contested, verbally abusive and controversial elections in the Country's history. The election turned politics and the media upside down. Many "experts" predicted an economic collapse if the election was won by Donald Trump, which sent many businesses into a "wait and see" position, rather than proceeding with any expansion. The uncertainty of the election affected the banking industry, with some believing there would be increased regulatory scrutiny, while others thought there may be some regulatory relief depending on who was elected. Most bank stocks remained flat due to the uncertainty in the market and the M & A industry was somewhat quiet. However, to the surprise of many, the results of the election had the opposite effect on the stock market and specifically the banking industry. The stock market reached new highs and the banking industry enjoyed the "Trump Bump". Predictions of loosening regulations and tax reductions for businesses and banking revitalized many businesses' strategic planning, with several major companies announcing plans to expand operations in the United States rather than building abroad. These corporate announcements promised thousands of jobs staying and expanding in the United States. The promise of the repeal or amendment of the Dodd-Frank Act generated optimism that banks would be able to better serve their communities and lessen the cost of some of the current regulatory requirements which would equate to increased profits. Time will tell if the optimism is unfounded or if there will be a new expansion of the economy and the banking industry. There have only been a few new bank charters issued since the financial crisis and reports indicate that there are currently 8 new bank charters pending with the FDIC.

We worked through the many challenges of 2016 and it became a record year for Parke Bancorp. We achieved our fourth straight year of record earnings, opened two new full service branches and we reached one billion dollars in total assets. We opened our Collingswood branch in September. It has far exceeded our expectations for growth and already has over \$20mm in deposits. Our Chinatown office opened in December and is off to a great start with deposits and loans. We believe these two new branches have enhanced our franchise value as a Philadelphia area bank, and now one of the few local community banks that is over a billion dollars in assets. This growth puts us in a great position to take advantage of the continued strength of the Philadelphia area market and the very strong growth of the Asian community.

Parke Bancorp generated net income of \$17.3 million, an increase of 82.3% over year ended December 31, 2015. The Company's return on average assets was 1.97% and our return on average equity was 17.04%. Earnings per share increased to \$2.53 per common share and \$2.06 per diluted common share, a 69.3% increase over year ended December 31, 2015. Shareholders' Equity increased 13.5% in 2016 to \$127.1 million. There were several key factors supporting our growth in net income, including the sale of our SBA Subsidiary for a substantial profit. If you exclude the profit from the sale of this company, our Bank would still have recorded our fourth straight year of record profits, representing continued strong growth of our operating earnings. The sale of our SBA Subsidiary included the sale of our SBA loan portfolio, which was a condition of the purchase. SBA protocol requires an SBA lender to forfeit their authorization to generate SBA loans if their SBA loan portfolio was sold. In an unprecedented decision, the SBA granted Parke Bank the approval to continue generating SBA loans, which is a critical part of serving our communities with small business loans. Another important factor supporting the Bank's profitability was our strong loan growth. Our loan portfolio grew 12.3% in 2016 and that was after selling our \$42.6mm SBA loan portfolio. We continue to be one of the leaders in our peer group on managing expenses. Our cost efficiency ratio was 45.64% in 2016. These factors combined, contributed to our strong earnings in 2016.

We continue to focus on reducing our NPAs (nonperforming loans plus Other Real Estate Owned ("OREO") properties). In 2016 our Nonperforming loans decreased 16.7% to \$11.3 million as of December 31, 2016. OREO decreased 36.7% in 2016 to \$10.5 million as of December 31, 2016. Although these are substantial reductions, we remain focused on continuing to reduce our NPAs. It is again important to note that we remain committed to reducing our NPAs without sacrificing shareholder value.

Only time will tell if the current regulatory and business environment will change. Hopefully, the current Administration will address the increased residential mortgage lending regulations that have eliminated so many community banks from offering residential mortgages, which has reduced the options available to consumers. There are also many

reports stating that several compliance and current reporting requirements will be addressed, specifically as they pertain to community banking. Community banking continues to be the cornerstone of small business lending. The cost of these increased regulations to the community banking industry is millions of dollars annually and has in many instances restricted community banks' ability to provide needed capital to small businesses.

2017 will be another exciting year at Parke Bancorp. We will continue to focus our marketing efforts on growing the new Collingswood and Chinatown branches, in addition to growing our existing branch network. Our ability to offer SBA loans to the small businesses in our communities will also play a key role in our growth, in addition to expanding our Asian lending with the new Chinatown branch. The addition of two branches includes increased costs, however, we remain committed to disciplined control of the Bank's expenses. The Bank's record profits, control of expenses and reaching \$1 billion dollars in total assets supported the Board of Directors' decision to approve a 31% increase in our cash dividend in 2016. Parke Bancorp is well positioned in the marketplace with strong earnings, substantial capital and a growing footprint. There will be market opportunities in the future and Parke Bancorp is well positioned to take advantage of those opportunities. We appreciate the strong support of our shareholders and we will continue to work very hard to enhance your investment in our Company.

/s/ C.R. Pennoni

C.R. "Chuck" Pennoni

Chairman

/s/ Vito S. Pantione

Vito S. Pantilione

President and Chief Executive Officer

Selected Financial Data					
At or for the Year Ended December, 31					
	2016	2015	2014	2013	2012
Balance Sheet Data: (in thousands)					
Assets	\$ 1,016,185	\$ 885,124	\$ 821,706	\$ 794,943	\$ 770,477
Loans, Net	\$ 836,373	\$ 742,365	\$ 695,018	\$ 635,981	\$ 610,776
Securities Available for Sale	\$ 44,854	\$ 42,567	\$ 28,208	\$ 35,695	\$ 19,340
Securities Held to Maturity	\$ 2,224	\$ 2,181	\$ 2,141	\$ 2,103	\$ 2,066
Cash and Cash Equivalents	\$ 70,720	\$ 27,429	\$ 36,238	\$ 45,661	\$ 76,866
OREO	\$ 10,528	\$ 16,629	\$ 20,931	\$ 28,910	\$ 26,057
Deposits	\$ 788,694	\$ 665,210	\$ 647,933	\$ 626,768	\$ 637,207
Borrowings	\$ 93,053	\$ 98,053	\$ 62,755	\$ 68,683	\$ 43,851
Shareholders' Equity	\$ 127,134	\$ 112,040	\$ 102,905	\$ 93,716	\$ 83,637
Operational Data: (in thousands)					
Interest Income	\$ 42,202	\$ 39,410	\$ 38,132	\$ 36,784	\$ 37,746
Interest Expense	6,764	5,812	5,579	5,795	7,424
Net Interest Income	35,438	33,598	32,553	30,989	30,322
Provision for Loan Losses	1,462	3,040	3,250	2,700	7,300
Net Interest Income after Provision for Loan Losses	33,976	30,558	29,303	28,289	23,022
Noninterest Income	10,290	5,080	7,631	3,426	4,368
Noninterest Expense	16,628	16,852	18,911	18,852	15,079
Income Before Income Tax Expense	27,638	18,786	18,023	12,863	12,311
Income Tax Expense	8,695	6,843	5,711	3,625	4,242
Net Income Attributable to Company and Noncontrolling Interest	18,943	11,943	12,312	9,238	8,069
Net Income Attributable to Noncontrolling Interest	(433)	(1,246)	(1,839)	(1,667)	(756)
Discount on Retirement of Preferred Shares	—	—	—	1,948	—
Preferred Stock Dividend and Discount Accretion	1,200	1,200	1,200	1,058	1,012
Net Income Available to Common Shareholders	17,310	\$ 9,497	\$ 9,273	\$ 8,461	\$ 6,301
Per Share Data: ¹					
Basic Earnings per Common Share	2.53	\$ 1.42	\$ 1.41	\$ 1.29	\$ 1.06
Diluted Earnings per Common Share	2.06	\$ 1.22	\$ 1.06	\$ 1.29	\$ 1.06
Book Value per Common Share	15.87	\$ 12.42	\$ 12.29	\$ 11.42	\$ 11.36
Performance Ratios:					
Return on Average Assets	1.97%	1.25%	1.30%	1.01%	0.94%
Return on Average Common Equity	17.04%	10.82%	11.77%	12.04%	9.70%
Net Interest Margin	3.96%	4.14%	4.33%	4.36%	4.12%
Efficiency Ratio	45.64%	43.57%	47.06%	54.78%	43.12%
Capital Ratios:					
Equity to Assets	12.51%	12.68%	12.53%	11.64%	10.84%
Dividend Payout	13.44%	16.90%	6.46%	—	—
Tier 1 Risk-based Capital ²	16.67%	15.87%	15.97%	15.65%	14.99%
Total Risk-based Capital ²	17.93%	17.13%	17.22%	16.92%	16.26%
Asset Quality Ratios:					
Nonperforming Loans/Total Loans	1.33%	1.79%	3.77%	5.49%	7.55%
Allowance for Loan Losses/Total Loans	1.83%	2.13%	2.53%	2.84%	3.01%
Allowance for Loan Losses/Non-performing Loans	137.90%	119.01%	67.09%	51.62%	39.82%

¹ Per share computations give retroactive effect to stock dividends declared in each of 2012, 2013 and 2016

² Capital ratios for Parke Bank

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

Parke Bancorp, Inc. (the "Company") may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including the Proxy Statement and the Annual Report on Form 10-K, including the exhibits), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions, which are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which Parke Bank (the "Bank") conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Bank and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; changes in consumer spending and saving habits; and the success of the Bank at managing the risks resulting from these factors. The Company cautions that the listed factors are not exclusive.

Overview

The Company's results of operations are dependent primarily on the its net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and securities, and the interest expense paid on its interest-bearing liabilities, such as deposits and borrowings. The Company also generates noninterest income such as service charges, Bank Owned Life Insurance ("BOLI") income, gains on sales of loans guaranteed by the Small Business Administration ("SBA") and other fees. The Company's noninterest expenses primarily consist of employee compensation and benefits, occupancy expenses, marketing expenses, professional services, FDIC insurance assessments, data processing costs and other operating expenses. The Company is also subject to losses from its loan portfolio if borrowers fail to meet their obligations. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

Results of Operation

The Company recorded net income available to common shareholders of \$17.3 million, or \$2.06 per diluted share, and \$9.5 million, or \$1.22 per diluted share, for 2016 and 2015, respectively. Pre-tax earnings amounted to \$27.6 million for 2016 and \$18.8 million for 2015.

On April 29, 2016, the Bank and its majority-owned subsidiary, 44 Business Capital, LLC ("44BC") completed the sale transaction of the assets of 44BC and certain related assets held by the Bank to Berkshire Bank ("Berkshire"). Under the transaction, Berkshire purchased the assets of 44BC. In addition, Berkshire purchased the Bank's SBA loan portfolio, totaling \$42.6 million, and related servicing rights held by the Bank. The after-tax gain to the Bank was approximately \$5.9 million.

On April 29, 2016, the Bank and its majority-owned subsidiary, 44 Business Capital, LLC ("44BC") completed the sale transaction of the assets of 44BC and certain related assets held by the Bank to Berkshire Bank ("Berkshire"). Under the transaction, Berkshire purchased the assets of 44BC. In addition, Berkshire purchased the Bank's SBA loan portfolio, totaling \$42.6 million, and related servicing rights held by the Bank. The pre-tax gain to the Bank was approximately \$9.3 million, which includes the \$7.6 million gain on sale of SBA related assets and relief of \$1.7 million of related allowance for loan losses.

Total assets of \$1.0 billion at December 31, 2016 represented an increase of \$131.1 million, or 14.8%, from December 31, 2015. Total gross loans amounted to \$852.0 million at year end 2016 for an increase of \$93.5 million, or 12.3%

from December 31, 2015. Deposits increased by \$123.5 million, an increase of 18.6%. Total shareholders' equity at December 31, 2016 amounted to \$127.1 million and increased \$15.1 million, or 13.5%, during the past year.

The principal objective of this financial review is to provide a discussion and an overview of our consolidated financial condition and results of operations. This discussion should be read in conjunction with the accompanying financial statements and related notes thereto.

Comparative Average Balances, Yields and Rates. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. Interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is net interest income divided by average earning assets. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, and 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,					
	2016			2015		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
(Amounts in thousands except Yield/ Cost data)						
Assets						
Loans	\$ 800,677	\$ 40,740	5.09%	\$ 731,032	\$ 38,035	5.20%
Investment securities	46,782	1,245	2.66%	47,323	1,296	2.74%
Federal funds sold and cash equivalents	46,791	217	0.46%	33,184	79	0.24%
Total interest-earning assets	894,250	\$ 42,202	4.72%	811,539	\$ 39,410	4.86%
Noninterest earning assets	61,735			59,545		
Allowance for loan losses	(15,534)			(17,243)		
Total assets	\$ 940,451			\$ 853,841		
Liabilities and Equity						
Interest bearing deposits						
NOWs	\$ 32,499	\$ 163	0.50%	\$ 31,318	\$ 154	0.49%
Money markets	123,017	625	0.51%	112,180	559	0.50%
Savings	175,163	931	0.53%	188,392	1,006	0.53%
Time deposits	284,018	3,319	1.17%	251,816	2,836	1.13%
Brokered certificates of deposit	45,961	380	0.83%	30,337	189	0.62%
Total interest-bearing deposits	660,658	5,418	0.82%	614,043	4,744	0.77%
Borrowings	90,048	1,346	1.49%	80,729	1,068	1.32%
Total interest-bearing liabilities	750,706	\$ 6,764	0.90%	694,772	\$ 5,812	0.84%
Noninterest bearing deposits	62,483			45,656		
Other liabilities	5,656			5,319		
Total liabilities	818,845			745,747		
Equity	121,606			108,094		
Total liabilities and equity	\$ 940,451			\$ 853,841		
Net interest income		<u>\$ 35,438</u>			<u>\$ 33,598</u>	
Interest rate spread			3.82%			4.02%
Net interest margin			3.96%			4.14%

Rate/Volume Analysis. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (*i.e.* , changes in volume multiplied by the previous rate) and (ii) changes in rate (*i.e.* , changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Years ended December 31,					
	2016 vs 2015			2015 vs 2014		
	Variance due to change in			Variance due to change in		
	Average Volume	Average Rate	Net Increase/ (Decrease)	Average Volume	Average Rate	Net Increase/ (Decrease)
(Amounts in thousands)						
Interest Income:						
Loans (net of deferred costs/fees)	\$ 3,559	\$ (854)	\$ 2,705	\$ 3,262	\$ (2,194)	\$ 1,068
Investment securities	(15)	(36)	(51)	306	(64)	242
Federal funds sold	41	97	138	(32)	—	(32)
Total interest income	3,585	(793)	2,792	3,536	(2,258)	1,278
Interest Expense:						
Deposits	348	326	674	101	(103)	(2)
Borrowed funds	130	148	278	238	(3)	235
Total interest expense	478	474	952	339	(106)	233
Net interest income	\$ 3,107	\$ (1,267)	\$ 1,840	\$ 3,197	\$ (2,152)	\$ 1,045

Quarterly Financial Data (unaudited)

The following represents summarized unaudited quarterly financial data of the Company which, in the opinion of management, reflects adjustments (comprised only of normal recurring accruals) necessary for fair presentation.

	Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
	(Amounts in thousands, except per share amounts)			
2016				
Interest income	\$ 11,017	\$ 10,371	\$ 10,471	\$ 10,343
Interest expense	1,762	1,697	1,714	1,591
Net interest income	9,255	8,674	8,757	8,752
Provision for loan losses	700	700	(638)	700
Income before income tax expense	5,302	3,927	13,874	4,535
Income tax expense	1,944	51	5,154	1,546
Net income	3,377	3,876	8,648	2,609
Preferred stock dividends	300	300	300	300
Net income available to common shareholders	3,077	3,576	8,348	2,309
Net income per common share:				
Basic	\$ 0.45	\$ 0.52	\$ 1.20	\$ 0.36
Diluted	\$ 0.38	\$ 0.43	\$ 0.95	\$ 0.31
2015				
Interest income	\$ 10,159	\$ 9,918	\$ 9,933	\$ 9,400
Interest expense	1,493	1,501	1,474	1,344
Net interest income	8,666	8,417	8,459	8,056
Provision for loan losses	—	1,450	750	840
Income before income tax expense	5,698	4,658	4,303	4,127
Income tax expense	2,204	1,730	1,388	1,521
Net income	3,246	2,430	2,522	2,499
Net income available to common shareholders	300	300	300	300
Net income per common share:	2,946	2,130	2,222	2,199
Basic	\$ 0.48	\$ 0.35	\$ 0.37	\$ 0.37
Diluted	\$ 0.40	\$ 0.30	\$ 0.32	\$ 0.31

Critical Accounting Policies and Estimates

Allowance for Losses on Loans. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. Such periodic assessments may, in management's judgment, require the Company to recognize additions or reductions to the allowance.

Various regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

Valuation of Investment Securities. Available for sale securities are reported at fair market value with unrealized gains and losses reported, net of deferred taxes, as comprehensive income, a component of shareholders' equity. The held to maturity securities portfolio, consisting of debt securities for which there is a positive intent and ability to hold to maturity, is carried at amortized cost. Management conducts a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other than temporary. If such decline is deemed other than temporary, the cost basis of the security is adjusted by writing down the security to estimated fair market value through a charge to current period earnings to the extent that such decline is credit related.

Other Real Estate Owned ("OREO"). OREO consists of real estate properties which are recorded at fair value. All properties have an independent third-party full appraisal to determine the value, less cost to sell (a range of 5% to 10%) and other costs. The appraisal is based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

Income Taxes. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. Deferred 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured, as described above, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Operating Results for the Years Ended December 31, 2016 and 2015

Net Interest Income. The Company's primary source of earnings is net interest income, which is the difference between income earned on interest-earning assets, such as loans and investment securities, and interest expense incurred on interest-bearing liabilities, such as deposits and borrowings. The level of net interest income is determined primarily

by the average level of balances ("volume") and the market rates associated with the interest-earning assets and interest-bearing liabilities.

Net interest income increased \$1.8 million, or 5.5%, to \$35.4 million for 2016, from \$33.6 million for 2015. We experienced a decrease in our interest rate spread of 20 basis points, to 3.82% for 2016, from 4.02% for 2015. Our net interest margin decreased 18 basis points, to 3.96% for 2016, from 4.14% for 2015. The increase in net interest income is primarily attributable to the combined effects of an increase in the average balance of loans, partially offset by lower yields on loans.

Interest income increased \$2.8 million, or 7.1%, to \$42.2 million for 2016, from \$39.4 million for 2015. The increase is primarily attributable to higher loan volumes partially offset by lower yields on loans. Average loans for the year were \$800.7 million compared to \$731.0 million for 2015, while average loan yields were 5.09% for 2016 compared to 5.20% for 2015.

Interest expense increased \$952,000, or 16.4%, to \$6.8 million for 2016, from \$5.8 million for 2015. The increase is primarily attributable to higher deposit and borrowing volumes and an increase in the cost of funds. Average deposits for 2016 were \$660.7 million compared to \$614.0 million for 2015, while average deposit rates were 0.82% for 2016 compared to 0.77% for 2015. Average borrowings outstanding increased \$9.3 million to \$90.0 million in 2016 as compared to \$80.7 million in 2015. The average rate paid on these borrowings increased to 1.49% from 1.32% in 2015.

Noninterest Income. Noninterest income is principally derived from gains on the sale of SBA loans, service fees on deposit accounts, fee income from loan services and BOLI income. Noninterest income totaled \$10.3 million in 2016 versus \$5.1 million in 2015. Included in noninterest income is the \$7.6 million gain on sale of SBA related assets discussed previously.

The Company recognized \$1.8 million in gains from the sale of the guaranteed portion of SBA loans in 2016, compared to a gain of \$4.1 million in 2015. The decrease is attributable to the sale of the Company's SBA related assets in April of 2016.

Loan fees were \$777,000 in 2016, a decrease from \$1.4 million in 2015. Loan fees consist primarily of prepayment fees. These loan fees are variable in nature and are dependent upon the borrowers' course of action.

The loss on the sale and write down of OREO for 2016 was \$1.8 million, compared to a loss of \$2.0 million in 2015.

BOLI income was \$722,000 in 2016, an increase from \$357,000 in 2015. The increase is attributable to an additional BOLI purchase in December of 2015.

Other noninterest income, which includes ATM fees, debit card fees, early CD withdrawal penalties, rental income and other miscellaneous income, amounted to \$876,000 in 2016 and \$918,000 in 2015.

Noninterest Expense . Noninterest expense for 2016 was \$16.6 million, a decrease of \$224,000 from 2015.

Compensation and benefits expense for 2016 was \$7.3 million, a decrease of \$395,000 over 2015. The decrease is attributable to the sale of the Company's SBA related assets in April of 2016, partially offset by routine salary increases, higher benefits expense and increased staffing in other areas.

Occupancy and equipment and data processing expenses increased by \$164,000 from 2015. The increase was due to the opening of two new retail branches in the second half of 2016.

OREO expenses decreased to \$1.0 million in 2016, from \$1.6 million in 2015. The expenses are related to the carrying costs of OREO including property taxes, insurance and maintenance. The decrease is attributable to the reduction in the balance of OREO.

Other operating expense increased to \$4.1 million in 2016, from \$3.4 million in 2015. Other operating expense is primarily related to nonperforming loans, including force-placed insurance and payment of real estate taxes to protect the Bank's lien position.

Income Taxes . Income tax expense amounted to \$8.7 million for 2016, compared to \$6.8 million for 2015, resulting in effective tax rates of 31.5% and 36.4% for the respective years. The decrease in the effective rate in 2016 is due to the Company utilizing a \$1.5 million Historic Tax Credit which reduced its income tax expense.

Financial Condition at December 31, 2016 and December 31, 2015

At December 31, 2016, the Company's total assets increased to \$1.0 billion from \$885.1 million at December 31, 2015, an increase of \$131.1 million or 14.8%.

Cash and cash equivalents increased \$43.3 million to \$70.7 million at December 31, 2016 from \$27.4 million at December 31, 2015. The increase is attributable to growth in deposits and the cash generated from the sale of the Company's SBA related assets.

Total investment securities increased to \$47.1 million at December 31, 2016 (\$44.9 million classified as available for sale or 95.3%) from \$44.7 million at December 31, 2015, an increase of \$2.3 million or 5.2%. During 2016, the Company purchased \$10.0 million of mortgage-backed securities to bolster on-balance sheet liquidity to fund future growth. The purchase was funded with borrowings from the FHLB.

Total gross loans increased to \$852.0 million at December 31, 2016, from \$758.5 million at December 31, 2015, an increase of \$93.5 million or 12.3%.

OREO at December 31, 2016 was \$10.5 million, compared to \$16.6 million at December 31, 2015, a decrease of \$6.1 million. OREO consisted of 16 properties, the largest being a condominium development in Absecon. The decrease was primarily due to the sale of OREO property.

At December 31, 2016, the Bank's total deposits increased to \$788.7 million from \$665.2 million at December 31, 2015, an increase of \$123.5 million or 18.6%. Noninterest bearing deposits increased \$40.0 million, or 75.3%, to \$92.5 million at December 31, 2016, from \$52.8 million at December 31, 2015. The increase in deposits is attributable to the opening of two retail branches in the second half of 2016 and a successful new deposit account promotion.

Borrowings decreased to \$93.1 million at December 31, 2016 from \$98.1 million at December 31, 2015, a decrease of \$5.0 million or 5.1%.

Total shareholders' equity increased to \$127.1 million at December 31, 2016 from \$112.0 million at December 31, 2015, an increase of \$15.1 million or 13.5%, due to the retention of earnings.

Asset Quality

The Company attempts to manage the risk characteristics of its loan portfolio through various control processes, such as credit evaluations of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances. However, the Company seeks to rely primarily on the cash flow of its borrowers as the principal source of repayment. Although credit policies are designed to minimize risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio as well as general and regional economic conditions.

The allowance for loan losses represents a reserve for losses inherent in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on nonaccrual loans, past due and other loans that management believes require special attention.

For significant problem loans, management's review consists of an evaluation of the financial strengths of the borrower and the guarantor, the related collateral, and the effects of economic conditions. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans include loans identified as troubled debt restructurings (TDRs). Impairment is measured on a loan by loan basis for commercial loans in order to establish specific reserves by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. General reserves against the remaining loan portfolio are based on an analysis of historical loan loss ratios, changes in the composition and volume of the loan portfolio, overall portfolio quality, current

national and local economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition.

Delinquent loans decreased \$2.2 million to \$12.6 million, or 1.5% of total loans, at December 31, 2016, from \$14.8 million, or 2.0% of total loans, at December 31, 2015. Delinquent loan balances by number of days delinquent at December 31, 2016 were: 31 to 89 days --- \$1.3 million and 90 days and greater --- \$11.3 million. Loans 90 days and more past due are no longer accruing interest. December 31, 2015 delinquent loan balances by number of days were: 31 to 89 days --- \$1.2 million and 90 days and greater --- \$13.6 million. The improving credit quality of the portfolio is attributable to our ability to work out troubled loans and an improving economy.

At December 31, 2016, the Company had \$11.3 million in nonperforming loans, or 1.3% of total loans, a decrease from \$13.6 million, or 1.8% of total loans, at December 31, 2015. The three largest relationships in nonperforming loans are a \$2.1 million land development loan, a \$1.9 million commercial real estate loan and a \$1.9 million land development loan.

At December 31, 2016, the Company had \$21.8 million in nonperforming assets, which includes \$11.3 million of nonperforming loans and \$10.5 million of OREO, or 2.2% of total assets, a decrease from \$30.2 million, or 3.4% of total assets at December 31, 2015.

At December 31, 2016, the Company had \$36.4 million in loans deemed impaired, a decrease from \$42.2 million at December 31, 2015. Included in impaired loans are TDRs that were in compliance with their modified terms and therefore are accruing, totaling \$25.1 million and \$28.7 million at December 31, 2016 and December 31, 2015, respectively.

The provision for loan losses is a charge to earnings in the current year to maintain the allowance at a level management has determined to be adequate based upon the factors noted above. The provision for loan losses amounted to \$1.5 million for 2016, compared to \$3.0 million for 2015. The decline is attributable to the sale of SBA loans, relieving the allowance for loan losses by \$1.7 million. Net loan charge-offs/recoveries were \$2.0 million in 2016 and \$4.9 million in 2015.

At December 31, 2016, the Company's allowance for loan losses decreased to \$15.6 million, from \$16.1 million at December 31, 2015, a decrease of \$556,000 or 3.4%. The ratio of the allowance for loan loss to total loans decreased to 1.8% of loans at December 31, 2016, from 2.1% of loans at December 31, 2015. The allowance for loan losses to nonperforming loans coverage ratio increased to 137.9% at December 31, 2016, from 119.0% at December 31, 2015.

We believe we have appropriately established adequate loss reserves on problem loans that we have identified and to cover credit risks that are inherent in the portfolio as of December 31, 2016. We continue to aggressively manage all loan relationships. Credit monitoring and tracking systems are established. Updated appraisals are being obtained, where appropriate, to ensure that collateral values are sufficient to cover outstanding loan balances. Where necessary, we will apply our loan work-out experience to protect our collateral position and actively negotiate with borrowers to resolve these nonperforming loans.

Interest Rate Sensitivity and Liquidity

Interest rate sensitivity is an important factor in the management of the composition and maturity configurations of earning assets and funding sources. The primary objective of asset/liability management is to ensure the steady growth of our primary earnings component, net interest income. Net interest income can fluctuate with significant interest rate movements. To lessen the impact of interest rate movements, management endeavors to structure the balance sheet so that repricing opportunities exist for both assets and liabilities in roughly equivalent amounts at approximately the same time intervals. Imbalances in these repricing opportunities at any point in time constitute interest rate sensitivity.

The measurement of our interest rate sensitivity, or "gap," is one of the principal techniques used in asset/liability management. Interest sensitive gap is the dollar difference between assets and liabilities that are subject to interest-rate pricing within a given time period, including both floating rate or adjustable rate instruments and instruments that are approaching maturity.

Our management and the Board of Directors oversee the asset/liability management function through the asset/liability committee of the Board that meets periodically to monitor and manage the balance sheet, control interest rate exposure, and evaluate our pricing strategies. The asset mix of the balance sheet is continually evaluated in terms of several

variables: yield, credit quality, appropriate funding sources and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

In theory, interest rate risk can be diminished by maintaining a nominal level of interest rate sensitivity. In practice, this is made difficult by a number of factors, including cyclical variation in loan demand, different impacts on interest-sensitive assets and liabilities when interest rates change, and the availability of funding sources. Accordingly, we undertake to manage the interest-rate sensitivity gap by adjusting the maturity of and establishing rates on the earning asset portfolio and certain interest-bearing liabilities commensurate with management's expectations relative to market interest rates. Management generally attempts to maintain a balance between rate-sensitive assets and liabilities as the exposure period is lengthened to minimize our overall interest rate risk.

Rate Sensitivity Analysis. The interest rate sensitivity position as of December 31, 2016, is presented in the following table. Assets and liabilities are scheduled based on maturity or re-pricing data except for mortgage loans and mortgage-backed securities, which are based on prevailing prepayment assumptions and expected maturities and deposits which are based on recent retention experience of core deposits. The difference between rate-sensitive assets and rate-sensitive liabilities, or the interest rate sensitivity gap, is shown at the bottom of the table. As of December 31, 2016, our interest sensitive liabilities exceeded interest sensitive assets within a one year period by \$100.1 million, or 57.3%, of total assets.

As of December 31, 2016						
	3 Months or Less	Over 3 Months Through 12 Months	Over 1 Year Through 3 Years	Over 3 Years Through 5 Years	Over 5 Years Through 10 Years	Total
(Amounts in thousands)						
Interest-earning assets:						
Loans	\$ 83,460	\$ 139,688	\$ 286,083	\$ 201,527	\$ 130,451	\$ 841,209
Investment securities	1,958	3,907	9,691	7,553	23,969	47,078
Federal funds sold and cash equivalents	66,321	—	—	—	—	66,321
Total interest-earning assets	<u>\$ 151,739</u>	<u>\$ 143,595</u>	<u>\$ 295,774</u>	<u>\$ 209,080</u>	<u>\$ 154,420</u>	<u>\$ 954,608</u>
Interest-bearing liabilities:						
Regular savings deposits	\$ 8,712	\$ 26,136	\$ 69,696	\$ 62,629	\$ 14,430	\$ 181,603
NOW and money market deposits	10,209	30,737	79,828	47,540	3,575	171,889
Retail time deposits	48,553	166,942	61,748	14,174	21	291,438
Brokered time deposits	36,228	15,001	—	—	—	51,229
Borrowed funds	40,903	12,000	34,150	6,000	—	93,053
Total interest-bearing liabilities	<u>\$ 144,605</u>	<u>\$ 250,816</u>	<u>\$ 245,422</u>	<u>\$ 130,343</u>	<u>\$ 18,026</u>	<u>\$ 789,212</u>
Interest rate sensitive gap	\$ 7,134	\$ (107,221)	\$ 50,352	\$ 78,737	\$ 136,394	\$ 165,396
Cumulative interest rate gap	\$ 7,134	\$ (100,087)	\$ (49,735)	\$ 29,002	\$ 165,396	\$ —
Ratio of rate-sensitive assets to rate-sensitive liabilities	104.93%	57.25%	120.52%	160.41%	856.65%	116.09%

Liquidity describes our ability to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from earning assets. Our loan to deposit ratio was 108.0% and 114.0% at December 31, 2016 and December 31, 2015, respectively. Funds received from new and existing depositors provided a large source of liquidity during 2016 and 2015. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support loan growth. The Bank also seeks to augment such deposits with longer term and higher yielding certificates of deposit.

Brokered deposits are a more volatile source of funding than core deposits and do not increase the deposit franchise of the Bank. In a rising rate environment, the Bank may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with the Bank, they may need to be replaced with borrowings which could increase the Bank's cost of funds and negatively impact its interest rate spread, financial condition and results of operation. To

mitigate the potential negative impact associated with brokered deposits, the Bank joined Promontory Inter Financial Network to secure an additional alternative funding source. Promontory provides the Bank an additional source of external funds through their weekly CDARS® settlement process. The rates are comparable to brokered deposits and can be obtained within a shorter period time than brokered deposits. The Bank's CDARS deposits included within the brokered deposit total amounted to \$51.2 million and \$20.9 million at December 31, 2016 and December 31, 2015 , respectively. To the extent that retail deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short term funds market. Longer term funding requirements can be obtained through advances from the FHLBNY. As of December 31, 2016 , the Bank maintained unused lines of credit with the FHLBNY totaling \$64.5 million .

As of December 31, 2016 , the Bank's investment securities portfolio included \$43.7 million of mortgage-backed securities and collateralized debt securities that provide additional cash flow each month. The majority of the investment portfolio is classified as available for sale, is readily marketable, and is available to meet liquidity needs. The Bank's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and provide an additional source of liquidity. Presently the residential mortgage loan portfolio and certain qualifying commercial real estate loans are pledged under a blanket lien to the FHLBNY as collateral. Management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

Off-Balance Sheet Arrangements

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 include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in these particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2016 and 2015 , commitments to extend credit amounted to approximately \$78.3 million and \$62.7 million, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2016 and 2015 , standby letters of credit with customers were \$ 13.1 million and \$14.2 million, respectively.

Loan commitments and standby letters of credit are issued in the ordinary course of business to meet customer needs. Commitments to fund fixed-rate loans were immaterial at December 31, 2016 . Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

The following table sets forth information regarding the Bank's contractual obligations and commitments as of December 31, 2016 .

	Payments Due by Period				
	Less than 1 year	1-3 Years	3-5 years	More than 5 years	Total
	(Amounts in thousands)				
Retail time deposits	\$ 215,495	\$ 61,748	\$ 14,174	\$ 21	\$ 291,438
Brokered time deposits	51,229	—	—	—	51,229
Borrowed funds	52,903	34,150	6,000	—	93,053
Operating lease obligations	293	909	268	486	1,956
Total contractual obligations	<u>\$ 319,920</u>	<u>\$ 96,807</u>	<u>\$ 20,442</u>	<u>\$ 507</u>	<u>\$ 437,676</u>
	Amount of Commitments Expiring by Period				
	Less than 1 year	1-3 Years	3-5 years	More than 5 years	Total
	(Amounts in thousands)				
Loan Commitments	\$ 57,319	\$ —	\$ —	\$ —	\$ 57,319
Lines of Credit	23,904	18,105	3,292	32,991	78,292
Total Commitments	<u>\$ 81,223</u>	<u>\$ 18,105</u>	<u>\$ 3,292</u>	<u>\$ 32,991</u>	<u>\$ 135,611</u>

Impact of Inflation and Changing Prices

The consolidated financial statements and notes have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of our assets are monetary in nature. As a result, market interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

MARKET PRICES AND DIVIDENDS

General

The Company's common stock is listed on the Nasdaq Capital Market under the trading symbol of "PKBK". The following table reflects high and low sales prices as reported on www.nasdaq.com and cash dividends declared during each quarter of the last two fiscal years. Prices reflect a 10% stock dividend paid in May 2016.

	Cash Dividends Paid	High	Low
2016			
1 st Quarter	\$ 0.08	\$ 13.17	\$ 11.10
2 nd Quarter	\$ 0.08	\$ 13.97	\$ 12.76
3 rd Quarter	\$ 0.08	\$ 15.85	\$ 12.53
4 th Quarter	\$ 0.10	\$ 20.15	\$ 14.90
2015			
1 st Quarter	\$ 0.05	\$ 12.13	\$ 10.78
2 nd Quarter	\$ 0.06	\$ 13.17	\$ 11.72
3 rd Quarter	\$ 0.06	\$ 12.77	\$ 11.68
4 th Quarter	\$ 0.07	\$ 12.70	\$ 11.74

The number of shareholders of record of common stock as of March 8, 2017, was approximately 291. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. At March 17, 2017, there were 6,880,714 shares of our common stock outstanding.

The Company paid quarterly cash dividends in 2016 and 2015 totaling \$2.0 million and \$1.4 million, respectively. The timing and amount of future dividends will be within the discretion of the Board of Directors and will depend on the consolidated earnings, financial condition, liquidity, and capital requirements of the Company and its subsidiaries, applicable governmental regulations and policies, and other factors deemed relevant by the Board.

The Company's ability to pay dividends is substantially dependent upon the dividends it receives from the Bank and is subject to other restrictions. Under current regulations, the Bank's ability to pay dividends is restricted as well.

Under the New Jersey Banking Act of 1948, a bank may declare and pay dividends only if after payment of the dividend the capital stock of the bank will be unimpaired and either the bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the bank's surplus.

Pursuant to the terms of the Series B Preferred Stock, the Company may not pay a cash dividend on the common stock unless all dividends on the Series B Preferred Stock for the then-current dividend period have been paid or set aside.

The Federal Deposit Insurance Act generally prohibits all payments of dividends by any insured bank that is in default of any assessment to the FDIC. Additionally, because the FDIC may prohibit a bank from engaging in unsafe or unsound practices, it is possible that under certain circumstances the FDIC could claim that a dividend payment constitutes an unsafe or unsound practice. The New Jersey Department of Banking and Insurance has similar power to issue cease and desist orders to prohibit what might constitute unsafe or unsound practices. The payment of dividends may also be affected by other factors (e.g., the need to maintain adequate capital or to meet loan loss reserve requirements).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a- 15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) 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 authorization of management and directors of the Company; and (iii) 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.

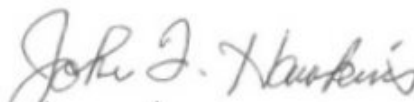
Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of inherent limitations, 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 and procedures may deteriorate.

Under supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

March 17, 2017



Vito S. Pantilione
President and Chief Executive Officer



John F. Hawkins
Senior Vice President and Chief Financial Officer

Parke Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2016

Contents

	Page
Report of Independent Registered Public Accounting Firm.....	1
Financial Statements	
Consolidated Balance Sheets.....	2
Consolidated Statements of Income.....	3
Consolidated Statements of Comprehensive Income.....	4
Consolidated Statements of Equity.....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Parke Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Parke Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Parke Bancorp, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP
Blue Bell, Pennsylvania
March 17, 2017

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2016 and 2015
(Amounts in thousands except share and per share data)

	December 31, 2016	December 31, 2015
Assets		
Cash and due from financial institutions	\$ 4,399	\$ 3,131
Federal funds sold and cash equivalents	66,321	24,298
Cash and cash equivalents	70,720	27,429
Investment securities available for sale, at fair value	44,854	42,567
Investment securities held to maturity (fair value of \$2,411 at December 31, 2016 and \$2,471 December 31, 2015)	2,224	2,181
Total investment securities	47,078	44,748
Loans held for sale	—	2,640
Loans, net of unearned income	851,953	758,501
Less: Allowance for loan losses	(15,580)	(16,136)
Net loans	836,373	742,365
Accrued interest receivable	3,117	3,012
Premises and equipment, net	5,197	4,591
Other real estate owned (OREO)	10,528	16,629
Restricted stock, at cost	4,658	4,789
Bank owned life insurance (BOLI)	24,544	23,822
Deferred tax asset	10,746	10,928
Other assets	3,224	4,171
Total Assets	\$ 1,016,185	\$ 885,124
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 92,535	\$ 52,773
Interest-bearing deposits	696,159	612,437
Total deposits	788,694	665,210
FHLBNY borrowings	79,650	84,650
Subordinated debentures	13,403	13,403
Accrued interest payable	655	494
Other liabilities	6,693	9,160
Total liabilities	889,095	772,917
Equity		
Preferred stock, 1,000,000 shares authorized, \$1,000 liquidation value Series B non-cumulative convertible; issued: 20,000 shares at December 31, 2016 and December 31, 2015	20,000	20,000
Common stock, \$.10 par value; authorized 15,000,000 shares; Issued: 7,147,952 shares at December 31, 2016 and 6,501,610 shares at December 31, 2015	715	650
Additional paid-in capital	62,300	53,984
Retained earnings	47,483	40,582
Accumulated other comprehensive loss	(349)	(165)
Treasury stock, 284,522 shares at December 31, 2016 and 280,354 shares at December 31, 2015, at cost	(3,015)	(3,011)
Total shareholders' equity	127,134	112,040
Noncontrolling interest in consolidated subsidiaries	(44)	167
Total equity	127,090	112,207
Total liabilities and equity	\$ 1,016,185	\$ 885,124

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2016 and 2015
(Amounts in thousands except share and per share data)

	2016	2015
Interest income:		
Interest and fees on loans	\$ 40,740	\$ 38,035
Interest and dividends on investments	1,245	1,296
Interest on federal funds sold and cash equivalents	217	79
Total interest income	42,202	39,410
Interest expense:		
Interest on deposits	5,418	4,744
Interest on borrowings	1,346	1,068
Total interest expense	6,764	5,812
Net interest income	35,438	33,598
Provision for loan losses	1,462	3,040
Net interest income after provision for loan losses	33,976	30,558
Noninterest income		
Gain on sale of SBA loans	1,819	4,147
Gain on sale of SBA related assets	7,611	—
Other Loan fees	777	1,387
Net income from BOLI	722	357
Service fees on deposit accounts	315	290
Loss on sale and write-down of real estate owned	(1,830)	(2,019)
Other	876	918
Total noninterest income	10,290	5,080
Noninterest expense		
Compensation and benefits	7,322	7,717
Professional services	1,639	1,657
Occupancy and equipment	1,314	1,273
Data processing	633	510
FDIC insurance	584	682
OREO expense	1,040	1,642
Other operating expense	4,096	3,371
Total noninterest expense	16,628	16,852
Income before income tax expense	27,638	18,786
Income tax expense	8,695	6,843
Net income attributable to Company and noncontrolling interest	18,943	11,943
Net income attributable to noncontrolling interest	(433)	(1,246)
Net income attributable to Company	18,510	10,697
Preferred stock dividend and discount accretion	(1,200)	(1,200)
Net income available to common shareholders	\$ 17,310	\$ 9,497
Earnings per common share		
Basic	\$ 2.53	\$ 1.42
Diluted	\$ 2.06	\$ 1.22
Weighted average shares outstanding		
Basic	6,846,514	6,700,718
Diluted	8,964,700	8,772,127

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

	For the Year ended December 31 ,	
	2016	2015
	(Amounts in thousands)	
Net income available to common shareholders	\$ 17,310	\$ 9,497
Unrealized gains on securities:		
Non-credit related unrealized gains on securities with OTTI	35	113
Unrealized losses on securities without OTTI	(344)	(661)
Less re-class adjustment for gains on securities included in net income	—	—
Tax Impact	124	218
Total unrealized gains on securities, net	(185)	(330)
Total other comprehensive income	(185)	(330)
Total comprehensive income	\$ 17,125	\$ 9,167
See accompanying notes to consolidated financial statements		

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Equity
Years Ended December 31, 2016 and 2015

(Amounts in thousands except share data)

	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
Balance, December 31, 2014	\$ 20,000	6,208,259	\$ 621	\$ 51,316	\$ 32,983	\$ 165	\$ (2,180)	\$ 102,905	\$ 145	\$ 103,050
Capital withdrawals by noncontrolling interest									(1,224)	(1,224)
Stock options exercised		293,351	29	2,668				2,697		2,697
Net income					10,697			10,697	1,246	11,943
Changes in other comprehensive loss						(330)		(330)		(330)
Purchase of treasury stock							(831)	(831)		(831)
Dividend on preferred stock					(1,200)			(1,200)		(1,200)
Dividend on common stock (\$.10/ share)					(1,898)			(1,898)		(1,898)
Balance, December 31, 2015	\$ 20,000	6,501,610	\$ 650	\$ 53,984	\$ 40,582	\$ (165)	\$ (3,011)	\$ 112,040	\$ 167	\$ 112,207
Capital withdrawals by noncontrolling interest									(644)	(644)
Stock options exercised		20,371	2	188				190		190
Net income					18,510			18,510	433	18,943
Changes in other comprehensive loss						(184)		(184)		(184)
Purchase of treasury stock							(4)	(4)		(4)
Stock compensation				66				66		66
Stock dividend 10%		625,971	63	8,062	(8,125)			—		—
Dividend on preferred stock					(1,200)			(1,200)		(1,200)
Dividend on common stock (\$.34/ share)					(2,284)			(2,284)		(2,284)
Balance, December 31, 2016	\$ 20,000	7,147,952	\$ 715	\$ 62,300	\$ 47,483	\$ (349)	\$ (3,015)	\$ 127,134	\$ (44)	\$ 127,090

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(Amounts in thousands)

	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 18,943	\$ 11,943
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	270	251
Provision for loan losses	1,462	3,040
Bank owned life insurance income	(722)	(357)
Bank owned life insurance additional purchase	—	(12,000)
Gain on sale of SBA loans	(1,819)	(4,147)
SBA loans originated for sale	(15,080)	(38,244)
Proceeds from sale of SBA loans originated for sale	16,901	42,684
Loss on sale & write down of OREO, net	1,830	2,019
Gain on sale of SBA related assets	(7,611)	—
Net accretion of purchase premiums and discounts on securities	(44)	(623)
Deferred income tax benefit	305	(190)
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable and other assets	593	(1,008)
(Decrease) increase in accrued interest payable and other accrued liabilities	(2,306)	1,686
Net cash provided by operating activities	12,722	5,054
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(10,000)	(20,476)
Purchases (redemptions) of restricted stock	131	(1,637)
Proceeds from sale of SBA related assets	50,348	—
Proceeds from loans held for sale	2,638	—
Proceeds from maturities and principal payments on mortgage backed securities	7,406	6,150
Proceeds from sale of OREO	5,222	7,576
Advances on OREO	(194)	(139)
Donation of OREO property	31	—
Net increase in loans	(138,996)	(55,541)
Purchases of bank premises and equipment	(875)	(352)
Net cash used in investing activities	(84,289)	(64,419)
Cash Flows from Financing Activities		
Cash payment of dividends	(3,234)	(2,661)
Minority interest capital withdrawal, net	(644)	(1,224)
Proceeds from exercise of stock options and warrants	190	2,697
Purchase of treasury stock	(4)	(831)
Stock compensation	66	—
Net (decrease) increase in FHLBNY borrowings	(5,000)	35,298
Net increase in noninterest-bearing deposits	39,762	10,219
Net increase in interest-bearing deposits	83,722	7,058
Net cash provided by financing activities	114,858	50,556
Decrease in cash and cash equivalents	43,291	(8,809)
Cash and Cash Equivalents, January 1,	27,429	36,238
Cash and Cash Equivalents, December 31,	\$ 70,720	\$ 27,429
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest on deposits and borrowed funds	\$ 6,603	\$ 5,763
Income taxes	\$ 9,984	\$ 6,494
Supplemental Schedule of Noncash Activities:		

Real estate acquired in settlement of loans
See accompanying notes to consolidated financial statements

\$	788	\$	5,154
----	-----	----	-------

PARKE BANCORP, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business : Parke Bancorp, Inc. (the "Company, we, us, our") is a bank holding company headquartered in Sewell, New Jersey. Through subsidiaries, the Company provides individuals, corporations and other businesses, and institutions with commercial and retail banking services, principally loans and deposits. The Company was incorporated in January 2005 under the laws of the State of New Jersey for the sole purpose of becoming the holding company of Parke Bank (the "Bank").

The Bank is a commercial bank, which was incorporated on August 25, 1998, and commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and Insurance and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office at 601 Delsea Drive, Sewell, New Jersey, and six additional branch office locations; 501 Tilton Road, Northfield, New Jersey, 567 Egg Harbor Road, Washington Township, New Jersey, 67 East Jimmie Leeds Road, Galloway Township, New Jersey, 1150 Haddon Avenue, Collingswood, New Jersey, 1610 Spruce Street, Philadelphia, Pennsylvania, and 1032 Arch Street, Philadelphia, Pennsylvania.

The accounting and financial reporting policies of the Company and Subsidiaries conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

Principles of Consolidation : The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Parke Bank. Also included are the accounts of 44 Business Capital Partners LLC, a joint venture formed in 2009 to originate and service Small Business Administration ("SBA") loans. Parke Bank has a 51% ownership interest in the joint venture. The assets of the joint venture were sold on April 29, 2016. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the requirements for consolidation under applicable accounting guidance. All significant inter-company balances and transactions have been eliminated.

Investment Securities : At December 31, 2016 and 2015, the Company held investment securities that would be held for indefinite periods of time, including securities that would be used as part of the Company's asset/liability management strategy and possibly sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as "available for sale" and are carried at fair value, with any temporary unrealized gains or losses reported as other comprehensive income, net of the related income tax effect.

At December 31, 2016 and 2015, the Company also reported investments in securities that were carried at cost, adjusted for amortization of premium and accretion of discount. The Company has the intent and ability to hold these investment securities to maturity considering all reasonably foreseeable events or conditions. These securities are classified as "held to maturity."

Declines in the fair value of individual debt securities below their cost that are deemed to be other than temporary result in write-downs of the individual securities to their fair value. Debt securities that are deemed to be other than temporarily impaired are reflected in earnings as realized losses to the extent impairment is related to credit losses. The amount of the impairment for debt securities related to other factors is recognized in other comprehensive income (loss). In evaluating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the reasons for the decline in value, (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events, and (4) for fixed maturity securities, whether the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of the cost basis, which may be maturity and such loss is taken into earnings.

The amortization of premiums and accretion of discounts over the contractual lives of the related securities are recognized in interest income using the interest method. Gains and losses on the sale of such securities are accounted for using the specific identification method.

Restricted Stock: Restricted stock includes investments in the common stock of the Federal Home Loan Bank of New York ("FHLBNY") and the Atlantic Central Bankers Bank for which no market exists and, accordingly, is carried at cost. The stocks have no quoted market value and are subject to redemption restrictions. Management reviews these stocks for impairment based on the ultimate recoverability of the cost basis in the stock. The stocks' value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. Management considers such criteria as the significance of the decline in net assets, if any, the length of time this situation has persisted and the financial performance of the issuers. In addition, management considers any commitments by the FHLBNY to make payments required by law or regulation, the impact of legislative and regulatory changes on the customer base of the FHLBNY and the liquidity position of the FHLBNY.

Loans: The Company makes commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in the Southern New Jersey and Philadelphia, Pennsylvania markets. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal amount, adjusted for charge-offs, the allowance for loan losses and any unamortized deferred fees or costs on originated loans. Interest income on loans is recognized as earned based on contractual interest rates applied to daily principal amounts outstanding.

Loans-Nonaccrual: Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet contractual payment obligations as they become due, as well as when a loan is 90 days past due, unless the loan is well secured and in the process of collection, as required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

Troubled Debt Restructurings: Troubled debt restructuring ("TDRs") are loans for which the Company, for legal or economic reasons related to a debtor's financial difficulties, has granted a concession to the debtor that it otherwise would not have considered. Concessions that result in the categorization of a loan as a TDR include:

- Reduction (absolute or contingent) of the stated interest rate;
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or other agreement; or
- Reduction (absolute or contingent) of accrued interest.

TDRs are reported as impaired loans. Interest income on TDR loans is recognized consistent with the Company's nonaccrual loan policy stated above.

Concentration of Credit Risk: The Company's loans are generally to diversified customers in Southern New Jersey and the Philadelphia area of Pennsylvania. Loans to general building contractors, general merchandise stores, restaurants, motels, warehouse space, and real estate ventures (including construction loans) constitute a majority of commercial loans. The concentrations of credit by type of loan are set forth in Note 4. Generally, loans are collateralized by assets of the borrower and are expected to be repaid from the borrower's cash flow or proceeds from the sale of selected assets of the borrower.

Loan Fees: Loan fees and direct costs associated with loan originations are netted and deferred. The deferred amount is recognized as an adjustment to loan interest over the term of the related loans using the interest method. Loan brokerage fees represent commissions earned for facilitating loans between borrowers and other companies and is recorded as loan fee income. Loan fee income also includes prepayment penalties on loans.

Allowance for Loan Losses: The allowance for loan losses is maintained through charges to the provision for loan losses in the Consolidated Statements of Income as losses are estimated to have occurred. Loans or portions thereof that are determined to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses in the balance of the loan portfolio, based on an evaluation of collectability of existing loans and prior loss experience. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically take into consideration changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans,

current economic conditions which may affect borrowers' ability to repay, changes in values of collateral and other factors which may warrant current recognition. Such periodic assessments may, in management's judgment, require the Company to recognize additions or reductions to the allowance.

Various regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, including TDRs. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value for collateral-dependent loans or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience and incurred losses given the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not reflected in the historical loss or risk rating data.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately evaluate individual consumer loans for impairment.

Other Real Estate Owned ("OREO"): Real estate acquired through foreclosure or other proceedings is carried at fair value less estimated costs of disposal. Costs of improving OREO are capitalized to the extent that the carrying value does not exceed its fair value less estimated selling costs. Subsequent valuation adjustments, if any, are recognized as a charge against current earnings. Holding costs are charged to expense. Gains and losses on sales are recognized in noninterest income as they occur.

Interest Rate Risk: The Company is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other borrowed and brokered funds, to make commercial, commercial mortgage, residential mortgage, and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is interest rate risk that results from differences in the maturities and repricing characteristics of these assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

Bank Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed and charged to expense using the straight-line method over the estimated useful lives of the assets, generally three years for computers and software, five to ten years for equipment and forty years for buildings. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

Income Taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax bases. Deferred 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits would be recognized in income tax expense on the income statement.

The Company did not recognize any interest or penalties related to income tax during the years ended December 31, 2016 or 2015. The Company does not have an accrual for uncertain tax positions as of December 31, 2016 or 2015, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2013 and thereafter are subject to further examination by tax authorities, with the exception of the State of New Jersey for which tax returns for all years 2012 and thereafter are subject to further examination.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the allowance for loan losses, other than temporary impairment losses on investment securities, the valuation of deferred income taxes, and carrying value of OREO.

Segment Reporting: The Company operates one reportable segment of business, "community banking". Through its community banking segment, the Company provides a broad range of retail and community banking services.

Reclassifications: Certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation. Such reclassifications have no impact on prior year earnings and shareholders' equity.

Comprehensive Income: Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under GAAP, are excluded from net income, including unrealized gains and losses on available for sale securities.

Accumulated other comprehensive loss consisted of the following at December 31, 2016 and 2015:

	2016	2015
	(Amounts in thousands)	
Securities:		
Non-credit unrealized losses on available for sale securities with OTTI	\$ (309)	\$ (344)
Unrealized (losses) gains on available for sale securities without OTTI	(273)	71
Tax impact	233	108
	<u>\$ (349)</u>	<u>\$ (165)</u>

Earnings Per Common Share: Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share considers common stock equivalents (when dilutive) outstanding during the period such as options outstanding and convertible preferred stock. To the extent that stock equivalents are anti-dilutive, they have been excluded from the earnings per share calculation. Both basic and diluted earnings per share computations give retroactive effect to a stock dividend declared and paid in 2016 (Note 13). Earnings per common share have been computed based on the following for 2016 and 2015:

	2016	2015
	(dollars in thousands, except share data)	
Basic earnings per common share		
Net income available to common shareholders	\$ 17,310	\$ 9,497
Average common shares outstanding	6,846,514	6,700,718
Basic earnings per common share	\$ 2.53	\$ 1.42
Diluted earnings per common share		
Net income available to common shareholders	\$ 17,310	\$ 9,497
Dividend on Preferred Series B	1,200	1,200
Net income available to common shareholders pre dividend on Preferred Series B	\$ 18,510	\$ 10,697
Average common shares outstanding	6,846,514	6,700,718
Dilutive potential common shares	2,118,186	2,071,409
Total diluted average common shares outstanding	8,964,700	8,772,127
Diluted earnings per common share	\$ 2.06	\$ 1.22

For 2016 and 2015, there were no options outstanding that were not included in the computation of diluted EPS because the options' common stock equivalents and preferred stock were anti-dilutive.

Statement of Cash Flows : Cash and cash equivalents include cash and due from financial institutions and federal funds sold. For the purposes of the statement of cash flows, changes in loans and deposits are shown on a net basis.

Recently Issued Accounting Pronouncements :

During August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2016-15, which is a new guidance related to the *Statement of Cash Flows*. The new guidance clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, and contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The guidance also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance is not expected to be material to the consolidated financial statements.

During June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses*. ASU 2016-13 (Topic 326), replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

On January 5, 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the ASU)* which provides for changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The more significant amendments are summarized below. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of these amendments.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 includes a lessee accounting model that recognizes two types of leases - finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. (Leases with terms of less than 12 months are exempt from the new standard.) The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as finance or operating lease. New disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases are also required. These disclosures include qualitative and quantitative requirements, providing information about the amounts recorded in the financial statements. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (that is, for a calendar year-end public entity, the changes take effect beginning January 1, 2019). The Company is currently evaluating the impact of these amendments.

During March 2016, the FASB issued ASU No. 2016-09, *Stock Compensation*. ASU No. 2016-09 (Topic 718) eliminates the concept of additional paid in capital pools for stock-based awards and requires that the related excess tax benefits and tax deficiencies be classified as an operating activity in the statement of cash flows. The new guidance also allows entities to make a one-time policy election to account for forfeitures when they occur, instead of accruing compensation cost based on the number of awards expected to vest. Additionally, the new guidance changes the requirement for an award to qualify for equity classification by permitting tax withholding up to the maximum statutory tax rate instead of the minimum statutory tax rate. Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The adoption of this guidance is not expected to be material to the consolidated financial statements.

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 (Topic 606) supersedes the revenue recognition requirements in Accounting Standards Codification Topic 606, *Revenue Recognition*, and most industry-specific guidance throughout the Accounting Standards Codification. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. During August 2015, the FASB provided a one-year deferral of the effective date; therefore, the guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The FASB has also issued clarification guidance as it relates to principal versus agent considerations for revenue recognition purposes and clarification guidance on other various considerations related to the new revenue recognition guidance. Additionally, during April 2016, the FASB issued further clarification guidance related to identifying performance obligations and licensing. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

Note 2. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy deposit reserve requirements, and to compensate other banks for certain correspondent services. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Company as of December 31, 2016 or 2015, because reserve requirements were covered by vault cash.

Note 3. Investment Securities

The following is a summary of the Company's investment in available for sale and held to maturity securities as of December 31, 2016 and 2015 :

<u>As of December 31, 2016</u>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other than temporary impairments in OCI	Fair value
	(Amounts in thousands)				
Available for sale:					
Corporate debt obligations	\$ 1,000	\$ 11	\$ —	\$ —	\$ 1,011
Residential mortgage-backed securities	43,530	218	508	—	43,240
Collateralized mortgage obligations	160	6	—	—	166
Collateralized debt obligations	746	—	—	309	437
Total available for sale	<u>\$ 45,436</u>	<u>\$ 235</u>	<u>\$ 508</u>	<u>\$ 309</u>	<u>\$ 44,854</u>
Held to maturity:					
States and political subdivisions	<u>\$ 2,224</u>	<u>\$ 187</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,411</u>
<u>As of December 31, 2015</u>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other than temporary impairments in OCI	Fair value
	(Amounts in thousands)				
Available for sale:					
Corporate debt obligations	\$ 1,000	\$ 31	\$ —	\$ —	\$ 1,031
Residential mortgage-backed securities	40,788	451	418	—	40,821
Collateralized mortgage obligations	246	7	—	—	253
Collateralized debt obligations	806	—	—	344	462
Total available for sale	<u>\$ 42,840</u>	<u>\$ 489</u>	<u>\$ 418</u>	<u>\$ 344</u>	<u>\$ 42,567</u>
Held to maturity:					
States and political subdivisions	<u>\$ 2,181</u>	<u>\$ 290</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,471</u>

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity, as of December 31, 2016 , are as follows:

	Amortized Cost	Fair Value
	(Amounts in thousands)	
Available for sale:		
Due within one year	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	500	500
Due after ten years	1,246	948
Residential mortgage-backed securities and collateralized mortgage obligations	43,690	43,406
Total available for sale	<u>\$ 45,436</u>	<u>\$ 44,854</u>
Held to maturity:		
Due within one year	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	1,212	1,253
Due after ten years	1,012	1,158
Total held to maturity	<u>\$ 2,224</u>	<u>\$ 2,411</u>

Expected maturities will differ from contractual maturities for mortgage related securities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalties.

During the year ending December 31, 2016 and December 31, 2015 , the Company did not sell any investment securities.

Securities with a carrying value of \$23.1 million and \$15.6 million , respectively, were pledged to secure public deposits at December 31, 2016 and 2015 .

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired ("OTTI"), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016 there were 7 securities in a less than 12 months loss position and 3 in a greater than 12 months. At December 31, 2015 there were 5 securities in a less than 12 months loss position and 3 greater than 12 months.

As of December 31, 2016	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Amounts in thousands)						
Available for sale:						
Residential mortgage-backed securities	\$ 17,519	\$ 484	\$ 1,077	\$ 24	\$ 18,596	\$ 508
Total available for sale	<u>\$ 17,519</u>	<u>\$ 484</u>	<u>\$ 1,077</u>	<u>\$ 24</u>	<u>\$ 18,596</u>	<u>\$ 508</u>
As of December 31, 2015	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Amounts in thousands)						
Available for sale:						
Residential mortgage-backed securities	\$ 19,191	\$ 343	\$ 3,221	\$ 75	\$ 22,412	\$ 418
Total available for sale	<u>\$ 19,191</u>	<u>\$ 343</u>	<u>\$ 3,221</u>	<u>\$ 75</u>	<u>\$ 22,412</u>	<u>\$ 418</u>

Residential Mortgage-Backed Securities

The unrealized losses on the Company's investment in mortgage-backed securities relates to ten securities. The losses were caused by movement in interest rates. The securities were issued by FNMA, GNMA and FHLMC all government sponsored entities. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in these securities to be OTTI at December 31, 2016 .

Other than Temporarily Impaired Debt Securities

The Company assesses whether we intend to sell or whether it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered OTTI and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

The present value of expected future cash flows is determined using the best estimate of cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate of cash flows vary depending on the type of security. The asset-backed securities' cash flow estimates are based on bond-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate re-structuring or the disposition of assets using bond specific facts and circumstances including timing, security interests and loss severity.

We have a process in place to identify debt securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. On a quarterly basis, we review all securities to determine whether an OTTI exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (4) for fixed maturity securities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value.

OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit-impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. There were no investment gains and losses recognized in income during the years ended December 31, 2016 and 2015.

Note 4. Loans

The portfolio of loans outstanding consists of:

	December 31, 2016		December 31, 2015	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
(Amounts in thousands)				
Commercial and Industrial	\$ 26,774	3.1%	\$ 27,140	3.6%
Real Estate Construction:				
Residential	8,825	1.0	7,750	1.0
Commercial	58,469	6.9	45,245	6.0
Real Estate Mortgage:				
Commercial – Owner Occupied	123,898	14.5	172,040	22.7
Commercial – Non-owner Occupied	268,123	31.5	256,471	33.8
Residential – 1 to 4 Family	309,340	36.3	213,266	28.1
Residential – Multifamily	39,804	4.7	18,113	2.4
Consumer	16,720	2.0	18,476	2.4
Total Loans	<u>\$ 851,953</u>	<u>100.0%</u>	<u>\$ 758,501</u>	<u>100.0%</u>

At December 31, 2016 and 2015, approximately \$193.9 million and \$132.3 million, respectively, of loans were pledged to the FHLBNY on borrowings (Note 9). This pledge consists of a blanket lien on residential mortgages and certain qualifying commercial real estate loans.

Loan Origination/Risk Management: In the normal course of business the Company is exposed to a variety of operational, reputational, legal, regulatory and credit risks that could adversely affect our financial performance. Most of our asset risk is primarily tied to credit (lending) risk. The Company has lending policies, guidelines and procedures in place that are designed to maximize loan income within an acceptable level of risk. The Board of Directors reviews and approves these policies, guidelines and procedures. When we originate a loan we make certain subjective judgments about the borrower's ability to meet the loan's terms and conditions. We also make objective and subjective value assessments on the assets we finance. The borrower's ability to repay can be adversely affected by economic changes. Likewise, changes in market conditions and other external factors can affect asset valuations. The Company actively monitors the quality of its loan portfolio. A reporting system supplements the credit review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit risk, loan delinquencies, troubled debt restructures, nonperforming and potential problem loans. Diversification in the loan portfolio is another means of managing risk associated with fluctuations in economic conditions.

The Company originates secured loans for business purposes. Loans are made to provide working capital to businesses in the form of lines of credit, which may be secured by accounts receivable, inventory, equipment or other assets. The financial condition and cash flow of commercial borrowers are closely monitored by means of corporate financial statements, personal financial statements and income tax returns. The frequency of submissions of required financial information depends on the size and complexity of the credit and the collateral that secures the loan. The Company's general policy is to obtain personal guarantees from the principals of the commercial loan borrowers. Such loans are made to businesses located in the Company's market area.

With respect to construction loans to developers and builders that are secured by non-owner occupied properties, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analyses of the developers and property owners. Construction loans are generally underwritten based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Commercial real estate loans, including multi-family loans, are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. Commercial real estate loans may be riskier than those for one-to-four family residences and are typically larger in dollar size. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The repayment of these loans is generally largely dependent on the successful operation and management of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location within our market area. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also monitors economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At December 31, 2016, approximately 55.0% of the outstanding principal balance of the Company's commercial real estate loans were secured by non-owner occupied properties.

The Company originates adjustable and fixed-rate residential mortgage loans. Such mortgage loans are generally originated under terms, conditions and documentation acceptable to the secondary mortgage market. Although the Company has placed all of these loans into its portfolio, a substantial majority of such loans can be sold in the secondary market or pledged for potential borrowings. The source of repayment is the borrower's income and could be adversely affected by job loss or illness.

Consumer loans may carry a higher degree of repayment risk than residential mortgage loans. Repayment is typically dependent upon the borrower's financial stability which is more likely to be adversely affected by job loss, illness, or personal bankruptcy. To monitor and manage consumer loan risk, policies and procedures are developed and modified as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements. Historically the Company's losses on consumer loans have been negligible.

The Company maintains an outsourced independent loan review program that reviews and validates the credit risk assessment program on a periodic basis. Results of these external independent reviews are presented to management. The Company maintains a risk monitoring program through a standalone Credit Risk Management Department. The external independent loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit risk management personnel.

Concentrations of Credit : Most of the Company's lending activity occurs within the areas of southern New Jersey and southeastern Pennsylvania, as well as other markets. The majority of the Company's loan portfolio consists of commercial real estate loans. No one industry sector exceeds 10% of total loans.

Loans to Related Parties : In the normal course of business, the Company has granted loans to officers, directors and their affiliates (related parties). All loans to related parties were made in the ordinary course of business; were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable loans with persons not related to the Bank; and did not involve more than the normal risk of collectability or present other unfavorable features. The other reductions were due to a former directors loans.

An analysis of the activity of such related party loans for 2016 and 2015 is as follows:

	2016	2015
	(Amounts in thousands)	
Balance, beginning of year	\$ 20,072	\$ 20,233
Advances	418	4,568
Less: repayments	(856)	(4,729)
Less: reduction due to death of a director	(5,662)	—
Balance, end of year	<u>\$ 13,972</u>	<u>\$ 20,072</u>

An age analysis of past due loans by class follows:

December 31, 2016

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
(Amounts in thousands)							
Commercial and Industrial	\$ —	—	159	159	26,615	\$ 26,774	—
Real Estate Construction:							
Residential	—	—	—	—	8,825	8,825	—
Commercial	—	—	3,241	3,241	55,228	58,469	—
Real Estate Mortgage:							
Commercial – Owner Occupied	—	165	430	595	123,303	123,898	—
Commercial – Non-owner Occupied	—	—	3,958	3,958	264,165	268,123	—
Residential – 1 to 4 Family	715	361	3,095	4,171	305,169	309,340	—
Residential – Multifamily	—	—	308	308	39,496	39,804	—
Consumer	31	42	107	180	16,540	16,720	—
Total Loans	<u>\$ 746</u>	<u>568</u>	<u>11,298</u>	<u>12,612</u>	<u>839,341</u>	<u>\$ 851,953</u>	<u>—</u>

December 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
(Amounts in thousands)							
Commercial and Industrial	\$ —	—	740	740	26,400	\$ 27,140	—
Real Estate Construction:							
Residential	—	—	—	—	7,750	7,750	—
Commercial	—	—	5,204	5,204	40,041	45,245	—
Real Estate Mortgage:							
Commercial – Owner Occupied	812	—	358	1,170	170,870	172,040	—
Commercial – Non-owner Occupied	—	—	4,002	4,002	252,469	256,471	—
Residential – 1 to 4 Family	—	—	3,255	3,255	210,011	213,266	—
Residential – Multifamily	357	—	—	357	17,756	18,113	—
Consumer	31	32	—	63	18,413	18,476	—
Total Loans	<u>\$ 1,200</u>	<u>32</u>	<u>13,559</u>	<u>14,791</u>	<u>743,710</u>	<u>\$ 758,501</u>	<u>—</u>

Impaired Loans: Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments.

All impaired loans that are secured by real estate are assessed for recoverability based on an independent third-party full appraisal to determine the net realizable value ("NRV") based on the fair value of the underlying collateral, less costs to sell and other costs, such as unpaid real estate taxes, that have been identified, or the present value of discounted cash flows in the case of certain impaired loans that are not collateral dependent. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are generally updated every 12 months or sooner if we have identified possible further deterioration in value. Prior to receiving the updated appraisal, we will establish a specific reserve for any estimated deterioration, based upon our assessment of market conditions, adjusted for estimated costs to sell and other identified costs. If the NRV is greater than the loan amount, then no impairment loss exists. If the NRV is less than the loan amount, the shortfall is recognized by a specific reserve. If the borrower fails to pledge additional collateral within a ninety days period, a charge-off equal to the difference between the loan carrying value and NRV will occur. In certain circumstances, however, a direct charge-off may be taken at the time that the NRV calculation reveals a shortfall. All impaired loans are evaluated based on the criteria stated above on a quarterly basis and any change in the reserve requirements are recorded in the period identified. All partially charged-off loans remain on nonaccrual status until they are brought current as to both principal and interest and have at least six months of payment history and future collectability of principal and interest is assured.

Impaired loans are set forth in the following tables.

December 31, 2016

	Recorded Investment	Unpaid Principal Balance	Related Allowance
(Amounts in thousands)			
With no related allowance recorded:			
Commercial and Industrial	\$ 21	\$ 23	\$ —
Real Estate Construction:			
Residential	—	—	—
Commercial	1,161	1,161	—
Real Estate Mortgage:			
Commercial – Owner Occupied	—	—	—
Commercial – Non-owner Occupied	3,494	3,739	—
Residential – 1 to 4 Family	2,384	2,434	—
Residential – Multifamily	308	354	—
Consumer	107	107	—
	<u>7,475</u>	<u>7,818</u>	<u>—</u>
With an allowance recorded:			
Commercial and Industrial	138	1,392	138
Real Estate Construction:			
Residential	—	—	—
Commercial	7,225	11,125	155
Real Estate Mortgage:			
Commercial – Owner Occupied	4,380	4,409	498
Commercial – Non-owner Occupied	15,506	17,100	226
Residential – 1 to 4 Family	1,681	1,697	234
Residential – Multifamily	—	—	—
Consumer	—	—	—
	<u>28,930</u>	<u>35,723</u>	<u>1,251</u>
Total:			
Commercial and Industrial	159	1,415	138
Real Estate Construction:			
Residential	—	—	—
Commercial	8,386	12,286	155
Real Estate Mortgage:			
Commercial – Owner Occupied	4,380	4,409	498
Commercial – Non-owner Occupied	19,000	20,839	226
Residential – 1 to 4 Family	4,065	4,131	234
Residential – Multifamily	308	354	—
Consumer	107	107	—
	<u>\$ 36,405</u>	<u>\$ 43,541</u>	<u>\$ 1,251</u>

December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	\$ 680	\$ 1,934	\$ —
Real Estate Construction:			
Residential	—	—	—
Commercial	1,420	1,517	—
Real Estate Mortgage:			
Commercial – Owner Occupied	358	358	—
Commercial – Non-owner Occupied	1,281	1,281	—
Residential – 1 to 4 Family	1,858	1,910	—
Residential – Multifamily	—	—	—
Consumer	—	—	—
	<u>5,597</u>	<u>7,000</u>	<u>—</u>
With an allowance recorded:			
Commercial and Industrial	503	504	67
Real Estate Construction:			
Residential	—	—	—
Commercial	5,696	8,420	1,149
Real Estate Mortgage:			
Commercial – Owner Occupied	4,341	4,370	73
Commercial – Non-owner Occupied	23,303	24,988	486
Residential – 1 to 4 Family	2,426	3,200	709
Residential – Multifamily	356	356	5
Consumer	—	—	—
	<u>36,625</u>	<u>41,838</u>	<u>2,489</u>
Total:			
Commercial and Industrial	1,183	2,438	67
Real Estate Construction:			
Residential	—	—	—
Commercial	7,116	9,937	1,149
Real Estate Mortgage:			
Commercial – Owner Occupied	4,699	4,728	73
Commercial – Non-owner Occupied	24,584	26,269	486
Residential – 1 to 4 Family	4,284	5,110	709
Residential – Multifamily	356	356	5
Consumer	—	—	—
	<u>\$ 42,222</u>	<u>\$ 48,838</u>	<u>\$ 2,489</u>

The following table presents by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2016 and 2015 :

	Year Ended December 31,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Amounts in thousands)			
Commercial and Industrial	\$ 333	\$ 1	\$ 3,088	\$ 45
Real Estate Construction:				
Residential	—	—	—	—
Commercial	9,340	234	10,013	87
Real Estate Mortgage:				
Commercial – Owner Occupied	4,878	176	5,548	196
Commercial – Non-owner Occupied	19,281	751	26,554	985
Residential – 1 to 4 Family	4,130	122	5,491	113
Residential – Multifamily	320	8	359	26
Consumer	108	6	—	—
Total	<u>\$ 38,390</u>	<u>\$ 1,298</u>	<u>\$ 51,053</u>	<u>\$ 1,452</u>

Troubled debt restructurings : Periodically or upon modification management evaluates our loans in order to determine the appropriate risk rating, interest accrual status and potential classification as a TDR, some of which are performing and accruing interest. A TDR is a loan on which we have granted a concession due to a borrower's financial difficulty, that would not otherwise be considered. The terms of these modified loans may include extension of maturity, renewals, changes in interest rate, additional collateral requirements or infusion of additional capital into the project by the borrower to reduce debt or to support future debt service. On construction and land development loans we may modify the loan as a result of delays or other project issues such as slower than anticipated sell-outs, insufficient leasing activity and/or a decline in the value of the underlying collateral securing the loan. Management believes that working with a borrower to restructure a loan provides us with a better likelihood of collecting our loan. It is our policy not to renegotiate the terms of a commercial loan simply because of a delinquency status. However, we will use our Troubled Debt Restructuring Program to work with delinquent borrowers when the delinquency is temporary. We consider all loans modified in a TDR to be impaired.

At the time a loan is modified in a TDR, we consider the following factors to determine whether the loan should accrue interest:

- Whether there is a period of current payment history under the current terms, typically 6 months ;
- Whether the loan is current at the time of restructuring; and
- Whether we expect the loan to continue to perform under the restructured terms with a debt coverage ratio that complies with the Bank's credit underwriting policy of 1.25 times debt service.

We also review the financial performance of the borrower over the past year to be reasonably assured of repayment and performance according to the modified terms. This review consists of an analysis of the borrower's historical results; the borrower's projected results over the next four quarters; current financial information of the borrower and any guarantors. The projected repayment source needs to be reliable, verifiable, quantifiable and sustainable. In addition, all TDRs are reviewed quarterly to determine the amount of any impairment.

At the time of restructuring, the amount of the loan principal for which we are not reasonably assured of repayment is charged-off, but not forgiven.

A borrower with a restructured loan must make a minimum of six consecutive monthly payments at the restructured level and be current as to both interest and principal to be placed back on accrual status.

Performing TDRs (not reported as nonaccrual loans) totaled \$25.1 million and \$28.7 million with related allowances of \$390,000 and \$530,000 as of December 31, 2016 and December 31, 2015 , respectively. Non-performing TDRs totaled \$3.0 million and \$3.5 million with related allowances of \$0 and \$603,000 as of December 31, 2016 and

December 31, 2015 , respectively. All TDRs are classified as impaired loans and are included in the impaired loan disclosures above.

There were no loans modified as TDRs during the years ended December 31, 2016 and 2015 .

Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall allowance for loan losses estimate. The level of any re-defaults will likely be affected by future economic conditions. Once a loan becomes a TDR, it will continue to be reported as a TDR until it is repaid in full, foreclosed, sold or it meets the criteria to be removed from TDR status.

Credit Quality Indicators : As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grades of loans, the level of classified loans, net charge-offs, nonperforming loans (see details above) and the general economic conditions in the region.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 7 . Grades 1 through 4 are considered "Pass". A description of the general characteristics of the seven risk grades is as follows:

1. Good : Borrower exhibits the strongest overall financial condition and represents the most creditworthy profile.
2. Satisfactory (A) : Borrower reflects a well-balanced financial condition, demonstrates a high level of creditworthiness and typically will have a strong banking relationship with Parke Bank.
3. Satisfactory (B) : Borrower exhibits a balanced financial condition and does not expose the Bank to more than a normal or average overall amount of risk. Loans are considered fully collectable.
4. Watch List : Borrower reflects a fair financial condition, but there exists an overall greater than average risk. Risk is deemed acceptable by virtue of increased monitoring and control over borrowings. Probability of timely repayment is present.
5. Other Assets Especially Mentioned (OAEM) : Financial condition is such that assets in this category have a potential weakness or pose unwarranted financial risk to the Bank even though the asset value is not currently impaired. The asset does not currently warrant adverse classification but if not corrected could weaken and could create future increased risk exposure. Includes loans which require an increased degree of monitoring or servicing as a result of internal or external changes.
6. Substandard : This classification represents more severe cases of #5 (OAEM) characteristics that require increased monitoring. Assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral. Asset has a well-defined weakness or weaknesses that impairs the ability to repay debt and jeopardizes the timely liquidation or realization of the collateral at the asset's net book value.
7. Doubtful : Assets which have all the weaknesses inherent in those assets classified #6 (Substandard) but the risks are more severe relative to financial deterioration in capital and/or asset value; accounting/evaluation techniques may be questionable and the overall possibility for collection in full is highly improbable. Borrowers in this category require constant monitoring, are considered work out loans and present the potential for future loss to the Bank.

An analysis of the credit risk profile by internally assigned grades as of December 31, 2016 and 2015 , is as follows:

At December 31, 2016	Pass	OAEM	Substandard	Doubtful	Total
	(Amounts in thousands)				
Commercial and Industrial	\$ 26,515	\$ 121	\$ 138	\$ —	\$ 26,774
Real Estate Construction:					
Residential	8,825	—	—	—	8,825
Commercial	35,656	12,516	10,297	—	58,469
Real Estate Mortgage:					
Commercial – Owner Occupied	120,166	3,302	430	—	123,898
Commercial – Non-owner Occupied	261,181	79	6,863	—	268,123
Residential – 1 to 4 Family	304,042	1,536	3,762	—	309,340
Residential – Multifamily	39,496	—	308	—	39,804
Consumer	16,612	—	108	—	16,720
Total	\$ 812,493	\$ 17,554	\$ 21,906	\$ —	\$ 851,953

At December 31, 2015	Pass	OAEM	Substandard	Doubtful	Total
	(Amounts in thousands)				
Commercial and Industrial	\$ 25,658	\$ 688	\$ 794	\$ —	\$ 27,140
Real Estate Construction:					
Residential	7,750	—	—	—	7,750
Commercial	24,210	15,831	5,204	—	45,245
Real Estate Mortgage:					
Commercial – Owner Occupied	163,765	7,225	1,050	—	172,040
Commercial – Non-owner Occupied	242,607	7,044	6,820	—	256,471
Residential – 1 to 4 Family	207,911	515	4,840	—	213,266
Residential – Multifamily	17,757	—	356	—	18,113
Consumer	18,475	—	1	—	18,476
Total	\$ 708,133	\$ 31,303	\$ 19,065	\$ —	\$ 758,501

Note 5. Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of, and trends related to, nonaccrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. The provision for possible loan losses also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance for loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified

losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship manager level for all commercial loans. When a loan has a grade of 6 or higher, the loan is analyzed to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are periodically updated based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial loans, commercial real estate loans, consumer real estate loans and consumer and other loans.

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the bank's lending management and staff; (ii) the effectiveness of the Bank's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; and (ix) the impact of rising interest rates on portfolio risk. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, high-moderate, moderate, low-moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

An analysis of the allowance for loan losses as of and for the years ended December 31, 2016 and 2015, is as follows:

Allowance for Loan Losses :

	For the year ended December 31, 2016				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
	(Amounts in thousands)				
Commercial and Industrial	\$ 952	\$ (76)	\$ 8	\$ 304	\$ 1,188
Real Estate Construction:					
Residential	247	—	—	21	268
Commercial	2,501	(1,081)	—	1,076	2,496
Real Estate Mortgage:					
Commercial – Owner Occupied	3,267	—	1	(1,186)	2,082
Commercial – Non-owner Occupied	3,838	(154)	—	205	3,889
Residential – 1 to 4 Family	4,802	(704)	39	779	4,916
Residential – Multifamily	254	(45)	—	296	505
Consumer	275	(6)	—	(33)	236
Unallocated	—	—	—	—	—
Total	\$ 16,136	\$ (2,066)	\$ 48	\$ 1,462	\$ 15,580

Allowance for Loan Losses :

For the year ended December 31, 2015

	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
	(Amounts in thousands)				
Commercial and Industrial	\$ 1,679	\$ (1,554)	\$ 121	\$ 706	\$ 952
Real Estate Construction:					
Residential	316	(238)	—	169	247
Commercial	3,015	(2,745)	—	2,231	2,501
Real Estate Mortgage:					
Commercial – Owner Occupied	3,296	—	66	(95)	3,267
Commercial – Non-owner Occupied	4,962	(638)	398	(884)	3,838
Residential – 1 to 4 Family	4,156	(504)	148	1,002	4,802
Residential – Multifamily	357	—	—	(103)	254
Consumer	262	(1)	—	14	275
Unallocated	—	—	—	—	—
Total	\$ 18,043	\$ (5,680)	\$ 733	\$ 3,040	\$ 16,136

**Allowance for Loan Losses, at
December 31, 2016**

	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 138	\$ 1,050	\$ 1,188
Real Estate Construction:			
Residential	—	268	268
Commercial	155	2,341	2,496
Real Estate Mortgage:			
Commercial – Owner Occupied	498	1,584	2,082
Commercial – Non-owner Occupied	226	3,663	3,889
Residential – 1 to 4 Family	234	4,682	4,916
Residential – Multifamily	—	505	505
Consumer	—	236	236
Total	\$ 1,251	\$ 14,329	\$ 15,580

**Allowance for Loan Losses, at
December 31, 2015**

	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 67	\$ 885	\$ 952
Real Estate Construction:			
Residential	—	247	247
Commercial	1,149	1,352	2,501
Real Estate Mortgage:			
Commercial – Owner Occupied	73	3,194	3,267
Commercial – Non-owner Occupied	486	3,352	3,838
Residential – 1 to 4 Family	709	4,093	4,802
Residential – Multifamily	5	249	254
Consumer	—	275	275
Total	\$ 2,489	\$ 13,647	\$ 16,136

Loans, at December 31, 2016:

	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 159	\$ 26,615	\$ 26,774
Real Estate Construction:			
Residential	—	8,825	8,825
Commercial	8,386	50,083	58,469
Real Estate Mortgage:			
Commercial – Owner Occupied	4,380	119,518	123,898
Commercial – Non-owner Occupied	19,000	249,123	268,123
Residential – 1 to 4 Family	4,065	305,275	309,340
Residential – Multifamily	308	39,496	39,804
Consumer	107	16,613	16,720
Total	<u>\$ 36,405</u>	<u>\$ 815,548</u>	<u>\$ 851,953</u>

Loans, at December 31, 2015:

	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 1,183	\$ 25,957	\$ 27,140
Real Estate Construction:			
Residential	—	7,750	7,750
Commercial	7,117	38,128	45,245
Real Estate Mortgage:			
Commercial – Owner Occupied	4,698	167,342	172,040
Commercial – Non-owner Occupied	24,584	231,887	256,471
Residential – 1 to 4 Family	4,284	208,982	213,266
Residential – Multifamily	356	17,757	18,113
Consumer	—	18,476	18,476
Total	<u>\$ 42,222</u>	<u>\$ 716,279</u>	<u>\$ 758,501</u>

Note 6. Company Premises and Equipment

A summary of the cost and accumulated depreciation and amortization of Company premises and equipment as of December 31, 2016 and 2015 is as follows:

	Estimated Useful lives	2016	2015
		(Amounts in thousands)	
Land		\$ 820	\$ 820
Building and improvements	12 years	5,352	4,973
Furniture and equipment	9.6 years	2,854	2,357
Total premises and equipment		9,026	8,150
Less: accumulated depreciation and amortization		(3,829)	(3,559)
Premises and equipment, net		<u>\$ 5,197</u>	<u>\$ 4,591</u>

Depreciation and amortization expense was \$270,000 and \$251,000 in 2016 and 2015, respectively.

The Company has non-cancelable operating lease agreements related to its Northfield and Philadelphia branch offices. The term of the Northfield lease is for 5 years and runs through May 2017 with one 5-year renewal option. The term

of the Philadelphia lease is for 10 years and runs through June 2016 was renewed with two 5-year renewal options. The Company entered into a land lease for its branch in Collingswood. The term of the lease is for 99 years of which 88 years remain. The Company is responsible for its pro-rata share of real estate taxes, and all insurance, utilities, maintenance and repair costs for the benefit of the branch offices. On June 1, 2016, the Company entered into a 10 year lease for its Arch Street Branch, located in Philadelphia. The Branch opened in December 2016. On July 1, 2016, the Company entered into a 1 year lease agreement for a Commercial Loan office in Hamilton N.J. At December 31, 2016, the required future minimum rental payments under these leases and other equipment operating leases are as follows:

Years Ending December 31,	(Amounts in thousands)
2017	293
2018	303
2019	303
2020	303
2021	268
Total minimum lease payments	<u>\$ 1,470</u>

Rent expense was approximately \$220,000 in 2016 and \$214,000 in 2015.

Note 7. OREO

Other Real Estate Owned (OREO) at December 31, 2016 was \$10.5 million, compared to \$16.6 million at December 31, 2015, a decrease of \$6.1 million. The real estate owned at, December 31, 2016, consisted of 16 properties, the largest being a condominium development at \$3.3 million. During 2016, the Company disposed of \$5.2 million of OREO, recognizing a gain of \$206,000, compared to \$7.6 million of OREO sold in 2015, recognizing a loss of \$1,076,000. Also during 2016, the Company wrote down OREO property by \$2,036,000, compared to \$943,000 of write-downs in 2015, based on a decline in appraised values. Operating expenses related to OREO, net of related income, for 2016 and 2015, were \$935,000 and \$1.5 million, respectively.

An analysis of OREO activity for the years ended December 31, 2016 and 2015 is as follows:

	For the Year Ended December 31,	
	2016	2015
	(Amounts in thousands)	
Balance at beginning of period	\$ 16,629	\$ 20,931
Real estate acquired in settlement of loans	788	5,154
Sales of real estate	(5,222)	(7,576)
Gain (loss) on sale of real estate	206	(1,076)
Write-down of real estate carrying values	(2,036)	(943)
Donated property	(31)	—
Capitalized improvements to real estate	194	139
Balance at end of period	<u>\$ 10,528</u>	<u>\$ 16,629</u>

Note 8. Deposits

Deposits at December 31, 2016 and 2015 , consisted of the following:

	2016	2015
	(Amounts in thousands)	
Demand deposits, noninterest-bearing	\$ 92,535	\$ 52,773
Demand deposits, interest-bearing	37,456	33,407
Money market deposits	134,433	122,264
Savings deposits	181,603	176,282
Time deposits of \$250,000 or more	36,643	33,709
Other time deposits	254,795	225,876
Brokered time deposits	51,229	20,899
Total deposits	<u>\$ 788,694</u>	<u>\$ 665,210</u>

Scheduled maturities of certificates of deposit at December 31, 2016 are as follows:

Years Ending December 31,	(Amounts in thousands)
2017	\$ 266,724
2018	46,231
2019	15,517
2020	6,706
2021	7,469
Thereafter	20
Total	<u>\$ 342,667</u>

Deposits from related parties totaled approximately \$4,767,000 and \$4,980,000 at December 31, 2016 and 2015 , respectively.

Note 9. Borrowings

An analysis of borrowings as of December 31, 2016 and 2015 is as follows:

		2016		2015	
		Weighted Average Rate		Weighted Average Rate	
Maturity Date or Range		Amount		Amount	
(Amounts in thousands, except rates)					
Borrowed funds:					
Federal Home Loan Bank advances	Less than one year	\$ 39,500	1.13%	\$ 24,150	0.73%
	One to three years	34,150	1.57%	54,500	1.44%
	Three to five years	6,000	1.85%	6,000	1.85%
	Five to ten years	—	—	—	—
	Total	<u>\$ 79,650</u>		<u>\$ 84,650</u>	
Subordinated debentures, capital trusts	November 2035	\$ 5,155	2.58%	\$ 5,155	2.04%
	November 2035	5,155	2.58%	5,155	2.04%
	September 2037	3,093	2.46%	3,093	2.01%
	Total	<u>\$ 13,403</u>		<u>\$ 13,403</u>	

At December 31, 2016 , the Company had a \$144.2 million line of credit from the FHLBNY, of which \$79.7 million , as detailed above, was outstanding.

Certain investment securities (Note 3), loans (Note 4), and FHLBNY stock are pledged as collateral for borrowings.

Subordinated Debentures – Capital Trusts: On August 23, 2005, Parke Capital Trust I, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$5,000,000 of variable rate capital trust pass-through securities to investors. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.66% and was 2.58% at December 31, 2016. Parke Capital Trust I purchased \$5,155,000 of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after November 23, 2010, at par, or earlier if the deduction of related interest for federal income taxes is prohibited, classification as Tier 1 Capital is no longer allowed, or certain other contingencies arise. The capital securities must be redeemed upon final maturity of the subordinated debentures on November 23, 2035. Proceeds of approximately \$4.2 million were contributed to paid-in capital at the Bank. The remaining \$955 thousand was retained at the Company for future use.

On August 23, 2005, Parke Capital Trust II, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$5,000,000 of fixed/variable rate capital trust pass-through securities to investors. Currently, the interest rate is variable at 2.58%. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.66% beginning November 23, 2010. Parke Capital Trust II purchased \$5,155,000 of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after November 23, 2010, at par, or earlier if the deduction of related interest for federal income taxes is prohibited, classification as Tier 1 Capital is no longer allowed, or certain other contingencies arise. The capital securities must be redeemed upon final maturity of the subordinated debentures on November 23, 2035. Proceeds of approximately \$4.2 million were contributed to paid-in capital at the Bank. The remaining \$955 thousand was retained at the Company for future use.

On June 21, 2007, Parke Capital Trust III, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$3,000,000 of variable rate capital trust pass-through securities to investors. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.50% and was 2.46% at December 31, 2016. Parke Capital Trust III purchased \$3,093,000 of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after December 15, 2012, at par, or earlier if the deduction of related interest for federal income taxes is prohibited, classification as Tier 1 Capital is no longer allowed, or certain other contingencies arise. The capital securities must be redeemed upon final maturity of the subordinated debentures on September 15, 2037. The proceeds were contributed to paid-in capital at the Bank.

Note 10. Income Taxes

Income tax expense for 2016 and 2015 consisted of the following:

	2016	2015
	(Amounts in thousands)	
Current tax expense:		
Federal	\$ 6,826	\$ 6,007
State	1,564	1,026
	8,390	7,033
Deferred tax expense (benefit)	305	(190)
Income tax expense	<u>\$ 8,695</u>	<u>\$ 6,843</u>

The components of the net deferred tax asset at December 31, 2016 and 2015 were as follows:

	2016	2015
	(Amounts in thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 5,845	\$ 6,068
Depreciation	268	280
Supplemental Executive Retirement Plan ("SERP")	1,511	1,343
OREO writedowns	1,839	1,894
OTTI write down on securities	65	65
Nonaccrued interest	1,806	2,048
Partnership Income	76	71
Non-qualified stock options	25	—
Write-down on partnership investment	181	—
Unrealized gain	233	110
	<u>11,849</u>	<u>11,879</u>
Valuation allowance	(181)	—
Deferred tax Liabilities:		
Deferred loan costs	(922)	(951)
Net deferred tax asset	<u>\$ 10,746</u>	<u>\$ 10,928</u>

A reconciliation of the Company's effective income tax rate with the statutory federal rate for 2016 and 2015 is as follows:

	2016	2015
	(Amounts in thousands)	
At Federal statutory rate	\$ 9,397	\$ 6,387
Adjustments resulting from:		
State income taxes, net of Federal tax benefit	1,009	854
Noncontrolling interest	(147)	(423)
Tax exempt income	(32)	(31)
BOLI	(246)	(121)
Nondeductible expenses	1	4
Tax credit	(1,532)	—
Increase in Valuation reserve	164	—
Other	81	173
	<u>\$ 8,695</u>	<u>\$ 6,843</u>

Management has evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustments to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal or local tax authorities for years before 2013 , and by the State of New Jersey for years before 2012 . The Company recorded a valuation allowance relating to the write down of a partnership investment. Management has concluded that these capital losses will not be realizable once incurred.

The Company recorded income tax expense of \$8.7 million on income before taxes of \$27.6 million for the year ended December 31, 2016, resulting in an effective tax rate of 31.5% , compared to income tax expense of \$6.8 million on income before taxes of \$18.8 million for the same period of 2015, resulting in an effective tax rate of 36.4% . The decrease in the effective rate is due to using an annualized tax rate versus using a monthly tax rate. The increase in our tax expense is due to the gain on sale of our SBA business of \$7.6 million . The decrease in the effective rate is due to the Bank utilizing a \$1.5 million Historic Tax Credit ("HTC") offset by a \$482,000 write down (included in non-interest expense) of the HTC partnership investment. This resulted in a net benefit to the Company of \$1.0 million , which reduced the Bank's income tax expense.

Note 11. Retirement Plans

The Company has a Supplemental Executive Retirement Plan ("SERP") covering certain members of management. The net periodic SERP pension cost was approximately \$458,000 in 2016 and \$221,000 in 2015 . The unfunded benefit obligation, which was included in other liabilities, was approximately \$4,029,000 at December 31, 2016 and \$3,571,000 at December 31, 2015 .

The benefit obligation at December 31, 2016 and December 31, 2015 was calculated as follows:

	2016	2015
	(Amounts in thousands)	
Benefit obligation, January 1	\$ 3,571	\$ 3,350
Service cost	(216)	(86)
Interest cost	199	214
Loss	475	93
Benefit obligation, December 31	<u>\$ 4,029</u>	<u>\$ 3,571</u>

The net periodic pension cost for 2016 and 2015 was calculated as follows:

	2016	2015
	(Amounts in thousands)	
Service cost	\$ (216)	\$ (86)
Interest cost	199	214
Loss	475	93
	<u>\$ 458</u>	<u>\$ 221</u>

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.5% for both 2016 and 2015 . Annual benefit payments are estimated at \$0 for 2016 , \$136,149 for 2017 , \$336,437 for 2018 , \$368,506 for 2019 , and \$5,821,440 from 2020 through 2031.

The Company has a 401(k) Plan covering substantially all employees. Under the Plan, the Company is required to contribute 3% of all qualifying employees' eligible salary to the Plan. The Plan expense in 2016 was \$132,000 and \$138,000 in 2015 .

Note 12. 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 result in regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2016 was 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Company and Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2016 and 2015, the most recent regulatory notifications categorized the Bank as well

capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

To be categorized as well capitalized, the Bank must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following tables.

	Actual		For Capital Adequacy Purposes		To be Well- Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Parke Bancorp, Inc.						
<u>As of December 31, 2016</u>						
	(Amounts in thousands except ratios)					
Total Risk Based Capital (to Risk Weighted Assets)	\$ 154,018	18.33%	\$ 72,470	8.625%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	\$ 143,453	17.07%	\$ 55,666	6.625%	N/A	N/A
Tier 1 Capital Common Equity (to Risk Weighted Assets)	\$ 110,453	13.15%	\$ 43,062	5.125%	N/A	N/A
Tier 1 Capital (to Average Assets)	\$ 143,453	15.25%	\$ 37,618	4.000%	N/A	N/A
<u>As of December 31, 2015</u>						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 135,258	17.24%	\$ 62,777	8.0%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	\$ 125,371	15.98%	\$ 31,389	6.0%	N/A	N/A
Tier 1 Capital Common Equity (to Risk Weighted Assets)	\$ 92,371	11.77%	\$ 31,389	4.5%	N/A	N/A
Tier 1 Capital (to Average Assets)	\$ 125,371	14.69%	\$ 34,133	4.0%	N/A	N/A
Parke Bank						
<u>As of December 31, 2016</u>						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 150,636	17.93%	\$ 72,470	8.625%	\$ 84,023	10.0%
Tier 1 Capital (to Risk Weighted Assets)	\$ 140,070	16.67%	\$ 55,665	6.625%	\$ 67,218	8.0%
Tier 1 Capital Common Equity (to Risk Weighted Assets)	\$ 140,070	16.67%	\$ 43,062	5.125%	\$ 54,615	6.5%
Tier 1 Capital (to Average Assets)	\$ 140,070	15.29%	\$ 36,654	4.000%	\$ 45,818	5.0%
<u>As of December 31, 2015</u>						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 134,415	17.13%	\$ 62,777	8.0%	\$ 78,471	10.0%
Tier 1 Capital (to Risk Weighted Assets)	\$ 124,528	15.87%	\$ 31,388	4.0%	\$ 62,777	8.0%
Tier 1 Capital Common Equity (to Risk Weighted Assets)	\$ 124,528	15.87%	\$ 31,388	4.5%	\$ 51,006	6.5%
Tier 1 Capital (to Average Assets)	\$ 124,528	14.59%	\$ 34,133	4.0%	\$ 42,666	5.0%

Note 13. Shareholders' Equity

Common Stock Dividend: The Company paid a quarterly cash dividend each quarter of 2016. The first three quarters of 2016 the dividend was \$0.08 per share. The dividend was increased to \$0.10 per share in December of 2016 for payment on January. During 2016 the Company paid \$2.0 million in dividends. The timing and amount of future dividends

will be within the discretion of the Board of Directors and will depend on the consolidated earnings, financial condition, liquidity, and capital requirements of the Company and its subsidiaries, applicable governmental regulations and policies, and other factors deemed relevant by the Board. In May 2016 the Company paid a 10% common stock dividend to shareholders (625,971 shares). All share and per share information have been retroactively adjusted to give effect to this stock dividend for the periods presented.

Treasury Stock: The Company, in 2015, announced plans to purchase up to 500,000 shares of its own stock. During the year ending December 31, 2016, the Company purchased 294 shares at an average cost of \$12.54 per share, compared to the year ending December 31, 2015, when the Company purchased 69,454 shares at an average cost of \$11.98 per share.

Stock Options: In 2015, the shareholders approved the 2015 Equity Incentive Plan (the "Plan"). The Plan is a "non-qualified" stock option plan. All directors and certain officers and employees of the Company have been granted options under the Plan. Option awards are granted with an exercise price equal to the market price of the Company's stock on the date of the grant. All options issued have a 10 year contractual term and vest over five years. All stock option amounts and prices included in the following discussions have been adjusted for stock dividends.

The method of determining pro-forma compensation expense for 2016 was based on certain assumptions, including the past trading ranges of the Company's stock, volatility of 29% , expected option lives of 5 years, risk free interest rate of 2.38% , and a dividend rate of 2.03% . Net compensation expense recognized during 2016 amounted to \$65,500 . The remaining unrecognized compensation expense at December 31, 2016 is \$292,000 at \$2.55 price per share.

The following table summarizes stock option activity for the year ended December 31, 2016 .

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2016	20,371	\$9.33		
Granted	159,830	\$10.39		
Exercised	(20,371)	\$9.33		
Expired/terminated	(2,970)	\$10.39		
Outstanding at December 31, 2016:	156,860	\$10.39	9.8	\$ 1,531,000
Exercisable at December 31, 2016:	—	\$—	0.0	\$ —

All outstanding options have an exercise price of \$10.39 . There were no outstanding exercisable options at December 31, 2016 .

Preferred Stock: In December of 2013, the Company completed a private placement of newly designated 6.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series B, with a liquidation preference of \$1,000 per share. The Company sold 20,000 shares in the placement for gross proceeds of \$20.0 million . Each share of Series B Preferred Stock is convertible, at the option of the holder into 103.3446 shares of Common Stock. Upon full conversion of the Series B Preferred Stock, the Company will issue up to 2,066,891 shares of Common Stock assuming that the Conversion Rate does not change. The Conversion Rate and the total number of shares to be issued would be adjusted for stock dividends, stock splits and other corporate actions. The Conversion Rate was set using a conversion price for the common stock of \$10.64 , which was approximately 20% over the closing price of the Common Stock on October 10, 2013, the day the Series B Preferred Stock was priced.

The Company has recorded dividends on preferred stock in the approximate amount of \$1.2 million for the years ended December 31, 2016 and 2015 respectively. All dividend amounts through December 31, 2016 have been paid. The preferred stock qualifies for and is accounted for as equity securities and is included in the Company's Tier I capital on the date of receipt.

Note 14. Other Related Party Transactions

A member of the Board of Directors is a principal of an employee benefits insurance agency that provides all the medical, life and disability insurance coverage for the Company. The cost of these employee benefits totaled \$634,000 in 2016 and \$562,000 in 2015 .

Note 15. Commitments and Contingencies

The Company has entered into an employment contract with the President of the Company, which provides for continued payment of certain employment salaries and benefits in the event of a change in control, as defined. The Company has also entered into Change-in-Control Severance Agreements with certain officers which provide for the payment of severance in certain circumstances following a change in control.

The Company 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 include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in these particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment and income-producing commercial properties. As of December 31, 2016 and 2015 , commitments to extend credit amounted to approximately \$76.7 million and \$66.1 million , respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2016 and 2015 , standby letters of credit with customers were \$13.1 million and \$14.2 million , respectively.

Loan commitments and standby letters of credit are issued in the ordinary course of business to meet customer needs. Commitments to fund fixed-rate loans were immaterial at December 31, 2016 . Variable-rate commitments are generally issued for less than 1 year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal action, which are not reflected in the financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

Note 16. Fair Value

Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures Topic 820 of FASB Accounting Standards Codification ("ASC"), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. In accordance with this guidance, the Company groups its assets and liabilities carried at fair value in three levels as follows:

Level 1 Input:

- 1) Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs:

- 1) Quoted prices for similar assets or liabilities in active markets.
- 2) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- 3) Inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability (e.g., interest rates, yield curves, credit risks, prepayment speeds or volatilities) or "market corroborated inputs."

Level 3 Inputs:

- 1) Prices or valuation techniques that require inputs that are both unobservable (i.e. supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.
- 2) These assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair Value on a Recurring Basis:

The following is a description of the Company's valuation methodologies for assets carried at fair value. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting measurement date.

Investment Securities Available for Sale:

Where quoted prices are available in an active market, securities are classified in Level 1 of the valuation hierarchy. Securities in Level 1 are exchange-traded equities. If quoted market prices are not available for the specific security, then fair values are provided by independent third-party valuations services. These valuations services estimate fair values using pricing models and other accepted valuation methodologies, such as quotes for similar securities and observable yield curves and spreads. As part of the Company's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the Company's principal markets. Securities in Level 2 include U.S. Government agencies, mortgage-backed securities and state and municipal securities.

Securities in Level 3 include thinly-traded and collateralized debt obligations (TruPS). With the assistance of competent third-party valuation specialists, the Company utilized the following methodology to determine the fair value:

Cash flows were developed based on the estimated speeds at which the TruPS are expected to prepay (a range of 1% to 2%), the estimated rates at which the TruPS are expected to defer payments, the estimated rates at which the TruPS are expected to default (a range of 0.57% to 0.66%), and the severity of the losses on securities which default 95% . TruPS generally allow for prepayment by the issuer without a prepayment penalty any time after five years . Due to the lack of new TruPS issuances and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for CDRs are based on the payment characteristics of the TruPS themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the TruPS issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the

financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The fair value of each bond was assessed by discounting its projected cash flows by a discount rate. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks (3 month LIBOR plus a spread of 400 to 959 basis points).

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015 .

Financial Assets	Level 1	Level 2	Level 3	Total
(Amounts in thousands)				
Securities Available for Sale				
As of December 31, 2016				
Corporate debt obligations	—	1,011	—	1,011
Residential mortgage-backed securities	—	43,240	—	43,240
Collateralized mortgage-backed securities	—	166	—	166
Collateralized debt obligations	—	—	437	437
Total	\$ —	\$ 44,417	\$ 437	\$ 44,854
As of December 31, 2015				
Corporate debt obligations	—	1,031	—	1,031
Residential mortgage-backed securities	—	40,821	—	40,821
Collateralized mortgage-backed securities	—	253	—	253
Collateralized debt obligations	—	—	462	462
Total	\$ —	\$ 42,105	\$ 462	\$ 42,567

For the year ended December 31, 2016 , there were no transfers between the levels within the fair value hierarchy.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows for the years ended December 31:

	Securities Available for Sale	
	2016	2015
(Amounts in thousands)		
Beginning balance at January 1,	\$ 462	\$ 349
Net losses included in:		
Other comprehensive gain – CDO's	—	113
Settlements	(25)	—
Ending balance December 31,	\$ 437	\$ 462

Fair Value on a Non-recurring Basis:

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Financial Assets	Level 1	Level 2	Level 3	Total
(Amounts in thousands)				
As of December 31, 2016				
Collateral dependent impaired loans	\$ —	\$ —	\$ 16,070	\$ 16,070
OREO	\$ —	\$ —	\$ 10,528	\$ 10,528
As of December 31, 2015				
Collateral dependent impaired loans	\$ —	\$ —	\$ 20,066	\$ 20,066
OREO	\$ —	\$ —	\$ 16,629	\$ 16,629

Collateral dependent impaired loans, which are measured in accordance with FASB ASC Topic 310 Receivables, for impairment, had a carrying amount of \$36.4 million and \$42.2 million at December 31, 2016 and December 31, 2015, respectively, with a valuation allowance of \$1.3 million and \$2.5 million at December 31, 2016 and December 31, 2015, respectively. The valuation allowance for collateral dependent impaired loans is included in the allowance for loan losses on the balance sheet. All collateral dependent impaired loans have an independent third-party full appraisal to determine the NRV based on the fair value of the underlying collateral, less cost to sell (a range of 5% to 10%) and other costs, such as unpaid real estate taxes, that have been identified, or the present value of discounted cash flows in the case of certain impaired loans that are not collateral dependent. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

OREO consists of real estate properties which are recorded at fair value. All properties have an independent third-party full appraisal to determine the fair value, less cost to sell (a range of 5% to 10%) and other costs, such as unpaid real estate taxes, that have been identified. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

Fair Value of Financial Instruments

The Company discloses estimated fair values for its significant financial instruments in accordance with FASB ASC Topic 825, Disclosures about Fair Value of Financial Instruments. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for estimating the fair value of other financial assets and liabilities are discussed below.

For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include cash and cash equivalents, restricted stock, accrued interest receivable, demand and other non-maturity deposits and accrued interest payable.

The Company used the following methods and assumptions in estimating the fair value of the following financial instruments:

Investment Securities: Fair value of securities available for sale is described above. Fair value of held to maturity securities is based upon quoted market prices (Level 2 inputs).

Loans Held for Sale: Fair value represents the face value of the guaranteed portion of SBA loans pending settlement.

Loans (other than impaired): Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, residential mortgage and other consumer. Each loan category is further segmented into groups by fixed and adjustable rate interest terms and by performing and non-performing categories. The fair value of performing loans is calculated by discounting scheduled cash flows through their estimated maturity, using estimated market discount rates that reflect the credit and interest rate risk inherent in each group of loans (Level 2 inputs). The estimate of maturity is based on contractual maturities for loans within each group, or on the Company's historical experience with repayments for each loan classification, modified as required by an estimate of the effect of current economic conditions.

Deposits: The fair value of time deposits is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities (Level 2 inputs).

Borrowings: The fair values of FHLBNY borrowings, other borrowed funds and subordinated debt are based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings (Level 2 inputs).

Bank premises and equipment, customer relationships, deposit base and other information required to compute the Company's aggregate fair value are not included in the above information. Accordingly, the above fair values are not intended to represent the aggregate fair value of the Company.

The following table summarizes the carrying amounts and fair values for financial instruments at December 31, 2016 and December 31, 2015 :

	Level in Fair Value Hierarchy	December 31, 2016		December 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
(Amounts in thousands)					
Financial Assets:					
Cash and cash equivalents	Level 1	\$ 70,720	70,720	\$ 27,429	\$ 27,429
Investment securities AFS	(1)	44,854	44,854	42,567	42,567
Investment securities HTM	Level 2	2,224	2,411	2,181	2,471
Restricted stock	Level 2	4,658	4,658	4,789	4,789
Loans held for sale	Level 2	—	—	2,640	2,640
Loans, net	(2)	836,373	844,290	742,365	743,604
Accrued interest receivable	Level 2	3,117	3,117	3,012	3,012
Financial Liabilities:					
Demand and savings deposits	Level 2	\$ 446,026	446,027	\$ 384,726	\$ 384,726
Time deposits	Level 2	342,668	344,300	280,484	282,080
Borrowings	Level 2	93,053	90,362	98,053	95,492
Accrued interest payable	Level 2	655	655	494	494

⁽¹⁾ See the recurring fair value table above.

⁽²⁾ For non-impaired loans, Level 2; for impaired loans, Level 3.

Note 17. Parent Company Only Financial Statements

Condensed financial information of the parent company only is presented in the following two tables:

Balance Sheets**Assets:**

Cash
Investments in subsidiaries
Other assets
Total assets

Liabilities and Equity:

Subordinated debentures
Other liabilities
Equity
Total liabilities and equity

December 31,	
2016	2015
(Amounts in thousands)	
\$ 1,317	\$ 1,540
140,103	124,599
5	5
<u>\$ 141,425</u>	<u>\$ 126,144</u>
\$ 13,403	\$ 13,403
954	700
127,068	112,041
<u>\$ 141,425</u>	<u>\$ 126,144</u>

Statements of Income**Income:**

Dividends from bank subsidiary
Other income
Total income

Expense:

Interest on subordinated debentures
Salary
Other expenses
Total expenses
Net Income
Equity in undistributed income of subsidiaries
Net income
Preferred stock dividend and discount accretion
Net income available to common shareholders

Years ended December 31,	
2016	2015
(Amounts in thousands)	
\$ 3,400	\$ 2,657
—	—
<u>3,400</u>	<u>2,657</u>
311	259
160	160
118	101
<u>589</u>	<u>520</u>
2,811	2,137
15,698	8,560
18,509	10,697
(1,200)	(1,200)
<u>\$ 17,309</u>	<u>\$ 9,497</u>

Statements of Cash Flows

	Years ended December 31,	
	2016	2015
	(Amounts in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 18,509	\$ 10,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(15,698)	(8,560)
Changes in operating assets and liabilities:		
Decrease in other assets	—	(51)
Increase in accrued interest payable and other accrued liabilities	254	436
Net cash provided by operating activities	3,065	2,522
Cash Flows from Financing Activities		
Purchase of treasury stock	(4)	(831)
Proceeds from exercise of stock options	—	2,749
Payment of dividend on preferred stock and common stock	(3,264)	(2,661)
Other, net	(20)	(377)
Net cash used in financing activities	(3,288)	(1,120)
Increase in cash and cash equivalents	(223)	1,402
Cash and Cash Equivalents, January 1,	1,540	138
Cash and Cash Equivalents, December 31,	<u>\$ 1,317</u>	<u>\$ 1,540</u>

Note 18. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial statements and does not believe any such events warrant recording or disclosure in these financial statements.

PARKE BANCORP, INC.
PARKE BANK

BOARD OF DIRECTORS

Celestino R. (“Chuck”) Pennoni

Chairman of the Board
Founder and Chairman of
Pennoni Associates

Daniel J. Dalton

Vice Chairman of the Board
Retired
Brown & Brown of New Jersey

Vito S. Pantilione

President
Chief Executive Officer

Fred G. Choate

President of Greater Philadelphia
Venture Capital Corporation

Arret F. Dobson

Real Estate Developer

Dr. Edward Infantolino

President of Ocean Internal
Medicine Associates, P.A.

Anthony J. Jannetti

President of Anthony J. Jannetti, Inc.

Jeffrey H. Kripitz

Owner of Jeff Kripitz Agency

Jack C. Sheppard, Jr.

Senior Vice President with Arthur J.
Gallagher & Company

In Memoriam

Ray H. Tresch

Founding Director 1999 - 2016

PARKE BANCORP, INC.

CORPORATE OFFICERS

Vito S. Pantilione

President
Chief Executive Officer

Elizabeth A. Milavsky

Executive Vice President

John F. Hawkins

Senior Vice President

PARKE BANK
EXECUTIVE OFFICERS

Vito S. Pantilione

President
Chief Executive Officer

Elizabeth A. Milavsky

Executive Vice President
Chief Operating Officer

John F. Hawkins

Senior Vice President
Chief Financial Officer

Linda Kaiser

Corporate Secretary

SENIOR VICE PRESIDENTS

David O. Middlebrook

Chief Credit Officer

Daniel Sulpizio

Director of Retail Banking

Paul E. Palmieri

Senior Loan Officer

Ralph Gallo

Chief Workout Officer

Dolores M. Calvello

Loan Portfolio Manager

VICE PRESIDENTS

Jaime Brooks

Branch Manager

Kathleen Conover

Branch Manager

Gil Eubank

Loan Administration

Anthony Lombardo

Controller

Nicholas Pantilione

Commercial Lending

Lisa Perkins

Information Technology

Yogendrakumar Shukla

Commercial Lending

Marlon Soriano

ASSISTANT VICE PRESIDENTS

Jennifer Chen
Renee D'Orazio

Patricia Dilks
Annice Fanelli

Roxanne Melfe
Marysharon Mitchell
Joan Santo

Maryann Seal
Bart Seaman

BANKING OFFICES

www.parkebank.com

WASHINGTON TOWNSHIP, NJ

Main Office
601 Delsea Drive
(856) 256-2500
Roxanne Melfe, Manager

567 Egg Harbor Road
(856) 582-6900
Brian Mickle, Manager

COLLINGSWOOD, NJ

1150 Haddon Avenue
(856) 858-0825
Jaime Brooks, Manager

GALLOWAY TOWNSHIP, NJ

67 East Jimmie Leeds Road
(609) 748-9700
Juan Taboada, Manager

NORTHFIELD, NJ

501 Tilton Road
(609) 646-6677
Kathleen Conover, Manager

PHILADELPHIA, PA

1610 Spruce Street
(215) 772-1113
Elvira Maxwell, Asst. Manager

1032 Arch Street

(215) 982-1975

Jennifer Chen, Manager

Chief Financial Officer

Commercial Lending

Linda Kaiser

Corporate Secretary

James Talarico

Loan Workout

Frank Zangari

Compliance

SHAREHOLDER INFORMATION

ADMINISTRATIVE OFFICES

601 Delsea Drive
Washington Township, NJ 08080
(856) 256-2500
www.parkebank.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on
April 18, 2017 at 10:00 a.m. at Terra Nova Restaurant,
590 Delsea Drive, Sewell, New Jersey.

INVESTOR RELATIONS

Copies of the Company's earnings releases and
financial publications, including the annual report on
Form 10-K (without exhibits) filed with the Securities
and Exchange Commission are available without
charge by contacting:

Annice Fanelli, Assistant Vice President
(856) 256-2500 or
investorsrelations@parkebank.com

STOCK TRANSFER AND REGISTRAR

Shareholders wishing to change the name, address or
ownership of stock, to report lost certificates or to
consolidate accounts are asked to contact the Company's
stock registrar and transfer agent directly:

Computershare

Investor Services
P.O. Box 43078
Providence, RI 02940-3078
1-800-942-5909
www.computershare.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

RSM US LLP
751 Arbor Way, Suite 200
Blue Bell, PA 19422

SPECIAL COUNSEL

Jones Walker LLP
1227 25th Street, NW
Suite 200
Washington, DC 20037

CERTIFICATION

I, Vito S. Pantilione, President and Chief Executive Officer, certify that:

1. I have reviewed this Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2016 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2017

/s/ Vito S. Pantilione

Vito S. Pantilione

President and Chief Executive Officer

CERTIFICATION

I, John F. Hawkins, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2016 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2017

/s/ John F. Hawkins

John F. Hawkins

Senior Vice President and Chief Financial Officer

CERTIFICATION

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K for the year ended December 31, 2016 (the “Report”) of Parke Bancorp, Inc. (the “Company”) as filed with the Securities and Exchange Commission, we, Vito S. Pantilione, President and Chief Executive Officer, and John F. Hawkins, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Vito S. Pantilione

Vito S. Pantilione

President and Chief Executive Officer

(Principal Executive Officer)

March 17, 2017

/s/ John F. Hawkins

John F. Hawkins

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)