PARKE BANCORP, INC.
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2011.

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 (IRS Employer Identification No.)
601 Delsea Drive, Washington Township, New Jersey (Address of principal executive offices)	08080 (Zip Code)

856-256-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

As of November 14, 2011, there were issued and outstanding 4,886,178 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2011	December 31, 2010
	(in thousands except share data)	
ASSETS		
Cash and due from financial institutions	$ 69,301	$ 57,628
Investment securities available for sale, at fair value	24,401	27,730
Investment securities held to maturity (fair value of $2,021 at September 30, 2011 and $2,048 at December 31, 2010)	2,024	1,999
Total investment securities	26,425	29,729
Loans held for sale	1,110	11,454
Loans, net of unearned income	638,197	626,739
Less: Allowance for loan losses	16,472	14,789
Net loans and leases	621,725	611,950
Accrued interest receivable	2,905	3,273
Premises and equipment, net	4,167	4,279
Other real estate owned (OREO)	18,190	16,701
Restricted stock, at cost	3,117	3,040
Bank owned life insurance (BOLI)	5,496	5,362
Other assets	14,611	13,437
Total Assets	$ 767,047	$ 756,853
LIABILITIES AND EQUITY		
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 23,395	$ 23,168
Interest-bearing deposits	598,634	581,554
Total deposits	622,029	604,722
FHLB borrowings	40,646	40,759
Other borrowed funds	10,000	21,454
Subordinated debentures	13,403	13,403
Accrued interest payable	656	828
Other liabilities	3,996	4,955
Total liabilities	690,730	686,121
Equity		
Preferred stock, $1,000 liquidation value per share; authorized 1,000,000 shares; Issued: 16,288 shares at September 30, 2011 and December 31, 2010	15,821	15,683
Common stock, $.10 par value; authorized 10,000,000 shares; Issued:	510	465

5,097,078 shares at September 30, 2011 and 4,653,133 shares at December 31, 2010				
Additional paid-in capital		45,844		41,931
Retained earnings		16,793		15,494
Accumulated other comprehensive loss		(539)		(693)
Treasury stock, 210,900 shares at September 30, 2011 and December 31, 2010, at cost		(2,180)		(2,180)
Total shareholders' equity		76,249		70,700
Noncontrolling (minority) interest in consolidated subsidiaries		68		32
Total equity		76,317		70,732
Total liabilities and equity	$	767,047	$	756,853

See accompanying notes to consolidated financial statements

1

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the nine months ended September 30,		For the three months ended September 30,	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	$29,802	$29,621	$9,912	$10,044
Interest and dividends on investments	1,033	1,290	329	428
Interest on cash equivalents	75	16	31	11
Total interest income	30,910	30,927	10,272	10,483
Interest expense:				
Interest on deposits	5,965	7,241	1,960	2,376
Interest on borrowings	1,066	1,330	352	444
Total interest expense	7,031	8,571	2,312	2,820
Net interest income	23,879	22,340	7,960	7,652
Provision for loan losses	6,850	6,401	2,350	2,100
Net interest income after provision for loan losses	17,029	15,939	5,610	5,552
Noninterest income:				
Loan fees	185	109	20	28
Net income from BOLI	133	132	45	43
Service fees on deposit accounts	166	191	58	62
Gain on sale of SBA loans	3,892	1,311	751	635
Other than temporary impairment losses	(132)	(115)	(48)	(71)
Portion of loss recognized in other comprehensive income (OCI) (before taxes)	47	49	20	23
Net impairment losses recognized in earnings	(85)	(66)	(28)	(48)
(Loss) gain on sale and write-down of real estate owned	(525)	39	(577)	(7)
Other	173	176	56	121
Total noninterest income	3,939	1,892	325	834
Noninterest expense:				
Compensation and benefits	4,227	3,641	1,406	1,163
Professional services	966	873	321	291
Occupancy and equipment	751	691	248	253
Data processing	316	250	92	88
FDIC insurance	877	653	192	216
Other operating expense	2,371	2,144	793	1,265
Total noninterest expense	9,508	8,252	3,052	3,276
Income before income tax expense	11,460	9,595	2,883	3,121
Income tax expense	4,605	3,802	1,161	1,180
Net income attributable to Company and noncontrolling (minority) interest	6,855	5,793	1,722	1,941
Net income attributable to noncontrolling (minority) interest	(848)	(168)	(152)	(113)
Net income attributable to Company	6,007	5,625	1,570	1,828
Preferred stock dividend and discount accretion	749	740	251	247
Net income available to common shareholders	$5,258	$4,885	$1,319	$1,581

Earnings per common share				
Basic	$1.08	$1.00	$0.27	$0.32
Diluted	$1.05	$0.98	$0.27	$0.32
Weighted average shares outstanding				
Basic	4,886,178	4,860,956	4,886,178	4,881,610
Diluted	4,987,961	4,975,535	4,937,242	4,900,332

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGE IN TOTAL EQUITY
(unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity	Non-Controlling (Minority) Interest	Total Equity
	(in thousands)								
Balance, December 31, 2009	$ 15,508	$ 421	$ 37,020	$ 14,071	$ (2,867)	$ (2,180)	$ 61,973	$ —	$ 61,973
Stock options exercised			22				22		22
Capital contribution by noncontrolling (minority) interest								196	196
Capital withdrawals by noncontrolling (minority) interest								(186)	(186)
10% common stock dividend		44	4,879	(4,929)			(6)		(6)
Comprehensive income:									
Net income				5,625			5,625	168	5,793
Non-credit unrealized losses on debt securities with OTTI, net of taxes					85		85		85
Net unrealized gains on available for sale securities without OTTI, net of taxes					1,921		1,921		1,921
Pension liability adjustments, net of tax					32		32		32
Total comprehensive income							7,663	168	7,831
Dividend on preferred stock (5% annually)				(610)			(610)		(610)
Accretion of discount on preferred stock	130			(130)			—		—
Balance, September 30, 2010	$ 15,638	$ 465	$ 41,921	$ 14,027	$ (829)	$ (2,180)	$ 69,042	$ 178	$ 69,220

Balance, December 31, 2010	$ 15,683	$ 465	$ 41,931	$ 15,494	$ (693)	$ (2,180)	$ 70,700	$ 32	$ 70,732
Capital withdrawals by noncontrolling (minority) interest								(812)	(812)
10% common stock dividend		45	3,913	(3,959)			(1)		(1)
Comprehensive income:									
Net income				6,007			6,007	848	6,855
Non-credit unrealized losses on debt securities with OTTI, net of taxes					(47)		(47)		(47)
Net unrealized gains on available for sale securities without OTTI, net of taxes					171		171		171
Pension liability adjustments, net of taxes					30		30		30
Total comprehensive income							6,161	848	7,009
Dividend on preferred stock (5% annually)				(611)			(611)		(611)
Accretion of discount on preferred stock	138			(138)			—		—
Balance, September 30, 2011	$ 15,821	$ 510	$ 45,844	$ 16,793	$ (539)	$ (2,180)	$ 76,249	$ 68	$ 76,317

See accompanying notes to consolidated financial statements

3

Parke Bancorp Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the nine months ended September 30, 2011	2010
	(in thousands)	
Cash Flows from Operating Activities		
Net income	$6,855	$5,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	273	247
Provision for loan losses	6,850	6,401
Bank owned life insurance income	(133)	(132)
Supplemental executive retirement plan expense	286	333
Gain on sale of SBA loans	(3,892)	(1,311)
SBA loans originated for sale	(21,993)	(12,593)
Proceeds from sale of SBA loans originated for sale	24,455	13,904
Gain (loss) and writedown on sale of other real estate owned	525	(39)
Other than temporary impairment of investments	85	66
Net accretion of purchase premiums and discounts on securities	(59)	(59)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(908)	(848)
(Decrease) increase in accrued interest payable and other accrued liabilities	(1,047)	1,107
Net cash provided by operating activities	11,297	8,525
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	—	(1,794)
(Purchases) redemptions of restricted stock	(77)	7
Proceeds from sale of securities available for sale	500	—
Proceeds from maturities and principal payments on mortgage-backed securities	2,983	7,171
Proceeds from the sale of REO property	3,175	453
Advances for other real estate owned	(4,387)	—
Net increase in loans	(17,427)	(45,407)
Purchases of bank premises and equipment	(161)	(1,724)
Net cash used in investing activities	(15,394)	(41,294)
Cash Flows from Financing Activities		
Payment of dividend on preferred stock	(611)	(610)
Cash payment of fractional shares on 10% stock dividend	(1)	(6)
Proceeds from exercise of stock options and warrants	—	22
Net decrease in Federal Home Loan Bank short term borrowings	—	2,319
Minority interest capital withdrawal	(812)	—
Payments of Federal Home Loan Bank advances	(113)	(607)
Net increase in noninterest-bearing deposits	227	1,194
Net increase in interest-bearing deposits	17,080	77,473
Net cash provided by financing activities	15,770	79,785
Increase in cash and cash equivalents	11,673	47,016
Cash and Cash Equivalents, beginning of period	57,628	4,154
Cash and Cash Equivalents, end of period	$69,301	$51,170

Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Interest on deposits and borrowed funds		
	$7,219	$8,527
Income taxes	$5,601	$6,200
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	$802	$13,273
Transfer of loans in settlement of secured borrowings	$11,454	—

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Parke Bancorp, Inc. ("Parke Bancorp" or the "Company") is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of Parke Bank (the "Bank").

The Bank is a commercial bank which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation ("FDIC"). Parke Bancorp and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through branches in Galloway Township, Northfield and Washington Township, New Jersey and Philadelphia, Pennsylvania.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation: The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America ("GAAP") and predominant practices within the banking industry.

The accompanying consolidated financial statements include the accounts of Parke Bancorp, Inc. and its wholly-owned subsidiaries Parke Bank, Parke Capital Markets, Farm Folly, Inc. and Taylors Glen LLC. Also included are the accounts of 44 Business Capital Partners LLC, a joint venture formed in 2009 to originate and service SBA loans. Parke Bank has a 51% ownership interest in the joint venture. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the requirements for consolidation under applicable accounting guidance. All significant inter-company balances and transactions have been eliminated.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in Parke Bancorp Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 since they do not include all of the information and footnotes required by GAAP. The accompanying interim financial statements for the three and nine months ended September 30, 2011 and 2010 are unaudited. The balance sheet as of December 31, 2010, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results for the full year.

Use of Estimates: In preparing the interim financial statements, management makes estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of expenses and revenues. Actual results could differ from such estimates. The allowance for loan losses, deferred taxes, evaluation of investment securities for other-than-temporary impairment and fair values of financial instruments and other real estate owned (“OREO”) are significant estimates and particularly subject to change.

Recently Issued Accounting Pronouncements:

On July 1, 2009, the Accounting Standards Codification (“ASC”) became the Financial Accounting Standards Board’s (“FASB”) officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, AICPA, EITF and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

New authoritative accounting guidance (Accounting Standards Update No. 2011-01) under ASC Topic 310, "Receivables", temporarily delayed the effective date of the disclosures about troubled debt restructurings in Update 2010-20. The delay was intended to allow the Board time to complete its deliberations on what constituted a troubled debt restructuring. In April 2011, new authoritative guidance (Accounting Standards Update No. 2011-02) under ASC Topic 310 was released to assist creditors in determining whether a restructuring is a troubled debt restructuring. This update clarifies the guidance on a whether a creditor has made a concession and whether a debtor is experiencing financial difficulties. In addition, the disclosures that were deferred under ASU 2011-01 will now be required. ASU 2011-02 is effective for the first interim or annual period beginning after June 15, 2011. The expanded new disclosures are incorporated in Note 4, “Loans”, and did not have a material impact on the Company’s financial condition or results of operation.

In April 2011, the FASB issued (ASU) 2011-02 which provides additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant. The guidance prohibits creditors from using the borrower’s effective rate test to evaluate whether a concession has been granted to the borrower and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU 2011-02 also ends the FASB’s deferral of the additional disclosures about troubled debt restructurings as required by ASU 2010-20. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of ASU 2011-02.

In June 2011, the FASB issued guidance to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The amendments require that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments are effective for interim and annual periods beginning after December 15, 2011 with retrospective application. The Company will adopt the accounting standard during 2012, as required, with no material impact on its results of operations or financial position.

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 September 30, 2011 and December 31, 2010:

As of September 30, 2011	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
		(amounts in thousands)			
Available-for-sale:					
U.S. Government sponsored entities	$ 3,006	$ 11	$ —	$ —	$ 3,017
Corporate debt obligations	1,500	14	24	—	1,490
Residential mortgage-backed securities	13,329	821	—	—	14,150
Collateralized mortgage obligations	1,624	100	—	20	1,704
Collateralized debt obligations	5,556	—	1,014	502	4,040
Total available-for-sale	$ 25,015	$ 946	$ 1,038	$ 522	$ 24,401
Held to maturity:					
States and political subdivisions	$ 2,024	$ 65	$ 68	$ —	$ 2,021

As of December 31, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
		(amounts in thousands)			
Available-for-sale:					
U.S. Government sponsored entities	$ 3,006	$ 14	$ 95	$ —	$ 2,925
Corporate debt obligations	2,000	94	—	—	2,094
Residential mortgage-backed securities	15,938	645	24	—	16,559
Collateralized mortgage obligations	2,045	107	—	—	2,152
Collateralized debt obligations	5,562	—	1,014	548	4,000
Total available-for-sale	$ 28,551	$ 860	$ 1,133	$ 548	$ 27,730
Held to maturity:					
States and political subdivisions	$ 1,999	$ 60	$ 11	$ —	$ 2,048

The amortized cost and fair value of debt securities classified as available-for-sale and held-to-maturity, by contractual maturity as of September 30, 2011 are as follows:

	Amortized Cost	Fair Value
	(amounts in thousands)	
Available-for-sale:		
Due within one year	$ —	$ —
Due after one year through five years	1,000	1,009
Due after five years through ten years	2,000	2,002
Due after ten years	7,062	5,536
Residential mortgage-backed securities and collateralized mortgage obligations	14,953	15,854
Total available-for-sale	$ 25,015	$ 24,401
Held-to-maturity:		
Due within one year	$ —	$ —
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	2,024	2,021
Total held-to-maturity	$ 2,024	$ 2,021

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

As of September 30, 2011, securities with a carrying value of $10.1 million, and fair value of $10.5 million, are pledged as collateral for borrowed funds. In addition, securities with a carrying value of $8.9 million and fair value of $9.4 million were pledged to secure public deposits.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011:

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(amounts in thousands)			
Available-for-sale:						
Corporate debt obligations	$ 476	$ 24	$ —	$ —	$ 476	$ 24
Collateralized debt obligations	—	—	3,736	1,014	3,736	1,014
Total available-for-sale	$ 476	$ 24	$ 3,736	$ 1,014	$ 4,212	$ 1,038
Held-to-maturity:						
States and political subdivisions	$ 720	$ 68	$ —	$ —	$ 720	$ 68

Corporate Debt Obligations: The unrealized loss on the Company's investment in corporate debt obligations relates to one security. The loss was caused by movement in interest rates. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in this security to be other-than-temporarily impaired at September 30, 2011.

Collateralized Debt Obligations: The Company's unrealized loss on investments in collateralized debt obligations ("CDOs") relates to three securities issued by financial institutions, totaling $3.7 million. CDOs are pooled securities primarily secured by trust preferred securities ("TruPS"), subordinated debt and surplus notes issued by small and mid-sized banks and insurance companies. These securities are generally floating rate instruments with 30-year maturities, and are callable at par by the issuer after five years. The current economic downturn has had a significant adverse impact on the financial services industry, consequently, TruPS CDOs do not have an active trading market. With the assistance of competent third-party valuation specialists, the Company utilized the following methodology to determine the fair value:

Cash flows were developed based on the estimated speeds at which the trust preferred securities are expected to prepay, the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default, and the severity of the losses on securities which default. Trust preferred securities generally allow for prepayment by the issuer without a prepayment penalty any time after five years. Due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for conditional default rates ("CDR") are based on the payment characteristics of the trust preferred securities themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the trust preferred issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The fair value of each bond was assessed by discounting its projected cash flows by a discount rate. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks. The fair value for previous reporting periods was based on indicative market bids and resulted in much lower values due to the inactive trading market.

The underlying issuers have been analyzed, and projections have been made regarding the future performance, considering factors including defaults and interest deferrals. The analysis indicates that the Company should expect to receive all contractual cash flows. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at September 30, 2011 or December 31, 2010.

Other-Than-Temporarily Impaired Debt Securities

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

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

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

The following table presents a roll-forward of the credit loss component of the amortized cost of debt securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the periods ended September 30, 2011 and 2010.

	For the Nine Months Ended September 30, 2011	2010
	(amounts in thousands)	
Beginning balance	$2,657	$4,008
Initial credit impairment	—	—
Subsequent credit impairments	85	66
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities sold	—	—
Reductions for securities deemed worthless	524	1,384
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	$2,218	$2,690

	For the Three Months Ended September 30, 2011	2010
	(amounts in thousands)	
Beginning balance	$2,398	$2,808
Initial credit impairment	—	—
Subsequent credit impairments	28	48
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities sold	—	—
Reductions for securities deemed worthless	208	166
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	$2,218	$2,690

A summary of investment gains and losses recognized in income during the nine month and three month periods ended September 30, 2011 and 2010 are as follows:

	For the Nine Months Ended September 30, 2011	2010
	(amounts in thousands)	
Available-for-sale securities:		
Realized gains	$—	$—
Realized (losses)	—	—
Other than temporary impairment	(85)	(66)
Total available-for-sale securities	$(85)	$(66)
Held-to-maturity securities:		

Realized gains	$—	$—
Realized (losses)	—	—
Other than temporary impairment	—	—
Total held-to-maturity securities	$—	$—

	For the Three Months Ended September 30,	
	2011	2010
	(amounts in thousands)	
Available-for-sale securities:		
Realized gains	$—	$—
Realized (losses)	—	—
Other than temporary impairment	(28)	(48)
Total available-for-sale securities	$(28)	$(48)
Held-to-maturity securities:		
Realized gains	$—	$—
Realized (losses)	—	—
Other than temporary impairment	—	—
Total held-to-maturity securities	$—	$—

During the first nine months of 2011, the Company recognized $85,000 of other-than-temporary impairment losses on available-for-sale securities, attributable to impairment charges recognized on a privately issued CMO.

The impairment charges for the CMO were recognized in light of significant deterioration of housing values in the residential real estate market, the significant rise in delinquencies and charge-offs of the underlying mortgage loans and resulting decline in the market value of the securities.

With the assistance of competent third-party valuation specialists, the Company utilized the following methodologies to quantify the OTTI. The underlying mortgage collateral was analyzed in order to project future cash flows and to calculate the credit component of the OTTI. Four major assumptions were utilized; prepayment (CPR), conditional default rate (CDR), loss severity and risk adjusted discount rate. The methodologies for the four assumptions are:

CPR assumptions were based on an evaluation of the lifetime conditional prepayment rates; 3 month CPR over the most recent period, past 6 months and past 12 months; estimated prepayment rates provided by the Securities Industry & Financial Markets Association (SIFMA), forecasts from other industry experts, and judgment given recent deterioration in credit conditions and declines in property values. The CPR assumptions utilized ranged from 7.73% to 8.51%.

CDR estimates were based on the status of the loans – current, 30-59 days delinquent, 60-89 days delinquent, 90+ days delinquent, foreclosure or REO – and proprietary loss migration models (i.e. percentage of 30 day delinquents that will ultimately migrate to default, percentage of 60 day delinquents that will ultimately migrate to default, etc.). The model assumes that the 60 day plus population will move to repossession inventory subject to the loss migration assumptions and liquidate over the next 36 months. Defaults vector from month 37 to month 48 to the month 49 CDR value and ultimately vector to zero over an extended period of time of at least 15 years. The CDR assumption utilized started at a range of 5.58% to 6.23%, and ramped down to a range of 1.80% to 4.14% by month 49.

Loss severity estimates are based on the initial loan to value ratio, the loan's lien position, private mortgage insurance proceeds available (if any), and the estimated change in the price of the property since origination. The loss severity assumption is static for twelve months at 50.9% then decreases monthly based on future market appreciation to a floor of 23%.

13

The risk adjusted discount rate of 15% was derived based on the spread from the most recent active market indication for either the instrument in question or a proxy of the instrument. The resulting spread was then used in conjunction with the swap curve to discount the expected cash flow stream.

NOTE 4. LOANS

The portfolio of the loans outstanding consists of:

	September 30, 2011			December 31, 2010		
	Amount	Percentage of Total Loans		Amount	Percentage of Total Loans	
	(amounts in thousands)					
Commercial and industrial	$23,931	3.7	%	$24,782	4.0	%
Real estate construction:						
Residential	21,525	3.4		38,810	6.2	
Commercial	56,826	8.9		57,086	9.1	
Real estate mortgage:						
Commercial – owner occupied	145,351	22.8		141,035	22.5	
Commercial – non owner occupied	207,231	32.5		178,755	28.6	
Residential – 1 to 4 family	147,272	23.1		141,315	22.5	
Residential - Multifamily	17,514	2.7		27,841	4.4	
Consumer	18,547	2.9		17,115	2.7	
Total Loans	$638,197	100.0	%	$626,739	100.0	%

The Company maintains interest reserves for the purpose of making periodic and timely interest payments for borrowers that qualify. Total loans with interest reserves were $29.0 million and $65.6 million at September 30, 2011 and December 31, 2010 respectively. On a monthly basis management reviews loans with interest reserves to assess current and projected performance.

Loan Origination/Risk Management: The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and

almost always will incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location within our market area. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also monitors economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At September 30, 2011, approximately 41.4% of the outstanding principal balance of the Company’s commercial real estate loans were secured by owner-occupied properties.

To monitor and manage consumer loan risk, policies and procedures are developed and modified as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

The Company maintains an outsourced independent loan review program that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Nonaccrual and Past Due Loans: Loans are considered past due if the required principal and interest payments have not been received 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 provision. 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

An age analysis of past due loans by class follows:

As of September 30, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans
			(Amounts in thousands)				
Commercial and industrial	$ 594	$ —	$ —	$ —	$ 594	$23,337	$ 23,931
Real estate construction:							
Residential	—	—	—	4,557	4,557	16,968	21,525
Commercial	—	1,698	—	7,597	9,295	47,531	56,826
Real estate mortgage:							
Commercial – owner occupied	165	—	—	4,878	5,043	140,308	145,351
Commercial – non owner occupied	1,510	—	—	10,686	12,196	195,035	207,231
Residential – 1 to 4 family	524	—	—	10,294	10,818	136,454	147,272
Residential - Multifamily	—	—	—	585	585	16,929	17,514
Consumer	—	—	—	169	169	18,378	18,547
Total Loans	$ 2,793	$ 1,698	$ —	$ 38,766	$ 43,257	$594,940	$638,197

As of December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans
			(Amounts in thousands)				
Commercial and industrial	$ 21	$ 98	$ —	$ —	$ 119	$24,663	$ 24,782
Real estate construction:							
Residential	1,657	—	—	8,546	10,203	28,607	38,810
Commercial	266	—	—	6,701	6,967	50,119	57,086
Real estate mortgage:							
Commercial – owner occupied	4,157	—	—	546	4,703	136,332	141,035
	406	5,670	—	826	6,902	171,853	178,755

Commercial – non owner occupied							
Residential – 1 to 4 family	1,334	2,161	—	9,415	12,910	128,405	141,315
Residential - Multifamily	75	—	—	1,350	1,425	26,416	27,841
Consumer	—	—	—	61	61	17,054	17,115
Total Loans	$ 7,916	$ 7,929	$ —	$ 27,445	$ 43,290	$583,449	$626,739

16

Impaired Loans: Loans with a risk rating of substandard or worse are deemed impaired. In addition, Troubled Debt Restructurings are also deemed impaired.

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

Impaired loans are set forth in the following tables.

As of September 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized1
			(Amounts in thousands)		
With no related allowance recorded:					
Commercial and industrial	$594	$594	$—	$594	$ 18
Real estate construction:					
Residential	4,149	4,341	—	5,877	160
Commercial	14,324	14,545	—	14,455	331
Real estate mortgage:					
Commercial – owner occupied	7,043	7,043	—	7,097	135
Commercial – non owner occupied	43,024	43,024	—	46,163	2,228
Residential – 1 to 4 family	12,090	14,689	—	14,557	169
Residential - Multifamily	585	655	—	626	29
Consumer	169	169	—	171	8
	81,978	85,060	—	89,540	3,078
With an allowance recorded:					
Commercial and industrial	—	—	—	—	—
Real estate construction:					
Residential	5,772	7,010	1,391	6,737	176
Commercial	1,645	1,645	166	1,564	55
Real estate mortgage:					
Commercial – owner occupied	592	592	24	593	34
Commercial – non owner occupied	12,244	12,364	643	11,358	305
Residential – 1 to 4 family	1,976	1,976	43	1,806	64
Residential - Multifamily	3,426	3,426	2	4,136	218
Consumer	—	—	—	—	—
	25,655	27,013	2,269	26,194	852
Total:					
Commercial and industrial	594	594	—	594	18
Real estate construction:					
Residential	9,921	11,351	1,391	12,614	336
Commercial	15,969	16,190	166	16,019	386
Real estate mortgage:					
Commercial – owner occupied	7,635	7,635	24	7,690	169
Commercial – non owner occupied	55,268	55,388	643	57,521	2,533
Residential – 1 to 4 family	14,066	16,665	43	16,363	233
Residential - Multifamily	4,011	4,081	2	4,762	247
Consumer	169	169	—	171	8
Total	$107,633	$112,073	$2,269	$115,734	$ 3,930

1Reflects the interest income recognized on impaired loans, which includes performing troubled debt restructurings accruing interest, during the nine month period ending September 30, 2011. Interest income recognized on a cash basis subsequent to a loan being placed on nonaccrual was $162,000 during the period.

As of December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized1
			(Amounts in thousands)		
With no related allowance recorded:					
Commercial and industrial	$785	$785	$—	$509	$ 11
Real estate construction:					
Residential	13,180	14,147	—	12,789	106
Commercial	18,181	18,770	—	7,845	214
Real estate mortgage:					
Commercial – owner occupied	9,022	9,022	—	5,209	395
Commercial – non owner occupied	33,281	33,282	—	10,994	1,167
Residential – 1 to 4 family	6,185	6,211	—	6,203	153
Residential - Multifamily	2,355	2,425	—	1,676	77
Consumer	61	61	—	31	—
	83,050	84,703	—	45,256	2,123
With an allowance recorded:					
Commercial and industrial	—	—	—	—	—
Real estate construction:					
Residential	6,599	7,820	2,091	6,576	70
Commercial	—	—	—	—	—
Real estate mortgage:					
Commercial – owner occupied	124	124	5	325	
Commercial – non owner occupied	9,304	9,424	192	5,137	525
Residential – 1 to 4 family	8,100	8,267	490	2,065	68
Residential - Multifamily	4,846	4,846	73	1,999	321
Consumer	—	—	—	—	—
	28,973	30,481	2,851	16,102	984
Total:					
Commercial and industrial	785	785	—	509	11
Real estate construction:					
Residential	19,779	21,967	2,091	19,365	176
Commercial	18,181	18,770	—	7,845	214
Real estate mortgage:					
Commercial – owner occupied	9,146	9,146	5	5,534	395
Commercial – non owner occupied	42,585	42,706	192	16,131	1,692
Residential – 1 to 4 family	14,285	14,478	490	8,268	221
Residential - Multifamily	7,201	7,271	73	3,675	398
Consumer	61	61	—	31	—
Total	$112,023	$115,184	$2,851	$61,358	$ 3,107

1Reflects the interest income recognized on impaired loans, which includes performing troubled debt restructurings, during 2010. Interest income recognized on a cash basis subsequent to a loan being placed on nonaccrual was $45,000 during 2010.

Troubled debt restructurings ("TDR"): It is our policy not to renegotiate the terms of a commercial loan simply because of a delinquency status. However, we will use our Troubled Debt Restructuring Program to work with delinquent borrowers when the delinquency is temporary. We consider all loans modified in a troubled debt restructuring to be impaired.

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

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

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

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

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

The following is an analysis of loans modified in a troubled debt restructuring by type of concession as of September 30, 2011. There were no modifications that involved forgiveness of debt.

	TDRs in compliance with their modified terms and accruing interest	TDRs that are not accruing interest	Total
	(amounts in thousands)		
Reduction in interest rate	$15,586	$11,138	$26,724
A period of interest only payments	17,745	9,467	27,212
Total	$33,331	$20,605	$53,936

The following is an analysis of performing and nonperforming loans modified in a troubled debt restructuring as of September 30, 2011.

	TDRs in compliance with their modified terms and accruing interest		TDRs that are not accruing interest		Total	
	Balance	Count	Balance	Count	Balance	Count
			(loan balances in thousands)			
Commercial	$ 594	1	$ —	—	$ 594	1
Residential Real Estate Construction	—	—	958	1	958	1
Commercial Real Estate Mortgage - Owner Occupied	2,387	4	4,431	6	6,818	10
Commercial Real Estate Mortgage - Non-owner Occupied	23,773	6	9,468	4	33,241	10
Commercial Real Estate Mortgage -Multifamily	3,426	1	503	2	3,929	3
Residential Real Estate Mortgage	3,151	6	5,245	6	8,396	12
Total	$ 33,331	18	$ 20,605	19	$ 53,936	37

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, non-performing 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. Grade 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. 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 is as follows:

At September 30, 2011	Pass	OAEM	Substandard	Doubtful	Total
			(Amounts in thousands)		
Commercial and industrial	$22,837	$500	$594	$—	$23,931
Real estate construction:					
Residential	11,260	344	9,921	—	21,525
Commercial	30,605	—	26,221	—	56,826
Real estate mortgage:					
Commercial – owner occupied	135,011	3,842	6,498	—	145,351
Commercial – non owner occupied	158,871	10,408	37,952	—	207,231
Residential – 1 to 4 family	125,372	4,043	17,857	—	147,272
Residential - Multifamily	13,503	3,426	585	—	17,514
Consumer	18,378	—	169	—	18,547
Total	$515,837	$22,563	$99,797	$—	$638,197

At December 31, 2010	Pass	OAEM	Substandard	Doubtful	Total
			(Amounts in thousands)		
Commercial and industrial	$23,497	$500	$785	$—	$24,782
Real estate construction:					
Residential	12,132	6,899	19,779	—	38,810
Commercial	38,005	900	18,181	—	57,086
Real estate mortgage:					
Commercial – owner occupied	134,355	3,250	3,430	—	141,035
Commercial – non owner occupied	122,494	41,223	15,038	—	178,755
Residential – 1 to 4 family	126,270	4,290	10,755	—	141,315
Residential - Multifamily	26,491	—	1,350	—	27,841
Consumer	15,559	1,495	61	—	17,115
Total	$498,803	$58,557	$69,379	$—	$626,739

NOTE 5. ALLOWANCE FOR LOAN LOSSES

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

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company’s control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for possible loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

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

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

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

During the three months ended September 30, 2011, management increased the ASC 450 loss factors related to trends in delinquent and impaired loans for commercial, residential real estate construction, commercial real estate construction and residential real estate mortgage. As a result of the aforementioned ASC 450 factor changes, the impact to the allowance for loan losses were increases in ASC 450 reserves of $283,000 for construction and $1.0 million for residential real estate.

An analysis of the allowance for loan losses for the nine month and three month periods ended September 30, 2011 and 2010 is as follows:

Allowance for loan Losses:	For the nine month period ended September 30, 2011				
	Balance at December 31, 2010	Charge-offs	Recoveries	Provisions	Balance at September 30, 2011
	(Amounts in thousands)				
Commercial and industrial	$448	$22	$—	$30	$456
Real estate construction:					
Residential	2,980	2,764	22	2,171	2,409
Commercial	1,576	494	—	1,030	2,112
Real estate mortgage:					
Commercial – owner occupied	2,508	—	—	203	2,711
Commercial – non owner occupied	3,792	—	—	783	4,575
Residential – 1 to 4 family	2,848	1,910	—	2,919	3,857
Residential - Multifamily	372	—	—	(167)	205
Consumer	130	—	1	16	147
Unallocated	135	—	—	(135)	—
Total	$14,789	$5,190	$23	$6,850	$16,472

	For the nine month period ended September 30, 2010				
	Balance at December 31, 2009	Charge-offs	Recoveries	Provisions	Balance at September 30, 2010
	(Amounts in thousands)				
Commercial and industrial	$214	$615	$—	$714	$313
Real estate construction:					
Residential	4,074	3,721	—	1,032	1,385
Commercial	498	588	—	1,636	1,546
Real estate mortgage:					
Commercial – owner occupied	3,332	120	—	(696)	2,516
Commercial – non owner occupied	2,643	—	—	1,035	3,678
Residential – 1 to 4 family	1,220	257	—	1,166	2,129
Residential - Multifamily	231	70	—	349	510
Consumer	102	6	—	25	121
Unallocated	90	—	—	1,140	1,230
Total	$12,404	$5,377	$—	$6,401	$13,428

	For the three month period ended September 30, 2011				
	Balance at June 30, 2011	Charge-offs	Recoveries	Provisions	Balance at September 30, 2011
	(Amounts in thousands)				
Commercial and industrial	$496	$—	$—	$(40)	$456
Real estate construction:					
Residential	2,494	37	22	(70)	2,409
Commercial	2,077	494	—	529	2,112
Real estate mortgage:					
Commercial – owner occupied	2,508	—	—	203	2,711
Commercial – non owner occupied	4,452	—	—	123	4,575
Residential – 1 to 4 family	3,694	1,910	—	2,073	3,857
Residential - Multifamily	372	—	—	(167)	205
Consumer	143	—	1	3	147
Unallocated	304	—	—	(304)	—
Total	$16,540	$2,441	$23	$2,350	$16,472

	For the three month period ended September 30, 2010				
	Balance at June 30, 2010	Charge-offs	Recoveries	Provisions	Balance at September 30, 2010
	(Amounts in thousands)				
Commercial and industrial	$232	$331	$—	$412	$313
Real estate construction:					
Residential	2,805	2,000	—	580	1,385
Commercial	697	588	—	1,437	1,546
Real estate mortgage:					
Commercial – owner occupied	4,812	—	—	(2,296)	2,516
Commercial – non owner occupied	3,590	120	—	208	3,678
Residential – 1 to 4 family	1,823	449	—	755	2,129
Residential - Multifamily	492	71	—	89	510
Consumer	106	6	—	21	121
Unallocated	336	—	—	894	1,230
Total	$14,893	$3,565	$—	$2,100	$13,428

Allowance for Loan Losses, at September 30, 2011	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and industrial	$—	$456	$456
Real estate construction:			
Residential	1,391	1,018	2,409
Commercial	166	1,946	2,112
Real estate mortgage:			
Commercial – owner occupied	24	2,687	2,711
Commercial – non owner occupied	643	3,932	4,575
Residential – 1 to 4 family	43	3,814	3,857
Residential - Multifamily	2	203	205
Consumer	—	147	147
Unallocated	—		
Total	$2,269	$14,203	$16,472

Allowance for Loan Losses, at December 31, 2010	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and industrial	$—	$448	$448
Real estate construction:			
Residential	2,091	889	2,980
Commercial	—	1,576	1,576
Real estate mortgage:			
Commercial – owner occupied	5	2,478	2,483
Commercial – non owner occupied	192	3,624	3,816
Residential – 1 to 4 family	490	2,359	2,849
Residential - Multifamily	73	299	372
Consumer	—	130	130
Unallocated	—	135	135
Total	$2,851	$11,938	$14,789

Loans, at September 30, 2011:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and industrial	$594	$23,337	$23,931
Real estate construction:			
Residential	11,351	10,174	21,525
Commercial	16,190	40,636	56,826
Real estate mortgage:			
Commercial – owner occupied	7,635	137,716	145,351
Commercial – non owner occupied	55,388	151,843	207,231
Residential – 1 to 4 family	16,665	130,607	147,272
Residential - Multifamily	4,081	13,433	17,514
Consumer	169	18,378	18,547
Total	$112,073	$526,124	$638,197

Loans, at December 31, 2010:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and industrial	$785	$23,997	$24,782
Real estate construction:			
Residential	19,779	19,031	38,810
Commercial	18,181	38,905	57,086
Real estate mortgage:			
Commercial – owner occupied	9,146	131,889	141,035
Commercial – non owner occupied	42,585	136,170	178,755
Residential – 1 to 4 family	14,285	127,030	141,315
Residential - Multifamily	7,201	20,640	27,841
Consumer	61	17,054	17,115
Total	$112,023	$514,716	$626,739

28

NOTE 6. REGULATORY RESTRICTIONS

The Company and the Bank are subject to various regulatory capital requirements of federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
Parke Bancorp, Inc.	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2011 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	$ 97,999	15.02 %	$ 52,212	8 %	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	$ 89,788	13.76 %	$ 26,106	4 %	N/A	N/A
Tier 1 Capital (to Average Assets)	$ 89,788	12.08 %	$ 29,729	4 %	N/A	N/A

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
Parke Bancorp, Inc.	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010 (amounts in thousands except ratios)						
Total Risk Based Capital	$ 92,629	14.20 %	$ 52,183	8 %	N/A	N/A

(to Risk Weighted Assets)								
Tier 1 Capital (to Risk Weighted Assets)	$	84,394	12.94 %	$	26,092	4 %	N/A	N/A
Tier 1 Capital (to Average Assets)	$	84,394	11.23 %	$	30,062	4 %	N/A	N/A

Parke Bank	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To be Well-Capitalized Under Prompt Corrective Action Provisions Amount	To be Well-Capitalized Under Prompt Corrective Action Provisions Ratio
As of September 30, 2011 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	$ 97,786	14.98 %	$ 52,212	8 %	$ 65,265	10 %
Tier 1 Capital (to Risk Weighted Assets)	$ 89,575	13.72 %	$ 26,106	4 %	$ 39,159	6 %
Tier 1 Capital (to Average Assets)	$ 89,575	12.05 %	$ 29,729	4 %	$ 37,161	5 %

Parke Bank	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To be Well-Capitalized Under Prompt Corrective Action Provisions Amount	To be Well-Capitalized Under Prompt Corrective Action Provisions Ratio
As of December 31, 2010 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	$ 92,556	14.21 %	$ 52,181	8 %	$ 65,226	10 %
Tier 1 Capital (to Risk Weighted Assets)	$ 84,321	12.94 %	$ 26,091	4 %	$ 39,136	6 %
Tier 1 Capital (to Average Assets)	$ 84,321	11.24 %	$ 30,062	4 %	$ 37,577	5 %

On October 3, 2008 Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the U.S. Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to the U.S. markets. One of the provisions resulting from the Act was the Treasury Capital Purchase Program (CPP) which provides for the direct equity investment of perpetual preferred stock by the U.S. Treasury in qualified financial institutions. This program was voluntary and requires an institution to comply with several restrictions and provisions, including limits on executive compensation, stock redemptions, and declaration of dividends. The perpetual preferred stock has a dividend rate of 5% per year until the fifth anniversary of the Treasury investment and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the U.S. Treasury. The Company received an investment in perpetual preferred stock of $16,288,000 on January 30, 2009. These proceeds were allocated between the preferred stock and warrants based on relative fair value in accordance with FASB ASC Topic 470-20, "Debt with Conversion and Other Options." The allocation of proceeds resulted in a discount on the preferred stock that will be accreted over five years. The Company issued 329,757 common stock warrants to the U.S. Treasury and $930,000 of those proceeds was allocated to the warrants. The warrants are accounted for as equity securities. The warrants have a contractual life of 10 years and an exercise price of $7.41 per share of common stock.

NOTE 7. OTHER COMPREHENSIVE INCOME

The Company's other comprehensive income is presented in the following tables:

	For the nine months ended September 30, (amounts in thousands)			
		2011		2010
Non-credit unrealized gains (losses) on debt securities with OTTI:				
Available-for-sale	$	40	$	142
Unrealized gains (losses) on available for sale securities without OTTI		168		3,201
Minimum pension liability		50		54
Tax impact		(104)		(1,359)
Other comprehensive income	$	154	$	2,038

	For the three months ended September 30, (amounts in thousands)			
		2011		2010
Non-credit unrealized gains (losses) on debt securities with OTTI:				
Available-for-sale	$	(17)	$	64
Unrealized gains (losses) on available for sale securities without OTTI		47		(112)
Minimum pension liability		17		19
Tax impact		(19)		11
Other comprehensive income	$	28	$	(18)

Accumulated other comprehensive income consisted of the following at:

	September 30, 2011		December 31, 2010	
	(amounts in thousands)			
Securities				
Non-credit unrealized losses on debt securities with OTTI:				
Available for sale	$	(522)	$	(548)
Unrealized gains (losses) on available for sale securities without OTTI		(92)		(273)
Minimum pension liability		(285)		(201)
Tax impact		360		329
	$	(539)	$	(693)

31

NOTE 8. 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 ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

Level 1 Inputs:

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

Level 2 Inputs:

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

Level 3 Inputs:

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

Fair Value on a Recurring Basis:

The following is a description of the Company’s valuation methodologies for assets carried at fair value. These methods may produce a fair value calculation that may not be indicative of net realizable value or

reflective of future fair values. Furthermore, while the Company believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting measurement date.

Investment Securities Available for Sale:

Where quoted prices are available in an active market, securities are classified in Level 1 of the valuation hierarchy. Securities in Level 1 are exchange-traded equities. If quoted market prices are not available for the specific security, then fair values are provided by independent third-party valuations services. These valuations services estimate fair values using pricing models and other accepted valuation methodologies, such as quotes for similar securities and observable yield curves and spreads. As part of the Company's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the Company's principal markets. Securities in Level 2 include U.S. Government agencies, mortgage-backed securities, state and municipal securities and trust preferred securities. Securities in Level 3 include thinly traded collateralized mortgage obligations and collateralized debt obligations.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

Financial Assets	Level 1	Level 2	Level 3	Total
		(amounts in thousands)		
Securities Available for Sale				
As of September 30, 2011				
U.S. Government sponsored entities	$—	$3,017	$—	$3,017
Corporate debt obligations	—	1,490	—	1,490
Residential mortgage-backed securities	—	14,150	—	14,150
Collateralized mortgage-backed securities		1,477	227	1,704
Collateralized debt obligations	—	—	4,040	4,040
Total	$—	$20,134	$4,267	$24,401
As of December 31, 2010				
U.S. Government sponsored entities	$—	$2,925	$—	$2,925
Corporate debt obligations	—	2,094	—	2,094
Residential mortgage-backed securities	—	16,559	—	16,559
Collateralized mortgage-backed securities		1,592	560	2,152
Collateralized debt obligations	—	—	4,000	4,000
Total	$—	$23,170	$4,560	$27,730

For the three and nine months ending September 30, 2011, there have been no transfers between the levels within the fair value hierarchy.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows for the nine months ending September 30:

	Securities Available for Sale	
	2011	2010
	(amounts in thousands)	
Beginning balance at January 1,	$4,560	$1,851
Total net gains (losses) included in:		
Net income (loss)	(85)	(66)
Other comprehensive income (loss)	(47)	2,628
Settlements	(161)	(170)
Net transfers into Level 3	—	—
Ending balance September 30,	$4,267	$4,253

Fair Value on a Non-recurring Basis:

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

Financial Assets	Level 1	Level 2	Level 3	Total
		(amounts in thousands)		
As of September 30, 2011				
Impaired loans	$—	$—	$35,717	$35,717
OREO	—	—	18,190	18,190
As of December 31, 2010				
Impaired loans	$—	$—	$26,122	$26,122
OREO	—	—	16,701	16,701

Impaired loans, which are measured in accordance with FASB ASC Topic 310 “Receivables”, for impairment, had a carrying amount of $38.8 million and $29.0 million at September 30, 2011 and December 31, 2010 respectively, with a valuation allowance of $3.0 million and $2.9 million at September 30, 2011 and December 31, 2010 respectively. The valuation allowance for impaired loans is included in the allowance for loan losses in the balance sheet.

Other real estate owned (OREO) consists of commercial real estate properties which are recorded at fair value based upon current appraised value less estimated disposition costs, which is adjusted based upon Management’s review and changes in market conditions (Level 3 inputs) Properties are reappraised annually.

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 other financial assets and liabilities are discussed below.

Cash and Cash Equivalents: The carrying amount of cash, due from banks, and federal funds sold approximates fair value.

Investment Securities: Fair value of securities available for sale is described above. Fair value of held-to-maturity securities are based upon quoted market prices.

Restricted Stock: The carrying value of restricted stock approximates fair value based on redemption provisions.

Loans (other than impaired): Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, residential mortgage and other consumer. Each loan category is further segmented into groups by fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans is typically calculated by discounting scheduled cash flows through their estimated maturity, using estimated market discount rates that reflect the credit and interest rate risk inherent in each group of loans. The estimate of maturity is based on contractual maturities for loans within each group, or on the Company's historical experience with repayments for each loan classification, modified as required by an estimate of the effect of current economic conditions.

For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk, cash flows, and discount rates are judgmentally determined using specific borrower and other available information.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit 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 FHLB borrowings, other borrowed funds and subordinated debt are based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings.

Off-Balance Sheet Instruments: Since the majority of the Company's off-balance sheet instruments consist of non fee-producing, variable rate commitments, the Company has determined they do not have a distinguishable fair value.

The following table summarizes the carrying amounts and fair values for financial instruments at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(amounts in thousands)			
Financial Assets:				
Cash and cash equivalents	$ 69,301	$ 69,301	$ 57,628	$ 57,628
Investment securities (available-for-sale and held-to-maturity)	26,425	26,422	29,729	29,778
Restricted stock	3,117	3,117	3,040	3,040
Loans held for sale	1,110	1,110	11,454	11,454
Loans, net	621,725	631,180	610,950	618,721
Accrued interest receivable	2,905	2,905	3,273	3,273
Financial Liabilities:				
Demand and savings deposits	$ 337,395	$ 337,395	$ 298,598	$ 298,598
Time deposits	284,634	286,181	306,124	307,776
Borrowings	64,049	68,091	75,616	79,029
Accrued interest payable	656	656	828	828

NOTE 8. EARNINGS PER SHARE (“EPS”)

The following tables set forth the calculation of basic and diluted EPS for the nine month and three month periods ending September 30, 2011 and 2010.

	For the nine months ended September 30,		For the three months ended September 30,	
	2011	2010	2011	2010
	(in thousands, except share data)			
Basic earnings per common share				
Net income available to common shareholders	$5,258	$4,885	$1,319	$1,581
Average common shares outstanding	4,886,178	4,860,959	4,886,178	4,881,610
Basic earnings per common share	$1.08	$1.00	$0.27	$0.32
Diluted earnings per common share				
Net income available to common shareholders	$5,258	$4,885	$1,319	$1,581
Average common shares outstanding	4,886,178	4,860,956	4,886,178	4,881,610
Dilutive potential common shares	101,783	114,579	51,064	108,722
Total diluted average common shares outstanding	4,987,961	4,975,535	4,937,242	4,900,332
Diluted earnings per common share	$1.05	$0.98	$0.27	$0.32

For the nine months ended September 30, 2011 and 2010, options to purchase 324,454 shares and 324,716 shares, respectively, were outstanding but were not included in the computation of diluted EPS because the options' common stock equivalents were antidilutive.

For the three months ended September 30, 2011 and 2010, options to purchase 332,192 shares and 325,680 shares, respectively, were outstanding but were not included in the computation of diluted EPS because the options' common stock equivalents were antidilutive.

NOTE 9. SUBSEQUENT EVENTS

Accounting guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, Management has evaluated subsequent events after September 30, 2011 through the date the financial statements were issued and determined that no subsequent events warranted recognition in or disclosure in the interim financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The Company may from time to time make written or oral "forward-looking statements" including statements contained in this Report and in other communications by the Company which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, such as statements of the Company's plans, objectives, expectations, estimates and intentions, involve risks and uncertainties and are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company also cautions readers not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date on which they are given. The Company is not obligated to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after any such date.

General

The Company's results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and securities, and the interest expense paid on its interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as service charges, gains from the sale of loans, earnings from bank owned life insurance (BOLI), loan exit fees and other fees. The Company's non-interest expenses primarily consist of employee compensation and benefits, occupancy expenses, marketing expenses, data processing costs and other operating expenses. The Company is also subject to losses in its loan portfolio if borrowers fail to meet their obligations. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

The Company is intently focused on managing its non-performing assets. The deterioration of the local real estate market and the continued high levels of unemployment have had a significant negative impact on the credit quality of our loan portfolio. Management has allocated significant resources to resolve these issues, either through foreclosure or working with borrowers to bring the loans current. New processes have been implemented to identify and monitor impaired loans. New appraisals of the collateral securing impaired loans have been obtained to identify any potential exposure. The lengthy process of foreclosure has had a negative impact on earnings due to higher levels of legal fees.

Comparison of Financial Condition at September 30, 2011 and December 31, 2010

At September 30, 2011, the Company's total assets increased to $767.0 million from $756.9 million at December 31, 2010, an increase of $10.1 million or 1.3%.

Cash and cash equivalents increased $11.7 million to $69.0 million at September 30, 2011 from $57.6 million at December 31, 2010.

Total investment securities decreased to $26.4 million at September 30, 2011 ($24.4 million classified as available-for-sale or 92.3%) from $29.7 million at December 31, 2010, a decrease of $3.3 million or 11.1%. The decrease is due to cash flow from principal payments.

Management evaluates the investment portfolio for OTTI on a quarterly basis. Factors considered in the analysis include, but are not limited to, whether an adverse change in cash flows has occurred, the length of time and the extent to which the fair value has been less than cost, whether the Company intends to sell, or will more likely than not be required to sell the investment before recovery of its amortized cost basis, which may be maturity, credit rating downgrades, the percentage of performing collateral that would need to default or defer to cause a break in yield or a temporary interest shortfall, and management's assessment of the financial condition of the underlying issuers. For the nine months ended September 30, 2011, the Company recognized credit-related OTTI charges (pre-tax) of $85,000 on a private-label CMO.

Total loans increased to $638.2 million at September 30, 2011 from $626.7 million at December 31, 2010, an increase of $11.5 million or 1.8%. Growth in the portfolio was offset by charge-offs of impaired loan balances and loan pay-offs.

Delinquent loans totaled $43.3 million or 6.8% of total loans at September 30, 2011, nearly unchanged from December 31, 2010. Delinquent loan balances by number of days delinquent were: 31 to 59 days --- $2.8 million; 60 to 89 days --- $1.7 million; 90 days and greater not accruing interest --- $38.8 million.

At September 30, 2011, the Company had $38.8 million in nonaccrual loans or 6.1% of total loans, an increase from $27.4 million or 4.4% of total loans at December 31, 2010. The three largest relationships in nonaccrual loans are a $5.3 million hotel loan, a $4.1 million residential loan, and a $2.8 million land development loan.

The composition of nonaccrual loans as of September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011	December 31, 2010
	(amounts in thousands except ratios)	
Commercial and industrial	$—	$—
Real estate construction:		
Residential	4,557	8,546
Commercial	7,597	6,701
Real estate mortgage:		
Commercial – owner occupied	4,878	546
Commercial – non owner occupied	10,686	826
Residential – 1 to 4 family	10,294	9,415
Residential - Multifamily	585	1,350
Consumer	169	61
Total	$38,766	$27,445
Nonperforming loans to total loans	6.07 %	4.38 %

At September 30, 2011 Parke Bancorp's allowance for loan losses was $16.5 million an increase of $1.7 million from December 31, 2010. The ratio of allowance for loan losses to total loans increased to 2.58% at September 30, 2011 from 2.36% at December 31, 2010. During the nine month period ended September 30, 2011, the Company charged-off $5.2 million in loans. Specific allowances for loan losses have been established in the amount of $2.3 million on impaired loans totaling $27.0 million at September 30, 2011. To our knowledge, we have provided for all losses that are both probable and reasonably estimable at September 30, 2011 and December 31, 2010. There can be no assurance, however, that further additions to the allowance will not be required in future periods.

The negative economic trends that began in 2008, including the weakness in the residential and commercial real estate markets and high levels of unemployment, have had a significant impact on the credit quality of our loan portfolio. Nonperforming assets have increased from 5.82% of total assets at December 31, 2010 to 7.41% at September 30, 2011. We are aggressively managing all loan relationships by enhancing our credit monitoring and tracking systems. New processes have been established to manage delinquencies. We are working closely with borrowers to resolve these non-performing loans. Updated appraisals are being obtained, where appropriate, to ensure that collateral values are sufficient to cover outstanding loan balances, and we are establishing specific reserves for any potential shortfall. See Note 4 – Loans. Cash flow-dependent commercial real estate properties are being visited to inspect current tenant lease status. Where necessary, we will apply our loan work-out experience to protect our collateral position.

OREO at September 30, 2011 was $18.2 million, compared to $16.7 million at December 31, 2010, the largest being a condominium development at $12.3 million. This property was sold in 2010 but does not qualify for a sales treatment under GAAP.

An analysis of OREO activity is as follow:

	For the Nine Months Ended September 30,	
	2011	2010
	(amounts in thousands)	
Balance at beginning of period	$16,701	$—
Real estate acquired in settlement of loans	802	13,629
Sales of real estate	(3,220)	(5,829)
Write-down of real estate carrying values	(480)	
Capitalized improvements to real estate	4,387	—
Balance at end of period	$18,190	$7,800

At September 30, 2011, the Bank's total deposits increased to $622.0 million from $604.7 million at December 31, 2010, an increase of $17.3 million or 2.86%. The increase was due to core deposit growth of $46.1 million offset by a planned run-off of brokered deposits of $28.8 million.

At September 30, 2011, total equity increased to $76.3 million from $70.7 million at December 31, 2010, an increase of $5.6 million or 7.92% due to the retention of earnings from the period.

Comparison of Operating Results for the Nine Months Ended September 30, 2011 and 2010

General: Net income available to common shareholders for the nine months ended September 30, 2011 was $5.3 million, compared to $4.9 million for the same period in 2010. The increase was impacted by the following:

Interest Income: Interest income decreased $17,000, or 0.1%, to $30.9 million for the nine months ended September 30, 2011. The decrease is attributable to the combined effects of higher average loan balances, offset by a lower yield on loans. Average loans for the nine month period ended September 30, 2011 were $634.8 million compared to $618.8 million for the same period last year. The average yield on loans was 6.28% for the nine months ended September 30, 2011 compared to 6.40% for the same period in 2010.

Interest Expense: Interest expense decreased $1.6 million or 18.0%, to $7.0 million for the nine months ended September 30, 2011, from $8.6 million for the nine months September 30, 2010. The decrease is primarily attributable to a lower cost of deposits as the Bank has been able to re-price deposits due to the current, historically low, rate environment while still maintaining strong deposit growth. The average rate paid on deposits for the nine month period ended September 30, 2011 was 1.39% compared to 1.83% for the same period last year.

Net Interest Income: Net interest income increased $1.6 million, or 6.8%, to $23.9 million for the nine months ended September 30, 2011, from $22.3 million for the nine months ended September 30, 2010. We experienced an increase in our net interest rate spread of 6 basis points, to 4.32% for the nine months ended September 30, 2011, from 4.26% for the same period last year. Our net interest margin was 4.47% for the nine months ended September 30, 2011, unchanged from the same period last year.

Provision for Loan Losses: We recorded a provision for loan losses of $6.9 million for the nine months ended September 30, 2011 compared to $6.4 million for the nine months ended September 30, 2010. The increase in the provision for losses over the prior year correlates to credit deterioration within the loan portfolio and management's analysis of non-performing loans, and credit risk inherent in the overall loan portfolio.

Non-interest Income: Non-interest income was $3.9 million for the nine months ended September 30, 2011, compared to $1.9 million for the same period last year. The Company recognized $3.9 million in gains from the sale of the guaranteed portion of SBA loans in 2011 compared to $1.3 million for the same period last year. The increase in gain on sale of loans is a result of a change in the SBA sales agreement; warranty language was removed from the sales agreement and the Company is no longer required to defer the recognition of the gain for 90 days. The gain recorded represents loans sold during the nine month period ended September 30, 2011 ($2.6 million) and previously deferred gains from the quarter ended December 31, 2010 ($1.3 million). This increase was offset by a $480,000 write-down on OREO due to signed agreement of sales and reappraisals.

Non-interest Expense: Non-interest expense increased $1.3 million to $9.5 million for the nine months ended September 30, 2011, from $8.3 million for the nine months ended September 30, 2010. Compensation and benefits expenses increased $586,000 due to increased staffing related to a branch expansion, annual merit raises and higher fringe benefit costs. Other operating expenses increased to $2.4 million for the nine month period, from $2.1 million for the same period last year, an increase of $227,000. The increase is primarily due to OREO and other loan related expenses including appraisal fees, real estate taxes and insurance.

Income Taxes: The Company recorded income tax expense of $4.6 million, on income before taxes of $11.5 million for the nine months ended September 30, 2011, resulting in an effective tax rate of 40.2%, compared to income tax expense of $3.8 million on income before taxes of $9.6 million for the same period of 2010, resulting in an effective tax rate of 40.3%.

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, 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. Yields and costs have been annualized.

	For the Nine Months Ended September 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(amounts in thousands, except percentages)					
Assets						
Loans	$634,841	$29,802	6.28 %	$618,846	$29,621	6.40 %
Investment securities	31,060	1,033	4.45 %	35,936	1,290	4.80 %
Federal funds sold and cash equivalents	47,555	75	0.21 %	13,225	16	0.16 %
Total interest-earning assets	713,456	30,910	5.79 %	668,007	30,927	6.19 %
Non-interest earning assets	45,393			31,401		
Allowance for loan losses	(16,046)			(14,075)		
Total assets	$742,803			$685,333		
Liabilities and Shareholders' Equity						
Interest bearing deposits						
NOWs	$15,354	113	0.98 %	$12,070	106	1.17 %
Money markets	90,427	734	1.09 %	89,292	790	1.18 %
Savings	192,368	1,784	1.24 %	145,992	1,672	1.53 %
Time deposits	228,231	2,652	1.55 %	190,631	2,917	2.05 %
Brokered certificates of deposit	47,420	682	1.92 %	90,221	1,756	2.60 %
Total interest-bearing deposits	573,800	5,965	1.39 %	528,206	7,241	1.83 %
Borrowings	64,099	1,066	2.22 %	66,405	1,330	2.68 %
Total interest-bearing liabilities	637,899	7,031	1.47 %	594,611	8,571	1.93 %
Non-interest bearing deposits	22,122			19,533		
Other liabilities	8,194			4,560		
Total liabilities	668,215			618,704		
Shareholders' equity	74,588			66,629		
Total liabilities and shareholders' equity	$742,803			$685,333		
Net interest income		$23,879			$22,340	
Interest rate spread			4.32 %			4.26 %
Net interest margin			4.47 %			4.47 %

Comparison of Operating Results for the Three Months Ended September 30, 2011 and 2010

General: Net income available to common shareholders for the three months ended September 30, 2011 was $1.3 million, compared to $1.6 million for the same period in 2010. The decrease was impacted by the following:

Interest Income: Interest income decreased $211,000, or 2.2%, to $10.3 million for the three months ended September 30, 2011, from $10.5 million for the three months ended September 30, 2010. The increase is attributable to higher average loan balances, offset by a lower yield on loans. Average loans for the three month period ended September 30, 2011 were $631.6 million compared to $628.0 million for the same period last year. The average yield on loans was 6.23% for the three months ended September 30, 2011 compared to 6.35% for the same period in 2010.

Interest Expense: Interest expense decreased $508,000 to $2.3 million for the three months ended September 30, 2011, from $2.8 million for the three months September 30, 2010. The decrease is primarily attributable to a lower cost of deposits as the Bank has been able to re-price deposits due to the current, historically low, rate environment while still maintaining strong deposit growth. The average rate paid on deposits for the three month period ended September 30, 2011 was 1.34% compared to 1.71% for the same period last year.

Net Interest Income: Net interest income increased $297,000 to $8.0 million for the three months ended September 30, 2011, from $7.7 million for the three months ended September 30, 2010. We experienced an increase in our net interest rate spread of 5 basis points, to 4.28% for the three months ended September 30, 2011, from 4.23% for the same period last year. Our net interest margin increased 1 basis point, to 4.43% for the three months ended September 30, 2011, from 4.42% for the same period last year.

Provision for Loan Losses: We recorded a provision for loan losses of $2.4 million for the three months ended September 30, 2011 compared to $2.1 million for the three months ended September 30, 2010. The continued high level of provision for losses correlates to credit deterioration within the loan portfolio and management's analysis of non-performing loans, and credit risk inherent in the overall loan portfolio.

Non-interest Income: Non-interest income was $325,000 for the three months ended September 30, 2011, compared to $834,000 for the same period last year. The $509,000 decrease was due to $480,000 in write-down on OREO due to signed agreement of sales and reappraisals, partially offset by $751,000 in gains from the sale of the guaranteed portion of SBA loans in the three months ended September 30, 2011, compared to $635,000 for the same period last year.

Non-interest Expense: Non-interest expense decreased $224,000 to $3.1 million for the three months ended September 30, 2011, from $3.3 million for the three months ended September 30, 2010. Compensation and benefits expenses increased $243,000 due to increased staffing, annual merit raises and higher fringe benefit costs. Other operating expenses decreased to $793,000 for the three month period, from $1.3 million for the same period last year, a decrease of $472,000. The decrease is primarily due to the Company recording a $618,000 charge related to funding a letter of credit due to a borrower's nonperformance in the prior year period.

Income Taxes: The Company recorded income tax expense of $1.2 million, on income before taxes of $2.9 million for the three months ended September 30, 2011, resulting in an effective tax rate of 40.3%, compared to income tax expense of $1.2 million on income before taxes of $3.1 million for the same period of 2010, resulting in an effective tax rate of 37.8%.

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, 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. Yields and costs have been annualized.

	For the Three Months Ended September 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(amounts in thousands, except percentages)					
Assets						
Loans	$631,648	$9,912	6.23 %	$627,995	$10,044	6.35 %
Investment securities	30,023	329	4.35 %	35,603	428	4.77 %
Federal funds sold and cash equivalents	59,685	31	0.21 %	23,962	11	0.18 %
Total interest-earning assets	721,356	10,272	5.71 %	687,560	10,483	6.05 %
Non-interest earning assets	49,643			37,550		
Allowance for loan losses	(17,214)			(15,535)		
Total assets	$753,785			$709,575		
Liabilities and Shareholders’ Equity						
Interest bearing deposits						
NOWs	$15,900	39	0.98 %	$14,796	47	1.26 %
Money markets	87,486	237	1.09 %	87,598	257	1.16 %
Savings	203,665	637	1.25 %	148,944	543	1.45 %
Time deposits	235,701	871	1.48 %	218,183	1,060	1.93 %
Brokered certificates of deposit	42,534	176	1.66 %	80,635	469	2.31 %
Total interest-bearing deposits	585,286	1,960	1.34 %	550,156	2,376	1.71 %
Borrowings	64,062	352	2.20 %	65,211	444	2.70 %
Total interest-bearing liabilities	649,348	2,312	1.43 %	615,367	2,820	1.82 %
Non-interest bearing deposits	23,443			20,356		
Other liabilities	4,411			4,892		
Total liabilities	676,202			640,615		
Shareholders’ equity	76,583			68,960		
Total liabilities and shareholders’ equity	$753,785			$709,575		
Net interest income		$7,960			$7,663	
Interest rate spread			4.28 %			4.23 %
Net interest margin			4.43 %			4.42 %

Critical Accounting Policies

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

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

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

In evaluating the allowance for loan losses, management considers historical loss factors, the mix of the loan portfolio (types of loans and amounts), geographic and industry concentrations, current national and local economic conditions and other factors related to the collectability of the loan portfolio, including underlying collateral values and estimated future cash flows. All of these estimates are susceptible to significant change. Large groups of smaller balance homogeneous loans, such as residential real estate, home equity loans, and consumer loans, are evaluated in the aggregate under FASB ASC Topic 450, "Accounting for Contingencies", using historical loss factors adjusted for economic conditions and other qualitative factors which include trends in delinquencies, classified and non-performing loans, loan concentrations by loan category and by property type, seasonality of the portfolio, internal and external analysis of credit quality, peer group data, loan charge offs, local and national economic conditions and single and total credit exposure. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, commercial business loans, and construction loans are evaluated individually for impairment in accordance with FASB ASC Topic 310 "Receivables". If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's effective interest rate or at the fair value of collateral if repayment is expected solely from the collateral. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as projected events change.

Management reviews the level of the allowance monthly. Although management used the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings.

Other Than Temporary Impairment on Investment Securities: Management periodically performs analyses to determine whether there has been an other-than-temporary decline in the value of one or more securities. The available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholder's equity. The held-to-maturity securities portfolio, consisting of debt securities for which there is a positive intent and ability to hold to maturity, is carried at amortized cost. Management conducts a quarterly

47

review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, the cost basis of the security is adjusted by writing down the security to estimated fair market value through a charge to current period earnings to the extent that such decline is credit related. All other changes in unrealized gains or losses for investment securities available for sale are recorded, net of tax effect, through other comprehensive income.

Income Taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future.

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

Liquidity: Liquidity describes the ability to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from interest-earning assets. The loan to deposit ratio was 104.7% and 103.6% at September 30, 2011 and December 31, 2010, respectively. Funds received from new and existing depositors provided a large source of liquidity for the three month period ended September 30, 2011. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support loan growth. The Company also seeks to augment such deposits with longer term and higher yielding certificates of deposit. To the extent that retail deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds market. As of September 30, 2011, the Company had a short term line of credit with Atlantic Central Bankers Bank for $3.0 million. There were no outstanding borrowings on this line at September 30, 2011. Longer term funding can be obtained through advances from the FHLB. As of September 30, 2011, the Company maintained lines of credit with the FHLB of $115.2 million, of which $40.7 million was outstanding at September 30, 2011.

As of September 30, 2011, the Company's investment securities portfolio included $14.0 million of mortgage-backed securities that provide cash flow each month. The majority of the investment portfolio is classified as available for sale, is marketable, and is available to meet liquidity needs. The Company's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and accordingly could be sold in the secondary mortgage market if needed as an additional source of liquidity. The Company's management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

Capital: A strong capital position is fundamental to support the continued growth of the Company. The Company and the Bank are subject to various regulatory capital requirements. Regulatory capital is

defined in terms of Tier I capital (shareholders' equity as adjusted for unrealized gains or losses on available-for-sale securities), Tier II capital (which includes a portion of the allowance for loan losses) and total capital (Tier I plus Tier II). Risk-based capital ratios are expressed as a percentage of risk-weighted assets. Risk-weighted assets are determined by assigning various weights to all assets and off-balance sheet associated risk in accordance with regulatory criteria. Regulators have also adopted minimum Tier I leverage ratio standards, which measure the ratio of Tier I capital to total assets.

At September 30, 2011 management believes that the Company and the Bank are "well-capitalized" and in compliance with all applicable regulatory requirements.

Recent Legislation

The Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was signed into law on July 21, 2010, Generally, the Dodd-Frank Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Company's or the Bank's business, results of operations and financial condition. The Dodd-Frank Act, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees;

- Removes trust preferred securities issued after May 19, 2010, as a permitted component of a holding company's Tier 1 capital and, after a three-year phase-in period beginning January 1, 2013, eliminates Tier 1 capital treatment for all trust preferred securities issued by holding companies with more than $15 billion in total consolidated assets;

- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% and changes in the basis for determining FDIC premiums from deposits to assets;

- Creates a new consumer financial protection bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws;

- Provides for new disclosure and other requirements relating to executive compensation and corporate governance;

- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;

- Provides mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;

- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

-

Permanently increases the deposit insurance coverage to $250,000 and allows depository institutions to pay interest on checking accounts; and

- Requires publicly-traded bank holding companies with assets of $10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable as the Company is a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Evaluation of 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 Quarterly Report on Form 10-Q, such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the required time periods specified in the SEC’s rules and forms.

Internal Controls

Changes in internal control over financial reporting. During the last quarter, 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was not a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

Not applicable as the Company is a smaller reporting company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

31.1	Certification of CEO required by Rule 13a-14(a).
31.2	Certification of CFO required by Rule 13a-14(a).
32	Certification required by 18 U.S.C. §1350.
101.INS	XBRL Instance Document *
101.SCH	XBRL Schema Document *
101.CAL	XBRL Calculation Linkbase Document *
101.DEF	XBRL Definition Linkbase Document *
101.LAB	XBRL Labels Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *

* Submitted as Exhibits 101 to this Form 10-Q are documents formatted in XBRL (Extensible Business Reporting Language). Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

SIGNATURES

Pursuant to the requirements 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.

Date:	November 14, 2011	/s/ Vito S. Pantilione Vito S. Pantilione President and Chief Executive Officer (Principal Executive Officer)
Date:	November 14, 2011	/s/ John F. Hawkins John F. Hawkins Senior Vice President and Chief Financial Officer (Principal Accounting Officer)