

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended: December 31, 2021 or

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

For the transition period from _____ to _____

Commission File No. 000-51338

PARKE BANCORP, INC.

(Exact name of Registrant as specified in its Charter)

New Jersey

(State or other Jurisdiction of
Incorporation or Organization)

65-1241959

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

601 Delsea Drive, Washington Township, New Jersey

(Address of Principal Executive Offices)

08080

(Zip Code)

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$0.10 par value	PKBK	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for compliance with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Capital Market on June 30, 2021 was approximately \$193.9 million.

As of March 11, 2022 there were 11,907,641 outstanding shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2022 Annual Meeting of Shareholders. (Part III)

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

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Forward-Looking Statements

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

As used in this Annual Report on Form 10-K, the terms “Parke Bancorp”, “the Company”, “registrant”, “we”, “us”, and “our” mean Parke Bancorp, Inc. and its subsidiaries, on a consolidated basis, unless the context indicates otherwise.

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of the Annual Report on Form 10-K.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- the COVID-19 pandemic may continue to adversely impact the local and national economy and our business and results of operations may continue to be adversely affected;
 - general economic conditions, either nationally or in our market areas, that are worse than expected;
 - changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
 - our ability to access cost-effective funding;
 - fluctuations in real estate values and both residential and commercial real estate market conditions;
 - demand for loans and deposits in our market area;
 - our ability to implement changes in our business strategies;
 - competition among depository and other financial institutions;
 - inflation and changes in the interest rate environment that reduce our margins and yields, or reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets
 - adverse changes in the securities markets;
 - changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
 - changes in laws or government regulations or policies affecting financial institutions engaged in the medical-use cannabis related business;
 - our ability to manage market risk, credit risk and operational risk in the current economic conditions;
 - our ability to enter new markets successfully and capitalize on growth opportunities;
 - our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we have acquired or may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
 - changes in consumer demand, borrowing and savings habits;
 - changes in accounting policies and practices, as may be adopted by bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
 - our ability to retain key employees;
 - technological changes;
-

- significant increases in our loan losses;
- cyber-attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information and destroy data or disable our systems;
- technological changes that may be more difficult or expensive than expected;
- the ability of third-party providers to perform their obligations to us;
- the ability of the U.S. Government to manage federal debt limits;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing products and services described elsewhere in this Annual Report on Form 10-K.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

The COVID-19 Pandemic

The COVID-19 pandemic is continuing to have an adverse impact on the Company, its customers and the communities it serves. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on the business of the Company, its customers, employees and third-party service providers. The extent of such impact will depend on future developments, which are highly uncertain, including whether the pandemic can be controlled and abated. Additionally, the responses of various governmental and nongovernmental authorities to curtail business and consumer activities in an effort to mitigate the pandemic will have material long-term effects on the Company and its customers which are difficult to quantify in the near-term or long-term.

As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, the Company is subject to certain risks, any of which could have a material, adverse effect on the business, financial condition, liquidity, and results of operations of the Company. These risks include, among others, (i) risks to the capital markets that may impact the value or performance of the Company's investment securities portfolio, as well as limit our access to the capital markets and wholesale funding sources; (ii) effects on key employees, including operational or management personnel and those charged with preparing, monitoring and evaluating the companies' financial reporting and internal controls; (iii) declines in demand for loans and other banking services and products, as well as a decline in the credit quality of our loan portfolio, owing to the effects of COVID-19 in the markets served by the Company; (iv) collateral for loans, especially real estate, may continue to decline in value, which could cause loan losses to increase; (v) the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments; (vi) the allowance for credit losses may increase if borrowers experience financial difficulties, which will adversely affect net income; (vii) if the economy is unable to substantially reopen or reopen in an efficient manner, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased loan losses and reduced interest income; (viii) in certain states in which we do business temporary bans on evictions and foreclosures have been enacted through executive orders, and may continue indefinitely, resulting in our inability to take timely possession of real estate assets collateralizing loans, which may increase our loan losses; (ix) as the result of the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on assets may decline to a greater extent than the decline in cost of interest-bearing liabilities, reducing net interest margin and spread and reducing net income; (x) cyber security risks are increased as the result of an increase in the number of employees working remotely and an increase in the number of our clients banking electronically; (xi) declines in demand resulting from adverse impacts of the disease on businesses deemed to be "non-essential" by governments in the markets served by the Company; and (xii) increasing or protracted volatility in the price of the Company's common stock, which may also impair our goodwill or other intangible assets.

As a participating lender in the SBA Paycheck Protection Program ("PPP"), we are subject to additional risks of litigation from our customers or other parties regarding our processing of loans for the PPP which could have a significant adverse impact on our business, financial position, results of operations, and prospects. The COVID-19 pandemic and its impact on the economy have led to actions including the enactment of the Coronavirus Aid, Relief and Economic Security Act, including the establishment of the PPP administered by the Small Business Administration ("SBA"). Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. We are participating as a lender in the PPP. Since the initiation of the PPP, several banks have been subject to litigation or threatened litigation regarding the process and procedures that such banks used in processing applications for the PPP. We may be exposed to the risk of litigation, from both clients and non-clients that approached us regarding PPP loans. If any such litigation is filed or threatened against us and is not resolved in a manner favorable to us, it may result in significant cost or adversely affect our reputation. Any financial liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse impact on our business, financial position, results of operations and prospects.

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

Part I

Item 1. Business.

General

We are a bank holding company incorporated under the laws of the State of New Jersey in January 2005. Our business and operations primarily consist of our ownership of Parke Bank (the "Bank"). The Bank is a full service commercial bank and is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank conducts its business through offices in Gloucester, Atlantic and Camden Counties in New Jersey and the Philadelphia area in Pennsylvania.

We, through our wholly owned subsidiary Parke Bank, provide personal and business financial services to individuals and small to mid-sized businesses. We offer a range of loan products, deposits services, and other financial products through our retail branches and other channels to our customers. Our core lending businesses are commercial real estate lending, residential real estate lending, and construction lending. We also offer a variety of commercial and industry loan and consumer loan products to our customers. We fund our lending business primarily with deposits generated through retail deposits and commercial relationships. Our deposit products include checking, savings, money market deposit, time deposits, and other traditional deposit services. In addition to traditional products and services, we offer contemporary products and services, such as debit cards, internet banking and online bill payment.

We commenced operations on June 1, 2005, upon completion of the reorganization of the Bank into the holding company form of ownership following approval of the reorganization by shareholders of the Bank at its 2005 Annual Meeting of Shareholders. Our headquarters is located at 601 Delsea Drive, Washington Township, New Jersey. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are available for free of charge at www.parkebank.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Investors are encouraged to access these reports and other information about our business on our website.

At December 31, 2021, we had total assets of \$2.14 billion, including loans of \$1.48 billion, total deposits of \$1.77 billion and total equity of \$232.4 million.

Market Area

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

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

Competition

The Bank faces significant competition, both in making loans and attracting deposits. The Bank's competition in both areas comes principally from other commercial banks, thrift and savings institutions, including savings and loan associations and credit unions, and other types of financial institutions, including brokerage firms and credit card companies. The Bank

faces additional competition for deposits from short-term money market mutual funds and other corporate and government securities funds.

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

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

Medical-Use Cannabis Related Business

We provide banking services to customers that are licensed by various States to do business in the medical-use cannabis industry as growers, processors and dispensaries. Medical-use cannabis businesses are legal in these States, although it is not legal at the federal level. The U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") published guidelines in 2014 for financial institutions servicing state legal cannabis businesses. A financial institution that provides services to cannabis-related businesses can comply with Bank Secrecy Act ("BSA") disclosure standards by following the FinCEN guidelines. We maintain stringent written policies and procedures related to the acceptance of such businesses and to the monitoring and maintenance of such business accounts. We conduct a significant due diligence review of the cannabis business before the business is accepted, including confirmation that the business is properly licensed by the applicable state. Throughout the relationship, we continue monitoring the business, including site visits, to ensure that the business continues to meet our stringent requirements, including maintenance of required licenses and periodic financial reviews of the business.

While we believe we are operating in compliance with the FinCEN guidelines, there can be no assurance that federal enforcement guidelines will not change. Federal prosecutors have significant discretion and there can be no assurance that the federal prosecutors will not choose to strictly enforce the federal laws governing cannabis. Any change in the Federal government's enforcement position, could cause us to immediately cease providing banking services to the cannabis industry.

At December 31, 2021 and 2020, deposit balances from medical-use cannabis customers were approximately \$375.2 million and \$259.4 million, or 21.2% and 16.3% of total deposits, respectively, with two customers accounting for 19.3% and 19.2% of the total at December 31, 2021 and 2020. At December 31, 2021 and 2020, there were cannabis-related loans in the amounts of \$5.4 million and \$8.0 million, respectively. We recorded approximately \$336,000 and \$465,000 of interest incomes in 2021 and 2020, respectively, related to these loans. The fee income for the years ended December 31, 2021 and 2020 from the commercial deposit accounts of depositors who do business in the medical-use cannabis industry were \$5.1 million and \$2.2 million, respectively, and are included in service fees on deposit accounts, in the accompanying consolidated statements of income.

Lending Activities

Our lending relationships are primarily with small to mid-sized businesses and individual consumers residing primarily in and around Southern New Jersey and Philadelphia, Pennsylvania. We focus our lending efforts primarily in three lending areas: residential mortgage loans, commercial mortgage loans, and construction loans.

Loan Maturity. The following table sets forth the contractual maturity of certain loan categories and the dollar amount of loans in certain loan categories due after December 31, 2021, which have predetermined interest rates and which have floating or adjustable interest rates at December 31, 2021.

	Due within one year or less	Due after one through five years	Due after five through fifteen years	Due after fifteen years	Total
(Dollars in thousands)					
Commercial and Industrial	\$ 23,190	\$ 22,625	\$ 11,336	\$ —	\$ 57,151
Construction	131,416	22,196	—	465	154,077
Commercial Real Estate Mortgage:					
Commercial - Owner Occupied	10,291	42,171	69,548	1,662	123,672
Commercial - Non-Owner Occupied	23,976	83,777	198,733	—	306,486
Residential - 1 to 4 family	7,998	21,176	128,358	592,993	750,525
Residential - multifamily	2,214	19,548	63,202	—	84,964
Consumer	11	136	3,042	4,783	7,972
Total	<u>\$ 199,096</u>	<u>\$ 211,629</u>	<u>\$ 474,219</u>	<u>\$ 599,903</u>	<u>\$ 1,484,847</u>
Loans at fixed interest rates	\$ 19,923	\$ 43,312	\$ 175,720	\$ 38,889	\$ 277,844
Loans at floating/variable interest rates	179,173	168,317	298,499	561,014	1,207,003
Total	<u>\$ 199,096</u>	<u>\$ 211,629</u>	<u>\$ 474,219</u>	<u>\$ 599,903</u>	<u>\$ 1,484,847</u>

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

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

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

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

Construction loans are secured by the properties under development and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Bank considers the financial

condition and reputation of the borrower and any guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information.

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

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

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

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

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

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

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

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

Loans to One Borrower and Concentration of Loans. Federal regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus. At December 31, 2021, the Bank's loan to one borrower limit was approximately \$45.6 million and the Bank had no borrowers with loan balances in excess of this amount. At December 31, 2021, the Bank's largest loan to one borrower was a combination loan/line of credit with a balance of loan and line of credit of \$21.8 million that were secured by mix of real estate, construction assets and other commercial assets. At December 31, 2021, these loans were current and performing in accordance with the terms of the loan agreement.

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

The Bank establishes policies and methods to determine concentrations of credit risk and to maintain discipline in lending practices with a focus on portfolio diversification. The Bank limits on loans to one borrower, one industry as well as product concentrations. At December 31, 2021, the Bank's loan portfolio consists of residential, commercial real estate loans, construction loans, commercial and industry loans as well as consumer loans.

Non-Performing and Problem Assets

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above. Total impaired loans, which include non-accrual loans and performing troubled debt restructurings ("TDRs"), were \$10.3 million and \$22.7 million at December 31, 2021 and 2020, respectively. Included in impaired loans at December 31, 2021 and 2020 were \$6.0 million and \$13.9 million, respectively, of loans classified as TDRs as defined within accounting guidance and regulatory literature.

As of December 31, 2021, there was \$17.4 million in loans which were not then on non-accrual status or a TDR but where there is a potential weakness or pose unwarranted financial risk to the Bank, even though the asset value is not currently impaired. These loans require an increased degree of monitoring and servicing by Management as a result of internal or external conditions.

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

Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Such interest, when ultimately collected, is applied either to the outstanding principal or recorded as interest income, depending on management's assessment of ultimate collectability of principal and interest. At December 31, 2021, the Bank had \$4.3 million in loans that were on a non-accrual basis. Interest income of \$406,391 was recognized on these loans during the year ended December 31, 2021. Gross interest income of \$522,656 would have been recorded during the year ended December 31, 2021, if these loans had been performing in accordance with their terms.

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate owned is acquired, it is recorded at its fair value less disposal costs. Management also periodically performs valuations of real estate owned and establishes allowances to reduce book values of the properties to their net realizable values when necessary. Any write-down of real estate owned is charged to operations. Real estate owned at December 31, 2021 was \$1.7 million. Real estate owned consisted of 1 commercial owner occupied property as of December 31, 2021.

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

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

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

	December 31, 2021				December 31, 2020			
	Amount	% of Loans to total Loans	Net charge off/(recovery)	Net charge off to average loans outstanding	Amount	% of Loans to total Loans	Net charge off/(recovery)	Net charge off to average loans outstanding
(Dollars in thousands)								
Commercial and Industrial	\$ 417	3.8 %	\$ (18)	— %	\$ 492	7.8 %	\$ (23)	— %
Construction	2,662	10.4	226	0.01 %	3,359	13.5	—	— %
Real Estate Mortgage:								
Commercial – Owner Occupied	2,997	8.3	100	0.01 %	3,078	8.4	(11)	— %
Commercial – Non-owner Occupied	7,476	20.6	(4)	— %	8,398	20.7	(266)	(0.02)%
Residential – 1 to 4 Family	14,970	50.7	49	— %	12,595	42.8	59	— %
Residential – Multifamily	1,215	5.7	—	— %	1,639	6.1	—	— %
Consumer	108	0.5	—	— %	137	0.7	—	— %
Total allowance for loan losses	<u>\$ 29,845</u>	<u>100.0 %</u>	<u>\$ 353</u>	<u>0.02 %</u>	<u>\$ 29,698</u>	<u>100.0 %</u>	<u>\$ (241)</u>	<u>(0.02)%</u>
Period-end loans outstanding (net of deferred costs/fees)	<u>\$ 1,484,847</u>				<u>\$ 1,565,807</u>			
Average loans outstanding	<u>\$ 1,513,959</u>				<u>\$ 1,527,999</u>			
Total non-performing loans	<u>\$ 4,308</u>				<u>\$ 8,729</u>			
Allowance as a percentage of period end loans	<u>2.01 %</u>				<u>1.90 %</u>			
Non-accrual loans as a percentage of period end loans	<u>0.29 %</u>				<u>0.56 %</u>			
Allowance as a percentage of non-performing loans	<u>692.78 %</u>				<u>340.22 %</u>			

Investment Activities

General. The investment policy of the Company is established by senior management and approved by the Board of Directors. It is based on asset and liability management goals and is designed to provide a portfolio of high quality investments that foster interest income within acceptable interest rate risk and liquidity guidelines. In accordance with accounting guidance, the Company classifies the majority of its portfolio of investment securities as “available for sale” with the remainder, which are a mix of municipal bonds and mortgage-backed-securities held for Community Reinvestment Act purposes, as “held to maturity.” At December 31, 2021, the Bank's investment policy allowed investments in instruments such as: (i) U.S. Treasury obligations, (ii) U.S. government agency or government-sponsored agency obligations, (iii) local municipal obligations, (iv)

mortgage-backed securities, (v) certificates of deposit, and (vi) investment grade corporate bonds, trust preferred securities and mutual funds. The Board of Directors may authorize additional investments. At December 31, 2021, no one issuer of investment securities represented 10% or more of the Company's stockholders' equity.

Investment Portfolio Maturities. The following table sets forth information regarding the scheduled maturities, amortized costs, estimated fair values, and weighted average yields for the Bank's investment securities portfolio at December 31, 2021, by contractual maturity. The following table does not take into consideration the effects of scheduled repayments or the effects of possible prepayments.

	At December 31, 2021					
	One Year or Less	After One Through Five Years	After Five Years Through Ten Years	After Ten Years	Total Investment Securities	
	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Fair Value
(Amounts in thousands, except yields)						
Securities Held to Maturity:						
State and political subdivisions	\$ —	\$ —	\$ 1,283	\$ 2,478	\$ 3,761	\$ 3,986
Yield	— %	— %	4.76 %	0.64 %	2.03 %	
Residential mortgage-backed securities	—	—	—	6,157	6,157	6,039
Yield	— %	— %	— %	0.64 %	0.64 %	
Total securities held to maturity	—	—	1,283	8,635	9,918	10,025
Weighted Average Yield	— %	— %	4.76 %	0.64 %	1.16 %	
Securities Available for Sale:						
Corporate debt obligations	\$ —	\$ 500	\$ —	\$ —	\$ 500	\$ 500
Yield	— %	3.28 %	— %	— %	3.28 %	
Residential mortgage-backed securities	10	110	7,223	5,170	12,513	12,843
Yield	— %	1.71 %	2.07 %	1.93 %	1.99 %	
Collateralized mortgage obligations	—	—	—	8	8	8
Yield	— %	— %	— %	4.64 %	4.64 %	
Total securities available for sale	10	610	7,223	5,178	13,021	13,351
Weighted Average Yield	— %	2.94 %	2.07 %	1.93 %	2.03 %	
Total Investment Securities	\$ 10	\$ 610	\$ 8,506	\$ 13,813	\$ 22,939	\$ 23,376
Total Weighted Average Yield	— %	2.94 %	2.41 %	1.20 %	1.70 %	

Sources of Funds

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

Deposits. The Bank offers individuals and businesses a wide variety of accounts, including checking, savings, money market accounts, individual retirement accounts and certificates of deposit. Total deposits were \$1.77 billion at December 31, 2021. Deposits are obtained primarily from communities that the Bank serves, however, the Bank held brokered deposits of \$9.1 million and \$71.1 million at December 31, 2021, and 2020, respectively. Brokered deposits are a more volatile source of funding than core deposits and do not increase the deposit franchise of the Bank. In a rising rate environment, the Bank may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with the Bank, they may need to be replaced with borrowings which could increase the Bank's cost of funds and negatively impact its interest rate spread, financial condition and results of operation. To mitigate the potential negative impact associated with brokered deposits, the Bank joined

Promontory Interfinancial Network ("Promontory") 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 of time than brokered deposits. The Bank's CDARS™ deposits included within the brokered deposit total amounted to \$4.5 million and \$66.4 million at December 31, 2021 and 2020, respectively.

	2021		
	Average Balance	Yield/Rate	Percent of Total
	(Dollars in thousands, except percentages)		
NOWs	\$ 75,502	0.43%	4.39 %
Money markets	322,201	0.66%	18.75 %
Savings	146,584	0.45%	8.53 %
Time deposits	632,874	1.01%	36.84 %
Brokered CDs	34,292	0.67%	2.00 %
Total interest-bearing deposits	1,211,453	0.81%	
Non-interest bearing demand deposits	506,644		29.49 %
Total deposits	\$ 1,718,097		100.00 %
Uninsured deposits at the end of the period	\$ 802,665		

	2020		
	Average Balance	Yield/Rate	Percent of Total
	(Dollars in thousands, except percentages)		
NOWs	\$ 63,086	0.52%	4.16 %
Money markets	279,947	1.31%	18.47 %
Savings	140,466	0.51%	9.27 %
Time deposits	562,655	1.96%	37.13 %
Brokered CDs	126,968	1.56%	8.38 %
Total interest-bearing deposits	1,173,122	1.51%	
Non-interest bearing demand deposits	342,325		22.59 %
Total deposits	\$ 1,515,447		100.00 %
Uninsured deposits at the end of the period	\$ 798,604		

The following table indicates the amount of the Company's certificates of deposit of \$250,000 or more, and the portion that are in excess of the Federal Deposit Insurance ("FDIC") limit, by time remaining until maturity as of December 31, 2021.

Maturity Period	Portion in Excess of FDIC Insurance Limit	
	Certificates of Deposit	
	(Dollars in thousands)	
Within three months	\$ 42,214	\$ 13,964
Over three through six months	27,511	15,261
Over six through twelve months	59,673	32,674
Over twelve months	34,518	20,018
Total	\$ 163,916	\$ 81,917

Under FDIC regulations, insured banks that are well capitalized with examination ratings in one of the two highest categories are permitted to accept brokered deposits and are not restricted as to the rates that can be paid on such deposits. Banks that are less than well capitalized or are not in one of the two highest examination rating categories may not accept brokered deposits absent a waiver from the FDIC and may not pay interest on brokered deposits that they are permitted to accept at a rate that is more than 75 basis points greater than the average national rate paid on deposits of similar size and maturity. Pursuant to the Economic Growth, Regulatory Relief and Consumer Protection Act (“EGRRCPA”) enacted in May 2018, the FDIC has amended its brokered deposit rule to exempt reciprocal deposits such as CDARs in an amount not exceeding the lesser of \$5 billion or 20% of a bank’s total liabilities from the definition of brokered deposits. A bank that was well-capitalized and highly rated may continue to accept reciprocal deposits after it becomes less than well-capitalized or is no longer highly rated provided that reciprocal deposits do not exceed the average amount of reciprocal deposits as the preceding four quarter ends.

Subsidiary Activities

The largest subsidiary of the Company is the Bank. In 2018, the Company formed a joint venture with Bridgestone Capital LLC in PDL LLC, to originate short-term alternative real estate loan products. The Company had a 51% ownership interest in the joint venture, and Bridgestone Capital LLC made a \$1.2 million capital contribution to PDL. In 2021, PDL LLC was fully liquidated and all earnings were distributed to the Company and Bridgestone Capital, LLC.

Personnel

At December 31, 2021, the Bank had 98 full-time and 12 part-time employees.

Regulation

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

The CARES Act and Initiatives Related to COVID-19

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020 to provide national emergency economic relief measures. Many of the CARES Act’s programs are dependent upon the direct involvement of U.S. financial institutions, such as the Bank, and have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Board of Governors of the Federal Reserve System (the “Federal Reserve”) and other federal banking agencies, including those with direct supervisory jurisdiction over the Bank and the Company. Furthermore, as the ongoing COVID-19 pandemic has evolved, federal regulatory authorities have continued to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. The Company continues to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

Paycheck Protection Program. Section 1102 of the CARES Act created the Paycheck Protection Program (“PPP”), a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. The Bank has participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for the first six months of the loan term. The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020. Neither the government nor lenders are permitted to charge the recipients any fees. In December 2020, Congress amended the CARES Act through the enactment of the Consolidated Appropriations Act of 2021 (the “CAA”). Among other things, the CAA renewed the PPP, allocating \$284.45 billion for new first time PPP loans under the existing PPP and permitting the expansion of existing PPP loans for certain qualified, existing PPP borrowers. As a participating lender in the PPP, the Bank continues to monitor legislative, regulatory, and supervisory developments related thereto.

Guidance on Non-TDR Loan Modifications due to COVID-19. On March 22, 2020, the federal bank regulatory agencies issued the “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” which encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the

CARES Act provided that a qualified loan modification is exempt by law from classification as a troubled debt restructuring (“TDR”) as defined by generally accepted accounting principles, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States terminates. The CAA extended this relief to the earlier of January 1, 2022 or the first day of a bank’s fiscal year that begins after the national emergency ends. In accordance with the CARES Act’s TDR relief provisions, as extended by the CAA, the Bank will not classify qualified loan modifications made through the end of 2021 as TDRs. See Note 4 to the consolidated financial statements.

Consent Orders with Banking Regulators

In the fourth quarter of 2020, the Bank entered into a Stipulation to the Issuance of a Consent Order with each of the Federal Deposit Insurance Corporation (the “FDIC”) and the New Jersey Department of Banking and Insurance (the “NJDOBI”), consenting to the issuance of substantially identical consent orders (the “Consent Orders”) relating to weaknesses in the Bank’s Bank Secrecy Act and Anti-Money Laundering (collectively “BSA”) compliance program. In consenting to the issuance of the Consent Orders, the Bank did not admit or deny any charges of unsafe or unsound banking practices related to the BSA compliance program.

Under the terms of the Consent Orders, the Bank and/or its Board of Directors is required to take certain actions which include, but are not limited to:

- Increase supervision and direction of the Bank’s BSA compliance program and assume full responsibility for the approval and implementation of sound BSA policies and procedures;
- Creation of a compliance committee of the Board of Directors of the Bank with the responsibility of overseeing compliance with the Orders, BSA and the BSA compliance program;
- Designate a qualified individual(s) acceptable to the FDIC and the NJDOBI as a BSA Officer;
- Review and improve the Bank’s BSA compliance program, BSA risk assessment, system of BSA internal controls, and customer due diligence policies;
- Develop, adopt and implement effective training programs for the Board and management on all relevant aspects of laws, regulations and policies relating to BSA and ensure that an adequate number of qualified staff have been retained for the Bank’s BSA Department;
- Ensure the Bank’s adherence to a written program of policies and procedures to provide for BSA compliance and the appropriate identification and monitoring of transactions that pose greater than normal risk for BSA compliance;
- Development and implementation of a customer due diligence program to enhance customer due diligence and risk assessment processes;
- Review and improve policies and procedures for monitoring and reporting suspicious activity;
- Conduct independent testing for compliance with BSA by either a qualified outside party or Bank personnel who are independent of the BSA function and are qualified to perform such testing; and
- Hire a qualified firm acceptable to the FDIC and the NJDOBI to conduct a look back review of accounts and transaction activity for the time period beginning January 1, 2019, through the effective date of the Orders.

Numerous actions have already been taken or commenced by the Bank, which will assist in complying with the Consent Orders and strengthen its BSA compliance practices, policies, procedures and controls.

The Consent Orders have resulted, and are expected to continue to result, in additional BSA compliance expenses for the Bank and the Company. The Consent Orders do not otherwise impact the Bank’s business activities outside of BSA.

The Consent Orders do not require the Bank to pay any civil money penalty or require additional capital.

The foregoing summary description of the Consent Orders is not complete and is qualified by reference to the full text of the Consent Orders, copies of which are filed as Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K.

The Consent Orders will remain in effect and be enforceable until they are modified, terminated, suspended or set aside by the FDIC and the NJDOBI. Management and the Board have expressed their full intention to comply with all parts of the Consent Orders at the earliest possible date. Issuance of the Consent Orders do not preclude further government action with respect to the Bank’s BSA program, including the imposition of fines, sanctions, additional expenses and compliance cost, and/or restrictions on the activities of the Bank.

Holding Company Regulation

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

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

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

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

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

In addition, a bank holding company that qualifies to be treated as a “financial holding company” and submits a financial holding company notice to the Federal Reserve may engage in a broad range of additional activities that are (i) financial in nature or incidental to such financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance agency and underwriting, and making merchant banking investments. The Company has not submitted notice to the Federal Reserve of its intent to be deemed a financial holding company.

Regulatory Capital Requirements. The Federal Reserve has adopted regulatory capital requirements pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHC Act. The Federal Reserve's capital requirements are similar to those imposed on the Bank by the FDIC. See “Regulation of the Bank-Regulatory Capital Requirements.” Under the Federal Reserve's Small Bank Holding Company Policy Statement, however, such regulatory capital requirements generally do not apply on a consolidated basis to a bank holding company with total assets of less than \$3 billion unless the holding company: (1) is engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (2) conducts significant off-balance sheet activities (including securitization and asset management or administration) either directly or through a nonbank subsidiary; or (3) has a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC. The Federal Reserve

may apply the regulatory capital standards at its discretion to any bank holding company, regardless of asset size, if such action is warranted for supervisory purposes.

Dividends. The Company is subject to various restrictions relating to the payment of dividends. The Federal Reserve has issued guidance indicating that bank holding companies should generally pay dividends only if the company's net income available to common shareholders over the past year has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the company's capital needs, asset quality and overall financial condition. The Federal Reserve's guidance also states that a bank holding company should inform and consult with its regional Federal Reserve Bank in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the organization's capital structure.

As a majority of the Company's revenues result from dividends paid to the Company by the Bank, the Company's ability to pay dividends to our shareholders largely depends on the receipt of such dividends from the Bank. The Bank is subject to various laws and regulations limiting the amount of dividends that it can pay. Under New Jersey law, no dividend may be paid if the dividend would impair the capital stock of the Bank. In addition, no dividend may be paid unless the Bank would, after payment of the dividend, have a surplus of at least 50% of its capital stock (or if the payment of dividend would not reduce surplus). Finally, if the Bank does not maintain the capital conservation buffer required by applicable regulatory capital rules, its ability to pay dividends or other capital distributions to the Company will be limited. See "- Regulation of the Bank - Regulatory Capital Requirements."

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

Regulation of the Bank

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

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

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation and supervision of the NJDOBI. As an FDIC-insured institution, the Bank is subject to regulation and supervision of the FDIC. The regulations of the FDIC and the NJDOBI affect virtually all activities of the Bank, including the minimum level of capital the Bank must maintain, the ability of the Bank to pay dividends, the ability of the Bank to expand through new branches or acquisitions and various other matters. The NJDOBI and the FDIC regularly examine the Bank and prepare reports to the Bank's Board of Directors on deficiencies, if any, found in its operations. The regulatory authorities have substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements.

Federal Deposit Insurance. The FDIC insures deposits at federally insured financial institutions such as the Bank. Deposit accounts in the Bank are insured by the FDIC's Deposit Insurance Fund up to a maximum of \$250,000 per separately insured depositor.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Under the FDIC's risk-based assessment system, banks that are deemed to be less risky pay lower assessments. Assessments for institutions with assets of less than \$10 billion of assets, such as the Bank, are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure of an institution's failure within three years.

The FDIC's currently effective deposit insurance assessment range (inclusive of possible adjustments) for most insured depository institutions is 1.5 basis points to 30 basis points of total assets less tangible equity. The FDIC has the authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. We cannot predict what the FDIC assessment rates will be in the future.

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

Regulatory Capital Requirements. The Bank is required to maintain specified levels of regulatory capital under federal banking regulations. The capital requirements are quantitative measures established by regulation that require the Bank to maintain minimum amounts and ratios of capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by bank regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

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

In addition to imposing higher capital requirements, the capital rules limit a banking organization's capital distributions and certain discretionary bonus payments if the organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement effectively increases the minimum required risk-based capital ratios to 7% for common equity Tier 1 capital, 8.5% for Tier 1 capital and 10.5% for Total capital.

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

Prompt Corrective Regulatory Action. Under applicable federal statute, the federal bank regulatory agencies are required to take "prompt corrective action" with respect to institutions that do not meet specified minimum capital requirements. For these purposes, the statute establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the implementing regulations, in order to be considered well capitalized, a bank must have a ratio of common equity Tier 1 capital to risk-weighted assets of 6.5%, a ratio of Tier 1 capital to risk-weighted assets of 8%, a ratio of total capital to risk-weighted assets of 10%, and a leverage ratio of 5%. In order to be considered adequately capitalized, a bank must have the minimum capital ratios required by the regulatory capital rule described above. Institutions with lower capital ratios are assigned to lower capital categories. Based on safety and soundness concerns, a bank may be assigned to a lower capital category than would otherwise apply based on its capital ratios. A bank that is not well capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits. A bank that is not at least adequately capitalized is subject to numerous additional restrictions, and a guaranty by its holding company is required. A bank with a ratio of tangible equity to total assets of 2.0% or less is subject to the appointment of the FDIC as receiver if its capital level does not improve within 90 days.

As of December 31, 2021, the Bank was in compliance with all regulatory capital standards and qualified as "well capitalized." See Note 13 of Notes to Consolidated Financial Statements.

Regulatory Capital Simplification - Community Bank Leverage Ratio. The Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), enacted in May 2018, introduced an optional simplified measure of capital adequacy for qualifying community banking organizations with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of tangible equity capital divided by average consolidated assets ("CBLR") of between 8 and 10 percent. Under the statute, any qualifying depository institution or holding company that maintains a leverage ratio exceeding the CBLR will be considered to satisfy the generally applicable leverage and risk-based regulatory capital requirements.

The federal banking regulators jointly issued a final rule under the EGRRCPA, effective January 1, 2020, which provided that a community banking organization with less than \$10 billion in assets may elect to use the CBLR capital framework so long as the bank has a Tier 1 leverage ratio of greater than 9% and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying bank that elects to use the CBLR framework will be deemed to satisfy the generally applicable leverage and risk-based regulatory capital requirements, will be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations, and will not be required to report or calculate risk-based capital. In accordance with the provisions of the CARES Act, the federal banking agencies issued a final rule in August 2020, under which the CBLR was lowered to 8% through the end of 2020, will be set at 8.5% for the 2021 calendar year, and will return to 9% on January 1, 2022. We have elected to use the CBLR framework.

Bank Secrecy Act / Anti-Money Laundering Laws. The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

Transactions with Related Parties. The Bank is subject to the Federal Reserve's Regulation W, which implements the restrictions of Sections 23A and 23B of the Federal Reserve Act on transactions between a bank and its "affiliates." The sole "affiliate" of the Bank, as defined in Regulation W, is the Company. Section 23A and Regulation W generally place limits on the amount of a bank's loans or extensions of credit to, investments in, or certain other transactions with its affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Section 23B and Regulation W also require a bank's transactions with affiliates to be on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank is also subject to certain restrictions under Sections 22(g) and 22(h) of the Federal Reserve Act on extensions of credit to the executive officers, directors, principal shareholders of the Bank and the Company, as well as to entities controlled by such persons. Among other things and subject to certain exceptions, these provisions generally require that the Bank's extensions of credit to the insiders of the Bank and the Company must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment Act and Fair Lending Laws. Under the Community Reinvestment Act, every insured depository institution, including the Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The Community Reinvestment Act requires the depository institution's record of meeting the credit needs of its community to be assessed and taken into account in the evaluation of certain applications by such institution, such as a merger or the establishment of a branch office by the Bank. An unsatisfactory Community Reinvestment Act examination rating may be used as the basis for the denial of an application. The Bank received a "satisfactory" rating in its most recent Community Reinvestment Act examination.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A failure to comply with the Equal Credit Opportunity Act or the Fair Housing Act or with the federal fair lending regulations implementing those statutes could result in an enforcement action by the FDIC, as well as by the Department of Justice.

Item 1A. Risk Factors.

Not applicable

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.**(a) Properties.**

The Company's and the Bank's main office is located in Washington Township, Gloucester County, New Jersey, in an office building of approximately 13,000 square feet. The main office facilities include teller windows, a lobby area, drive-through windows, automated teller machine, a night depository, and executive and administrative offices.

The Bank also conducts business from a full-service office in Northfield, New Jersey, a full-service office in Washington Township, Gloucester County, New Jersey, a full-service office in Philadelphia, Pennsylvania, and a full-service office in Galloway Township, NJ. These offices were opened by the Bank in September 2002, February 2003, August 2006 and May 2010, respectively. The Northfield office and the Philadelphia office are leased. The Washington Township office was purchased in February 2003. The Bank opened two offices, a full service office in Collingswood, New Jersey, opened in September 2016, and a full service office in Philadelphia, Pennsylvania, opened December 2016. Both these offices are leased. Management considers the physical condition of all offices to be good and adequate for the conduct of the Bank's business. At December 31, 2021, net property and equipment totaled approximately \$6.3 million.

Item 3. Legal Proceedings.

None

Item 4. Mine Safety Disclosures.

Not applicable

Part II

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

The Company's common stock is listed on the Nasdaq Capital Market under the trading symbol of "PKBK". The number of shareholders of record of common stock as of December 31, 2021, was approximately 245. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. As of March 11, 2022, there were 11,907,641 shares of our common stock outstanding.

The Company paid a \$0.16 per share quarterly common stock cash dividend in each quarter of 2021. During 2021, the Company paid a total of \$7.6 million in common stock cash dividends.

The Company also has 445 shares of 6% non-Cumulative Series B Preferred Stock outstanding at December 31, 2021. The preferred stock has a liquidation preference of \$1,000 per share. Each share of Series B Preferred Stock is convertible, at the option of the holder into approximately 137.6 shares of Common Stock at December 31, 2021. Upon full conversion of the outstanding shares of the Series B Preferred Stock, the Company will issue approximately 61,232 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 future stock dividends, stock splits and other corporate actions.

The Company has recorded dividends on preferred stock in the approximate amount of \$28,200 and \$29,000 for the years ended December 31, 2021 and 2020, respectively. The Company paid quarterly cash dividends of \$15 per share on the preferred stock for the years 2021 and 2020. The preferred stock qualifies, and is accounted, as equity securities and is included in the Company's Tier I capital since issued.

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 restrictions, and Board 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).

There were no repurchases of the Company's Common Stock during the twelve months ended December 31, 2021.

Shareholders wishing to change the name, address or ownership of the Company's stock, report lost certificates or consolidate accounts are asked to contact the Company's Transfer Agent and Registrar directly: Computershare Investor Services ("Computershare"), P.O. Box 43078, Providence, Rhode Island 02940-3078. Shareholders may also contact Computershare at 1-800-942-5909 and www.computershare.com.

Item 6. [Reserved]

Not applicable

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

Overview

We are a bank holding company and are headquartered in Washington Township, New Jersey. Through the Bank, we provide personal and business financial services to individuals and small to mid-sized businesses primarily in New Jersey and Pennsylvania. The Bank has branches in Galloway Township, Northfield, Washington Township, and Collingswood, New Jersey and Philadelphia, Pennsylvania. The vast majority of our revenue and income is currently generated through the Bank.

We manage our Company for the long term. We are focused on the fundamentals of growing customers, loans, deposits and revenue and improving profitability, while investing for the future and managing risk, expenses and capital. We continue to invest in our products, markets and brand, and embrace our commitments to our customers, shareholders, employees and the communities where we do business. Our approach is concentrated on organically growing and deepening client relationships across our businesses that meet our risk/return measures.

We focus on small to mid - sized business and retail customers and offer a range of loan products, deposit services, and other financial products through our retail branches and other channels. The Company's results of operations are dependent primarily on its net interest income, which is the difference between the interest income earned on its interest earning-assets and the interest expense paid on its interest-bearing liabilities. In our operations, we have three major lines of lending: residential real estate mortgage, commercial real estate mortgage, and construction lending. Our interest income is primarily generated from our lending and investment activities. Our deposit products include checking, savings, money market accounts, and certificates of deposit. The majority of our deposit accounts are obtained through our retail banking business, which provides us with low

cost funding to grow our lending efforts. The Company also generates income from loan and deposit fees and other non-interest related activities. The Company's non-interest expense primarily consists of employee compensation, administration, and other operating expenses.

As of December 31, 2021, we had total assets of \$2.14 billion, total liabilities of \$1.90 billion, and total shareholders' equity of \$232.4 million. Net income available to common shareholders for 2021 was \$40.7 million. In 2021, net income available to common shareholders increased 43.4% over the previous year primarily as a result of lower interest expense on deposits, lower provision for loan losses, and higher fee income. Total assets increased 2.8% and total equity increased 14.7% compared to December 31, 2020. We also maintained a strong capital position. Our risk based tier 1 capital ratio was 19.0% at December 31, 2021. During 2021, we returned \$9.5 million of capital to our common shareholders through common stock dividends.

Our business operations are subject to risks and uncertainties that could materially affect our operating results. Beginning in the first quarter of 2020, the COVID-19 pandemic has posed a significant threat to people's health as well as the global and U.S. economies. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on the business of the Company, its customers, employees and third-party service providers. The extent of such impact will depend on future developments, which are highly uncertain. There continues to be various other risks and uncertainties that could impact the Company's businesses and future results, such as changes to the U.S. economic condition, market interest rates, the Federal Reserve monetary policy, other government policies, and actions of regulatory agencies.

Results of Operations

Net Income

We recorded net income available to common shareholders of \$40.7 million or \$3.43 per basic common share and \$3.36 per diluted common share, for the year ended December 31, 2021 compared to \$28.4 million, or \$2.40 per basic common share and \$2.37 per diluted common share for the year ended December 31, 2020, an increase of \$12.3 million or 43.4%.

Net Interest Income

Net interest income increased \$6.5 million, or 10.3%, to \$69.1 million for the year ended 2021 compared to \$62.6 million for the year ended 2020. The increase in net interest income was primarily due to a decrease in deposit rates, partially offset by lower interest income from loans due to a decline in the loan portfolio. Interest income for 2021 decreased to \$82.1 million, a decrease of \$2.5 million, or 2.9%, from \$84.5 million for 2020. Interest expense decreased to \$13.0 million for 2021, from \$21.9 million for 2020, a reduction of \$8.9 million, or 40.8%.

Comparative Average Balances, Yields and Rates

The following table presents the average daily balances of assets, liabilities and equity and the respective interest earned or paid on interest-earning assets and interest-bearing liabilities, as well as average annualized rates, for the years ended December 31, 2021 and 2020. 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,

	2021			2020		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
(Dollars in thousands except Yield/ Cost data)						
Assets						
Loans	\$ 1,513,959	\$ 80,643	5.33 %	\$ 1,527,999	\$ 82,336	5.39 %
Investment securities	26,000	753	2.90 %	32,065	1,008	3.14 %
Deposits with banks	523,491	676	0.13 %	331,718	1,194	0.36 %
Total interest-earning assets	2,063,450	\$ 82,072	3.98 %	1,891,782	\$ 84,538	4.47 %
Non-interest earning assets	77,370			70,279		
Allowance for loan losses	(30,019)			(25,145)		
Total assets	<u>\$ 2,110,801</u>			<u>\$ 1,936,916</u>		
Liabilities and Equity						
Interest bearing deposits						
NOWs	\$ 75,502	\$ 323	0.43 %	\$ 63,086	\$ 328	0.52 %
Money markets	322,201	2,140	0.66 %	279,947	3,670	1.31 %
Savings	146,585	664	0.45 %	140,466	711	0.51 %
Time deposits	632,874	6,399	1.01 %	562,655	11,016	1.96 %
Brokered certificates of deposit	34,292	228	0.66 %	126,968	1,986	1.56 %
Total interest-bearing deposits	1,211,454	9,754	0.81 %	1,173,122	17,711	1.51 %
Borrowings	158,943	3,202	2.01 %	216,641	4,182	1.93 %
Total interest-bearing liabilities	1,370,397	\$ 12,956	0.95 %	1,389,763	\$ 21,893	1.58 %
Non-interest bearing deposits	506,645			342,325		
Other liabilities	15,030			13,084		
Total liabilities	1,892,072			1,745,172		
Equity	218,729			191,564		
Total liabilities and equity	<u>\$ 2,110,801</u>			<u>\$ 1,936,736</u>		
Net interest income		<u>\$ 69,116</u>			<u>\$ 62,645</u>	
Interest rate spread			3.03 %			2.89 %
Net interest margin			3.35 %			3.31 %

Net interest income and the net interest margin in any one period can be significantly affected by a variety of factors including the mix and overall size of our earning assets portfolio and the cost of funding those assets. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

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,			
2021 vs 2020			
Variance due to change in			
	Average Volume	Average Rate	Net Increase/ (Decrease)
(Dollars in thousands)			
Interest Income:			
Loans (net of deferred costs/fees)	\$ (760)	\$ (933)	\$ (1,693)
Investment securities	(179)	(76)	(255)
Federal funds sold and cash equivalents	100	(618)	(518)
Total interest income	(839)	(1,627)	(2,466)
Interest Expense:			
Deposits	559	(8,516)	(7,957)
Borrowed funds	(1,059)	79	(980)
Total interest expense	(500)	(8,437)	(8,937)
Net interest income	\$ (339)	\$ 6,810	\$ 6,471

Provision for loan losses

Our provision for loan losses in each period is driven by net charge-offs and changes to the allowance for loan losses. We recorded a provision for loan losses of \$0.5 million and \$7.6 million in 2021 and 2020, respectively. The provision for loan losses as a percentage of interest income was 0.61% and 9.04% in 2021 and 2020, respectively.

Our provision for loan losses decreased by \$7.1 million in 2021 compared to 2020 primarily as a result of the economic uncertainties related to COVID-19 which were evaluated in 2020. For more information about our provision and allowance for loan and lease losses and our loss experience, see “Risk Management and Asset Quality-Allowance for Loan and Lease Losses” and [NOTE 4. Loans and Allowance for Loan and Lease Losses](#) in the Consolidated Financial Statements.

Non-interest Income

The table below displays the components of non-interest income for 2021 and 2020.

	2021	2020
	(Dollars in thousands)	
Gain on sale of SBA loans	\$ 214	\$ —
Other Loan fees	1,346	860
Bank owned life insurance income	575	592
Service fees on deposit accounts	5,662	2,521
Gain/(loss) on sale and valuation adjustments of OREO	60	(371)
Other	942	581
Total non-interest income	\$ 8,799	\$ 4,183

Non-interest income increased by \$4.6 million to \$8.8 million in 2021 compared to 2020 primarily due to:

- An increase in fee income related to commercial deposit accounts;

The fee income for the year ended December 31, 2021 from the commercial deposit accounts of depositors who do business in the medical-use cannabis industry totaled \$5.1 million and is included in service fees on deposit accounts in the accompanying consolidated statements of income. Such deposit fee income totaled \$2.2 million during the year ended December 31, 2020. Please refer to [Note 15. Commitments and Contingencies](#) in the Notes to the Consolidated Financial Statements for our banking services to customers who do business in the medical-use cannabis industry.

Non-Interest Expense

The following table displays the components of non-interest expense for 2021 and 2020.

	2021	2020
	(Dollars in thousands)	
Compensation and benefits	\$ 9,731	\$ 10,611
Professional services	3,724	1,987
Occupancy and equipment	2,381	2,031
Data processing	1,306	1,290
FDIC insurance and other assessments	1,104	805
OREO expense	287	271
Other operating expense	3,970	3,301
Total non-interest expense	<u>\$ 22,503</u>	<u>\$ 20,296</u>

Non-interest expense increased \$2.2 million to \$22.5 million for 2021, from \$20.3 million for 2020 primarily due to an increase in professional services, and other operating expense. Professional services increased \$1.7 million, or 87.4% as a result of our consent order remediation efforts surrounding our BSA operations. Other operating expense increased \$0.7 million, or 20.3%, generally due to the growth of the Company. These increases were partially offset by a decrease in compensation and benefits expense.

Income Tax

Income tax expense increased \$3.9 million to \$13.9 million on income before taxes of \$54.9 million for 2021, compared to income tax expense of \$10.0 million on income before taxes of \$38.9 million for 2020. The effective income tax rates for 2021 and 2020 were 25.4% and 25.7%, respectively.

Financial Condition

General

At December 31, 2021, the Company's total assets were \$2.14 billion, an increase of \$58.1 million or 2.8%, from December 31, 2020. The increase in total assets was primarily attributable to an increase in cash and cash equivalents, partially offset by a decrease in loans. Cash and cash equivalents increased \$138.0 million, to \$596.6 million at December 31, 2021. Total loans outstanding decreased \$81.0 million, primarily due to the decrease in the commercial loan portfolio related to the Paycheck Protection Program loans, which decreased \$63.4 million to \$27.8 million at December 31, 2021, from \$91.2 million at December 31, 2020.

Total liabilities were \$1.90 billion at December 31, 2021. This represented a \$28.4 million, or 1.5%, increase from \$1.88 billion at December 31, 2020. The increase in total liabilities was primarily due to an increase in total deposits, partially offset by a decrease in borrowings of \$146.3 million. Total deposits increased \$176.0 million, or 11.1%, to \$1.8 billion at December 31, 2021, from \$1.6 billion at December 31, 2020. Deposits from the medical-use cannabis industries increased to \$375.2 million at December 31, 2021, from \$259.4 million at December 31, 2020. Total borrowings were \$120.9 million at December 31, 2021, a decrease of \$146.3 million, compared to December 31, 2020, primarily due to the repayment of \$90.0 million in advances from the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility ("PPPLF") for the Small Business Administration ("SBA") of PPP loans, and \$56.5 million in pay downs of FHLBNY advances.

Total equity was \$232.4 million and \$202.6 million at December 31, 2021 and December 31, 2020, respectively, for an increase of \$29.8 million from December 31, 2020.

The following table presents certain key condensed balance sheet data as of December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
	(Dollars in thousands)	
Cash and cash equivalents	\$ 596,553	\$ 458,601
Investment securities	23,269	21,106
Loans held for sale	—	200
Loans, net of unearned income	1,484,847	1,565,807
Allowance for loan losses	(29,845)	(29,698)
Total assets	2,136,445	2,078,322
Total deposits	1,768,410	1,592,443
FHLBNY borrowings	78,150	134,650
Subordinated debt	42,732	42,542
FRB advances	—	90,026
Total liabilities	1,904,084	1,875,725
Total equity	232,361	202,597
Total liabilities and equity	2,136,445	2,078,322

Cash and cash equivalents

Cash and cash equivalents increased \$138.0 million to \$596.6 million at December 31, 2021, from \$458.6 million at December 31, 2020, an increase of 30.1%. The increase was primarily due to cash received from the increase in deposits from the medical-use cannabis businesses and the repayment of loans, partially offset by the reduction of borrowings.

Investment securities

Total investment securities increased to \$23.3 million at December 31, 2021, from \$21.1 million at December 31, 2020, an increase of \$2.2 million or 10.2%. The increase was primarily due to the purchase of \$8.7 million of securities classified as held-to-maturity, net of normal pay downs of mainly mortgage-backed securities.

Loans

Loans held for sale (HFS): Loans held for sale are comprised of SBA loans originated for sale. There were no loans held for sale at December 31, 2021 and \$200.0 thousand at December 31, 2020.

Loans, net of unearned income: Loans receivable decreased to \$1.48 billion at December 31, 2021, from \$1.57 billion at December 31, 2020. The decrease was largely driven by the reduction in the commercial loan portfolio attributed to the payoff of Paycheck Protection Program loans.

Allowance for loan losses

Allowance for loan losses increased \$0.1 million, to \$29.8 million, or 0.5%, at December 31, 2021, from \$29.7 million at December 31, 2020. The decrease in the provision was primarily due to the increase in qualitative factors made in 2020 as a result of economic uncertainty associated with the COVID-19 pandemic.

Deposits

At December 31, 2021, the Bank's total deposits increased to \$1.8 billion from \$1.6 billion at December 31, 2020, an increase of \$176.0 million, or 11.1%. The increase in deposits was primarily driven by the increase in noninterest-bearing deposits from the medical-use cannabis businesses.

Borrowings

At December 31, 2021, total borrowings decreased \$146.3 million to \$120.9 million at December 31, 2021, from \$267.2 million at December 31, 2020. The decrease in borrowings was primarily due to the repayment of \$90 million in advances from the Federal Reserve Bank's PPPLF for the SBA of PPP loans, and \$56.5 million in pay downs of FHLBNY advances.

Equity

Total shareholders' equity increased to \$232.4 million at December 31, 2021, from \$200.9 million at December 31, 2020, an increase of \$31.4 million or 15.6%. Total equity increased to \$232.4 million at December 31, 2021, from \$202.6 million at December 31, 2020. The increases in total shareholders' equity and total equity were primarily due to the retention of earnings from the period.

Liquidity and Capital Resources

Liquidity is a measure of our ability to generate cash to support asset growth, meet deposit withdrawals, satisfy other contractual obligations, and otherwise operate on an ongoing basis. At December 31, 2021, our cash position was \$596.6 million. We invest cash that is in excess of our immediate operating needs primarily in our interest-bearing account at the Federal Reserve.

Our primary source of funding has been deposits. Funds from other operations, financing arrangements, investment securities available-for-sale also provide significant sources of funding. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support loan growth. We focus on customer service which we believe has resulted in a history of customer loyalty. Stability, low cost and customer loyalty comprise key characteristics of core deposits.

We also use brokered deposits as a funding source, which is more volatile than core deposits. The Bank also 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. While deposit accounts comprise the vast majority of our funding needs, we maintain secured borrowing lines with the FHLBNY. At December 31, 2021, the Company had a \$596.5 million line of credit from the FHLBNY, of which \$78.2 million was outstanding, \$40.0 million was a letter of credit to secure public deposits, and \$478.3 million was unused.

Our investment portfolio primarily consists of mortgage-backed available for sale securities issued by US government agency and government sponsored entities. These available for sale securities are readily marketable and are available to meet our additional liquidity needs. At December 31, 2021, the Company's investment securities portfolio classified as available for sale was \$13.4 million.

We had unused loan commitments of \$117.7 million at December 31, 2021. Our loan commitments are normally originated with the full amount of collateral. Such commitments have historically been drawn at only a fraction of the total commitment. 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 funding requirements for such commitments occur on a measured basis over time and would be funded by normal deposit growth.

Capital Adequacy

Consistent with the goal to operate a sound and profitable financial organization, the Company and Bank actively seeks to maintain their status as well-capitalized in accordance with regulatory standards. As of December 31, 2021, the Company and the Bank exceeded all applicable regulatory capital requirements. See Note 13 to our consolidated financial statements for more information about the Company's and the Bank's regulatory capital compliance.

Interest Rate Sensitivity

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.

The interest rate sensitivity position as of December 31, 2021 is presented in the following table. Assets and liabilities are scheduled based on maturity or repricing 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, 2021						
	3 Months or Less	Over 3 Months Through 12 Months	Over 1 Year Through 3 Years	Over 3 Years Through 5 Years	Over 5 Years	Total
(Dollars in thousands)						
Interest-earning assets:						
Loans ⁽¹⁾	\$ 151,716	\$ 232,323	\$ 390,824	\$ 259,460	\$ 444,534	\$ 1,478,857
Investment securities	1,886	4,249	7,842	4,025	5,267	23,269
Cash and cash equivalents	571,232	—	—	—	—	571,232
Total interest-earning assets	\$ 724,834	\$ 236,572	\$ 398,666	\$ 263,485	\$ 449,801	\$ 2,073,358
Interest-bearing liabilities:						
NOW, Saving and Money market deposits	\$ 32,892	\$ 98,674	\$ 263,130	\$ 195,733	\$ 30,426	\$ 620,855
Retail time deposits	158,434	287,666	91,108	31,579	—	568,787
Brokered time deposits	—	20,341	2,888	1,730	—	24,959
Borrowed funds	13,403	20,000	58,150	—	30,000	121,553
Total interest-bearing liabilities	\$ 204,729	\$ 426,681	\$ 415,276	\$ 229,042	\$ 60,426	\$ 1,336,154
Interest rate sensitive gap	\$ 520,105	\$ (190,109)	\$ (16,610)	\$ 34,443	\$ 389,375	\$ 737,204
Cumulative interest rate gap	\$ 520,105	\$ 329,996	\$ 313,386	\$ 347,829	\$ 737,204	\$ —
Ratio of rate-sensitive assets to rate-sensitive liabilities	354.0 %	55.4 %	96.0 %	115.0 %	744.4 %	155.2 %
Cumulative interest sensitivity gap to total assets	24.3 %	15.4 %	14.7 %	16.3 %	34.5 %	—

(1) Loan balances exclude nonaccruing loans, deferred fees and costs, and loan discounts.

Off-Balance Sheet Arrangements and Contractual Obligations

In the ordinary course of business, we engage in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements include commitments to extend credit, standby letters of credit and other commitments. These transactions are primarily designed to meet the financial needs of our customers.

We enter into commitments to lend funds to customers, which are usually at a stated interest rate, if funded, and for specific purposes and time periods. When we make commitments, we are exposed to credit risk. However, the maximum credit risk for these commitments will generally be lower than the contractual amount because a significant portion of these commitments is expected to expire without being used by the customer. In addition, we manage the potential risk in commitments to lend by limiting the total amount of commitments, by monitoring maturity structure of these commitments and by applying the same credit standards for these commitments as for all of our credit activities.

For commitments to lend, we generally require collateral or a guarantee. We may require various types of collateral, including accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. Collateral requirements for each loan or commitment may vary based on the commitment type and our assessment of a customer's credit risk according to the specific credit underwriting, including credit terms and structure.

Commitments to extend credit, or net unfunded loan commitments, represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. These commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer's credit quality deteriorates. At December 31, 2021 and December 31, 2020, unused commitments to extend credit amounted to approximately \$117.7 million and \$144.6 million, respectively. Commitments to fund fixed-rate loans were immaterial at December 31, 2021. 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 of the Company.

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. At December 31, 2021 and December 31, 2020, standby letters of credit with customers were \$1.5 million and \$1.7 million, respectively.

At December 31, 2021, we had contractual obligations primarily relating to commitments to extent credits, deposits, secured and unsecured borrowings, and operating leases. We have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. Please refer to Notes 6, 7, 9, and 15 of the Notes to the Consolidated Financial Statements for detailed information regarding our contractual obligations.

Impact of Inflation and Changing Prices

The financial statements included in this document have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturities of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of non-interest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Critical Accounting Policies

The Company's accounting policies are more fully described in [Note 1 - Description of Business and Summary of Significant Accounting Policies](#) in the Consolidated Financial Statements. As disclosed in Note 1, the preparation of financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates. The Company believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Allowance for Loan and Lease Losses: Our allowances for loan and lease losses represents management's best estimate of probable losses inherent in our loan portfolio excluding those loans accounted for under fair value. Our process for determining the allowance for loan and lease losses is discussed in Note 1 to the Consolidated Financial Statements.

We maintain the ALLL at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolios as of the balance sheet date. Our determination of the allowances is based on periodic evaluations of the

loan and lease portfolios and other relevant factors. These critical estimates include significant use of our own historical data and other qualitative, quantitative data. These evaluations are inherently subjective, as they require material estimates and may be susceptible to significant change. Our allowance for loan and lease losses is comprised of two components. The specific allowance covers impaired loans and is calculated on an individual loan basis. The general based component covers loans and leases on which there are incurred losses that are not yet individually identifiable. The allowance calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, projected industry outlook, and economic conditions.

The process of determining the level of the allowance for loan and lease losses requires a high degree of judgment. To the extent actual outcomes differ from our estimates, additional provision for loan and lease losses may be required that would reduce future earnings.

Fair Value Estimates: ASC 820 - Fair Value Measurements defines fair value as a market-based measurement and is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The Company uses valuation techniques that are consistent with the market approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability and developed based on the best information available in the circumstances. In that regard, a fair value hierarchy has been established for valuation inputs that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlations or other means.

Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

The majority of our assets recorded at fair value are our investment securities available for sale. The fair value of our available for sale securities are provided by independent third-party valuation services. We also may have small SBA loans recorded at fair value, which represents the face value of the guaranteed portion of the SBA loans pending settlement. Other real estate owned (OREO) is recorded at fair value on a non-recurring basis and is based on the values of independent third-party full appraisals, less costs to sell (a range of 5% to 10%). Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value. Refer to Note 16 - Fair Value in the Notes to the Consolidated Financial Statements for further information.

Income Taxes: In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. We evaluate and assess the relative risks and merits of the tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate.

When tax returns are filed, it is highly likely 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. 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.

Current Expected Credit Losses: In June 2016, the Financial Accounting Standards Board adopted a new accounting standard, Financial Instruments - Credit Losses, referred to as Current Expected Credit Loss, or CECL, requires financial institutions to make periodic estimates of lifetime expected credit losses on financial instruments measured at amortized cost and recognize the expected credit losses as allowances. This would likely require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan and debt securities. For public business entities except smaller reporting entities ("SRCs"), the guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. CECL will be effective for SEC filers which are SRCs and all other nonpublic entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all entities, early adoption will continue to be allowed. As a small reporting company, CECL is not effective for the Company until after December 15, 2022.

Quarterly Financial Data (unaudited)

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

	Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
	(Amounts in thousands, except per share amounts)			
2021				
Interest income	\$ 19,565	\$ 20,580	\$ 21,366	\$ 20,561
Interest expense	2,819	3,099	3,283	3,755
Net interest income	16,746	17,481	18,083	16,806
Provision for loan losses	—	—	—	500
Income before income tax expense	13,434	14,249	14,457	12,773
Income tax expense	3,353	3,705	3,633	3,247
Net income	10,073	10,501	10,757	9,429
Preferred stock dividends	7	7	7	7
Net income available to common shareholders	10,066	10,494	10,750	9,422
Net income per common share:				
Basic	\$ 0.85	\$ 0.88	\$ 0.90	\$ 0.80
Diluted	\$ 0.83	\$ 0.87	\$ 0.89	\$ 0.77
2020				
Interest income	\$ 21,665	\$ 20,873	\$ 20,443	\$ 21,557
Interest expense	4,550	5,433	5,552	6,358
Net interest income	17,115	15,440	14,891	15,199
Provision for loan losses	1,850	2,400	2,000	1,396
Income before income tax expense	11,060	8,949	8,955	9,922
Income tax expense	2,840	2,306	2,311	2,554
Net income	8,132	6,543	6,541	7,212
Preferred stock dividends	7	7	7	8
Net income available to common shareholders	8,125	6,536	6,534	7,204
Net income per common share:				
Basic	\$ 0.69	\$ 0.55	\$ 0.55	\$ 0.61
Diluted	\$ 0.68	\$ 0.55	\$ 0.54	\$ 0.60

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable

Item 8. Financial Statements and Supplementary Data.

Report On Management's Assessment Of Internal Control Over Financial Reporting

To The Shareholders Of Parke Bancorp, Inc.

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, 2021.

March 21, 2022

/s/ Vito S. Pantilione

Vito S. Pantilione

President and Chief Executive Officer

/s/ John S. Kaufman

John S. Kaufman

Senior Vice President and Chief Financial Officer

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 Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 Public Company Accounting Oversight Board (United States) (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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses – Qualitative Factors

The allowance for loan losses as of December 31, 2021 was \$29.9 million. As described in Notes 1 and 4 to the consolidated financial statements, the allowance for loan losses is established through a provision for loan losses and represents an amount which, in management's judgement, will be adequate to absorb losses on existing loans.

The allowance consists of specific and general components in the amounts of \$0.6 million and \$29.3 million, respectively.

The specific component relates to loans that are classified as impaired. The Company measures impairment and the related asset specific allowance for impaired loans based on the difference between the recorded investment of the loan and the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. If the loan is collateral dependent, the Company measures impairment based upon the fair value of the underlying collateral, which the Company determines based on the current fair value of the collateral less estimated selling costs, instead of discounted cash flows. Loans are identified as collateral dependent if the Company believes that collateral is the sole source of repayment.

The general component is based on historical losses, general economic conditions, and other qualitative risk factors both internal and external to the Company. The historical loss ratio and valuation allowance are established for each pool of similar loans and updated periodically based on actual charge-off experience and current events. The qualitative risk factors are generally determined by evaluating, among other things: (i) lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices; (ii) national and local economic trends and conditions; (iii) nature and

volume of the portfolio and terms of loans; (iv) experience, ability, and depth of lending management and staff; (v) volume and severity of past due, classified and nonaccrual loans as well as other loan modifications; (vi) quality of the Company's loan review system; (vii) existence and effect of any concentrations of credit and changes in the level of such concentrations. The evaluation of the qualitative factor adjustments requires a significant amount of judgement by management and involves a high degree of subjectivity.

We identified the qualitative factor portion of the general reserve component of the allowance for loan losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

Our audit procedures related to the qualitative factors included the following, among others:

- We obtained an understanding of the relevant controls related to management's establishment of the factor, assessment, and review of the qualitative factors, and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors and the data used in determining the qualitative factors.
- We obtained an understanding of how management developed the estimates and related assumptions, including:
 - Testing completeness and accuracy of key data inputs used in forming assumptions or calculations and testing the reliability of the underlying data on which these factors are based by comparing information to source documents and external information sources as well as evaluating the estimated correlation to potential loss.
 - Evaluating the reasonableness of the qualitative factors established by management as compared to the underlying internal or external information sources.

/s/ RSM US LLP

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

Blue Bell, Pennsylvania
March 21, 2022

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2021 and 2020

(Dollars in thousands except share and per share data)

	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks	\$ 25,321	\$ 20,571
Interest earning deposits with banks	571,232	438,030
Cash and cash equivalents	596,553	458,601
Investment securities available for sale, at fair value	13,351	19,882
Investment securities held to maturity (fair value of \$10,025 at December 31, 2021 and \$1,530 at December 31, 2020)	9,918	1,224
Total investment securities	23,269	21,106
Loans held for sale	—	200
Loans, net of unearned income	1,484,847	1,565,807
Less: Allowance for loan losses	(29,845)	(29,698)
Net loans	1,455,002	1,536,109
Accrued interest receivable	7,681	8,772
Premises and equipment, net	6,265	6,698
Restricted stock	5,144	7,542
Bank owned life insurance (BOLI)	27,577	27,002
Deferred tax asset	7,608	8,611
Other	7,346	3,681
Total Assets	<u>\$ 2,136,445</u>	<u>\$ 2,078,322</u>
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 553,810	\$ 428,860
Interest-bearing deposits	1,214,600	1,163,583
Total deposits	1,768,410	1,592,443
FHLBNY borrowings	78,150	134,650
FRB advances	—	90,026
Subordinated debentures	42,732	42,542
Accrued interest payable	1,603	2,338
Other	13,189	13,726
Total liabilities	<u>1,904,084</u>	<u>1,875,725</u>
Equity		
Preferred stock, 1,000,000 shares authorized, \$1,000 liquidation value Series B non-cumulative convertible; 445 shares and 480 shares outstanding at December 31, 2021 and 2020, respectively	445	480
Common stock, \$0.10 par value; authorized 15,000,000 shares; Issued: 12,182,081 shares and 12,136,567 shares at December 31, 2021 and 2020, respectively	1,218	1,214
Additional paid-in capital	135,451	134,989
Retained earnings	98,017	66,794
Accumulated other comprehensive loss	245	463
Treasury stock, 284,522 shares at December 31, 2021 and 2020, at cost	(3,015)	(3,015)
Total shareholders' equity	232,361	200,925
Noncontrolling interest in consolidated subsidiaries	—	1,672
Total equity	<u>232,361</u>	<u>202,597</u>
Total liabilities and equity	<u>\$ 2,136,445</u>	<u>\$ 2,078,322</u>

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020
(Dollars in thousands except share and per share data)

	2021	2020
Interest income:		
Interest and fees on loans	\$ 80,643	\$ 82,336
Interest and dividends on investments	753	1,008
Interest on deposits with banks	676	1,194
Total interest income	82,072	84,538
Interest expense:		
Interest on deposits	9,754	17,711
Interest on borrowings	3,202	4,182
Total interest expense	12,956	21,893
Net interest income	69,116	62,645
Provision for loan losses	500	7,646
Net interest income after provision for loan losses	68,616	54,999
Non-interest income		
Service fees on deposit accounts	5,662	2,521
Other loan fees	1,346	860
Bank owned life insurance income	575	592
Gain on sale of SBA loans	214	—
Net gain/(loss) on sale and valuation adjustments of OREO	60	(371)
Other	942	581
Total non-interest income	8,799	4,183
Non-interest expense		
Compensation and benefits	9,731	10,611
Professional services	3,724	1,987
Occupancy and equipment	2,381	2,031
Data processing	1,306	1,290
FDIC insurance and other assessments	1,104	805
OREO expense	287	271
Other operating expense	3,970	3,301
Total non-interest expense	22,503	20,296
Income before income tax expense	54,912	38,886
Income tax expense	13,937	10,011
Net income attributable to Company and noncontrolling interest	40,975	28,875
Less: Net income attributable to noncontrolling interest	(215)	(447)
Net income attributable to Company	40,760	28,428
Less: Preferred stock dividend	(28)	(29)
Net income available to common shareholders	\$ 40,732	\$ 28,399
Earnings per common share		
Basic	\$ 3.43	\$ 2.40
Diluted	\$ 3.36	\$ 2.37
Weighted average common shares outstanding		
Basic	11,888,429	11,850,223
Diluted	12,120,716	11,989,608

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	For the Year ended December 31,	
	2021	2020
	(Dollars in thousands)	
Net income	\$ 40,975	\$ 28,875
Unrealized (losses)/gains on investment securities, net of reclassification into income:		
Unrealized (loss) gain on non-OTTI securities	(294)	537
Tax impact on unrealized loss/(gain)	76	(132)
Total unrealized (losses)/gains on investment securities	(218)	405
Comprehensive income	40,757	29,280
Less: Comprehensive loss attributable to noncontrolling interests	(215)	(446)
Comprehensive income attributable to the Company	\$ 40,542	\$ 28,833

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Equity
Years Ended December 31, 2021 and 2020
(Dollars in thousands except share data)

	Preferred Stock	Shares of Common Stock issued	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
Balance, December 31, 2019	\$ 500	12,132,855	\$ 1,213	\$ 134,706	\$ 44,143	\$ 58	\$ (3,015)	\$ 177,605	\$ 1,819	\$179,424
Earnings distribution to non-controlling interest	—	—	—	—	—	—	—	—	(594)	(594)
Net income	—	—	—	—	28,428	—	—	28,428	447	28,875
Common stock options exercised	—	1,021	—	—	—	—	—	—	—	—
Preferred stock shares conversion	(20)	2,751	1	19	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	405	—	405	—	405
Stock compensation expense	—	—	—	265	—	—	—	265	—	265
Stock dividend	—	(60)	—	(1)	(2)	—	—	(3)	—	(3)
Dividend on preferred stock	—	—	—	—	(29)	—	—	(29)	—	(29)
Dividend on common stock	—	—	—	—	(5,746)	—	—	(5,746)	—	(5,746)
Balance, December 31, 2020	\$ 480	12,136,567	\$ 1,214	\$ 134,989	\$ 66,794	\$ 463	\$ (3,015)	\$ 200,925	\$ 1,672	\$202,597
Earnings distribution to non-controlling interest	—	—	—	—	—	—	—	—	(1,887)	(1,887)
Net income	—	—	—	—	40,760	—	—	40,760	215	40,975
Common stock options exercised	—	40,701	4	197	—	—	—	201	—	201
Preferred stock shares conversion	(35)	4,813	—	35	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	(218)	—	(218)	—	(218)
Stock compensation expense	—	—	—	230	—	—	—	230	—	230
Dividend on preferred stock	—	—	—	—	(28)	—	—	(28)	—	(28)
Dividend on common stock	—	—	—	—	(9,509)	—	—	(9,509)	—	(9,509)
Balance, December 31, 2021	\$ 445	12,182,081	\$ 1,218	\$ 135,451	\$ 98,017	\$ 245	\$ (3,015)	\$ 232,361	\$ —	\$232,361

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(Dollars in thousands)

	2021	2020
Cash Flows from Operating Activities		
Net income	\$ 40,975	\$ 28,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	687	586
Provision for loan losses	500	7,646
Increase in value of bank-owned life insurance	(575)	(592)
Gain on sale of SBA loans	(214)	—
SBA loans originated for sale	(1,650)	—
Proceeds from sale of SBA loans originated for sale	1,864	—
Net (gain) loss on sale of OREO and valuation adjustments	(60)	371
Net accretion of purchase premiums and discounts on securities	40	45
Stock based compensation	230	265
Decrease (increase) in deferred income tax	1,079	(2,295)
Net changes in:		
Increase in accrued interest receivable and other assets	(1,059)	(1,875)
(Decrease) increase in accrued interest payable and other accrued liabilities	(3,176)	3,491
Net cash provided by operating activities	38,641	36,517
Cash Flows from Investing Activities		
Repayments and maturities of investment securities available for sale	6,139	7,166
Repayments and maturities of investment securities held to maturity	57	—
Purchases of investment securities held to maturity	(8,693)	—
Net decrease (increase) in loans	78,996	(144,817)
Purchases of bank premises and equipment	(64)	(251)
Proceeds from sale of OREO, net	356	4,217
Redemptions (purchases) of restricted stock	2,398	(102)
Net cash provided by (used in) investing activities	79,189	(133,787)
Cash Flows from Financing Activities		
Cash dividends	(7,633)	(7,444)
Proceeds from exercise of stock options	201	—
Net proceeds from issuance of subordinate debt	—	29,052
Earnings distribution from non-controlling interest	(1,887)	(594)
Net decrease in FHLBNY and short-term borrowings	(56,500)	—
Net (decrease) increase in other borrowed funds	(90,026)	90,026
Net increase in noninterest-bearing deposits	124,950	169,591
Net increase in interest-bearing deposits	51,017	83,633
Net cash provided by financing activities	20,122	364,264
Increase in cash and cash equivalents	137,952	266,994
Cash and Cash Equivalents, January 1,	458,601	191,607
Cash and Cash Equivalents, December 31,	<u>\$ 596,553</u>	<u>\$ 458,601</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 13,691	\$ 21,815
Income taxes paid	\$ 16,808	\$ 9,360
Non-cash Investing and Financing Items		
Loans transferred to OREO	\$ 1,811	\$ —

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

Business:

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

The Bank is a commercial bank, which was incorporated on August 25, 1998, and commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and Insurance and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank maintains seven branch offices with its principal office at 601 Delsea Drive, Sewell, New Jersey, and additional branch office locations; 631 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.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP. We have reclassified certain prior year amounts to conform to the 2021 presentation, which did not have a material impact on our consolidated financial condition or results of operations. The accounting policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Parke Bank. Also included are the accounts of Parke Direct Lending LLC ("PDL"), a joint venture formed in 2018 to originate short-term alternative real estate loan products. Parke Bank had a 51% ownership interest in the joint venture. The joint venture was liquidated in 2021. 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 material inter-company balances and transactions have been eliminated.

Cash and cash equivalents: Consists of cash and due from banks, and interest-bearing deposits and other-short term investments, all of which, if applicable, have stated maturities of three months or less when acquired.

Investment Securities: Debt securities are recorded on a trade-date basis. We classify debt securities as held to maturity if we have the positive intent and ability to hold the securities to maturity. We report securities held to maturity on our consolidated balance sheets at carrying value, which generally equals amortized cost. Amortized cost reflects historical cost adjusted for amortization of premiums, accretion of discounts and any previously recorded impairments. Debt securities not classified as held to maturity or trading are designated as securities available for sale ("AFS") and carried at fair value with unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive income (loss). We did not have any securities classified as trading securities during 2021 or 2020.

Interest on debt securities, including amortization of premiums and accretion of discounts, is included in interest income. Premiums and discounts are amortized or accreted to interest income at a constant effective yield over the contractual lives of the securities. Realized gains and losses from the sales of debt securities are determined on a specific security basis. These securities gains/(losses) are included in other noninterest income.

On at least a quarterly basis, we review all debt securities that are in an unrealized loss position for Other Than Temporary Impairment ("OTTI"). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. If the present value of the cash flows expected to be collected, discounted at the security's effective yield, is less than the security's amortized cost, OTTI is considered to have occurred. For a debt security for which there has been a decline in the fair value below the amortized cost basis, if we intend to sell the security, or if it is more likely than not we will be required to sell the security before recovery of the amortized cost basis, an OTTI write-down is recognized in earnings equal to the entire difference between the amortized cost basis and fair value of the security. 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 discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of expected future cash flows is due to factors that are not credit-related and, therefore, is recognized in other comprehensive income.

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 readily available 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' values are 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: We classify loans as held for investment or held for sale based on our investment strategy and management's intent and ability with regard to the loans which may change over time. The accounting and measurement framework for loans differs depending on the loan classification. Loans that we have the ability and intent to hold for the foreseeable future or until maturity or pay-off are classified as held for investment. Loans classified as held for investment are reported at their amortized cost, which is the outstanding principal balance, adjusted for any unearned income, unamortized deferred fees and costs, unamortized premiums and discounts and charge-offs. Interest income on the loans is recognized as earned based on contractual interest rates applied to daily principal amounts outstanding. Loan origination fees, direct loan origination costs, and loan premiums and discounts are deferred and accreted or amortized into net interest income using the constant effective yield method, over the contractual life of the loan.

Loans originated with the intent to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Interest on these loans is recognized on an accrual basis. These loans are recorded at the lower of cost or fair value. Our Small Business Administration ("SBA") loans that management has the intention to sell are designated as held for sale and are reported at fair value. Fair value represents the face value of the guaranteed portion of SBA loans pending settlement. Loan origination fees and direct loan origination costs are deferred until the loan is sold and are recognized as part of the total gain or loss on sale. We calculate the gross gain or loss on loan sales as the difference between the proceeds received and the carrying value of the loans sold.

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

Non-accrual Loans: 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.

Troubled Debt Restructurings: Troubled debt restructurings ("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 in the normal course of business. 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.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses represents management's estimate of probable losses inherent in the Company's lending activities excluding loans accounted for under fair value. 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 Company performs periodic reviews of its loan and lease portfolios to identify credit risks and to assess the overall collectability of those portfolios. The Company's allowance for loan losses includes a general based component and a specific component. The specific component of the allowance relates to loans considered to be impaired, which includes performing TDRs as well as nonperforming loans. To determine the specific component of the allowance, the loans are evaluated individually based on the borrower's ability to repay amounts owed, collateral, relative risk grade of the loans, and other factors given current events and conditions. The Company generally measures the specific allowance as the difference between the fair value (net realizable value) and the recorded investment of a loan.

The general component of the allowance evaluates the impairments of pools of the loan and lease portfolio collectively. It incorporates a historical valuation allowance and general valuation allowance. The historical loss experience is measured by type of credit and internal risk grade, loss severity, specific homogeneous risk pools. A historical loss ratio and valuation allowance are established for each pool of similar loans and updated periodically based on actual charge-off experience and current events. The general valuation allowance is based on general economic conditions and other qualitative risk factors both internal and external to the Company. It is generally 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) national and local economic trends and conditions, and industry conditions. 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.

Impaired Loans: 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.

Generally, we report loans as impaired based on the method for measuring impairment in accordance with applicable accounting guidance. Loans held for sale are not reported as impaired, as these loans are recorded at lower of cost or fair value. Loans classified as nonperforming and loans that have been modified in a troubled debt restructuring are reported as impaired. Loans modified in a TDR continue to be reported as impaired. The majority of impaired loans are evaluated for an asset-specific allowance. We generally measure impairment and the related asset-specific allowance for impaired loans based on the difference between the recorded investment of the loan and the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. If the loan is collateral dependent, we measure impairment based upon the fair value of the underlying collateral, which we determine based on the current fair value of the collateral less estimated selling costs, instead of discounted cash flows. Loans are identified as collateral dependent if we believe that collateral is the sole source of repayment.

Charge-Offs: We charge off loans as a reduction to the allowance for loan and lease losses when we determine the loan is uncollectible and record subsequent recoveries of previously charged off amounts as an increase to the allowance for loan and lease losses.

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.

Other Real Estate Owned ("OREO"): Real estate acquired through foreclosure or other proceedings is carried at the lower of cost or estimated fair value, less estimated costs to sell. When a property is acquired, the excess of the loan balance over the estimated fair value is charged to the allowance for loan losses. 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. The OREO balance is included in other assets on the balance sheets.

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

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

Lease: Lease classification is determined at inception for all lease transactions with an initial term greater than one year. At adoption of ASU 2016-02, we elected the practical expedient approach, which allows us to not reassess the lease classification for any existing leases. Operating leases are included as right-of-use ("ROU") assets within other assets, and operating lease liabilities are classified as other liabilities on our consolidated balance sheets. Our operating lease expense is included in occupancy and equipment within non-interest expense in our consolidated statements of income.

Stock-Based Compensation: Stock-based compensation expense is based on the grant date fair value, which is estimated using a Black-Scholes option pricing model. The fair value of stock-based compensation used in determining compensation expense generally equals the fair market value of our common stock on the date of grant. We generally recognize compensation expense on a straight-line basis over the award's requisite service period based on the fair value of the award at grant date. Stock-based compensation expense is included in salaries and associate benefits in the consolidated statements of income.

Revenue recognition: Our revenue includes net interest income on financial instruments and non-interest income. Interest income and fees on loans, investment securities, and other financial instruments are recognized based on the contractual provisions of the underlying arrangements according to applicable accounting guidance. Deposit-related-fee-based revenue within the scope of ASC Topic 606 - Revenue from Contracts with Customers (Topic 606) is included in non-interest income in our consolidated statements of income.

Our deposit-related-fee-based revenues are recognized when or as those services are transferred to the customer and are generally recognized either immediately upon the completion of our service or over time as we perform services. Any services performed over time generally require that we render services each period and therefore we measure our progress in completing these services based upon the passage of time. Deposit-related fees are recognized over the period in which the related service is provided. Service charges on deposit accounts are earned on depository accounts for customers and include fees for account and overdraft services. Account services include fees for event-driven services and fees for periodic account maintenance activities. Our obligation for event-driven services is satisfied at the time of the event when the service is delivered, while our obligation for maintenance services is satisfied over the course of each month. Our obligation for overdraft services is satisfied at the time of the overdraft.

Income Taxes: We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Current income tax expense represents our estimated taxes to be paid or refunded for the current period. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Thus, at the enactment date, deferred taxes are remeasured and the change is recognized in income tax expense. The recognition of deferred tax assets requires an assessment to determine the realization of such assets. Realization refers to the incremental benefit achieved through the reduction in future taxes payable or refunds receivable. We establish a valuation allowance for tax assets when it is more likely than not that they will not be realized, based

upon all available evidence. 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, 2021 and 2020. The Company does not have an accrual for uncertain tax positions as of December 31, 2021 and 2020, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. The Company is currently under IRS audit for the tax year ending December 31, 2016 and as a result the statute of limitations for tax years 2016 and 2017 have been extended until December 31, 2022. All years after 2017 are open under the original federal statute of limitations. For state tax returns, the Company is subject to income tax examinations by local tax authorities for years 2018 and after, except for the State of New Jersey which is still subject to income tax examinations for years 2017 and after.

Fair value: Fair value, also referred to as an exit price, is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned to a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The accounting guidance for fair value requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Our most significant estimates pertain to our allowances for loan and lease losses, fair value measurements, the carrying value of OREO, and the valuation of deferred income taxes. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

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

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

For year 2021 and 2020, we did not reclassify any amounts from accumulated other comprehensive income to income. The following table provides the components of other comprehensive income, reclassifications to net income and the related tax effect for the year ended December 31, 2021 and 2020:

Year ended December 31,	2021		2020	
	(Dollars in thousands)			
Investment securities:				
Net unrealized (losses) gains arising during the period	\$	(294)	\$	537
Tax effect related to the unrealized loss during the periods		76		(132)
Change in other comprehensive income	\$	(218)	\$	405

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. Earnings per common share have been computed based on the following for 2021 and 2020:

	2021	2020
	(Dollars in thousands, except share data)	
Basic earnings per common share		
Net income available to common shareholders	\$ 40,732	\$ 28,399
Basic weighted-average common shares outstanding	11,888,429	11,850,223
Basic earnings per common share	\$ 3.43	\$ 2.40
Diluted earnings per common share		
Net income available to common shareholders	\$ 40,732	\$ 28,399
Dividend on Preferred Series B	28	29
Net income attributable to diluted common shares	\$ 40,760	\$ 28,428
Basic weighted-average common shares outstanding	11,888,429	11,850,223
Dilutive potential common shares	232,287	139,385
Total diluted weighted-average common shares outstanding	12,120,716	11,989,608
Diluted earnings per common share	\$ 3.36	\$ 2.37

For 2021 and 2020, there were 67,994 and 253,495 weighted average option shares outstanding, respectively, that were not included in the computation of diluted EPS because these shares 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:

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): During June 2016, the Financial Accounting Standard Board (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 (CECL) 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. The ASU was amended in some aspects by subsequent Accounting Standards Updates. The guidance of the *Financial Instruments-Credit Losses* is scheduled to be effective for public entities except small reporting companies ("SRCs") for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all entities, early adoption will continue to be allowed. As a small reporting company, the CECL is not effective for us until after December 15, 2022. As the result, we are not required to estimate expected credit losses until year 2023.

ASU 2020-04, Reference Rate Reform (Topic 848): In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments provide optional guidance to entities for a limited period of time to ease the transition in accounting for and recognizing the effects of reference rate reform on financial reporting. Under the guidance, modifications of contracts due to reference rate reform will not require contract remeasurement or reassessment of a previous accounting determination. For hedge accounting, modification of critical terms of the hedge due to changes in reference rate reform will not affect hedge accounting or dedesignate the hedging relationship. The guidance also provides specific expedients for fair value hedges, cash flow hedges, and excluded components. Further, the guidance provides a none-time election to sell or transfer held to maturity debt securities that are affected by the reference rate change. The guidance is effective upon issuance through December 31, 2022. The Company does not expect the application of this guidance to have a material impact on the Consolidated Financial Statements.

Note 2. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy deposit reserve requirements, and to compensate other banks for certain correspondent services. Management is responsible for assessing the credit risk of its correspondent banks. At December 31, 2021 or 2020, the vast majority of the Company's cash deposits with other banks were due from the Federal Reserve Bank of Philadelphia and the Federal Home Loan Bank of New York.

Note 3. Investment Securities

The following is a summary of the Company's investments in available for sale and held to maturity securities as of December 31, 2021 and 2020:

<u>As of December 31, 2021</u>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Available for sale:				
Corporate debt obligations	\$ 500	\$ —	\$ —	\$ 500
Residential mortgage-backed securities	12,513	372	42	12,843
Collateralized mortgage obligations	8	—	—	8
Total available for sale	<u>\$ 13,021</u>	<u>\$ 372</u>	<u>\$ 42</u>	<u>\$ 13,351</u>
Held to maturity:				
States and political subdivisions	\$ 3,761	\$ 241	\$ 16	\$ 3,986
Residential mortgage-backed securities	6,157	—	118	6,039
Total held to maturity	<u>\$ 9,918</u>	<u>\$ 241</u>	<u>\$ 134</u>	<u>\$ 10,025</u>

<u>As of December 31, 2020</u>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Available for sale:				
Corporate debt obligations	\$ 500	\$ —	\$ —	\$ 500
Residential mortgage-backed securities	18,736	646	23	19,359
Collateralized mortgage obligations	22	1	—	23
Total available for sale	<u>\$ 19,258</u>	<u>\$ 647</u>	<u>\$ 23</u>	<u>\$ 19,882</u>
Held to maturity:				
States and political subdivisions	<u>\$ 1,224</u>	<u>\$ 306</u>	<u>\$ —</u>	<u>\$ 1,530</u>

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of December 31, 2021, are as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available for sale:		
Due within one year	\$ 10	\$ 9
Due after one year through five years	610	611
Due after five years through ten years	7,223	7,388
Due after ten years	5,178	5,343
Total available for sale	<u>\$ 13,021</u>	<u>\$ 13,351</u>
Held to maturity:		
Due within one year	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	1,283	1,524
Due after ten years	8,635	8,501
Total held to maturity	<u>\$ 9,918</u>	<u>\$ 10,025</u>

Expected maturities may differ from contractual maturities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalty.

During the year ending December 31, 2021 and 2020, the Company did not sell any investment securities. Also, at December 31, 2021 and 2020, the Company used a letter of credit of \$40.0 million as collateral to secure public deposits.

The following tables show the gross unrealized losses and fair value of the Company's investments which are aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and December 31, 2020.

As of December 31, 2021	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for sale:						
Residential mortgage-backed securities	\$ 168	\$ 1	\$ 1,418	\$ 41	\$ 1,586	\$ 42
Total available for sale	<u>\$ 168</u>	<u>\$ 1</u>	<u>\$ 1,418</u>	<u>\$ 41</u>	<u>\$ 1,586</u>	<u>\$ 42</u>
Held to maturity:						
States and political subdivisions	\$ 2,462	\$ 16	\$ —	\$ —	\$ 2,462	\$ 16
Residential mortgage-backed securities	6,039	118	—	—	6,039	118
Total held to maturity	<u>\$ 8,501</u>	<u>\$ 134</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,501</u>	<u>\$ 134</u>
As of December 31, 2020	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for sale:						
Residential mortgage-backed securities	\$ 2,142	\$ 20	\$ 215	\$ 3	\$ 2,357	\$ 23
Total available for sale	<u>\$ 2,142</u>	<u>\$ 20</u>	<u>\$ 215</u>	<u>\$ 3</u>	<u>\$ 2,357</u>	<u>\$ 23</u>

The Company's unrealized loss for the debt securities is comprised of 5 securities in the less than 12 months loss position and 3 securities in the 12 months or greater loss position at December 31, 2021 and 2 securities in the less than 12 months loss position and 2 securities in the 12 months or greater loss position at December 31, 2020. The mortgage-backed securities that had unrealized losses were issued or guaranteed by the US government or government sponsored entities. The unrealized losses

associated with those mortgage-backed securities are generally driven by changes in interest rates and not due to credit losses given the explicit or implicit guarantees provided by the U.S. government. The states and political subdivisions securities that had unrealized losses were issued by a school district, and therefore the loss is attributed to changes in interest rates and not due to credit losses. Additionally, these securities are classified as held to maturity. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, the Company does not consider the unrealized loss in these securities to be OTTI at December 31, 2021.

Other Than Temporarily Impaired Debt Securities (OTTI)

On at least a quarterly basis, we review all debt securities that are in an unrealized loss position for OTTI. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairments. After an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. Please refer to Note 1 - Description of Business and Summary of Significant Accounting Policies for a detailed description of our accounting policy for OTTI.

Note 4. Loans and Allowance for Loan and Lease Losses

As of December 31, 2021, the Company had \$1.48 billion in loans receivable outstanding. Loans held for sale was zero at December 31, 2021. Outstanding balances include a total net increase of \$1.7 million and a net decrease of \$0.4 million at December 31, 2021 and 2020 for unearned income, net deferred loan fees, and unamortized discounts and premiums. The portfolios of loans receivable at December 31, 2021, and December 31, 2020, consist of the following:

	December 31, 2021	December 31, 2020
	(Dollars in thousands)	
Commercial and Industrial	\$ 57,151	\$ 121,808
Construction	154,077	211,013
Real Estate Mortgage:		
Commercial – Owner Occupied	123,672	132,207
Commercial – Non-owner Occupied	306,486	324,840
Residential – 1 to 4 Family	750,525	670,827
Residential – Multifamily	84,964	94,748
Consumer	7,972	10,364
Total Loans	<u>\$ 1,484,847</u>	<u>\$ 1,565,807</u>

An age analysis of past due loans by class at December 31, 2021 and December 31, 2020 as follows:

December 31, 2021

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
	(Dollars in thousands)						
Commercial and Industrial	\$ —	\$ 349	\$ 224	\$ 573	\$ 56,578	\$ 57,151	\$ —
Construction	—	—	1,139	1,139	152,938	154,077	—
Real Estate Mortgage:							
Commercial – Owner Occupied	—	—	2,170	2,170	121,502	123,672	—
Commercial – Non-owner Occupied	—	—	242	242	306,244	306,486	—
Residential – 1 to 4 Family	81	—	533	614	749,911	750,525	—
Residential – Multifamily	—	—	—	—	84,964	84,964	—
Consumer	—	—	—	—	7,972	7,972	—
Total Loans	<u>\$ 81</u>	<u>\$ 349</u>	<u>\$ 4,308</u>	<u>\$ 4,738</u>	<u>\$ 1,480,109</u>	<u>\$ 1,484,847</u>	<u>\$ —</u>

December 31, 2020

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
(Dollars in thousands)							
Commercial and Industrial	\$ —	\$ —	\$ 50	\$ 50	\$ 121,758	\$ 121,808	\$ —
Construction	—	—	1,365	1,365	209,648	211,013	—
Real Estate Mortgage:							
Commercial – Owner Occupied	—	1,171	5,521	6,692	125,515	132,207	—
Commercial – Non-owner Occupied	—	872	69	941	323,899	324,840	—
Residential – 1 to 4 Family	—	662	1,669	2,331	668,496	670,827	—
Residential – Multifamily	—	—	—	—	94,748	94,748	—
Consumer	45	—	55	100	10,264	10,364	—
Total Loans	\$ 45	\$ 2,705	\$ 8,729	\$ 11,479	\$ 1,554,328	\$ 1,565,807	\$ —

Allowance For Loan and Lease Losses (ALLL)

We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan portfolios as of the balance sheet date. The Company's accounting policy for ALLL is more fully described in Note 1 - Description of Business and Summary of Significant Accounting Policies.

The following tables present the information regarding the allowance for loan and lease losses and associated loan data:

Twelve Months Ended December 31, 2021								
As of December 31, 2021	Real Estate Mortgage							
(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Owner Occupied	Commercial Non-owner Occupied	Residential 1 to 4 Family	Residential Multifamily	Consumer	Total
December 31, 2020	\$ 492	\$ 3,359	\$ 3,078	\$ 8,398	\$ 12,595	\$ 1,639	\$ 137	\$ 29,698
Charge-offs	—	(226)	(152)	—	(49)	—	—	(427)
Recoveries	18	—	52	4	—	—	—	74
Provisions (credit)	(93)	(471)	19	(926)	2,424	(424)	(29)	500
Ending Balance December 31 2021	\$ 417	\$ 2,662	\$ 2,997	\$ 7,476	\$ 14,970	\$ 1,215	\$ 108	\$ 29,845
Allowance for loan losses								
Individually evaluated for impairment	\$ 8	\$ 300	\$ 5	\$ 218	\$ 60	\$ —	\$ —	\$ 591
Collectively evaluated for impairment	409	2,362	2,992	7,258	14,910	1,215	108	29,254
Balance at December 31, 2021	\$ 417	\$ 2,662	\$ 2,997	\$ 7,476	\$ 14,970	\$ 1,215	\$ 108	\$ 29,845
Loans								
Individually evaluated for impairment	\$ 224	\$ 1,139	\$ 2,369	\$ 5,577	\$ 993	\$ —	\$ —	\$ 10,302
Collectively evaluated for impairment	56,927	152,938	121,303	300,909	749,532	84,964	7,972	1,474,545
Balance at December 31, 2021	\$ 57,151	\$ 154,077	\$ 123,672	\$ 306,486	\$ 750,525	\$ 84,964	\$ 7,972	\$ 1,484,847

As of December 31, 2020		Twelve Months Ended December 31, 2020						
		Real Estate Mortgage						
(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Owner Occupied	Commercial Non-owner Occupied	Residential 1 to 4 Family	Residential Multifamily	Consumer	Total
December 31, 2019	\$ 964	\$ 2,807	\$ 2,023	\$ 5,860	\$ 9,151	\$ 819	\$ 187	\$ 21,811
Charge-offs	—	—	—	—	(59)	—	—	(59)
Recoveries	23	—	11	266	—	—	—	300
Provisions	(495)	552	1,044	2,272	3,503	820	(50)	7,646
Ending Balance December 31 2020	\$ 492	\$ 3,359	\$ 3,078	\$ 8,398	\$ 12,595	\$ 1,639	\$ 137	\$ 29,698
Allowance for loan losses								
Individually evaluated for impairment	\$ 12	\$ 301	\$ 200	\$ 350	\$ 141	\$ —	\$ —	\$ 1,004
Collectively evaluated for impairment	480	3,058	2,878	8,048	12,454	1,639	137	28,694
Balance at December 31, 2020	\$ 492	\$ 3,359	\$ 3,078	\$ 8,398	\$ 12,595	\$ 1,639	\$ 137	\$ 29,698
Loans								
Individually evaluated for impairment	\$ 49	\$ 4,840	\$ 5,735	\$ 10,109	\$ 1,875	\$ —	\$ 55	\$ 22,663
Collectively evaluated for impairment	121,759	206,173	126,472	314,731	668,952	94,748	10,309	1,543,144
Balance at December 31, 2020	\$ 121,808	\$ 211,013	\$ 132,207	\$ 324,840	\$ 670,827	\$ 94,748	\$ 10,364	\$ 1,565,807

Impaired Loans:

A loan is considered impaired when, based on the current information and events, it is probable that the Company will be unable to collect the payments of principal and interest as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet 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. 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

All our impaired loans are assessed for recoverability based on an independent third-party full appraisal to determine the net realizable value ("NRV") based on the fair value of the underlying collateral, less cost to sell and other costs or the present value of discounted cash flows in the case of certain impaired loans that are not collateral dependent.

The following tables provide further detail on impaired loans and the associated ALLL at December 31, 2021 and December 31, 2020:

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and Industrial	\$ 216	\$ 216	\$ —
Construction	—	—	—
Real Estate Mortgage:			
Commercial – Owner Occupied	2,170	2,170	—
Commercial – Non-owner Occupied	242	242	—
Residential – 1 to 4 Family	465	599	—
Residential – Multifamily	—	—	—
Consumer	—	—	—
	<u>3,093</u>	<u>3,227</u>	<u>—</u>
With an allowance recorded:			
Commercial and Industrial	8	16	8
Construction	1,139	5,856	300
Real Estate Mortgage:			
Commercial – Owner Occupied	199	199	5
Commercial – Non-owner Occupied	5,335	5,335	218
Residential – 1 to 4 Family	528	528	60
Residential – Multifamily	—	—	—
Consumer	—	—	—
	<u>7,209</u>	<u>11,934</u>	<u>591</u>
Total:			
Commercial and Industrial	224	232	8
Construction	1,139	5,856	300
Real Estate Mortgage:			
Commercial – Owner Occupied	2,369	2,369	5
Commercial – Non-owner Occupied	5,577	5,577	218
Residential – 1 to 4 Family	993	1,127	60
Residential – Multifamily	—	—	—
Consumer	—	—	—
	<u>\$ 10,302</u>	<u>\$ 15,161</u>	<u>\$ 591</u>

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and Industrial	\$ 37	\$ 37	\$ —
Construction:	—	—	—
Real Estate Mortgage:			
Commercial – Owner Occupied	2,853	2,853	—
Commercial – Non-owner Occupied	69	69	—
Residential – 1 to 4 Family	899	899	—
Residential – Multifamily	—	—	—
Consumer	55	55	—
	<u>3,913</u>	<u>3,913</u>	<u>—</u>
With an allowance recorded:			
Commercial and Industrial	12	19	12
Construction:	4,840	9,330	301
Real Estate Mortgage:			
Commercial – Owner Occupied	2,882	2,882	200
Commercial – Non-owner Occupied	10,040	10,040	350
Residential – 1 to 4 Family	976	976	141
Residential – Multifamily	—	—	—
Consumer	—	—	—
	<u>18,750</u>	<u>23,247</u>	<u>1,004</u>
Total:			
Commercial and Industrial	49	56	12
Construction:	4,840	9,330	301
Real Estate Mortgage:			
Commercial – Owner Occupied	5,735	5,735	200
Commercial – Non-owner Occupied	10,109	10,109	350
Residential – 1 to 4 Family	1,875	1,875	141
Residential – Multifamily	—	—	—
Consumer	55	55	—
	<u>\$ 22,663</u>	<u>\$ 27,160</u>	<u>\$ 1,004</u>

The following table presents by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2021 and 2020:

	Year Ended December 31,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)				
Commercial and Industrial	\$ 48	\$ 1	\$ 234	\$ 7
Commercial	1,275	—	4,984	157
Real Estate Mortgage:				
Commercial – Owner Occupied	2,378	13	6,080	47
Commercial – Non-owner Occupied	5,644	365	10,263	472
Residential – 1 to 4 Family	937	28	2,226	105
Residential – Multifamily	—	—	—	2
Consumer	—	—	11	—
Total	\$ 10,282	\$ 407	\$ 23,798	\$ 790

Troubled Debt Restructuring (TDRs)

We reported performing TDR loans (not reported as non-accrual loans) of \$6.0 million and \$13.9 million, respectively, at December 31, 2021 and December 31, 2020. Non-performing TDRs were zero and \$274,000 at December 31, 2021 and December 31, 2020. There were no new loans modified as a TDR and no additional commitments to lend additional funds to debtors whose loans have been modified in TDRs for the year ended December 31, 2021 and the year ended December 31, 2020, respectively.

A TDR is a loan the terms of which have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. TDRs result from our loss mitigation activities that include rate reductions, extension of maturity, or a combination of both, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. TDRs are classified as impaired loans and are included in the impaired loan disclosures. TDRs are also evaluated to determine whether they should be placed on non-accrual status. 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.

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.

TDRs are generally included in nonaccrual loans and may return to performing status after a minimum of six consecutive monthly payments under restructured terms and also meeting other performance indicators. We 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; and current financial information of the borrower and any guarantors. The projected repayment source needs to be reliable, verifiable, quantifiable and sustainable. 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.

All TDRs are also reviewed quarterly to determine the amount of any impairment. The nature and extent of impairment of TDRs, including those that have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses. For the TDR loans, we had specific reserves of \$254,000 and \$420,000 in the allowance at December 31, 2021 and December 31, 2020, respectively. 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.

On March 22, 2020, the federal bank regulatory agencies issued the “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” which encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act provided that a qualified loan modification is exempt by law from classification as a troubled debt restructuring (“TDR”) as defined by generally accepted accounting principles, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States terminates. The CAA extended this relief to the earlier of January 1, 2022 or the first day of a bank’s fiscal year that begins after the national emergency ends. In accordance with the CARES Act’s TDR relief provisions, as extended by the CAA, the Bank will not classify qualified loan modifications made through the end of 2021 as TDRs.

Credit Quality Indicators

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

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

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

An analysis of the credit risk profile by internally assigned grades as of December 31, 2021 and 2020, is as follows:

At December 31, 2021	Pass	OAEM	Substandard	Doubtful	Total
	(Dollars in thousands)				
Commercial and Industrial	\$ 56,927	\$ —	\$ 224	\$ —	\$ 57,151
Construction	152,938	—	1,139	—	154,077
Real Estate Mortgage:					
Commercial – Owner Occupied	118,473	3,029	2,170	—	123,672
Commercial – Non-owner Occupied	291,864	14,380	242	—	306,486
Residential – 1 to 4 Family	749,904	—	621	—	750,525
Residential – Multifamily	84,964	—	—	—	84,964
Consumer	7,972	—	—	—	7,972
Total	\$ 1,463,042	\$ 17,409	\$ 4,396	\$ —	\$ 1,484,847

At December 31, 2020	Pass	OAEM	Substandard	Doubtful	Total
	(Dollars in thousands)				
Commercial and Industrial	\$ 121,715	\$ 43	\$ 50	\$ —	\$ 121,808
Construction:	209,648	—	1,365	—	211,013
Real Estate Mortgage:					
Commercial – Owner Occupied	123,657	3,029	5,521	—	132,207
Commercial – Non-owner Occupied	324,649	—	191	—	324,840
Residential – 1 to 4 Family	668,593	462	1,772	—	670,827
Residential – Multifamily	94,748	—	—	—	94,748
Consumer	10,309	—	55	—	10,364
Total	\$ 1,553,319	\$ 3,534	\$ 8,954	\$ —	\$ 1,565,807

Loans to Related Parties: In the normal course of business, the Company has granted loans to its executive 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.

An analysis of the activity of such related party loans for 2021 is as follows:

	2021
	(Dollars in thousands)
Balance, beginning of year	\$ 10,942
Advances	499
Less: repayments	(3,159)
Balance, end of year	<u>\$ 8,282</u>

Pledged Loans: At December 31, 2021 and 2020, approximately \$751.1 million and \$703.5 million, respectively, of unpaid principal balance of loans were pledged to the FHLBNY on borrowings (Note 7). This pledge consists of a blanket lien on residential mortgages and certain qualifying commercial real estate loans.

Concentrations of Credit: Most of the Company's lending activity occurs within the areas of southern New Jersey and southeastern Pennsylvania, as well as other markets. We maintain discipline in our lending with a focus on portfolio diversification. In our underwriting process, we have limits on loans to one borrower, one industry as well as product concentrations. Our loan portfolio consists of residential, commercial real estate loans, construction loans, commercial and industry loans as well as consumer loans.

Note 5. OREO

Other real estate owned (OREO) at December 31, 2021 was \$1.7 million, compared to \$139,000 at December 31, 2020, an increase of \$1.5 million. The OREO balances for 2021 and 2020 are included in the other assets in the balance sheets. The real estate owned at December 31, 2021, consisted of one property. During 2021, the Company disposed of \$356,000 of OREO, recognizing a gain of \$60,000, compared to \$4.2 million of OREO sold in 2020, recognizing a loss of \$331,000. The Company did not write-down any OREO property during 2021, compared to \$40,000 of write-downs in 2020, based on a decline in appraised values. Operating expenses related to OREO, net of related income, for 2021 and 2020, were \$287,000 and \$271,000, respectively.

An analysis of OREO activity for the years ended December 31, 2021 and 2020 is as follows:

	For the Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Balance at beginning of period	\$ 139	\$ 4,727
Real estate acquired in settlement of loans	1,811	—
Sales of OREO, net	(356)	(4,217)
Valuation adjustments	60	(371)
Balance at end of period	<u>\$ 1,654</u>	<u>\$ 139</u>

Note 6. Deposits

Deposits at December 31, 2021 and 2020, consisted of the following:

	2021	2020
	(Dollars in thousands)	
Noninterest-bearing demand	\$ 553,810	\$ 428,860
NOWs	93,189	66,506
Money market deposits	348,427	313,142
Savings deposits	179,238	116,605
Time deposits over \$250,000	163,916	122,481
Other time deposits	420,710	473,797
Brokered time deposits	9,120	71,052
Total deposits	<u>\$ 1,768,410</u>	<u>\$ 1,592,443</u>

Scheduled maturities of certificates of deposit at December 31, 2021 are as follows:

Years Ending December 31,	(Dollars in thousands)
2022	\$ 466,442
2023	58,259
2024	35,737
2025	13,115
2026	20,193
Total	<u>\$ 593,746</u>

The following table is a summary of interest expense on deposits by category:

	2021	2020
	(Dollars in thousands)	
NOWs	\$ 324	\$ 328
Money market deposits	2,140	3,670
Savings deposits	664	711
Time deposits	6,398	11,016
Brokered time deposits	228	1,986
Total	<u>\$ 9,754</u>	<u>\$ 17,711</u>

Note 7. Borrowings

An analysis of borrowings at December 31, 2021 and 2020 is as follows:

		2021		2020	
			Weighted Average Rate		Weighted Average Rate
Maturity Date or Range		Amount		Amount	
(Dollars in thousands, except rates)					
Borrowed funds:					
Federal Home Loan Bank advances	Less than one year	\$ 20,000	0.45 %	\$ 56,500	1.65 %
	One to three years	58,150	0.51 %	78,150	0.49 %
	Total	<u>\$ 78,150</u>		<u>\$ 134,650</u>	
Federal Reserve Bank Advances	One to three years	<u>\$ —</u>	— %	<u>\$ 72,618</u>	0.35 %
	Three to five years	—	— %	17,408	0.35 %
	Total	<u>\$ —</u>		<u>\$ 90,026</u>	
Subordinated debentures, capital trusts	November 2035	<u>\$ 5,155</u>	1.82 %	<u>\$ 5,155</u>	1.87 %
	November 2035	5,155	1.82 %	5,155	1.87 %
	September 2037	3,093	1.70 %	3,093	1.72 %
	Total	<u>\$ 13,403</u>		<u>\$ 13,403</u>	
Subordinated debentures notes, net	July 15, 2030	29,329	6.50 %	\$ 29,139	6.50 %

At December 31, 2021, the Company had a \$596.5 million line of credit from the FHLBNY, of which \$78.2 million, as detailed above, was outstanding, \$40.0 million was a letter of credit to secure public deposits, and \$478.3 million was unused.

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 1.82% at December 31, 2021. 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 \$955,000 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 1.82%. 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 \$955,000 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 1.70% at December 31, 2021. 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.

Subordinated Debentures – Notes: On July 15, 2020, Parke Bancorp, Inc. (the “Company”) issued and sold \$30 million in aggregate principal amount of its 6.50% Fixed-to-Floating Rate Subordinated Notes due 2030 (the “Notes”) to certain qualified institutional buyers and accredited investors (the “Purchasers”). The Notes were offered and sold by the Company to eligible purchasers in a private offering in reliance on the exemption from the registration requirements of Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), and the provisions of Regulation D promulgated thereunder (the “Private Placement”). The Company intends to use the net proceeds from the offering for general corporate purposes. The Notes have a ten-year term and, from and including the date of issuance to but excluding July 15, 2025, will bear interest at a fixed annual rate of 6.50%, payable semi-annually in arrears. From and including July 15, 2025 to but excluding the maturity date or earlier redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then-current three-month SOFR (provided, that in the event the three-month SOFR is less than zero, the three-month SOFR will be deemed to be zero) plus 644 basis points, payable quarterly in arrears. The Notes are redeemable, in whole or in part, at the Company’s option, on any scheduled interest payment date on or after July 15, 2025, and at any time upon the occurrence of certain events. Any redemption of the Notes will be subject to prior regulatory approval to the extent required. There were approximately \$948,000 in costs associated with the issuance of this debt.

Note 8. Premises and Equipment

A summary of the cost and accumulated depreciation and amortization of Company premises and equipment as of December 31, 2021 and 2020 is as follows:

	2021	2020
	(Dollars in thousands)	
Land	\$ 1,044	\$ 1,044
Building and improvements	7,250	7,242
Furniture and equipment	3,926	3,869
Total premises and equipment	12,220	12,155
Less: accumulated depreciation and amortization	(5,955)	(5,457)
Premises and equipment, net	\$ 6,265	\$ 6,698

Depreciation and amortization expense was \$496,000 and \$498,000 in 2021 and 2020, respectively.

Note 9. Leases

We lease three retail branches and a parcel of land for a retail branch location. These leases generally have remaining terms of 5 years or less except the land lease, which has a remaining lease term of eighty-four years. Some of the leases may include options to renew the leases. The exercise of lease renewal is at our sole discretion.

Our right-of-use assets and lease liabilities for operating leases are included in other assets and other liabilities on our consolidated balance sheets. We use the interest rate implicit in the lease or incremental borrowing rate in determining the present value of lease payments. At December 31, 2021, we had future minimum lease payments of \$26.9 million and imputed interest of \$24.9 million and lease liability of \$2.1 million. The weighted average remaining lease term was 57.7 years and weighted average discount rate was 7.39% at December 31, 2021, respectively. Our operating lease expense is included in occupancy expenses within non-interest expense in our consolidated statements of income. Total operating lease expense consists of operating lease cost, which is recognized on a straight-line basis over the lease term, and variable lease cost, which is recognized based on actual amounts incurred.

The following table presents information about our operating leases at the year ended December 31, 2021.

Dollars in thousands	2021	
Lease right of use assets (ROU)	\$	2,062
Lease liabilities	\$	2,062

The following table presents future undiscounted cash flows on our operating leases:

Years Ending December 31,	(Dollars in thousands)	
2022	\$	290
2023		250
2024		262
2025		262
2026		188
Thereafter		25,688
Total undiscounted lease payments	\$	26,940

Note 10. Shareholders' Equity

Common Stock Dividend: The Company paid a \$0.16 per share quarterly cash dividend each quarter of 2021. During 2021, the Company paid a total of \$7.6 million in common stock cash 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.

Treasury Stock: No treasury stock was repurchased during 2021 and 2020.

Stock Options: After shareholder approval in 2020, the 2020 Equity Incentive Plan (the "2020 Plan") became effective. In addition, the Company also has the 2015 Equity Incentive Plan (the "2015 Plan"). No future awards are being granted under the 2015 Plan. The 2020 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. Collectively, the 2015 Plan and the 2020 Plan are referred to as Stock Option Plans. Under the 2020 Plan, the Company may grant options to purchase up to 935,000 shares of Company's common stock and award up to 55,000 of restricted stock. At December 31, 2021, there were 628,000 shares remaining for future option grants, and 51,794 shares remaining for future restricted stock awards under the plan.

During 2020, options to purchase 307,000 shares of common stock at \$12.29 per share were awarded and will expire no later than ten years following the grant date. The options granted vest over a five-year service period, with 20% of the awards vesting on each anniversary of the date of grant. The fair value of the options granted, as computed using the Black-Sholes option-pricing model, was determined to be \$1.76 per option based upon the following underlying assumptions: a risk-free interest rate, expected option life, expected stock price volatility, and dividend yield of 0.60%, 6.5 years, 65.21%, and 4.85%, respectively. The Company did not grant any options in 2021.

The risk-free interest rate was based on the U.S. Treasury yield at the option grant date for securities with a term matching the expected life of the options granted. The expected life was calculated using the "simplified" method provided for under Staff

Accounting Bulletin No. 110. Expected volatility was calculated based upon the actual price history of the Company's common stock up until the date of the option grants. The dividend yield was calculated using the previous four quarter payment history.

A summary of stock options at December 31, 2021 and 2020 was as follows:

	Year Ended December 31, 2021		Year Ended December 31, 2020	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock Options:				
Outstanding at beginning of period	602,335	\$12.87	270,676	\$14.80
Granted	—	\$—	307,000	\$12.29
Exercised	(49,048)	\$7.81	(176)	\$7.81
Forfeited	(20,826)	\$12.91	(2,233)	\$7.81
10% assumed Stock dividend adjustment	—	\$—	27,068	\$—
Outstanding at end of period	532,461	\$13.34	602,335	\$12.87
Non-vested at end of period	282,700	\$13.79	422,646	\$13.43
Exercisable at end of period	249,761	\$12.83	179,689	\$11.55

The total amount of compensation cost remaining to be recognized relating to unvested employees and directors option grants as of December 31, 2021 was \$516,600. The weighted-average period over which the expense is expected to be recognized is 2.8 years. At December 31, 2021, the intrinsic value of options exercisable and all options outstanding was approximately \$2.0 million and \$4.0 million, respectively.

The total amount of compensation cost remaining to be recognized relating to unvested option grants as of December 31, 2020 was \$719,600. The weighted-average period over which the expense is expected to be recognized was 3.9 years. At December 31, 2020, the intrinsic value of options exercisable and all options outstanding was approximately \$1.0 million and \$2.3 million, respectively.

Under the 2020 Plan, the Company was authorized to issue 55,000 shares of restricted stock upon the grant of awards. All restricted stocks vests over five years. The Company granted 3,206 shares and 1,982 shares of the restricted stock in 2021 and 2020, respectively, in which 1,880 shares and 1,241 shares of restricted stock were vested and exercised in 2021 and 2020. Non-vested restricted shares were 4,693 shares and 3,367 at December 31, 2021 and 2020. The weighted average of the grant date fair values were \$15.60 and \$25.23 per share for the awards of 2021 and 2020, respectively. The Company recognized \$32,006 and \$21,300 compensation costs of the restricted shares during year 2021 and 2020.

Preferred Stock: In December of 2013, the Company completed a private placement of newly designated 6% 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 approximately 137.6 shares of Common Stock at December 31, 2021. There were 445 shares of Series B Preferred Stock outstanding at December 31, 2021. Upon full conversion of the outstanding shares of the Series B Preferred Stock, the Company will issue approximately 61,232 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 future 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.

During 2021 and 2020, preferred stockholders converted 35 and 20 shares of preferred shares into 4,813 and 2,751 shares of common stock, respectively.

The Company has recorded dividends on preferred stock in the approximate amount of \$28,000 and \$29,000 for the years ended December 31, 2021 and 2020, respectively. The Company paid quarterly cash dividends of \$15 per share on the

preferred stock for year 2021. The preferred stock qualifies for and is accounted for as equity securities and is included in the Company's Tier I capital since issued.

Non-controlling interests: The Company had a joint venture with Bridgestone Capital LLC in PDL LLC, a joint venture formed in 2018 to originate short-term alternative real estate loan products. In 2021, the joint venture was liquidated and all earnings in the joint venture were distributed. Prior to liquidation, the Company had a 51% ownership interest in the joint venture. At December 31, 2021, the Company's interest in PDL LLC was zero.

Note 11. Income Taxes

Income tax expense for 2021 and 2020 consisted of the following:

	2021	2020
	(Dollars in thousands)	
Current tax expense:		
Federal	\$ 9,906	\$ 9,648
State	2,952	2,658
	12,858	12,306
Deferred tax expense/(benefit)	1,079	(2,295)
Income tax expense	<u>\$ 13,937</u>	<u>\$ 10,011</u>

The components of the net deferred tax asset at December 31, 2021 and 2020 were as follows:

	2021	2020
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 7,398	\$ 7,255
Supplemental Executive Retirement Plan ("SERP")	1,512	1,583
OREO write-downs	—	158
Nonaccrued interest	79	612
Non-qualified stock options and restricted stock	167	117
Write-down on partnership investment	135	133
PPP Deferred Loan Fees	185	509
Other	61	84
	<u>9,537</u>	<u>10,451</u>
Valuation allowance	<u>(135)</u>	<u>(133)</u>
Total gross deferred tax assets	9,402	10,318
Deferred tax liabilities:		
Depreciation	(107)	(158)
Partnership income	(35)	(28)
Unrealized gain	(85)	(161)
Deferred loan costs	(1,567)	(1,360)
Total gross deferred tax liabilities	<u>(1,794)</u>	<u>(1,707)</u>
Net deferred tax asset	<u>\$ 7,608</u>	<u>\$ 8,611</u>

A reconciliation of the Company's effective income tax rate with the statutory federal rate for 2021 and 2020 is as follows:

	2021	2020
	(Dollars in thousands)	
At Federal statutory rate	\$ 11,531	\$ 8,166
Adjustments resulting from:		
State income taxes, net of Federal tax benefit	2,372	1,783
Non-controlling interest	(46)	(94)
Tax exempt income	(15)	(11)
BOLI	(121)	(124)
Stock compensation	(94)	(1)
Nondeductible expenses	8	1
Nondeductible compensation under 162m	87	125
Other	215	166
	<u>\$ 13,937</u>	<u>\$ 10,011</u>

Management has evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustments to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by local tax authorities for years before 2018, and by the State of New Jersey for years before 2017. The Company's 2016 federal tax return is currently under audit and has extended the statute of limitations until 2022. For 2018 and after, the Company is still subject to examination. 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 \$13.9 million on income before taxes of \$54.9 million on for the year ended December 31, 2021, resulting in an effective tax rate of 25.4%, compared to income tax expense of \$10.0 million on income before taxes of \$38.9 million for the same period of 2020, resulting in an effective tax rate of 25.7%.

Note 12. Retirement Plans

The Company has a Supplemental Executive Retirement Plan ("SERP") covering certain members of management.

The net SERP pension benefit was approximately \$148,000 in 2021 and cost was approximately \$697,000 in 2020. The unfunded benefit obligation, which was included in other liabilities, was approximately \$6.1 million at December 31, 2021 and \$6.5 million at December 31, 2020.

The benefit obligation at December 31, 2021 and December 31, 2020 was calculated as follows:

	2021	2020
	(Dollars in thousands)	
Benefit obligation, January 1	\$ 6,482	\$ 5,949
Service (benefit)/cost	(498)	361
Interest cost	350	336
Benefits paid	(233)	(164)
Accrued liability at December 31	<u>\$ 6,101</u>	<u>\$ 6,482</u>

The net SERP pension benefit for 2021 and cost for 2020 was calculated as follows:

	2021	2020
	(Dollars in thousands)	
Service (benefit)/cost	\$ (498)	\$ 361
Interest cost	350	336
	<u>\$ (148)</u>	<u>\$ 697</u>

The service costs for 2021 and 2020 are included in the compensation cost in the income statement. The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.5% for 2021 and 2020. Annual benefit payments are estimated at \$480,228 for 2022, \$721,410 for 2023, \$721,410 for 2024, \$721,410 for 2025 and \$4.9 million 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 2021 was \$222,000 and \$238,000 in 2020.

Note 13. 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. 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 2.50%. The Bank made a one-time election to opt-out the net unrealized gain or loss on available for sale securities in computing regulatory capital. At December 31, 2021, the Bank was considered "well capitalized" under the regulatory framework for prompt corrective action.

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 2021 and 2020 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.

Community Bank Leverage Ratio

The Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), enacted in May 2018, introduced an optional simplified measure of capital adequacy for qualifying community banking organizations with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of tangible equity capital divided by average consolidated assets ("CBLR") of between 8 and 10 percent. Under the statute, any qualifying depository institution or holding company that maintains a leverage ratio exceeding the CBLR will be considered to satisfy the generally applicable leverage and risk-based regulatory capital requirements.

Under final regulations adopted by the federal banking agencies under the EGRRCPA, a community banking organization may opt into the CBLR framework if it has a Tier 1 leverage ratio of at least 9%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework will not be required to report or calculate compliance with risk-based capital requirements and will also be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations. We have elected to use the CBLR framework and is presented as of December 31, 2021.

On April 6, 2020, federal banking regulators issued two interim final rules that make changes to the CBLR ratio framework and implement certain directives of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The first of the April 2020 interim final rules reduced the minimum ratio from 9% to 8% as well as establishing a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall below the 8% CBLR requirement, so long as the banking organization maintains a leverage ratio of 7% or greater. The second interim final rule provides a transition from the temporary 8% CBLR requirement to a 9% requirement. It establishes a minimum CBLR of 8% for the second through

fourth quarters of 2020, an 8.5% minimum for 2021 and 9% thereafter, while maintaining a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall no more than 100 basis points below the applicable CBLR requirement.

The Company and Bank's regulatory capital as of December 31, 2021 and 2020, is presented in the following table.

As of December 31, 2021	Actual		For Capital Adequacy Purpose*	
Company	Amount	Ratio	Amount	Ratio
(Dollars in thousands except ratios)				
Total risk-based capital	\$ 290,965	22.57%	\$ 103,151	8.00%
Tier 1 risk-based capital	245,519	19.04%	77,363	6.00%
Tier 1 leverage	245,519	11.49%	85,494	4.00%
Tier 1 common equity	231,671	17.97%	58,023	4.50%
Parke Bank				
Community Bank Leverage Ratio	273,884	12.82%	181,640	8.50%

As of December 31, 2020	Actual		For Capital Adequacy Purpose	
Company	Amount	Ratio	Amount	Ratio
(Dollars in thousands except ratios)				
Total risk-based capital	\$ 261,143	20.61%	\$ 101,365	8.00%
Tier 1 risk-based capital	215,134	16.98%	76,024	6.00%
Tier 1 leverage	215,134	10.90%	157,968	4.00%
Tier 1 common equity	200,003	15.78%	57,018	4.50%
Parke Bank				
Community Bank Leverage Ratio	243,899	12.35%	157,936	4.00%

* Combination of both community bank leverage approach and the regular rule of capital adequacy.

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 for the Company and its employees totaled \$1,187,000 in 2021 and \$946,000 in 2020.

Note 15. Commitments and Contingencies

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 the maximum possible credit risk 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. 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments to fund fixed-rate loans were \$70.6 million at December 31, 2021. 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. As of December 31, 2021 and 2020, unused commitments to extend credit amounted to approximately \$117.7 million and \$144.6 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, 2021 and 2020, standby letters of credit with customers were \$1.5 million and \$1.7 million, respectively.

The Company also has entered into an employment contract with the President of the Company, which provides for continued payment of certain employment salary and benefits prior to the expiration date of the agreement and 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.

We provide banking services to customers that are licensed by various States to do business in the medical-use cannabis industry as growers, processors and dispensaries. Medical-use cannabis businesses are legal in these States, although it is not legal at the federal level. The U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") published guidelines in 2014 for financial institutions servicing state legal cannabis businesses. A financial institution that provides services to cannabis-related businesses can comply with Bank Secrecy Act ("BSA") disclosure standards by following the FinCEN guidelines. We maintain stringent written policies and procedures related to the acceptance of such businesses and to the monitoring and maintenance of such business accounts. We conduct a significant due diligence review of the cannabis business before the business is accepted, including confirmation that the business is properly licensed by the applicable state. Throughout the relationship, we continue monitoring the business, including site visits, to ensure that the business continues to meet our stringent requirements, including maintenance of required licenses and periodic financial reviews of the business.

While we believe we are operating in compliance with the FinCEN guidelines, there can be no assurance that federal enforcement guidelines will not change. Federal prosecutors have significant discretion and there can be no assurance that the federal prosecutors will not choose to strictly enforce the federal laws governing cannabis. Any change in the Federal government's enforcement position, could cause us to immediately cease providing banking services to the cannabis industry.

At December 31, 2021 and 2020, deposit balances from medical-use cannabis customers were approximately \$375.2 million and \$259.4 million, or 21.2% and 16.3% of total deposits, respectively, with two customers accounting for 19.3% and 19.2% of the total at December 31, 2021 and 2020. At December 31, 2021 and 2020, there were cannabis-related loans in the amounts of \$5.4 million and \$8.0 million, respectively. We recorded approximately \$336,000 and \$465,000 of interest income in 2021 and 2020, respectively, related to these loans. The fee incomes for the year ended December 31, 2021 and 2020 from the commercial deposit accounts of depositors who do business in the medical-use cannabis industry were \$5.1 million and \$2.2 million and are included in service fees on deposit accounts, in the accompanying consolidated statements of income.

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.

Fair value is a market-based measurement, not an entity-specific measurement. 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 on a recurring basis. 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.

Investments in Available for Sale Securities and Loans Held for Sale:

Where quoted prices are available in an active market, securities or other assets are classified in Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security or available for sale loans, then fair values are provided by independent third-party valuation services. These valuation 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. For loans held for sale, the fair value represents the face value of the guaranteed portion of the SBA loans pending settlement. Securities and loans in Level 2 include mortgage-backed securities, corporate debt obligations, collateralized mortgage-backed securities, and SBA loans held for sale.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2021 and 2020.

Financial Assets	Level 1	Level 2	Level 3	Total
(Dollars in thousands)				
Investment securities and loans held for sale				
As of December 31, 2021				
Corporate debt obligations	\$ —	\$ 500	\$ —	\$ 500
Residential mortgage-backed securities	—	12,843	—	12,843
Collateralized mortgage-backed securities	—	8	—	8
Loans held for sale	—	—	—	—
Total	\$ —	\$ 13,351	\$ —	\$ 13,351
As of December 31, 2020				
Corporate debt obligations	\$ —	\$ 500	\$ —	\$ 500
Residential mortgage-backed securities	—	19,359	—	19,359
Collateralized mortgage-backed securities	—	23	—	23
Loans held for sale	—	200	—	200
Total	\$ —	\$ 20,082	\$ —	\$ 20,082

For the year ended December 31, 2021, there were no transfers between the levels within the fair value hierarchy.

There were no level 3 assets or liabilities held for the year ended at December 31, 2021 and December 31, 2020.

Fair Value on a Non-Recurring Basis:

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

Financial Assets	Level 1	Level 2	Level 3	Total
(Dollars in thousands)				
As of December 31, 2021				
Collateral dependent impaired loans	\$ —	\$ —	\$ 4,087	\$ 4,087
OREO	\$ —	\$ —	\$ 1,654	\$ 1,654
As of December 31, 2020				
Collateral dependent impaired loans	\$ —	\$ —	\$ 11,558	\$ 11,558
OREO	\$ —	\$ —	\$ 139	\$ 139

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. 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, 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 for identical or similar assets.

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

Loans Receivable: For residential mortgages loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the risk adjusting current interest rates at which similar loans would be made to borrowers with similar credit ratings and same remaining maturities, adjusted for the liquidity discount and underwriting uncertainty.

Restricted stock: Carrying value of FHLBNY and the Atlantic Central Bankers Bank stocks represent the par values of the stocks and is adjusted for impairments if any. The carrying value approximated fair value.

Time 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.

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 debts with similar credit rating, terms and remaining maturities.

For a further discussion of the Company's valuation methodologies for financial instrument measured at fair value, see the Note 1 - Description of Business and Summary of Significant Accounting Policies of the Consolidated Financial Statements.

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, 2021 and December 31, 2020:

December 31, 2021	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial Assets:					
Cash and cash equivalents	\$ 596,553	\$ 596,553	\$ 596,553	\$ —	\$ —
Investment securities AFS	13,351	13,351	—	13,351	—
Investment securities HTM	9,918	10,025	—	10,025	—
Restricted stock	5,144	5,144	—	—	5,144
Loans held for sale	—	—	—	—	—
Loans, net	1,455,002	1,440,398	—	1,430,686	9,712
Accrued interest receivable	7,681	7,681	—	7,681	—
Financial Liabilities:					
Non-time deposits	\$ 1,174,664	\$ 1,174,664	\$ —	\$ 1,174,664	\$ —
Time deposits	593,746	597,791	—	597,791	—
Borrowings	120,882	117,636	—	117,636	—
Accrued interest payable	1,603	1,603	—	1,603	—

December 31, 2020	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial Assets:					
Cash and cash equivalents	\$ 458,601	\$ 458,601	\$ 458,601	\$ —	\$ —
Investment securities AFS	19,882	19,882	—	19,882	—
Investment securities HTM	1,224	1,530	—	1,530	—
Restricted stock	7,542	7,542	—	—	7,542
Loans held for sale	200	200	—	200	—
Loans, net	1,536,109	1,555,509	—	1,533,850	21,659
Accrued interest receivable	8,772	8,772	—	8,772	—
Financial Liabilities:					
Non-time deposits	\$ 925,113	\$ 925,113	\$ —	\$ 925,113	\$ —
Time deposits	667,330	672,385	—	672,385	—
Borrowings	267,218	265,119	—	265,119	—
Accrued interest payable	2,338	2,338	—	2,338	—

Note 17. Parent Company Only Financial Statements

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

Balance Sheets

	December 31,	
	2021	2020
	(Dollars in thousands)	
Assets:		
Cash	\$ 3,394	\$ 1,284
Investments in subsidiaries	274,532	243,093
Other assets	—	3
Total assets	<u>\$ 277,926</u>	<u>\$ 244,380</u>
Liabilities and Equity:		
Subordinated debentures	\$ 42,732	\$ 42,542
Other liabilities	2,833	913
Equity	232,361	200,925
Total liabilities and equity	<u>\$ 277,926</u>	<u>\$ 244,380</u>

Statements of Income

	Years ended December 31,	
	2021	2020
	(Dollars in thousands)	
Income:		
Dividends from bank subsidiary	\$ 12,008	\$ 5,212
Total income	<u>12,008</u>	<u>5,212</u>
Expense:		
Interest on subordinated debentures	\$ 2,394	\$ 1,321
Salary	160	160
Other expenses	142	139
Total expenses	<u>2,696</u>	<u>1,620</u>
Net Income	9,312	3,592
Equity in undistributed income of subsidiaries	31,448	24,836
Net income	40,760	28,428
Preferred stock dividend and discount accretion	(28)	(29)
Net income available to common shareholders	<u>\$ 40,732</u>	<u>\$ 28,399</u>

Statements of Cash Flows

	Years ended December 31,	
	2021	2020
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 40,760	\$ 28,428
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(31,448)	(24,836)
Amortization of subordinate debt issuance costs	190	87
Changes in		
Decrease (increase) in other assets	3	(1)
Increase in accrued interest payable and other accrued liabilities	16	882
Other	21	30
Net cash provided by operating activities	9,542	4,590
Cash Flows from Investing Activities		
Capital Contribution	—	(27,000)
Net cash used in investing activities	—	(27,000)
Cash Flows from Financing Activities		
Issuance of subordinate debt	—	29,052
Subordinate debt interest payment	—	—
Proceeds from exercise of stock options	201	—
Payment of dividend on preferred stock and common stock	(7,633)	(7,444)
Net cash (used) provided in financing activities	(7,432)	21,608
Increase (decrease) in cash and cash equivalents	2,110	(802)
Cash and Cash Equivalents, January 1,	1,284	2,086
Cash and Cash Equivalents, December 31,	\$ 3,394	\$ 1,284

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

None

Item 9A. Controls and Procedures.

(a) Disclosure Controls and Procedures

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

(b) Internal Control Over Financial Reporting

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

Management's report on the Company's internal control over financial reporting appears in the Company's financial statements that are contained in this Annual Report on Form 10-K immediately following Item 8. Such report is incorporated herein by reference.

2. Changes in Internal control over financial reporting

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

Item 9B. Other Information.

Not applicable.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information contained under the headings "Proposal I - Election of Directors," "Corporate Governance" and "Delinquent Section 16(a) Reports" in the Company's Proxy Statement for its 2022 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

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

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

Item 11. Executive Compensation.

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

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

(a) Security Ownership of Certain Beneficial Owners

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

(b) Security Ownership of Management

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

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

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2021, with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

Equity compensation plans approved by security holders	(a) Number of Securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
2020 Equity Incentive Plan	310,206	\$12.29	679,794
2015 Equity incentive plan	246,461	\$14.65	253,539
Equity compensation plans not approved by security holders			
None			
Total	532,461	\$13.34	933,333

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

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

Item 14. Principal Accountant Fees and Services.

The information contained in the section captioned “Independent Auditors” in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) Listed below are all financial statements, schedules and exhibits filed as part of this Form 10-K:
- 1 The consolidated balance sheets of Parke Bancorp, Inc. and subsidiary as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the years in the two-year period ended December 31, 2021, together with the related notes and the independent registered public accounting firm reports of RSM US, LLP, independent registered public accounting firm (PCAOB ID:49).
 - 2 Schedules omitted as they are not applicable.
 - 3 The following exhibits are included in this Report or incorporated herein by reference:
 - 3.1 [Certificate of Incorporation of Parke Bancorp, Inc. \(1\)](#)
 - 3.2 [Bylaws of Parke Bancorp, Inc. \(8\)](#)
 - 3.3 [Certificate of Amendment setting forth the terms of the Registrant’s 6.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series B \(2\)](#)
 - 4.1 [Specimen stock certificate of Parke Bancorp, Inc. \(1\)](#)
 - 4.2 [Description of Capital Stock of Parke Bancorp, Inc. \(8\)](#)
 - 10.1 [Amended Employment Agreement Between Bancorp, Bank and Vito S. Pantilione \(3\)](#)
 - 10.2 [Supplemental Executive Retirement Plan \(1\)](#)
 - 10.7 [2015 Equity Incentive Plan \(4\)](#)
 - 10.9 [SERP Agreement with John F. Hawkins \(5\)](#)
 - 10.12 [Management Change in Control Severance Agreement with Paul Palmieri \(3\)](#)
 - 10.13 [Management Change in Control Severance Agreement with Ralph Gallo \(3\)](#)
 - 10.14 [Management Change in Control Severance Agreement with John S. Kaufman \(8\)](#)
 - 10.15 [2020 Equity Incentive Plan \(6\)](#)
 - 21 [Subsidiaries of the Registrant](#)

23	Consent of RSM US LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Consent Order with the Federal Deposit Insurance Corporation dated October 8, 2020. (7)
99.2	Consent Order with the New Jersey Department of Banking and Insurance. (7)

101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded with the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

- (1) Incorporated by Reference to the Company's Registration Statement on Form S-4 filed with the SEC on January 31, 2005 (File No. 333-122406).
- (2) Incorporated by Reference to Company's Current Report on Form 8-K filed with the SEC on December 24, 2013 (File No. 000-51338).
- (3) Incorporated by Reference to Company's Current Report on Form 8-K filed with the SEC on July 20, 2016 (File No. 000-51338).
- (4) Incorporated by Reference to Company's Registration Statement on Form S-8 filed with the SEC on November 16, 2015 (File No. 333-208051).
- (5) Incorporated by Reference to Company's Current Report on Form 8-K filed with the SEC on January 22, 2016 (File No. 000-51338).
- (6) Incorporated by Reference to Company's Quarterly Report on Form 10-Q for the period ended March 31, 2020, filed with the SEC on May 8, 2020 (File No. 000-51338).
- (7) Incorporated by Reference to Company's Current Report on Form 8-K filed with the SEC on October 9, 2020 (File No. 000-51338).
- (8) Incorporated by Reference to Company's Annual Report on Form 10-K filed with the SEC on March 31, 2021 (File No. 000-51338).

Item 16. Form 10-K Summary

Not applicable

SIGNATURES

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

PARKE BANCORP, INC.

Dated: March 21, 2022

By:

/s/ Vito S. Pantilione

Vito S. Pantilione
President, Chief Executive Officer and Director

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 21, 2022.

/s/ Celestino R. Pennoni

Celestino R. Pennoni
Chairman of the Board and Director

/s/ Vito S. Pantilione

Vito S. Pantilione
President, Chief Executive Officer and Director

/s/ Arret F. Dobson

Arret F. Dobson
Director

/s/ Anthony Jannetti

Anthony Jannetti
Director

/s/ Jack C. Sheppard, Jr.

Jack C. Sheppard, Jr.

Director

/s/ Daniel J. Dalton

Daniel J. Dalton

Director

/s/ Fred G. Choate

Fred G. Choate

Director

/s/ Edward Infantolino

Edward Infantolino

Director

/s/ Jeffrey H. Krippitz

Jeffrey H. Krippitz

Director

/s/ Elizabeth Milavsky

Elizabeth Milavsky

Director

/s/ John S. Kaufman

John S. Kaufman
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Subsidiaries of the Registrant

Parent

Parke Bancorp, Inc.

Subsidiary	State or Other Jurisdiction Of Incorporation	Percentage Ownership
Parke Bank	New Jersey	100%
Parke Capital Trust I	Delaware	100%
Parke Capital Trust II	Delaware	100%
Parke Capital Trust III	Delaware	100%
Subsidiaries of Parke Bank		100%
PDL LLC	New Jersey	51%

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement (No. 333-128202, No. 333-134249 and No. 333-208051) on Form S-8 and the Registration Statements (No. 333-146121 and No. 333-157631) on Form S-3 of Parke Bancorp, Inc. and Subsidiaries of our report dated March 21, 2022, relating to the consolidated financial statements of Parke Bancorp, Inc., appearing in this Annual Report on Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2021.

/s/ RSM US LLP
Blue Bell, Pennsylvania
March 21, 2022

CERTIFICATION

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

1. I have reviewed this Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2022

/s/ Vito S. Pantilione

Vito S. Pantilione

President and Chief Executive Officer

CERTIFICATION

I, John S. Kaufman, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2022

/s/ John S. Kaufman

John S. Kaufman

Senior Vice President and Chief Financial Officer

CERTIFICATION

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2021 (the “Report”) of Parke Bancorp, Inc. (the “Company”) as filed with the Securities and Exchange Commission, we, Vito S. Pantilione, President and Chief Executive Officer, and John S. Kaufman, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Vito S. Pantilione

Vito S. Pantilione
President and Chief Executive Officer
(Principal Executive Officer)

/s/ John S. Kaufman

John S. Kaufman
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

March 21, 2022