



PARKE BANCORP, INC.

2017 ANNUAL REPORT TO SHAREHOLDERS

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To Our Shareholders:

It is sometimes difficult to believe that we are starting our 20th year in business. Many of you were right there with us investing in our Company when all we could present to you was our business plan and goals to build a quality bank in the Delaware Valley region. Our initial investors provided \$8 million dollars to start our *de novo* bank in a little bank trailer in Washington Township, NJ. Thanks to that investment, and our Board of Directors and staff, our Bank became profitable in our 13th month of operation, which at that time was a record for a *de novo* bank in New Jersey. Our Bank continued to grow and maintained profitability which supported our going public in 2002, raising an additional \$8.5 million in capital. We continued to grow and generate strong profits, which provided the financial strength to open new branches in the region. Today we have seven branches stretching from the shore to Philadelphia and, as of the end of 2017, we are over \$1 billion dollars in assets with shareholders' equity of close to \$135 million. Our Board of Directors focused on shareholder value, approving ten stock dividends since going public and cash dividends beginning in July of 2014. We have increased our cash dividend five times since first beginning to pay a cash dividend. Today we are paying 12 cents per share per quarter, up from our initial cash dividend of 5 cents per share per quarter. Our Board of Directors also issued a 10% stock dividend in 2017, again enhancing shareholder value. Our company's growth in assets, loans, deposits and profitability continued through the most challenging recession, which started in 2007, since the Great Depression. Over the last five years our stock has outperformed the NASDAQ, S&P and DOW averages.

Strong operating profits continued in 2017 with Net Income of \$10.8 million, after taking the non-recurring deferred tax asset charge of \$3.2 million, due to the new tax law that was passed in December 2017. The new tax law dampened our earnings in 2017, due to the lowering of the corporate tax rate from 35% to 21%. Based on our Company's past performance, we believe the new tax rate will support the charge being recovered by year-end 2018. The deferred tax asset charge reduced our ROAA from 1.43% to 1.13% and our ROAE from 12.19% to 9.40% in 2017. Our Company's strong operating income was supported by our loan portfolio growing to over \$1 billion by the end of 2017, close to a 20% increase from the end of 2016. Our deposits grew to \$866 million at year-end, a 10% increase from the end of 2016, which helped support the growth of our loan portfolio. We maintained very tight controls on our Company's expenses ending the year with a cost efficiency ratio of 36.39%, which again makes us one of the leaders in controlling expenses in our peer group.

We have an unwavering commitment to reducing our non-performing assets ("NPAs"). Our non-performing loans decreased 60% in 2017 to \$4.5 million, a decrease of \$6.8 million from the end of 2016. OREO decreased to \$7.2 million, a 31% reduction from \$10.5 million at the end of 2016. The Company's NPAs to total assets ratio is 1.04%, down from 2.15% at the end of 2016. Our focus continues to be on reducing our NPAs through aggressive workouts of these assets rather than selling them at a deep discount, preserving shareholder value.

Last year we discussed the possibility of the business environment improving due to promised changes in regulations and the anticipation of a new tax bill being passed. There have been many regulations removed or amended to assist various industries with growth and employment. There also was a new tax law passed in December of 2017. The new tax bill did not have a direct effect on the country's 2017 economy, however, the GDP experienced strong growth.

When the new tax law was passed, many companies announced moving their operations and cash back to the United States, while other companies announced the expansion of their existing operation, with some announcing construction of new plants in the US, which will support additional growth.

Several companies, including Parke Bank, increased the starting salaries of entry-level employees while others issued special bonuses to their employees. Employee wages increased and 200,000 new jobs were added in January of 2018. All good news, right? Not so fast, alarms sounded that the economy would be overheating and increased wages will spike inflation which may force the Fed to accelerate their plans to raise interest rates. A volatile and uncertain economy is certainly nothing new. However, we believe our Company is well positioned to take advantage of opportunities in the market.

Parke Bancorp's Board, Management and Staff will be working hard in what looks to be another exciting year in 2018. We are currently working on the potential of opening two new Loan Production Offices, which could help the strong loan

growth that we enjoyed in 2017. We are also working on new products including offering credit cards and upgrading our debit card process, in addition to new loan products. Thanks to you, our shareholders, we have the capital to expand our market share, increase lending and grow the profitability of our Company.

C.R. "Chuck" Pennoni

Chairman

Vito S. Pantilione

President and Chief Executive Officer

Selected Financial Data
At or for the Year Ended December, 31

	_			At or for the	Yea	r Ended Do	ecer	nber, 31		
		2017		2016		2015		2014		2013
Balance Sheet Data: (in thousands)					_				_	
Assets	\$	1,137,452	\$	1,016,185	\$	885,124	\$	821,706	\$	794,943
Loans, Net	\$	995,184	\$	836,373	\$	742,365	\$	695,018	\$	635,981
Securities Available for Sale	\$	37,991	\$	44,854	\$	42,567	\$	28,208	\$	35,695
Securities Held to Maturity	\$	2,268	\$	2,224	\$	2,181	\$	2,141	\$	2,103
Cash and Cash Equivalents	\$	42,113	\$	70,720	\$	27,429	\$	36,238	\$	45,661
OREO	\$	7,248	\$	10,528	\$	16,629	\$	20,931	\$	28,910
Deposits	\$	866,383	\$	788,694	\$	665,210	\$	647,933	\$	626,768
Borrowings	\$	128,053	\$	93,053	\$	98,053	\$	62,755	\$	68,683
Shareholders' Equity	\$	134,780	\$	127,134	\$	112,040	\$	102,905	\$	93,716
Operational Data: (in thousands)										
Interest Income	\$	48,655	\$	42,202	\$	39,410	\$	38,132	\$	36,784
Interest Expense		8,280		6,764		5,812		5,579		5,795
Net Interest Income	_	40,375		35,438	_	33,598		32,553	_	30,989
Provision for Loan Losses		2,500		1,462		3,040		3,250		2,700
Net Interest Income after Provision for Loan Losses	, –	37,875	_	33,976	-	30,558		29,303		28,289
Noninterest Income		1,645		10,290		5,080		7,631		3,426
Noninterest Expense		15,293		16,628		16,852		18,911		18,852
Income Before Income Tax Expense	_	24,227		27,638		18,786		18,023	-	12,863
Income Tax Expense		12,389		8,695		6,843		5,711		5,024
Net Income Attributable to Company and	_		_	<u> </u>	_	·		<u>.</u>	-	·
Noncontrolling Interest		11,838		18,943		11,943		12,312		7,839
Net Income Attributable to Noncontrolling Interest		32		(433)		(1,246)		(1,839)		(268)
Discount on Retirement of Preferred Shares		-		-		-		-		1,948
Preferred Stock Dividend and Discount Accretion		1,119		1,200		1,200		1,200		1,058
Net Income Available to Common Shareholders	\$	10,751	\$	17,310	\$	9,497	\$	9,273	\$	8,461
Per Share Data: 1			_							
Basic Earnings per Common Share	\$	1.40	\$	2.31	\$	1.56	\$	1.41	\$	1.29
Diluted Earnings per Common Share	\$	1.24	\$	1.92	\$	1.34	\$	1.06	\$	1.29
Book Value per Common Share	\$	14.96	\$	14.39	\$	12.52	\$	11.72	\$	10.47
Performance Ratios:										
Return on Average Assets		1.13%		1.97%		1.25%)	1.30%		1.01%
Return on Average Common Equity		9.40%		17.04%		10.82%)	11.77%		12.04%
Net Interest Margin		4.01%		3.96%		4.14%	,	4.33%		4.36%
Efficiency Ratio		36.39%		45.64%		43.57%	,	47.06%		54.78%
Capital Ratios:										
Equity to Assets		11.85%		12.51%		12.68%		12.53%		11.64%
Dividend Payout		34.29%		13.44%		16.90%		—%		-%
Tier 1 Risk-based Capital ²		15.56%		16.67%		15.87%		15.97%		15.65%
Total Risk-based Capital ²		16.81%		17.93%		17.13%		17.22%		16.92%
Asset Quality Ratios:										
Nonperforming Loans/Total Loans		0.45%		1.30%		1.79%		3.77%		5.49%
Allowance for Loan Losses/Total Loans		1.63%		1.83%		2.13%		2.53%		2.84%
Allowance for Loan Losses/Non-performing Loans		364.68%		137.90%		119.01%		67.09%		51.62%
1								~~		

¹ Per share computations give retroactive effect to stock dividends declared in each of 2013, 2016 and 2017

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 \$10.8 million, or \$1.24 per diluted common share, \$17.3 million, or \$1.92 per diluted common share and \$9.5 million, or \$1.12 per diluted common share, for 2017, 2016 and 2015, respectively. Pre-tax earnings amounted to \$24.2 million for 2017, \$27.6 million for 2016 and \$18.8 million for 2015.

As a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, the Company was required to revalue its net deferred tax asset ("DTA"). The DTA was written down by \$3.2 million, due to the reduced tax rate, through a non-recurring charge to provision for income taxes. The Company expects to benefit prospectively from the reduced corporate tax rate and should recover this charge in less than one year.

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.

Total assets of \$1.1 billion at December 31, 2017, represented an increase of \$121.3 million, or 11.9%, from December 31, 2016. Total gross loans amounted to \$1.0 billion at year end 2017 for an increase of \$159.8 million, or

18.8% from December 31, 2016. Deposits increased by \$77.7 million, an increase of 9.9%. Total shareholders' equity at December 31, 2017 amounted to \$134.8 million an increase of \$7.7 million, or 6.0%, 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. Non-accrual 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	1
I OI HIG	ICais	LIIUCU	Decelline of	١.

										,				
	-	-	2017				20	016					2015	
		Average Balance	Interest Income/ Expense	Yield/ Cost		Average Balance	lr	nterest ncome/ xpense	Yield/ Cost		Average Balance		Interest Income/ Expense	Yield/ Cost
				(Amoun	ıts	in thousan	ıds	except	Yield/ Co	st	data)			-
Assets														
Loans	\$	923,271	46,847	5.07%	\$	800,677	\$	40,740	5.09%	\$	731,032	\$	38,035	5.20%
Investment securities		49,329	1,429	2.90%		46,782		1,245	2.66%		47,323		1,296	2.74%
Federal funds sold and cash equivalents		35,274	379	1.07%		46,791		217	0.46%		33,184		79	0.24%
Total interest-earning assets	_	1,007,874	48,655	4.83%	_	894,250	\$	42,202	4.72%	_	811,539	\$	39,410	4.86%
Non-interest earning assets		62,622				61,735					59,545			
Allowance for loan losses		(16,052)				(15,534)					(17,243)			
Total assets	\$	1,054,444			\$	940,451				\$	853,841	_		
Liabilities and Equity		***			_					_		_		
Interest bearing deposits														
NOWs	\$	42,582 \$	209	0.49%	\$	32,499	\$	163	0.50%	\$	31,318	\$	154	0.49%
Money markets		138,084	1,071	0.78%		123,017		625	0.51%		112,180		559	0.50%
Savings		180,908	960	0.53%		175,163		931	0.53%		188,392		1,006	0.53%
Time deposits		288,617	3,373	1.17%		284,018		3,319	1.17%		251,816		2,836	1.13%
Brokered certificates of deposit		74,357	865	1.16%		45,961		380	0.83%		30,337		189	0.62%
Total interest-bearing deposits		724,548	6,478	0.89%	_	660,658		5,418	0.82%		614,043		4,744	0.77%
Borrowings		105,108	1,802	1.71%		90,048		1,346	1.49%		80,729		1,068	1.32%
Total interest-bearing liabilities		829,656 \$	8,280	1.00%		750,706 \$	5	6,764	0.90%		694,772	\$	5,812	0.84%
Non-interest bearing deposits		84,758				62,483					45,656			
Other liabilities		6,358				5,656					5,319			
Total liabilities		920,772				818,845				_	745,747	_		
Equity		133,672				121,606					108,094			
Total liabilities and equity	\$	1,054,444			\$	940,451				\$	853,841	_		
Net interest income	_	\$	40,375			\$	5	35,438		_		\$	33,598	
Interest rate spread		_		3.83%		=			3.82%					4.02%
Net interest margin				4.01%					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,

	2017 vs 2016					2016 vs 2015					
	Variance due to change in					Variance due to change in					
	Average Volume		Α	Average Rate		Net Increase/ (Decrease)		Average Volume	Average Rate		Net Increase/ (Decrease)
					(/	mounts ir	tho	ousands)			
Interest Income:											
Loans (net of deferred costs/fees)	\$	6,221	\$	(114)	\$	6,107	\$	3,559	\$	(854)	\$ 2,705
Investment securities		70		114		184		(15)		(36)	(51)
Federal funds sold		(42)		204		162		41		97	138
Total interest income		6,249		204		6,453		3,585		(793)	2,792
Interest Expense:											
Deposits		500		560		1,060		348		326	674
Borrowed funds		243		213		456		130	_	148	278
Total interest expense		743		773		1,516		478		474	952
Net interest income	\$	5,506	\$	(569)	\$	4,937	\$	3,107	\$	(1,267)	\$ 1,840

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										
	Dec	ember 31,	Se	ptember 30,		June 30,		March 31,			
		(Amou	ints ir	thousands,	excep	t per share ar	mou	nts)			
2017											
Interest income	\$	12,953	\$	12,838	\$	11,769	\$	11,095			
Interest expense		2,325		2,147		1,967		1,841			
Net interest income		10,628		10,691		9,802		9,254			
Provision for loan losses		500		500		1,000		500			
Income before income tax expense		6,340		6,593		5,833		5,461			
Income tax expense		5,799		2,435		2,151		2,004			
Net income		551		4,161		3,699		3,459			
Preferred stock dividends		226		297		297		299			
Net income available to common shareholders		325		3,864		3,402		3,160			
Net income per common share:											
Basic	\$	0.04	\$	0.50	\$	0.42	\$	0.44			
Diluted	\$	0.06	\$	0.42	\$	0.37	\$	0.39			

				Three Mor	nths	s Ended		
	Dec	cember 31,	S	September 30,		June 30,		March 31,
		(Amou	ınts	in thousands, e	xce	ept per share an	nou	ints)
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
				Three Mo	nth	s Ended		
	De	cember 31,	5	September 30,		June 30,		March 31,
		(Amo	unts	in thousands,	exc	ept per share ar	moı	unts)
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
Preferred stock dividends		300		300		300		300

Critical Accounting Policies and Estimates

Net income available to common shareholders

Net income per common share:

Basic

Diluted

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.

\$

2.946

0.48 \$

0.40 \$

2,130

0.35 \$

0.30 \$

2,222

0.37 \$

0.32 \$

2,199

0.37

0.31

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, 2017 and 2016

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 \$4.9 million, or 13.9%, to \$40.4 million for 2017, from \$35.4 million for 2016. We experienced an increase in our interest rate spread of one basis point, to 3.83% for 2017, from 3.82% for 2016. Our net interest margin increased five basis points, to 4.01% for 2017, from 3.96% for 2016. The increase in net interest income is attributable to an increase in the average balance of loans partially offset by increases in the average balance of interest bearing liabilities as well as an increase in the average rate paid on such liabilities.

Interest income increased \$6.5 million, or 15.3%, to \$48.7 million for 2017, from \$42.2 million for 2016. The increase is primarily attributable to higher loan volumes, partially offset by a slight decrease of yields on loans. Average loans for the year were \$923.3 million, compared to \$800.7 million for 2016, while average loan yields were 5.07% for 2017, compared to 5.09% for 2016.

Interest expense increased \$1.5 million, or 22.4%, to \$8.3 million for 2017, from \$6.8 million for 2016. The increase is primarily attributable to higher deposit and borrowing volumes and an increase in the cost of funds. Average interest bearing deposits for 2017 were \$724.5 million, compared to \$660.7 million for 2016, while average deposit rates were 0.89% for 2017, compared to 0.82% for 2016. Average borrowings outstanding increased \$15.1 million to \$105.1 million

in 2017, compared to \$90.0 million in 2016. The average rate paid on these borrowings increased to 1.71%, from 1.49% in 2016.

Non-interest Income. Non-interest income is principally derived from service fees on deposit accounts, fee income from loan services, and BOLI income. Non-interest income totaled \$1.6 million in 2017, versus \$10.3 million in 2016. Included in 2016 was a \$7.6 million gain on the sale of SBA related assets.

The Company recognized \$477,000 in gains from the sale of the guaranteed portion of SBA loans in 2017, compared to a gain of \$1.8 million in 2016. The decrease is attributable to the sale of certain of the Company's SBA related assets in April of 2016.

Loan fees were \$654,000 in 2017, a decrease from \$777,000 in 2016. 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 2017 was \$1.4 million, compared to a loss of \$1.8 million in 2016.

BOLI income was \$652,000 in 2017, a decrease from \$722,000 in 2016. The decrease is attributable to lower rates in 2017.

Other non-interest income, which includes ATM fees, debit card fees, early CD withdrawal penalties, rental income and other miscellaneous income, amounted to \$911,000 in 2017 and \$876,000 in 2016.

Non-interest Expense. Non-interest expense for 2017 was \$15.3 million, a decrease of \$1.3 million from 2016.

Compensation and benefits expense for 2017 was \$7.4 million, an increase of \$40,000 over 2016. The increase was attributable to a combination of routine salary increases and increased staffing.

Occupancy and equipment and data processing expenses increased by \$232,000 from 2016. The increase was primarily due to the opening of two new retail branches in the fourth quarter of 2016.

OREO expenses decreased to \$625,000 in 2017, from \$1.0 million in 2016. 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 decreased to \$3.3 million in 2017, from \$4.1 million in 2016. 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. The reduction was primarily related to a decrease in nonperforming loans.

Income Taxes. Income tax expense amounted to \$12.4 million for 2017, compared to \$8.7 million for 2016, resulting in effective tax rates of 51.1% and 31.5% for the respective years. The increase in the effective rate in 2017 was a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017. Parke Bancorp was required to re-value its net deferred tax asset ("DTA"). The DTA was written down by \$3.2 million, due to the reduced tax rate, a non-recurring charge to provision for income taxes.

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.

Non-interest Income. Non-interest 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. Non-interest income totaled \$10.3 million in 2016 versus \$5.1 million in 2015. Included in non-interest 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 non-interest 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.

Non-interest Expense. Non-interest 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, 2017 and December 31, 2016

At December 31, 2017, the Company's total assets increased to \$1.1 billion, from \$1.0 billion at December 31, 2016, an increase of \$121.3 million, or 11.9%.

Cash and cash equivalents decreased \$28.6 million to \$42.1 million at December 31, 2017, from \$70.7 million at December 31, 2016. The decrease was primarily attributable to growth of the loan portfolio.

The Company's total investment securities portfolio decreased to \$40.3 million at December 31, 2017, from \$47.1 million at December 31, 2016, a decrease of \$6.8 million, or 14.5%. The decrease was attributable to normal principal payments and the sale of an impaired collateralized debt obligation security (TRUP) with a carrying value of \$705,000.

Total gross loans increased to \$1.0 billion at December 31, 2017, from \$852.0 million at December 31, 2016, an increase of \$159.8 million, or 18.8%.

OREO at December 31, 2017 was \$7.2 million, compared to \$10.5 million at December 31, 2016, a decrease of \$3.3 million. OREO consisted of 11 properties, the largest being a condominium development in Absecon. The decrease was primarily due to the sale of OREO property carried at \$2.3 million, and write-downs of other properties totaling \$1.6 million.

At December 31, 2017, the Bank's total deposits increased to \$866.4 million, from \$788.7 million at December 31, 2016, an increase of \$77.7 million, or 9.9%. Non-interest bearing deposits increased \$31.8 million, or 34.4%, to \$124.4 million at December 31, 2017, from \$92.5 million at December 31, 2016. Interest-bearing deposits increased to \$742.0 million, from \$696.2 million, an increase of \$45.8 million, or 6.6%. The increase in deposits is attributable to the opening of two new retail branches in the last guarter of 2016 and a successful new deposit account promotion.

Borrowings increased to \$128.1 million at December 31, 2017, from \$93.1 million at December 31, 2016, an increase of \$35.0 million, or 37.6%, utilized to fund loan growth.

Total shareholders' equity increased to \$134.8 million at December 31, 2017, from \$127.1 million at December 31, 2016, an increase of \$7.7 million, or 6.0%, primarily 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 \$7.6 million to \$5.0 million, or 0.49% of total loans, at December 31, 2017, from \$12.6 million, or 1.5% of total loans, at December 31, 2016. Delinquent loan balances by number of days delinquent at December 31, 2017 were: 31 to 89 days --- \$444,000 and 90 days and greater --- \$4.5 million. Loans 90 days and more past due are no longer accruing interest. December 31, 2016, delinquent loan balances by number of days were: 31 to 89 days --- \$1.3 million and 90 days and greater --- \$11.3 million.

At December 31, 2017, the Company had \$4.5 million in nonperforming loans, or 0.45% of total loans, a decrease from \$11.3 million, or 1.3% of total loans, at December 31, 2016. The three largest relationships in nonperforming loans are a \$1.4 million land development loan, a \$565,000 commercial real estate loan and a \$497,000 residential loan.

At December 31, 2017, the Company had \$11.8 million in nonperforming assets, which includes \$4.5 million of nonperforming loans and \$7.3 million of OREO, or 1.04% of total assets, a decrease from \$21.8 million, or 2.2% of total assets at December 31, 2016.

At December 31, 2017, the Company had \$25.5 million in loans deemed impaired, a decrease from \$36.4 million at December 31, 2016. Included in impaired loans are TDRs that were in compliance with their modified terms and therefore are accruing, totaling \$20.9 million and \$25.1 million at December 31, 2017 and December 31, 2016, 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 \$2.5 million for 2017, compared to \$1.5 million for 2016 and \$3.0 million for 2015. The provision in 2016 was impacted by the sale of the Bank's SBA loan portfolio, which had a one-time effect of relieving the allowance for loan losses by \$1.7 million. Net loan charge-offs/recoveries were \$1.5 million in 2017, and \$2.0 million in 2016.

At December 31, 2017, the Company's allowance for loan losses increased to \$16.5 million, from \$15.6 million at December 31, 2016, a increase of \$953,000 or 6.1%. The ratio of the allowance for loan loss to total loans decreased to 1.6% of loans at December 31, 2017, from 1.8% of loans at December 31, 2016, due to improving credit conditions. The allowance for loan losses to nonperforming loans coverage ratio increased to 364.7% at December 31, 2017, from 137.9% at December 31, 2016.

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, 2017. 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, 2017, 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, 2017, our interest sensitive liabilities exceeded interest sensitive assets within a one-year period by \$98.4 million, or 49.6%, of total assets

			As of Decei	mber 31, 201	7		
	3 Month or Less		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	\$ 163,260	\$ 157,151	\$ 307,901	\$ 270,254	\$ 110,616	\$	1,009,182
Investment securities	3,128	3 4,367	9,949	8,834	13,981		40,259
Federal funds sold and cash equivalents	37,638	5 =	-	0.00			37,635
Total interest-earning assets	\$ 204,023	\$ 161,518	\$ 317,850	\$ 279,088	\$ 124,597	\$ '	1,087,076
Interest-bearing liabilities:							
Regular savings deposits	\$ 8,40	1 \$ 25,203	\$ 67,208	\$ 57,937	\$ 13,695	\$	172,444
NOW and money market deposits	12,041	36,125	96,334	54,043	3,124		201,667
Retail time deposits	42,579	157,958	69,501	14,306	\sim		284,344
Brokered time deposits	36,393	3 47,124	22	700			83,517
Borrowed funds	39,000	59,150	16,500	-	-		114,650
Total interest-bearing liabilities	\$ 138,414	\$ 325,560	\$ 249,543	\$ 126,286	\$ 16,819	\$	856,622
Interest rate sensitive gap	\$ 65,609	\$(164,042)	\$ 68,307	\$ 152,802	\$ 107,778	\$	230,454
Cumulative interest rate gap	\$ 65,609	\$ (98,433)	\$ (30,126)	\$ 122,676	\$ 230,454	\$	_
Ratio of rate-sensitive assets to rate-sensitive liabilities	147.40)% 49.61%	127.37%	221.00%	740.81%	o	126.90%

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 116.8% and 108.0% at December 31, 2017 and December 31, 2016, respectively. Funds received from new and existing depositors provided a large source of liquidity during 2017 and 2016. 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 \$83.5 million and \$51.2 million at December 31, 2017 and December 31, 2016, 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, 2017, the Bank maintained unused lines of credit with the FHLBNY totaling \$64.5 million. As of December 31, 2017, the Bank's investment securities portfolio included \$37.2 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, 2017, and 2016, commitments to extend credit amounted to approximately \$118.7 million and \$78.3 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, 2017 and 2016, standby letters of credit with customers were \$14.0 million and \$13.1 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, 2017. 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, 2017.

				Pay	ment	s Due by I	Perio	d				
		₋ess than 1 year	1	-3 Years	3	-5 years		ore than 5 years		Total		
		·		(An	ount	ts in thous	ands)				
Retail time deposits	\$	200,537	\$	69,501	\$	14,306	\$	_	\$	284,344		
Brokered time deposits		83,517		-		950				83,517		
Borrowed funds		98,150		16,500		-				114,650		
Operating lease obligations		309		965		290		700		2,264		
Total contractual obligations	\$	382,513	\$	86,966	\$	14,596	\$	700	\$	484,775		
	_	Amount of Commitments Expiring by Period										
		Less than 1 year		-3 Years	3	3-5 years		ore than years		Total		
				(Am	nounts in thous		sands)					
Loan Commitments	\$	158,894	\$	_	\$	_	\$	_	\$	158,894		
Lines of Credit		38,472		11,548		16,259		52,410		118,689		
Total Commitments	\$	197,366	\$	11,548	\$	16,259	\$	52,410	\$	277,583		

Impact of Inflation and Changing Prices

The consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted within the United States ("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 daily closing prices of the common stock during the periods indicated in 2017 and 2016, and cash dividends paid during each quarter. Prices reflect a 10% stock dividend paid in May 2017 and May 2016.

	_	Cash idends		
<u>2017</u>	- 1	Paid	High	Low
1 st Quarter	\$	0.10	\$ 19.51	\$ 17.05
2 nd Quarter	\$	0.10	\$ 22.51	\$ 19.11
3 rd Quarter	\$	0.12	\$ 22.68	\$ 18.00
4 th Quarter	\$	0.12	\$ 22.73	\$ 19.70
<u>2016</u>				
1 st Quarter	\$	0.06	\$ 11.64	\$ 9.81
2 nd Quarter	\$	0.07	\$ 12.36	\$ 11.28
3 rd Quarter	\$	0.08	\$ 14.02	\$ 11.08
4 th Quarter	\$	0.08	\$ 17.93	\$ 13.26

The number of shareholders of record of common stock as of March 8, 2018, 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 15, 2018, there were 8,021,982 shares of our common stock outstanding.

The Company paid quarterly cash dividends in 2017 and 2016 totaling \$3.2 million and \$2.0 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.

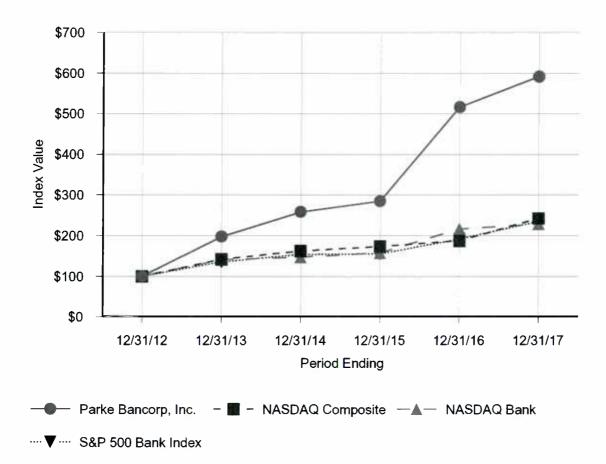
The Federal Deposit Insurance Act generally prohibits all payments of dividends by any insured bank that is in default of any assessment to the FDIC. Additionally, because the FDIC may prohibit a bank from engaging in unsafe or unsound practices, it is possible that under certain circumstances the FDIC 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).

Stock Performance Graph

The following graph shows a comparison of total stockholder return on the Company's, common stock, based on the market price of the Company's common stock with the cumulative total return of companies in the Nasdaq Composite Index, the Nasdaq Bank Index and S&P 500 Bank Index for the period December 31, 2012 through December 31, 2017. The graph may not be indicative of possible future performance of the Company's common stock. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an initial investment of \$100.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Parke Bancorp, Inc., the NASDAQ Composite Index, the NASDAQ Bank Index, and S&P 500 Bank Index



*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	12/12	12/13	12/14	12/15	12/16	12/17
Parke Bancorp, Inc.	100.00	197.21	257.89	284.11	516.35	591.29
NASDAQ Composite	100.00	141.63	162.09	173.33	187.19	242.29
NASDAQ Bank	100.00	140.76	146.90	157.63	216.24	227.94
S&P 500 Bank Index	100.00	135.27	153.57	155.02	191.66	234.48

Parke Bancorp, Inc. and Subsidiaries

Consolidated Financial Report December 31, 2017

Parke Bancorp, Inc. and Subsidiaries

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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, 2017.

RSM US LLP, an independent registered public accounting firm that audited the 2017 consolidated financial statements of the Company included in this Annual Report on 10-K, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. Their report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 is included in this Item under the heading "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting."

March 15, 2018

Vito S. Pantilione

President and Chief Executive Officer

John F. Hawkins

Senior Vice President and Chief Financial Officer

ble J. Harkins

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited Parke Bancorp, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements of the Company and our report dated March 15, 2018 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

RSM US LLP

Blue Bell, Pennsylvania March 15, 2018

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Parke Bancorp, Inc. and its subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

RSM US LLP

We have served as the Company's auditor since 2000.

Blue Bell, Pennsylvania March 15, 2018

Parke Bancorp, Inc. and Subsidiaries Consolidated Balance Sheets December 31, 2017 and 2016

(Amounts in thousands except share and per share data)

	De	December 31, 2017		ecember 31, 2016
Assets				
Cash and due from financial institutions	\$	14,452	\$	4,399
Federal funds sold and cash equivalents		27,661		66,321
Cash and cash equivalents		42,113		70,720
Investment securities available for sale, at fair value		37,991		44,854
Investment securities held to maturity (fair value of \$2,468 at December 31, 2017 and \$2,411 December 31, 2016)		2,268		2,224
Total investment securities		40,259		47,078
Loans held for sale		1,541		_
Loans, net of unearned income		1,011,717		851,953
Less: Allowance for loan losses		(16,533)		(15,580)
Net loans		995,184		836,373
Accrued interest receivable		4,025		3,117
Premises and equipment, net		7,025		5,197
Other real estate owned (OREO)		7,248		10,528
Restricted stock, at cost		6,172		4,658
Bank owned life insurance (BOLI)		25,196		24,544
Deferred tax asset		6,420		10,746
Other assets		2,269		3,224
Total Assets	\$	1,137,452	\$	1,016,185
Liabilities and Equity Liabilities Deposits				
Noninterest-bearing deposits	\$	124,356	\$	92,535
Interest-bearing deposits		742,027		696,159
Total deposits		866,383	_	788,694
FHLBNY borrowings		114,650		79,650
Subordinated debentures		13,403		13,403
Accrued interest payable		719		655
Other liabilities		7,517		6,693
Total liabilities		1,002,672		889,095
Equity Preferred stock, 1,000,000 shares authorized, \$1,000 liquidation value Series B non-cumulative convertible; outstanding: 15,971 shares at December 31, 2017 and 20,000 shares December 31, 2016		15,971		20,000
Common stock, \$.10 par value; authorized 15,000,000 shares; Issued: 8,301,497 shares at December 31, 2017 and 7,147,952 shares at December 31, 2016		830		715
Additional paid-in capital		81,940		62,300
Retained earnings		39,184		47,483
Accumulated other comprehensive loss		(130)		(349)
Treasury stock, 284,522 shares at December 31, 2017 and at December 31, 2016, at cost		` '		, ,
		(3,015)		(3,015)
Total shareholders' equity Noncontrolling interest in consolidated subsidiaries		134,780		127,134 (44)
Total equity		134,780		127,090
Total liabilities and equity	\$	1,137,452	\$	1,016,185
Total liabilities and equity See accompanying notes to consolidated financial statements	\$		\$	

Parke Bancorp, Inc. and Subsidiaries Consolidated Statements of Income Years Ended December 31, 2017, 2016, and 2015

(Amounts in thousands except share and per share data)

	2017	2016	2015
Interest income:	 -		
Interest and fees on loans	\$ 46,847	\$ 40,740	\$ 38,035
Interest and dividends on investments	1,429	1,245	1,296
Interest on federal funds sold and cash equivalents	 379	217	79
Total interest income	48,655	42,202	39,410
Interest expense:	 		
Interest on deposits	6,478	5,418	4,744
Interest on borrowings	1,802	1,346	1,068
Total interest expense	8,280	6,764	5,812
Net interest income	 40,375	35,438	33,598
Provision for loan losses	2,500	1,462	3,040
Net interest income after provision for loan losses	 37,875	33,976	30,558
Non-interest income			
Gain on sale of SBA loans	477	1,819	4,147
Gain on sale of SBA related assets	_	7,611	-
Other Loan fees	654	777	1,387
Net income from BOLI	652	722	357
Service fees on deposit accounts	416	315	290
Loss on sale and write-down of real estate owned	(1,421)	(1,830)	(2,019)
Realized loss on sale of AFS securities	(44)	_	
Other	911	876	918
Total non-interest income	 1,645	10,290	5,080
Non-interest expense		 	
Compensation and benefits	7,362	7,322	7,717
Professional services	1,573	1,639	1,657
Occupancy and equipment	1,443	1,314	1,273
Data processing	736	633	510
FDIC insurance	296	584	682
OREO expense	625	1,040	1,642
Other operating expense	3,258	4,096	3,371
Total non-interest expense	 15,293	16,628	16,852
Income before income tax expense	24,227	 27,638	18,786
Income tax expense	 12,389	 8,695	 6,843
Net income attributable to Company and noncontrolling interest	11,838	18,943	11,943
Net income attributable to noncontrolling interest	 32	(433)	(1,246)
Net income attributable to Company	11,870	18,510	10,697
Preferred stock dividend	 (1,119)	(1,200)	(1,200)
Net income available to common shareholders	\$ 10,751	\$ 17,310	\$ 9,497
Earnings per common share			
Basic	\$ 1.40	\$ 2.31	\$ 1.30
Diluted	\$ 1.24	\$ 1.92	\$ 1.12
Weighted average shares outstanding			
Basic	7,657,756	7,507,709	7,309,874
Diluted	9,559,635	9,622,272	9,568,305
See accompanying notes to consolidated financial statements			

Parke Bancorp, Inc. and Subsidiaries Consolidated Statements of Comprehensive Income Years Ended December 31, 2017, 2016, and 2015

2015
ands)
\$ 9,497
113
(661)
218
(330)
\$ 9,167

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries Consolidated Statements of Equity Years Ended December 31, 2017, 2016, and 2015

(Amounts in thousands except share data)

,	Ρ	referred Stock	Shares of Common Stock	ommon Stock		Additional Paid-In Capital		Retained Earnings	(Accumulated Other Comprehensive Loss	Treasury Stock	Total reholders' Equity	Co	Non- ntrolling nterest	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 activity by minority (non-controlling) 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 income										(330)		(330)			(330)
Purchase of treasury stock											(831)	(831)			(831)
Dividend on preferred stock Series B								(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 activity by minority (non-controlling) 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 (\$.26/ 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
Capital activity by minority (non-controlling) interest											······································			76	76
Stock options exercised			8,470			3,752						3,752			3,752
Conversion of preferred stock to common stock		(4,029)	456,229	46		317						(3,666)			(3,666)
Net income								11,870				11,870		(32)	11,838
Changes in other comprehensive loss										219		219			219
Stock compensation						72						72			72
Stock dividend 10%			688,846	69		15,499		(15,568)				-			-
Dividend on preferred stock								(1,119)				(1,119)			(1,119)
Dividend on common stock (\$.46/ share)								(3,482)				(3,482)			(3,482)
Balance, December 31, 2017	\$	15,971	8,301,497	\$ 830	\$	81,940	\$	39,184	\$	(130)	\$ (3,015)	\$ 134,780	\$		\$ 134,780
				 	_		_								

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries Consolidated Statements of Cash Flows Years Ended December 31, 2017, 2016, and 2015

(Amounts in thousands)

		2017		2016		2015
Cash Flows from Operating Activities						
Net income	\$	11,838	\$	18,943	\$	11,943
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		320		269		251
Provision for loan losses		2,500		1,462		3,040
Bank owned life insurance income		(652)		(722)		(357)
Bank owned life insurance additional purchase		_		_		(12,000)
Gain on sale of SBA loans		(477)		(1,819)		(4,147)
SBA loans originated for sale		(5,807)		(15,080)		(38,244)
Proceeds from sale of SBA loans originated for sale		4,743		16,901		42,684
Loss on sale & write down of OREO, net		1,422		1,830		2,019
Gain on sale of SBA related assets		_		(7,611)		
Net accretion of purchase premiums and discounts on securities		65		(44)		(623)
Deferred income tax expense (benefit)		4,143		305		(190)
Changes in operating assets and liabilities:						
(Increase) decrease in accrued interest receivable and other						
assets		(59)		594		(1,008)
Increase (decrease) in accrued interest payable and other accrued liabilities		888		(2,306)		1,686
Net cash provided by operating activities		18,924		12,722		5,054
Cash Flows from Investing Activities		10,021		12.,		0,001
Purchases of investment securities available for sale		_		(10,000)		(20,476)
Proceeds from sale and call of securities available for sale		705		(10,000)		(20,110)
Purchases (redemptions) of restricted stock		(1,514)		131		(1,637)
Proceeds from sale of SBA related assets		(.,,		50,348		(1,001)
Proceeds from loans held for sale		_		2,638		
Proceeds from maturities and principal payments on mortgage				_,000		
backed securities		6,424		7,406		6,150
Proceeds from sale of OREO		2,281		5,222		7,576
Advances on OREO		(144)		(194)		(139)
Donation of OREO property				31		
Net increase in loans		(161,590)		(138,996)		(55,541)
Purchases of bank premises and equipment		(2,148)		(875)		(352)
Net cash used in investing activities		(155,986)		(84,289)		(64,419)
Cash Flows from Financing Activities						
Cash payment of dividends		(4,385)		(3,234)		(2,661)
Minority interest capital withdrawal, net		(53)		(644)		(1,224)
Proceeds from exercise of stock options		132		190		2,697
Purchase of treasury stock		_		(4)		(831)
Stock compensation		72		66		_
Net increase (decrease) in FHLBNY borrowings		35,000		(5,000)		35,298
Net increase in noninterest-bearing deposits		31,821		39,762		10,219
Net increase in interest-bearing deposits		45,868		83,722		7,058
Net cash provided by financing activities		108,455		114,858		50,556
(Decrease) Increase in cash and cash equivalents		(28,607)		43,291		(8,809)
Cash and Cash Equivalents, January 1,		70,720		27,429		36,238
Cash and Cash Equivalents, December 31,	\$	42,113	<u>\$</u>	70,720	\$	27,429
Supplemental Disclosure of Cash Flow Information:						
Cash paid during the year for:	¢	0.220	¢.	6.600	Φ	F 700
Interest on deposits and borrowed funds	\$	8,330		6,603		5,763
Income taxes	\$	7,404	\$	9,984	\$	6,494
Supplemental Schedule of Noncash Activities: Real estate acquired in settlement of loans	\$	279	\$	788	\$	5,154
See accompanying notes to consolidated financial statements						

PARKE BANCORP, INC. AND SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS

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

<u>Description of Business</u>: 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 seven 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.

<u>Principles of Consolidation</u>: 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 had 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.

<u>Investment Securities</u>: At December 31, 2017 and 2016, 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, 2017 and 2016, 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.

<u>Loans-Non-accrual</u>: Loans are placed on non-accrual 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 non-accrual 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.

<u>Troubled Debt Restructuring</u>: 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 but are not limited to:

- 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 non-accrual loan policy stated above.

Concentration of Credit Risk: The Company's loans are generally to 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.

<u>Loan Fees</u>: 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 initially carried at fair value less estimated costs of disposal which establishes a new cost basis. 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, declines, 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.

<u>Bank Premises and Equipment</u>: 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, 2017, 2016 or 2015. The Company does not have an accrual for uncertain tax positions as of December 31, 2017 or 2016, 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 2014 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 2013 and thereafter are subject to further examination.

The U.S. Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017 and introduces significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21%. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects in our financial statements for the year ended December 31, 2017. As we collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, we may make adjustments. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in 2018.

<u>Use of Estimates</u>: 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 the carrying value of OREO.

<u>Segment Reporting:</u> 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.

<u>Comprehensive Income</u>: 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, 2017 and 2016:

		2017	2016		
	(Amounts in thousands)				
Securities:					
Non-credit unrealized losses on available for sale securities with OTTI	\$	— \$	(309)		
Unrealized (losses) gains on available for sale securities without OTTI		(207)	(273)		
Tax impact		77	233		
	\$	(130) \$	(349)		

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 2017 and 2016 (Note 13). Earnings per common share have been computed based on the following for 2017, 2016 and 2015:

	2017			2016		2015
		(dollars in th	t sh	share data)		
Basic earnings per common share						
Net income available to common shareholders	\$	10,751	\$	17,310	\$	9,497
Average common shares outstanding		7,657,756		7,507,709		7,309,874
Basic earnings per common share	\$	1.40	\$	2.31	\$	1.30
Diluted earnings per common share						
Net income available to common shareholders	\$	10,751	\$	17,310	\$	9,497
Dividend on Preferred Series B		1,119		1,200		1,200
Net income available to common shareholders pre dividend on Preferred Series B	\$	11,870	\$	18,510	\$	10,697
Average common shares outstanding		7,657,756		7,507,709		7,309,874
Dilutive potential common shares		1,901,879		2,114,563		2,258,431
Total diluted average common shares outstanding		9,559,635		9,622,272		9,568,305
Diluted earnings per common share	\$	1.24	\$	1.92	\$	1.12

For 2017, 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:

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendment in this update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the December 22, 2017, enactment of the reduced federal corporate income tax rate, which is effective in 2018. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The amendment can be adopted at the beginning of the period or on a retrospective basis. The Company plans to adopt the amendment in the first quarter of 2018 using the beginning of the period option. The reclassified amount will be \$27,000.

During August 2016, the FASB issued ASU 2016-15, which is 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, 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 quidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years.

The Company is currently in the process of gathering historical loan data required for the credit loss methodology and is reviewing a model from a third-party vendor. While we expect this standard will have an impact on the Company's financial statements, we are still in process of conducting our evaluation.

On January 5, 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU 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. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not have a significant amount of equity securities classified as available-for-sale ("AFS"). Additionally, we do not have any financial liabilities accounted for under the fair value option. Therefore, the transition adjustment upon adoption of this guidance is not expected to be material.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 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 working on gathering all key lease data elements to meet the requirements of the new guidance. The resulting change from this ASU should not have a major impact on the Company's financial statements.

During March 2016, the FASB issued ASU 2016-09, *Stock Compensation*. ASU 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 has had no impact to the consolidated financial statements.

During May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 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 guidance has specifically excluded revenue derived from financial instruments, the source of the majority of the Company's revenue, and management has determined the impact from the implementation of this guidance will not be material.

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, 2017 or 2016, 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, 2017 and 2016:

As of December 31, 2017	Aı —	mortized cost	ur	Gross realized gains	unr Ic	Gross ealized osses	tem impa in	er than porary irments OCI	_Fa	air value
				(Ame		in thous	ands)			
Available for sale:							_			
Corporate debt obligations	\$	1,000	\$	33	\$	_	\$	_	\$	1,033
Residential mortgage-backed securities		37,105		194		436		_		36,863
Collateralized mortgage obligations		93		2		-		-		95
Collateralized debt obligations		_	_	-		_		_		
Total available for sale	\$	38,198	\$	229	\$	436	\$		\$	37,991
Held to maturity:										
States and political subdivisions	\$	2,268	\$	200	\$		\$		ě.	2,468
As of December 31, 2016	А	mortized cost		Gross rrealized gains	uni	Gross realized osses	tem impa	er than porary airments	F	air value
	,			(An	nounts	s in thous	ands)			
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	\$	45,436	\$	235	\$	508	\$	309	\$	44,854
Held to maturity:										
States and political subdivisions	\$	2,224	\$	187	\$		\$		\$	2,411

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, 2017, are as follows:

	А	mortized Cost		Fair Value
	(<i>P</i>	Amounts in	n the	ousands)
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		500		533
Residential mortgage-backed securities and collateralized mortgage obligations		37,198		36,958
Total available for sale	\$	38,198	\$	37,991
Held to maturity:				
Due within one year	\$		\$	-
Due after one year through five years				_
Due after five years through ten years		2,268		2,468
Due after ten years		-		-
Total held to maturity	\$	2,268	\$	2,468

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, 2017, the Company sold one security, a Trust Preferred security, for a loss of \$44,000. During the years ending December 31, 2016 and December 31, 2015, the Company did not sell any investment securities.

Securities with a carrying value of \$32.5 million and \$23.1 million, respectively, were pledged to secure public deposits at December 31, 2017 and 2016.

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, 2017 there were 3 securities in a less than 12 months loss position and 8 in a greater than 12 months. At December 31, 2016 there were 7 securities in a less than 12 months loss position and 3 greater than 12 months.

As of December 31, 2017		Less Than	12 Mc	onths		12 Months or Greater				Total			
Description of Securities		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Inrealized Losses	
						(Amounts in	n thou:	sands)					
Available for sale:													
Residential mortgage-backed securities	\$	2,729	\$	16	\$	15,117	\$	420	\$	17,846	\$	436	
Total available for sale	\$	2,729	\$	16	\$	15,117	\$	420	\$	17,846	\$	436	
As of December 31, 2016		Less Than				12 Months			_		otal	lana lina d	
As of December 31, 2016 Description of Securities	_	Less Than Fair Value	Uni	onths realized osses		12 Months Fair Value	Un	eater realized		Fair Value		Inrealized Losses	
	- _	Fair	Uni	realized		Fair	Un L	realized osses	_	Fair			
	_	Fair	Uni	realized		Fair Value	Un L	realized osses	_	Fair			
Description of Securities	- - \$	Fair	Uni L	realized	· 	Fair Value	Un L	realized osses		Fair	U		

Residential Mortgage-Backed Securities

The unrealized losses on the Company's investment in mortgage-backed securities relates to eleven 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, 2017.

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.

Note 4. Loans

The portfolio of loans outstanding consists of:

	Decemb	er 31, 2017	December 31, 2016			
	 Amount	Percentage of Total Loans	Amount	Percentage of Total Loans		
	 	(Amounts in th	ousands)			
Commercial and Industrial	\$ 38,972	4.0% \$	26,774	3.1%		
Real Estate Construction:						
Residential	28,486	2.8	8,825	1.0		
Commercial	67,139	6.6	58,469	6.9		
Real Estate Mortgage:						
Commercial – Owner Occupied	126,250	12.5	123,898	14.5		
Commercial – Non-owner Occupied	270,472	26.7	268,123	31.5		
Residential – 1 to 4 Family	416,317	41.1	309,340	36.3		
Residential – Multifamily	47,832	4.7	39,804	4.7		
Consumer	16,249	1.6	16,720	2.0		
Total Loans	\$ 1,011,717	100.0% \$	851,953	100.0%		

At December 31, 2017 and 2016, approximately \$336.1 million and \$193.9 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. 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, 2017, approximately 26.7% 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.

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.

<u>Concentrations of Credit</u>: 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.

<u>Loans to Related Parties</u>: 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 director's loans.

An analysis of the activity of such related party loans for 2017 and 2016 is as follows:

		2017		2016				
	(Amounts in thousands)							
Balance, beginning of year	\$	13,972	\$	20,072				
Advances		1,669		418				
Less: repayments		(2,861)		(856)				
Less: reduction due to change in director		_		(5,662)				
Balance, end of year	\$	12,780	\$	13,972				

An age analysis of past due loans by class follows:

<u>December 31, 2017</u>	30-59 ays 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
			(Amo	ounts in thousa	nds)			
Commercial and Industrial	\$ _	_	17	17	38,955	\$	38,972	-
Real Estate Construction:								
Residential	-	_		_	28,486		28,486	-
Commercial			1,392	1,392	65,747		67,139	-
Real Estate Mortgage:								
Commercial – Owner Occupied		100	155	155	126,095		126,250	-
Commercial - Non-owner Occupied	-	-	597	597	269,875		270,472	-
Residential – 1 to 4 Family	-	352	2,292	2,644	413,673		416,317	_
Residential – Multifamily	_	-	==	_	47,832		47,832	_
Consumer	92	E	81	173	16,076		16,249	
Total Loans	\$ 92	352	4,534	4,978	1,006,739	\$	1,011,717	

<u>December 31, 2016</u>	30-59 60-89 Days Past Days Past Due Due		Greater than 90 Days and Not Accruing	Total Past Due	Current	To	otal Loans	Loans > 90 Days and Accruing	
				(Amo	ounts in thousar	nds)			
Commercial and Industrial	\$	-	-	159	159	26,615	\$	26,774	$(-1)^{n-1} = (-1)^{n-1}$
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 Occupie	d	-	_	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	\$	746	568	11,298	12,612	839,341	\$	851,953	110

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 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. Generally, 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 may 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, 2017	Unpaid Recorded Principal Rela Investment Balance Allow							
	(A	mounts in thousa	nds)					
With no related allowance recorded:								
Commercial and Industrial	\$ 17	\$ 21	\$ —					
Real Estate Construction:								
Residential	-	_	-					
Commercial	1,365	5,856						
Real Estate Mortgage:								
Commercial – Owner Occupied	155	155						
Commercial – Non-owner Occupied	277	277	_					
Residential – 1 to 4 Family	2,292	2,354						
Residential – Multifamily	-	_	_					
Consumer	81	81	_					
	4,187	8,744	(
With an allowance recorded:								
Commercial and Industrial			-					
Real Estate Construction:								
Residential	=	_	_					
Commercial	4,587	4,684	135					
Real Estate Mortgage:								
Commercial – Owner Occupied	3,635	3,665	58					
Commercial – Non-owner Occupied	12,124	13,941	250					
Residential – 1 to 4 Family	919	919	15					
Residential – Multifamily	-							
Consumer	-	s	==0					
	21,265	23,209	458					
Total:								
Commercial and Industrial	17	21						
Real Estate Construction:								
Residential	-	9 57						
Commercial	5,952	10,540	135					
Real Estate Mortgage:								
Commercial – Owner Occupied	3,790	3,820	58					
Commercial – Non-owner Occupied	12,401							
Residential – 1 to 4 Family	3,211	3,273	15					
Residential – Multifamily	P.	3	i <u>se</u>					
Consumer	8^							
	\$ 25,452	2 \$ 31,953	\$ 458					

December 31, 2016	Unpaid Recorded Principal Relate Investment Balance Allowan								
		(Ar	mounts in thousa	nds)					
With no related allowance recorded:									
Commercial and Industrial	\$	21	\$ 23	\$					
Real Estate Construction:									
Residential		<u> 1000</u>	7	_					
Commercial		1,161	1,161	_					
Real Estate Mortgage:									
Commercial – Owner Occupied		722	_	_					
Commercial - Non-owner Occupied		3,494	3,739	2-2					
Residential – 1 to 4 Family		2,384	2,434	-					
Residential – Multifamily		308	354	-					
Consumer		107	107						
		7,475	7,818	<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		_	_	-					
		28,930	35,723	1,251					
Total:	-								
Commercial and Industrial		159	1,415	138					
Real Estate Construction:			,						
Residential		-		<u></u>					
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> </u>					
	\$	36,405	\$ 43,541	\$ 1,251					

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, 2017, 2016 and 2015:

Year Ended December 31,

		20	17	-	2016					2015			
	Re			F	Average Recorded Investment		Interest Income Recognized		verage ecorded estment	1	nterest ncome cognized		
					((Amounts in	thou	sands)					
Commercial and Industrial	\$	1,063	\$	1	\$	333	\$	1	\$	3,088	\$	45	
Real Estate Construction:													
Residential		-		-		-		-		_		_	
Commercial		10,086	;	202		9,340		234		10,013		87	
Real Estate Mortgage:													
Commercial - Owner Occupied		4,267		193		4,878		176		5,548		196	
Commercial – Non-owner Occupied		15,894		632		19,281		751		26,554		985	
Residential – 1 to 4 Family		4,201		92		4,130		122		5,491		113	
Residential – Multifamily		138		-		320		8		359		26	
Consumer		97		5		108		6		_			
Total	\$	35,746	\$ 1,	125	\$	38,390	\$	1,298	\$	51,053	\$	1,452	

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 \$20.9 million and \$25.1 million with related allowances of \$385,000 and \$390,000 as of December 31, 2017 and December 31, 2016, respectively. Non-performing TDRs totaled

\$277,000 and \$3.0 million with related allowances of \$72,000 and \$861,000 as of December 31, 2017 and December 31, 2016, 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, 2017 and 2016.

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.

<u>Credit Quality Indicators</u>: 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. <u>Satisfactory (A)</u>: 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. <u>Satisfactory (B)</u>: 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. <u>Watch List</u>: 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. <u>Substandard</u>: 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. <u>Doubtful</u>: 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, 2017 and 2016, is as follows:

<u>At December 31, 2017</u>	Pass			OAEM		Substandard	Doubtful			Total
				(Amo	our	nts in thousand	ds)			
Commercial and Industrial	\$	38,875	\$	97	\$	_	\$	_	\$	38,972
Real Estate Construction:										
Residential		23,430		5,056		_		_		28,486
Commercial		58,921		-		8,218		$-\frac{1}{2} \left(\frac{1}{2} \right)^{-1}$		67,139
Real Estate Mortgage:										
Commercial - Owner Occupied		123,491		2,604		155		-		126,250
Commercial - Non-owner Occupied		269,736		-		736		===		270,472
Residential – 1 to 4 Family		413,327		560		2,430		_		416,317
Residential - Multifamily		47,832		_		_		-		47,832
Consumer		16,168		_		_ 81_		=		16,249
Total	\$	991,780	\$	8,317	\$	11,620	\$		\$	1,011,717

At December 31, 2016	Pass			OAEM	Substandard			oubtful	Total
	(Amounts in thousan								
Commercial and Industrial	\$	26,515	\$	121	\$	138	\$	- \$	26,774
Real Estate Construction:									
Residential		8,825		777		-		_	8,825
Commercial		35,656		12,516		10,297		22	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		200	309,340
Residential – Multifamily		39,496		<u>500</u>		308		_	39,804
Consumer		16,612		500		108			16,720
Total	\$	812,493	\$	17,554	\$	21,906	\$	\$	851,953

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 obligors 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, 2017, 2016 and 2015 is as follows:

Allowance for Loan Losses:	For the year ended December 31, 2017								
	Beginning Balance		(Charge-offs	Recoveries	Provisions		Ending Balance	
				(Amo	ounts in thous	and	s)	_	
Commercial and Industrial	\$	1,188	\$	(134)	\$ 45	\$	(415) \$	684	
Real Estate Construction:									
Residential		268			-		131	399	
Commercial		2,496		(687)	_		(140)	1,669	
Real Estate Mortgage:									
Commercial – Owner Occupied		2,082		(430)	113		252	2,017	
Commercial – Non-owner Occupied		3,889		(622)	319		1,044	4,630	
Residential – 1 to 4 Family		4,916		(118)	17		1,462	6,277	
Residential – Multifamily		505		(50)	=		172	627	
Consumer		236					(6)	230	
Total	\$	15,580	\$	(2,041)	\$ 494	\$	2,500 \$	16,533	

Allowance for Loan Losses:

For the year ended December 31, 2016

		eginning Balance	Charge-offs		Charge-offs Recoveries		ovisions	Ending Balance
	_			(Amc				
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)		5	(33)	236
Total	\$	16,136	\$	(2,066)	\$ 48	\$	1,462 \$	15,580

Allowance for Loan Losses:

For the year ended December 31, 2015

Allowance for Loan Losses:	For the year ended December 31, 2015							
		Beginning Balance		narge-offs	Recoveries	Provisions		Ending Balance
				(Amo	ounts in thousa	ands)		
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		200	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	1.000	262		(1)		14		275
Total	\$	18,043	\$	(5,680)	\$ 733	\$ 3,040	\$	16,136

Allowance for Loan Losses, at December 31, 2017	evalu	vidually lated for airment	Collectively evaluated for impairment		Total
		(Amounts in thousar			
Commercial and Industrial	\$	_	\$ 684	\$	684
Real Estate Construction:					
Residential		_	399		399
Commercial		135	1,534		1,669
Real Estate Mortgage:					
Commercial – Owner Occupied		58	1,959		2,017
Commercial – Non-owner Occupied		250	4,380		4,630
Residential – 1 to 4 Family		15	6,262		6,277
Residential – Multifamily		_	627		627
Consumer			230		230
Total	\$	458	\$ 16,075	\$	16,533

Allowance for Loan Losses, at December 31, 2016	eval	ividually luated for pairment	ev	Collectively valuated for mpairment		Total
		(A	mour	nts in thousa	nds)	
Commercial and Industrial Real Estate Construction:	\$	138		1,050	,	1,188
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
	<u>, </u>	.,	- 	, ,	· —	
<u>Loans, at December 31, 2017:</u>	eval	ividually uated for	ev	ollectively aluated for		Total
Edulis, at Bosomber 61, 2011.		airment		npairment Its in thousa	nde)	
Commercial and Industrial	\$	17		38,955	,	38,972
Real Estate Construction:	Ψ		Ψ	00,000	Ψ	00,012
Residential		_		28,486		28,486
Commercial		5,952		61,187		67,139
Real Estate Mortgage:		0,002		01,107		07,100
Commercial – Owner Occupied		3,790		122,460		126,250
Commercial – Non-owner Occupied		12,401		258,071		270,472
Residential – 1 to 4 Family		3,211		413,106		416,317
Residential – Multifamily		5,211		47,832		47,832
Consumer		81		16,168		16,249
Total	\$	25,452	\$	986,265	\$	1,011,717
Total	<u>Ф</u>	25,452	<u> </u>	960,203	<u> </u>	1,011,717
Loans, at December 31, 2016:	evalı	vidually uated for	eva	ollectively aluated for		Total
Edulo, de Bedelliser of, 2010.	<u>IMP</u>	airment (Ar		npairment ts in thousar	-de)	
Commercial and Industrial	\$	159		26,615	•	26,774
Real Estate Construction:	Ψ	139	Φ	20,013	φ	20,774
				0.005		0.005
Residential		0.000		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	\$	36,405	\$	815,548	\$	851,953

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, 2017 and 2016 is as follows:

	Estimated Useful lives	2017		2016	
		(Amounts in	thou	sands)	
Land		\$ 1,044	\$	820	
Building and improvements	17 years	6,948		5,352	
Furniture and equipment	6 years	3,182		2,854	
Total premises and equipment		 11,174		9,026	
Less: accumulated depreciation and amortization		 (4,149)		(3,829)	
Premises and equipment, net		\$ 7,025	\$	5,197	

Depreciation and amortization expense was \$320,000, \$269,000 and \$251,000 in 2017, 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 was renewed upon the initial expiration in May 2017 with a one 5-year renewal option. The term of the Philadelphia lease is for 10 years and was renewed upon the initial expiration of the lease agreement. 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 August 8, 2017, the Company entered into a 2-year lease agreement for a Commercial Loan office in Monmouth Junction, N.J. At December 31, 2017, the required future minimum rental payments under these leases and other equipment operating leases are as follows:

Years Ending December 31,	(Amour thousa	
2018	\$	309
2019		319
2020		320
2021		326
2022		290
Thereafter		700
Total minimum lease payments	\$	2,264

Rent expense was approximately \$259,000 in 2017, \$220,000 in 2016, and 214,000 in 2015.

Note 7. OREO

Other Real Estate Owned (OREO) at December 31, 2017 was \$7.2 million, compared to \$10.5 million at December 31, 2016, a decrease of \$3.3 million. The real estate owned at, December 31, 2017, consisted of 11 properties, the largest being a condominium development at \$2.3 million. During 2017, the Company disposed of \$2.3 million of OREO, recognizing a gain of \$160,000, compared to \$5.2 million of OREO sold in 2016, recognizing a gain of \$206,000. Also during 2017, the Company wrote down OREO property by \$1,582,000, compared to \$2,036,000 of write-downs in 2016, based on a decline in appraised values. Operating expenses related to OREO, net of related income, for 2017 and 2016, were \$625,000 and \$935,000, respectively.

An analysis of OREO activity for the years ended December 31, 2017 and 2016 is as follows:

For the Year Ended December 31,

		131,					
	2017 2016						
		(Amounts in th	ousands)				
Balance at beginning of period	\$	10,528 \$	16,629				
Real estate acquired in settlement of loans		279	788				
Sales of real estate		(2,281)	(5,222)				
Gain on sale of real estate		160	206				
Write-down of real estate carrying values		(1,582)	(2,036)				
Donated property		=	(31)				
Capitalized improvements to real estate		144	194				
Balance at end of period	\$	7,248 \$	10,528				

Note 8. Deposits

Deposits at December 31, 2017 and 2016, consisted of the following:

		2017		2016		
	(Amounts in t					
Demand deposits, noninterest-bearing	\$	124,356	\$	92,535		
Demand deposits, interest-bearing		51,629		37,456		
Money market deposits		149,311		134,433		
Savings deposits		173,226		181,603		
Time deposits of \$250,000 or more		51,145		36,643		
Other time deposits		233,199		254,795		
Brokered time deposits		83,517		51,229		
Total deposits	\$	866,383	\$	788,694		

Scheduled maturities of certificates of deposit at December 31, 2017 are as follows:

Years Ending December 31,	lmounts in lousands)
2018	\$ 284,054
2019	56,363
2020	13,138
2021	7,937
2022	6,369
Total	\$ 367,861

Note 9. Borrowings

An analysis of borrowings as of December 31, 2017 and 2016 is as follows:

	- Maturity Date or Range		20	17	20	16
			Amount _	Weighted Average Rate Amount		Weighted Average Rate
			(Amo	unts in thousa	inds, except r	ates)
Borrowed funds:						
Federal Home Loan Bank advances	Less than one year	\$	86,150	1.61%	\$ 39,500	1.13%
	One to three years		22,500	1.83%	34,150	1.57%
	Three to five years		6,000	1.85%	6,000	1.85%
	Total	\$	114,650		\$ 79,650	
Subordinated debentures, capital trusts	November 2035	\$	5,155	3.11%	\$ 5,155	2.58%
	November 2035		5,155	3.11%	5,155	2.58%
	September 2037		3,093	2.82%	3,093	2.46%
	Total	\$	13,403		\$ 13,403	

At December 31, 2017, the Company had a \$243.3 million line of credit from the FHLBNY, of which \$114.7 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 3.11% at December 31, 2017. 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. 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 3.11%. 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. 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 2.82% at December 31, 2017. 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. 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 2017, 2016 and 2015 consisted of the following:

		2017		2016		2015
	(Amounts in thousar					s)
Current tax expense:						
Federal	\$	7,126	\$	6,826	\$	6,007
State		1,093		1,564		1,026
		8,219		8,390		7,033
Deferred tax expense (benefit)		4,170		305		(190)
Income tax expense	\$	12,389	\$	8,695	\$	6,843

The components of the net deferred tax asset at December 31, 2017, 2016 and 2015 were as follows:

	2017	2016	2015
	 (A	mounts in thou	sands)
Deferred tax assets:			
Allowance for loan losses	\$ 4,102	\$ 5,845	\$ 6,068
Depreciation	_	268	280
Supplemental Executive Retirement Plan ("SERP")	1,216	1,511	1,343
OREO writedowns	1,359	1,839	1,894
OTTI write down on securities		65	65
Nonaccrued interest	686	1,806	2,048
Partnership Income	_	76	71
Non-qualified stock options	26	25	_
Write-down on partnership investment	120	181	_
Unrealized loss	50	233	110
Accrued bonus	3	-	
	7,562	11,849	11,879
Valuation allowance	(120)	(181)	-
Deferred tax Liabilities:			
Depreciation	(173)	_	_
Partnership Income	(19)	; :	_
Deferred loan costs	(830)	(922)	(951)
Net deferred tax asset	\$ 6,420	\$ 10,746	\$ 10,928

A reconciliation of the Company's effective income tax rate with the statutory federal rate for 2017, 2016 and 2015 is as follows:

	2017 2016		2015	
	(Amoi	unts in thousand	is)	
At Federal statutory rate	\$ 8,480 \$	9,397	\$ 6,387	
Adjustments resulting from:				
State income taxes, net of Federal tax benefit	852	1,009	854	
Non-controlling interest	11	(147)	(423)	
Tax exempt income	(34)	(32)	(31)	
BOLI	(228)	(246)	(121)	
Stock compensation	(18)	_	_	
Nondeductible expenses	3	1	4	
Tax credit		(1,532)	-	
Increase in Valuation reserve	-	164		
Impact of Federal Tax Reform	3,204			
Other	119	81	173	
	\$ 12,389 \$	8,695	\$ 6,843	

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 2014, and by the State of New Jersey for years before 2013. 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 \$12.4 million on income before taxes of \$24.2 million on for the year ended December 31, 2017, resulting in an effective tax rate of 51.1%, compared to income tax expense of \$8.7 million on income before taxes of \$27.6 million for the same period of 2016, resulting in an effective tax rate of 31.5%. The increase is a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, the Company was required to re-value its net deferred tax asset ("DTA"). The DTA was written down by \$3.2 million, due to the reduced tax rate, a non-recurring charge to provision for income taxes during the quarter.

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 \$872,000 in 2017, \$458,000 in 2016, and \$221,000 in 2015. The unfunded benefit obligation, which was included in other liabilities, was approximately \$4,901,000 at December 31, 2017 and \$4,029,000 at December 31, 2016.

The benefit obligation at December 31, 2017 and December 31, 2016 was calculated as follows:

	2017		2016	
	(Amounts in th			
Benefit obligation, January 1	\$	4,029 \$	3,571	
Service cost		(650)	(216)	
Interest cost		222	199	
Loss		1,300	475	
Benefit obligation, December 31	\$	4,901	4,029	

The net periodic pension cost for 2017, 2016 and 2015 was calculated as follows:

	2017	2016	2015	
	 (Amount	s in thousand	s)	
Service cost	\$ (650) \$	(216) \$	(86)	
Interest cost	222	199	214	
Loss	1,300	475	93	
	\$ 872 \$	458 \$	221	

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.5% for 2017, 2016 and 2015. Annual benefit payments are estimated at \$256,603 for 2019, \$609,749 for 2020, \$609,749 for 2021, \$609,749 for 2023 and \$6,078,914 thereafter.

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 2017 was \$164,000, \$132,000 in 2016, 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 2017 was 1.250% and 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, 2017, 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 2017 and 2016, 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.

	Actu	al	For Ca Adequacy		For Ca Adequacy with Ca Conservation	Purposes apital	To be Capitalize Prompt C Action Pr	ed Under orrective
Company	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital	\$ 162,837	17.17%	\$ 75,859	8.00%	\$ 87,711	9.250%	\$ 94,823	10.00%
Tier 1 risk-based capital	\$ 150,926	15.92%	\$ 56,894	6.00%	\$ 68,747	7.250%	\$ 75,859	8.00%
Tier 1 leverage	\$ 150,926	14.31%	\$ 42,178	4.00%	\$ 42,178	4.000%	\$ 52,722	5.00%
Tier 1 common equity	\$ 121,955	12.86%	\$ 42,670	4.50%	\$ 54,523	5.750%	\$ 61,635	6.50%
Parke Bank								
Total risk-based capital	\$ 159,435	16.81%	\$ 75,861	8.00%	\$ 87,714	9.250%	\$ 94,826	10.00%
Tier 1 risk-based capital	\$ 147,524	15.56%	\$ 56,896	6.00%	\$ 68,749	7.250%	\$ 75,861	8.00%
Tier 1 leverage	\$ 147,524	13.99%	\$ 42,175	4.00%	\$ 42,175	4.000%	\$ 52,719	5.00%
Tier 1 common equity	\$ 147,524	15.56%	\$ 42,672	4.50%	\$ 54,525	5.750%	\$ 61,637	6.50%

As of December 31, 2016 (amounts in thousands except ratios)

	Actu	al	For Ca Adequacy		For Ca Adequacy F with Ca Conservatio	^b urposes ipital	To be Capitalize Prompt C Action Pr	ed Under forrective
Company	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital	\$ 154,018	18.33%	\$ 67,219	8.00%	\$ 72,470	8.625%	\$ 84,024	10.00%
Tier 1 risk-based capital	\$ 143.453	17.07%	\$ 50,414	6.00%	\$ 55.666	6.625%	\$ 67,219	8.00%
Tier 1 leverage	\$ 143,453	15.25%	\$ 37,618	4.00%	\$ 37,618	4.000%	\$ 47,023	5.00%
Tier 1 common equity	\$ 110,453	13.15%	\$ 37,811	4.50%	\$ 43,062	5.125%	\$ 54,615	6.50%
Parke Bank								
Total risk-based capital	\$ 150,636	17.93%	\$ 67,218	8.00%	\$ 72,470	8.625%	\$ 84,023	10.00%
Tier 1 risk-based capital	\$ 140,070	16.67%	\$ 50,414	6.00%	\$ 55,665	6.625%	\$ 67,218	8.00%
Tier 1 leverage	\$ 140,047	15.29%	\$ 36,654	4.00%	\$ 36,654	4.000%	\$ 45,818	5.00%
Tier 1 common equity	\$ 140,047	16.67%	\$ 37,810	4.50%	\$ 43,062	5.125%	\$ 54,615	6.50%

^{*} The new capital rules 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.

Note 13. Shareholders' Equity

Common Stock Dividend: The Company paid a quarterly cash dividend each quarter of 2017. The first and second quarter of 2017 the dividend was \$0.10 per share. The dividend was increased to \$0.12 per share in the third and fourth quarter 2017. During 2017 the Company paid \$3.2 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 2017 the Company declared a 10% common stock dividend to shareholders (688,846 shares). All share and per share information have been retroactively adjusted to give effect to this stock dividend for the periods presented.

<u>Treasury Stock</u>: The Company, in 2015, announced plans to purchase up to 500,000 shares of its own stock. During the year ending December 31, 2017, the Company did not purchase any shares, compared to the year ending December 31, 2016, when the Company purchased 294 shares at an average cost of \$12.61 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.

There were no option awards in 2017. In 2016, 145,300 awards were granted. All outstanding options have an exercise price of \$9.45.

Net compensation expense recognized during 2017, 2016, and 2015 amounted to \$72,400, \$65,500, and no expense for 2015, respectively. The remaining unrecognized compensation expense at December 31, 2017 is \$218,400.

The following table summarizes stock option activity for the year ended December 31, 2017.

Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life		Aggregate trinsic Value
156,860	\$10.39			
(8,470)	\$10.26			
(888)	\$10.15			
14,890	\$9.45			
162,392	\$9.45	8.1	\$	1,803,000
29,970	\$9.45	8.1	\$	332,663
	156,860 (8,470) (888) 14,890 162,392	Shares Average Exercise Price 156,860 \$10.39 (8,470) \$10.26 (888) \$10.15 14,890 \$9.45 162,392 \$9.45	Shares Weighted Average Exercise Price Average Remaining Contractual Life 156,860 \$10.39 (8,470) \$10.26 (888) \$10.15 14,890 \$9.45 162,392 \$9.45 8.1	Shares Weighted Average Exercise Price Average Contractual Life Interest

<u>Preferred Stock:</u> 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 113.679 shares of Common Stock. Upon full conversion of the Series B Preferred Stock, the Company will issue up to 2,273,580 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, 2017 and 2016 respectively. All dividend amounts through December 31, 2017 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 \$834,000 in 2017, \$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, 2017 and 2016, commitments to extend credit amounted to approximately \$118.7 million and \$78.3 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, 2017 and 2016, standby letters of credit with customers were \$14.0 million and \$13.1 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, 2017. 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, 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, 2017 and 2016.

Financial Assets	Le	Level 1 L		Level 3		Total	
			(Amounts ir	thousa	nds)		<u></u>
Securities Available for Sale							
As of December 31, 2017							
Corporate debt obligations	\$	1-1-1-1	1,033	\$	===	\$	1,033
Residential mortgage-backed securities		-	36,863		_		36,863
Collateralized mortgage-backed securities		-	95		277		95
Total	\$		37,991	\$	_	\$	37,991
As of December 31, 2016						_	
Corporate debt obligations	\$		1,011	\$	_	\$	1,011
Residential mortgage-backed securities		_	43,240		1200		43,240
Collateralized mortgage-backed securities		_	166		-		166
Collateralized debt obligations		_	_		437		437
Total	\$	- \$	44,417	\$	437	\$	44,854

For the year ended December 31, 2017, 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:

	Secu	rities Ava <u>ilabl</u> e	e for Sale		
	20	2017			
	(Amounts in thousands)				
Beginning balance at January 1,	\$	437 \$	462		
Settlements		(437)	(25)		
Ending balance December 31,	\$	<u> </u>	437		

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	Le	evel 1 L	evel 2	_evel 3	Total	
			Amounts in thous	sands)		
As of December 31, 2017						
Collateral dependent impaired loans	\$	— \$	 \$	9,093	\$	9,093
OREO	\$	— \$	— \$	7,248	\$	7,248
As of December 31, 2016						
Collateral dependent impaired loans	\$	_ \$	— \$	16,070	B	16,070
OREO	\$	— \$	— \$	10,528	5	10,528

Collateral dependent impaired loans, which are measured in accordance with FASB ASC Topic 310 *Receivables*, for impairment, had a carrying amount of \$25.5 million and \$36.4 million at December 31, 2017 and December 31, 2016, respectively, with a valuation allowance of \$458,000 and \$1.3 million at December 31, 2017 and December 31, 2016, 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, 2017 and December 31, 2016:

	l evel in	Level in December 31, 2017				December 31, 2016						
	Fair Value Hierarchy		Carrying Value		Fair Value		Carrying Value		Fair Value			
							(Amounts in thousands)					
Financial Assets:												
Cash and cash equivalents	Level 1	\$	42,113	\$	42,113	\$	70,720	\$	70,720			
Investment securities AFS	(1)		37,991		37,991		44,854		44,854			
Investment securities HTM	Level 2		2,268		2,468		2,224		2,411			
Restricted stock	Level 2		6,172		6,172		4,658		4,658			
Loans held for sale	Level 2		1,541		1,541		-		_			
Loans, net	(2)		995,184		1,001,655		836,373		844,290			
Accrued interest receivable	Level 2		4,025		4,025		3,117		3,117			
Financial Liabilities:												
Demand and savings deposits	Level 2	\$	498,522	\$	498,522	\$	446,026	\$	446,027			
Time deposits	Level 2		367,861		368,863		342,668		344,300			
Borrowings	Level 2		128,053		127,552		93,053		90,362			
Accrued interest payable	Level 2		719		719		655		655			

⁽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			Decem	iber 3	31,	
				2017		2016
				(Amounts in	thou	sands)
Assets:						
Cash			\$	1,578	\$	1,317
Investments in subsidiaries				147,664		140,103
Other assets				5		5
Total assets			\$	149,247	\$	141,425
Liabilities and Equity:						
Subordinated debentures			\$	13,403	\$	13,403
Other liabilities				1,196		954
Equity				134,648		127,068
Total liabilities and equity			\$	149,247	\$	141,425
Statements of Income		Yea	ars en	ded Decemb	er 31	,
		2017	*/-	2016		2015
		(,	Amou	nts in thousa	nds)	_
Income:						
Dividends from bank subsidiary	\$	5,200	\$	3,400	\$	2,657
Other income		-				-
Total income		5,200		3,400		2,657
Expense:						
Interest on subordinated debentures		399		311		259
Salary		160		160		160
Other expenses		118		118		101
Total expenses		677		589		520
Net Income		4,523		2,811		2,137
Equity in undistributed income of subsidiaries		7,024		15,698		8,560
Net income		11,547		18,509		10,697
Preferred stock dividend and discount accretion		(1,119)		(1,200)		(1,200)
Net income available to common shareholders	\$	10,428	\$	17,309	\$	9,497

Statements of Cash Flows

	Years ended December 31,			
		2017	2016	2015
	(Amounts in thousands)			
Cash Flows from Operating Activities				
Net income	\$	11,547 \$	18,509 \$	10,697
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in undistributed earnings of subsidiaries		(7,024)	(15,698)	(8,560)
Changes in operating assets and liabilities:				
Decrease in other assets		-	-	(51)
Increase in accrued interest payable and other accrued liabilities		242	254	436
Net cash provided by operating activities		4,765	3,065	2,522
Cash Flows from Financing Activities				
Purchase of treasury stock		 .	(4)	(831)
Proceeds from exercise of stock options		87		2,749
Payment of dividend on preferred stock and common stock		(4,385)	(3,264)	(2,661)
Other, net		(206)	(20)	(377)
Net cash used in financing activities		(4,504)	(3,288)	(1,120)
Increase (decrease) in cash and cash equivalents		261	(223)	1,402
Cash and Cash Equivalents, January 1,		1,317	1,540	138
Cash and Cash Equivalents, December 31,	\$	1,578 \$	1,317 \$	1,540

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 BANKORP, 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

PARKE BANCORP, INC. CORPORATE OFFICERS

Vito S. Pantilione

President

Chief Executive Officer

Elizabeth A. Milavsky

Executive Vice President

John F. Hawkins

Senior Vice President Chief Financial Officer

Linda Kaiser

Corporate Secretary

PARKE BANK EXECUTIVE OFFICERS

Vito S. Pantilione

President and Chief Executive Officer

Elizabeth A. Milavsky

Executive Vice President and COO

John F. Hawkins

Senior Vice President and CFO

Linda Kaiser

Vice President and Corporate Secretary

SENIOR VICE PRESIDENTS

Dolores M. Calvello Loan Portfolio Manager

Ralph Gallo

Chief Workout Officer

David O. Middlebrook

Retiring April 2018

Paul E. Palmieri

Chief Credit Officer

Nicholas J. Pantilione

Senior Loan Officer

Daniel Sulpizio

Director of Retail Banking

VICE PRESIDENTS

Jaime Brooks Branch Manager

Kathleen Conover

Branch Manager

Denise DiPaola

Business Development Officer

Gil Eubank

Loan Administration

Anthony Lombardo

Controller

Lisa Perkins

Information Technology

Yogendrakumar Shukla

Commercial Lending

Marlon Soriano

Commercial Lending

James Talarico

Loan Workout

Frank Zangari

Compliance

ASSISTANT VICE PRESIDENTS

Jennifer Chen

Renee D'Orazio

Robert Dalton

Patricia Dilks

Annice Fanelli

Roxanne Melfe Marysharon Mitchell

Joan Santo

Maryann Seal

Bart Seaman

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1032 Arch Street

(215) 982-1975

Jennifer Chen, Manager

SHAREHOLDER INFORMATION

ADMINISTRATIVE OFFICES

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ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on April 17, 2018 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

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