PARKE BANCORP, INC.
Form ARS
March 22, 2013

PARKE BANCORP, INC.

2012 ANNUAL REPORT TO SHAREHOLDERS

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To Our Shareholders:

2012 has been another very challenging year for the business community and the banking industry both nationally and regionally. However, Parke Bancorp, Inc. has again generated near record earnings, with $6.3 million, or $1.17 per diluted share, in net income, an increase of 0.5% over 2011. We are again proud of this accomplishment as this is our 12th consecutive year of strong earnings, especially when considering the continued weak real estate market, which is responsible for many non-performing loans in the banking industry and at Parke Bank. Non-performing loans have a negative impact on the Bank's earnings, through charge offs, increased expenses, legal and carrying costs, combined with the loss of interest income from that asset. Borrowers continue to have use of their property while the bank has to protect its collateral by paying real estate taxes, insurance and maintenance. We are making positive progress in disposing of our non-performing loans by taking an aggressive approach to troubled asset disposition. Although in some cases this has been seriously delayed by the length of time it takes to work through the foreclosure process in New Jersey. By taking an aggressive approach to troubled asset disposition, our losses have been minimized, and in some instances, recoveries have been made.

Growth has been very difficult in 2012, with our total assets decreasing 2.6% to $770.5 million as of December 31, 2012. Competition has been fierce, with the big banks starting to aggressively compete in the small loan marketplace, combined with many small businesses deleveraging their balance sheets and avoiding increased debt. The extremely low interest rate environment has increased pressure to modify existing loans to a lower interest rate, which also adds pressure to our net interest margin. However, management and our lending staff have remained diligent, maintaining a net interest margin in excess of 4%, keeping Parke Bank as one of the leaders in our peer group in this category. Persistent low interest rates will increase the pressure on the banking industry's net interest margin, which will negatively impact Bank earnings. There is no relief for increased interest rates on the near term horizon, which makes it much more important to maintain very tight controls of expenses and to generate earnings through alternative avenues.

Although our Bank's cost efficiency rate has increased to 43%, we are still one of the leaders in our peer group in controlling our Bank's expenses. The primary reason for the higher ratio is the dramatic increase in regulatory requirements. New regulations in the Dodd-Frank Act brought increases to a community bank's operating costs which makes it more difficult to provide our customers with prompt quality service. Banking requirements like stress testing and Enterprise Risk Management (ERM) are the new buzz terms in community banking. Although initially reported as requirements for only the biggest banks, it is now an important requirement for community banks, which costs tens of thousands of dollars. We have implemented stress testing of our loan portfolio and implemented an ERM program. Parke Bank has always maintained tight controls over expenses and in this rising cost environment, it is even more important in supporting our strong earnings.

There continues to be signs that the economy, and specifically the real estate market, has bottomed out and that specific markets have seen an improvement in real estate sales and values. A specific example is a construction project of 28 townhomes that we were fortunate enough to finance for one of our quality borrowers that in only three months is sold out. We are hopeful that this trend continues and becomes more wide spread. The residential rental market has remained strong, especially in the Philadelphia area. Several previously planned condominium projects have been converted to rental projects and have enjoyed a level of success. These are all positive signs that the economy and the real estate market have a heartbeat and may be coming back to life. Although modest when compared to our past growth rates, our Bank's loan portfolio grew close to 1% in 2012 to $630 million, a strong accomplishment in a difficult lending environment.

Our SBA Company, 44 Business Capital, continues to be the top SBA lender in the Delaware Valley area for the second year in a row. Thanks to an extremely talented and committed staff, this company continues to be a leader in SBA lending. We carefully expanded into the Florida market two years ago and we are now in the top 25 SBA lenders in that market. We continue to carefully analyze potential new markets for expansion. As always, any expansion is balanced with careful credit policies, underwriting, quality staff and servicing of our loan portfolio.

We will continue to focus on maintaining our Bank's financial strength in 2013. This will be accomplished on multiple fronts; continued strong earnings that will strengthen our capital position, which is already twice the amount required for Tier 1 capital of a well capitalized bank, careful control of our Bank's expenses and a clear focus on reducing our non-performing and classified loans, while complying with all regulatory requirements. Our Board of Directors, management and staff is committed to continuing to work very hard to support a strong return for our investors, which was close to 10% in 2012. We appreciate our shareholders' commitment and loyalty; it is something that we don't take for granted.

C.R. "Chuck" Pennoni	Vito S. Pantilione
Chairman	President and Chief Executive Officer

Selected Financial Data

	At or for the Year Ended December, 31				
	2012	2011	2010	2009	2008
Balance Sheet Data: (in thousands)					
Assets	$770,477	$790,738	$756,853	$654,198	$601,952
Loans, Net	$610,776	$605,794	$611,950	$590,997	$539,883
Securities Available for Sale	$19,340	$22,517	$27,730	$29,420	$31,930
Securities Held to Maturity	$2,066	$2,032	$1,999	$2,509	$2,482
Cash and Cash Equivalents	$76,866	$110,228	$57,628	$4,154	$7,270
OREO	$26,057	$19,410	$16,701	$—	$859
Deposits	$637,207	$634,855	$604,722	$520,313	$495,327
Borrowings	$43,851	$74,010	$75,616	$67,831	$61,943
Equity	$83,543	$77,273	$70,732	$61,973	$40,301
Operational Data: (in thousands)					
Interest Income	$37,746	$41,309	$41,684	$40,395	$36,909
Interest Expense	7,424	9,231	11,350	15,734	19,291
Net Interest Income	30,322	32,078	30,334	24,661	17,618
Provision for Loan Losses	7,300	10,450	9,001	5,300	2,063
Net Interest Income after Provision for Loan Losses	23,022	21,628	21,333	19,361	15,555
Noninterest Income (Loss)	4,368	4,725	2,709	(540)	(1,251)
Noninterest Expense	15,079	12,625	11,650	8,757	7,209
Income Before Income Tax Expense	12,311	13,728	12,392	10,064	7,095
Income Tax Expense	4,242	5,524	4,895	3,964	2,848
Net Income Attributable to Company and Noncontrolling Interest	8,069	8,204	7,497	6,100	4,247
Net Income Attributable to Noncontrolling Interest	(756)	(932)	(157)	—	—
Preferred Stock Dividend and Discount Accretion	1,012	1,000	988	899	—
Net Income Available to Common Shareholders	$6,301	$6,272	$6,352	$5,201	$4,247
Per Share Data: 1					
Basic Earnings per Common Share	$1.17	$1.17	$1.19	$0.97	$0.85
Diluted Earnings per Common Share	$1.17	$1.15	$1.15	$0.97	$0.79
Book Value per Common Share	$12.49	$11.35	$10.13	$8.58	$7.62
Performance Ratios:					
Return on Average Assets	0.94 %	0.97 %	1.05 %	0.94 %	0.79 %
Return on Average Common Equity	9.70 %	10.51 %	12.19 %	11.82 %	11.03 %
Net Interest Margin	4.12 %	4.46 %	4.44 %	3.97 %	3.36 %
Efficiency Ratio	43.12 %	34.18 %	33.26 %	33.88 %	36.80 %
Capital Ratios:					
Equity to Assets	10.84 %	9.77 %	9.35 %	9.47 %	6.70 %
Dividend Payout Ratio	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Tier 1 Risk-based Capital2	14.99 %	14.17 %	12.93 %	13.02 %	9.89 %

Total Risk-based Capital2	16.26	%	15.44	%	14.19	%	14.27	%	11.14	%
Asset Quality Ratios:										
Nonperforming Loans/Total Loans	7.55	%	7.11	%	4.38	%	4.22	%	1.50	%
Allowance for Loan Losses/Total Loans	3.01	%	3.09	%	2.36	%	2.06	%	1.42	%
Allowance for Loan Losses/Non-performing Loans	39.82	%	43.46	%	53.89	%	48.74	%	94.61	%

1 Per share computations give retroactive effect to stock dividends declared in each of 2008-2012
2 Capital ratios for Parke Bank

3

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

Forward Looking Statements

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

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

Overview

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

Results of Operation.

The Company recorded net income available to common shareholders of $6.3 million, or $1.17 per diluted share, and $6.3 million, or $1.15 per diluted share, for 2012 and 2011, respectively. Pre-tax earnings amounted to $12.3 million for 2012 and $13.7 million for 2011.

Total assets of $770.5 million at December 31, 2012 represented a decrease of $20.3 million, or 2.6%, from December 31, 2011. Total loans amounted to $629.7 million at year end 2012 for an increase of $4.6 million, or 0.7% from December 31, 2011. Deposits grew by $2.4 million, an increase of 0.4%. Total capital at December 31, 2012 amounted to $83.5 million and increased $6.3 million, or 8.1%, during the past year.

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

Comparative Average Balances, Yields and Rates. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. Interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is net interest income divided by average earning assets. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, and have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Years Ended December 31,					
	2012			2011		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Amounts in thousands except Yield/Cost data)					
Assets						
Loans	$612,342	$36,474	5.96 %	$630,570	$39,851	6.32 %
Investment securities	25,870	1,026	3.97 %	30,403	1,329	4.37 %
Federal funds sold and cash equivalents	98,189	246	0.25 %	57,901	129	0.22 %
Total interest-earning assets	736,401	$37,746	5.13 %	718,874	$41,309	5.75 %
Noninterest earning assets	58,199			50,092		
Allowance for loan losses	(18,579)			(16,337)		
Total assets	$776,021			$752,629		
Liabilities and Equity						
Interest bearing deposits						
NOWs	$19,905	$135	0.68 %	$15,972	$152	0.95 %
Money markets	92,068	734	0.80 %	90,860	959	1.06 %
Savings	223,560	1,970	0.88 %	197,069	2,399	1.22 %
Time deposits	256,326	3,378	1.32 %	234,068	3,565	1.52 %
Brokered certificates of deposit	23,458	266	1.13 %	44,101	803	1.82 %
Total interest-bearing deposits	615,317	6,483	1.05 %	582,070	7,878	1.35 %
Borrowings	46,165	941	2.04 %	64,519	1,353	2.10 %
Total interest-bearing liabilities	661,482	$7,424	1.13 %	646,589	$9,231	1.43 %
Noninterest bearing deposits	29,157			23,357		
Other liabilities	4,491			7,247		
Total liabilities	695,130			677,193		
Equity	80,891			75,436		
Total liabilities and equity	$776,021			$752,629		
Net interest income		$30,322			$32,078	
Interest rate spread			4.00 %			4.32 %
Net interest margin			4.12 %			4.46 %

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

	Years ended December 31,					
	2012 vs. 2011 Variance due to change in			2011 vs. 2010 Variance due to change in		
	Average Volume	Average Rate	Net Increase/ (Decrease)	Average Volume	Average Rate	Net Increase/ (Decrease)
	(In thousands)					
Interest Income:						
Loans (net of deferred costs/fees)	$(1,130)	$(2,247)	$(3,377)	$490	$(573)	$(83)
Investment securities	(190)	(113)	(303)	(236)	(137)	(373)
Federal funds sold	95	22	117	73	8	81
Total interest income	(1,225)	(2,338)	(3,563)	327	(702)	(375)
Interest Expense:						
Deposits	596	(1,991)	(1,395)	611	(2,333)	(1,722)
Borrowed funds	(378)	(34)	(412)	(35)	(362)	(397)
Total interest expense	218	(2,025)	(1,807)	576	(2,695)	(2,119)
Net interest income	$(1,443)	$(313)	$(1,756)	$(249)	$1,993	$1,744

Quarterly Financial Data (unaudited).

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

	Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
	(Amounts in thousands, except per share amounts)			
2012				
Interest income	$ 9,132	$ 9,084	$ 9,676	$ 9,854
Interest expense	1,703	1,786	1,920	2,015
Net interest income	7,429	7,298	7,756	7,839
Provision for loan losses	1,500	1,500	2,050	2,250
Income before income tax expense	3,618	3,280	2,247	3,166
Income tax expense1	1,348	1,365	257	1,272
Net income	2,270	1,915	1,990	1,894
Net income available to common shareholders	1,702	1,468	1,596	1,535
Net income per common share:				
Basic	$ 0.31	$ 0.25	$ 0.30	$ 0.31
Diluted	$ 0.31	$ 0.25	$ 0.30	$ 0.31
2011				
Interest income	$ 10,399	$ 10,272	$ 10,404	$ 10,234
Interest expense	2,200	2,312	2,312	2,407
Net interest income	8,199	7,960	8,092	7,827
Provision for loan losses	3,600	2,350	2,100	2,400
Income before income tax expense	2,269	2,883	3,877	4,699
Income tax expense	919	1,161	1,564	1,880
Net income	1,350	1,722	2,313	2,819
Net income available to common shareholders	1,016	1,319	1,894	2,043
Net income per common share:				
Basic	$ 0.17	$ 0.23	$ 0.35	$ 0.42
Diluted	$ 0.17	$ 0.23	$ 0.35	$ 0.40

1 Lower income tax expense in the quarter ended June 30, 2012 was due to the adoption of an alternative tax methodology for bank owned life insurance (“BOLI”) income whereby it is treated on a tax free basis.

Critical Accounting Policies and Estimates

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

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

Valuation of Investment Securities. Available for sale securities are reported at fair market value with unrealized gains and losses reported, net of deferred taxes, as comprehensive income, a component of shareholders' equity. Although held to maturity securities are reported at amortized cost, the valuation of all securities is subject to impairment analysis at each reporting date. The current market volatility may have an impact on the financial condition and the credit ratings of issuers and hence, the ability of issuers to meet their payment obligations. Accordingly, these conditions could adversely impact the credit quality of the securities, and require an adjustment to the carrying value.

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 stockholders' equity. The held to maturity securities portfolio, consisting of debt securities for which there is a positive intent and ability to hold to maturity, is carried at amortized cost. Management conducts a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other than temporary. If such decline is deemed other than temporary, the cost basis of the security is adjusted by writing down the security to estimated fair market value through a charge to current period earnings to the extent that such decline is credit related. 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 carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax assets, will not be realized. Deferred tax assets and liabilities are

adjusted for the effects of changes in tax laws and rates on the date of enactment. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future.

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

Operating Results for the Years Ended December 31, 2012 and 2011

Net Interest Income/Margins. The Company's primary source of earnings is net interest income, which is the difference between income earned on interest-earning assets, such as loans and investment securities, and interest expense incurred on interest-bearing liabilities, such as deposits and borrowings. The level of net interest income is determined primarily by the average level of balances ("volume") and the market rates associated with the interest-earning assets and interest-bearing liabilities.

Net interest income decreased $1.8 million, or 5.5%, to $30.3 million for 2012, from $32.1 million for 2011. We experienced a decrease in our interest rate spread of 32 basis points, to 4.00% for 2012, from 4.32% for 2011. Our net interest margin decreased 34 basis points, to 4.12% for 2012, from 4.46% for 2011. The decline is attributable to the combined effects of a lower yield on loans as well as a decrease in the average balance of loans, partially offset by a lower cost of deposits.

Interest income decreased $3.6 million, or 8.6%, to $37.7 million for 2012, from $41.3 million for 2011. The decrease is attributable to lower loan volumes and a lower yield on loans. Loan yields have been negatively impacted by the level of non-performing loans and the general interest rate environment. Average loans for the year were $612.3 million compared to $630.6 million for 2011, while average loan yields were 5.96% for 2012 compared to 6.32% for 2011. Also, a decrease in the average volume of investments in 2012 contributed to this decrease.

Interest expense decreased $1.8 million, or 19.6%, to $7.4 million for 2012, from $9.2 million for 2011. The decrease is primarily attributable to a decline in the cost of funds. The average rate paid on deposits for 2012 was 1.05% compared to 1.35% for 2011. The Bank has been able to reprice deposits due to the current, historically low, rate environment while still maintaining deposit growth.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, volume and type of lending, adverse

situations that may affect a borrower's ability to repay a loan, the levels of delinquent loans and current local and national industry and economic conditions. The amount of the allowance is based on estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses and make provisions for loan losses on a monthly basis.

At December 31, 2012, the Company's allowance for loans losses was $18.9 million, as compared to $19.3 million at December 31, 2011, a decrease of $387,000 or 2.0%. The allowance for loan loss as a percentage of gross loans decreased to 3.01% of gross loans at December 31, 2012, from 3.09% of gross loans at December 31, 2011. The allowance for loan losses to nonperforming loans coverage ratio decreased to 39.8% at December 31, 2012, from 43.5% at December 31, 2011. The decline in the allowance is attributable to the charge-off of specific reserves that had been established at December 31, 2011. We recorded a provision for loan losses of $7.3 million for 2012 compared to $10.5 million for 2011. Refer to Asset Quality on Page 14 for further discussion on the allowance.

Noninterest Income. Noninterest income is principally derived from gains on the sale of SBA loans, service fees on deposit accounts, fee income from loan services and BOLI income. Noninterest income totaled $4.4 million in 2012 versus $4.7 million in 2011.

The Company recognized $3.6 million in gains from the sale of the guaranteed portion of SBA loans in 2012, compared to a gain of $4.4 million in 2011. Warranty language was removed from the sales agreement during the first quarter of 2011 and the Company was no longer required to defer the recognition of the gain for 90 days. The gain recorded in 2011 represents loans sold during 2011 and previously deferred gains of $912 thousand from the quarter ended December 31, 2010.

Service charges on deposit accounts were $220 thousand in 2012, as compared to $221 thousand in 2011.

Loan fees were $394 thousand in 2012, an increase from $220 thousand in 2011. Loan fees consist primarily of "exit fees" that are charged on construction loans if the builder sells the property prior to the completion of the construction project and prepayment fees. These loan fees are variable in nature and are dependent upon the borrowers' course of action.

OREO losses were $999 thousand in 2012, compared to $557 thousand in 2011. The increase in the loss was primarily attributable to a write-down in the carrying values of OREO due to a decline in the appraised values of the properties.

Other noninterest income, which includes ATM fees, debit card fees, early CD withdrawal penalties, rental income and other miscellaneous income, amounted to $969 thousand in 2012 and $352 thousand in 2011. The majority of the increase is due the recovery of legal fees that had been expensed in prior years.

Noninterest Expense. Noninterest expense for 2012 was $15.1 million, an increase of $2.5 million, or 19.4%, above 2011's level of $12.6 million.

Compensation and benefits expense for 2012 was $5.9 million, an increase of $228 thousand over 2011. The increase is attributable to routine salary increases, higher benefits expense and increased staff.

Professional services in 2012 amounted to $1.7 million, an increase of $511 thousand from 2011. The continued high level of expense is primarily the result of the legal costs related to loan and compliance matters.

Occupancy and equipment expense was $1.0 million for 2012, an increase of $37 thousand over 2011.

FDIC insurance expense was $1.1 million for 2012, an increase of $109 thousand over 2011, with the increase due to deposit growth.

OREO expenses increased to $1.5 million in 2012, from $642 thousand in 2011. The increase is related to the carrying costs of OREO including property taxes, insurance and maintenance associated with a greater number of real estate properties than in the prior year.

Other operating expense increased to $3.4 million in 2012, from $2.7 million in 2011. The majority of the increase is expenses related to nonperforming loans, including force-placed insurance and payment of real estate taxes to protect the Bank's lien position.

Income Taxes. Income tax expense amounted to $4.2 million for 2012, compared to $5.5 million for 2011, resulting in effective tax rates of 34.5% and 40.2% for the respective years. The decrease in income tax expense is due to lower earnings and the change to an alternative tax methodology for BOLI income whereby it is treated on a tax free basis.

Financial Condition at December 31, 2012 and December 31, 2011

At December 31, 2012, the Company’s total assets decreased to $770.5 million from $790.7 million at December 31, 2011, a decrease of $20.2 million or 2.6%.

Cash and cash equivalents decreased $33.3 million to $76.9 million at December 31, 2012, from $110.2 million at December 31, 2011. The decrease is due to the payoff of maturing borrowings.

Total investment securities decreased to $21.4 million at December 31, 2012 ($19.3 million classified as available for sale or 90.3%) from $24.5 million at December 31, 2011, a decrease of $3.1 million or 12.8%. The Company received $6.9 million in cash flow from maturities and principal payments, partially offset by purchases of $4.1 million.

Management evaluates the investment portfolio for other than temporary impairment (“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 year ended December 31, 2012, the Company did not recognize additional credit-related OTTI charges.

Total gross loans increased to $629.7 million at December 31, 2012, from $625.1 million at December 31, 2011, an increase of $4.6 million or 0.7%. Loan growth continues to be impacted by a difficult credit market.

OREO at December 31, 2012 was $26.1 million, compared to $19.4 million at December 31, 2011, an increase of $6.7 million. The real estate owned consisted of 33 properties, the largest being a condominium development at $12.8 million. This property was sold in 2010 but does not qualify for a sales treatment under accounting principles generally accepted in the United States (“GAAP”) because of continuing involvement by the Company in the form of financing.

BOLI increased to $10.7 million at December 31, 2012, from $5.5 million at December 31, 2011, an increase of $5.2 million or 93.9%. The Company increased its position by $5.0 million in the fourth quarter in order to offset the rising cost of employee benefits.

Other assets increased to $15.2 million at December 31, 2012, from $14.3 million at December 31, 2011, an increase of $930 thousand or 6.5%.

At December 31, 2012, the Bank’s total deposits increased to $637.2 million from $634.9 million at December 31, 2011, an increase of $2.3 million or 0.4%. Noninterest bearing deposits decreased $804 thousand, or 2.6%, to $30.3 million at December 31, 2012, from $31.1 million at December 31, 2011. NOW and money market accounts decreased $5.7 million, or 5.1%, to $106.2 million at December 31, 2012, from $111.9 million at December 31, 2011. Savings accounts increased $17.2 million, or 8.1%, to $230.6 million at December 31, 2012, from $213.4 million at December 31, 2011. Retail certificates of deposit decreased $7.2 million, or 2.8%, to $248.3 million at December 31, 2012, from $255.5 million at December 31, 2011. Brokered deposits decreased $1.2 million, or 5.2%, to $21.7 million at December

31, 2012, from $22.9 million at December 31, 2011. During 2012 the Company reduced its municipal deposit portfolio by $8.7 million due to the higher interest rates and collateralization requirements associated with these deposits.

Borrowings decreased $30.1 million, or 40.7%, to $43.9 million at December 31, 2012, from $74.0 million at December 31, 2011. Maturing Federal Home Loan Bank (“FHLBNY”) advances were allowed to runoff due to the Company’s cash position.

At December 31, 2012, total equity increased to $83.5 million from $77.3 million at December 31, 2011, an increase of $6.2 million, or 8.1%.

Asset Quality

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

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

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

The Company maintains interest reserves for the purpose of making periodic and timely interest payments for borrowers that qualify. Management on a monthly basis reviews loans with interest reserves to assess current and projected performance. Total loans with interest reserves were $864 thousand and $14.6 million at December 31, 2012 and December 31, 2011, respectively.

Delinquent loans increased $5.0 million to $56.0 million, or 8.9% of total loans, at December 31, 2012, from $50.9 million, or 8.2% of total loans, at December 31, 2011. Delinquent loan balances by number of days delinquent at December 31, 2012 were: 31 to 89 days --- $8.4 million and 90 days and greater --- $47.5 million. Loans 90 days and more past due are no longer accruing interest.

At December 31, 2012, the Company had $47.5 million in nonperforming loans, or 7.6% of total loans, an increase from $44.5 million, or 7.1% of total loans, at December 31, 2011. The three largest relationships in nonperforming loans are a $7.9 million retail center construction loan, a $7.5 residential and commercial development loan, and a $6.6 million retail center construction loan.

At December 31, 2012, the Company had $73.6 million in nonperforming assets, which includes $47.5 million of nonperforming loans and $26.1 million of OREO, or 9.6% of total assets, an increase from $63.9 million, or 8.1% of total assets at December 31, 2011.

At December 31, 2012, the Company had $87.6 million in loans deemed impaired, a decrease from $97.2 million at December 31, 2011. Included in impaired loans are TDRs that were in compliance with their modified terms, totaling $40.0 million and $41.1 million at December 31, 2012 and December 31, 2011, respectively.

In response to the increase in impaired loans, the Company has developed and implemented several asset quality monitoring and management initiatives including the hiring of a Chief Credit Officer, creation of a Credit Risk Management Department and the establishment of a Credit Strategies Committee. Credit risk management activities include:

- Stringent oversight of the real estate appraisal process in conformance with regulatory guidelines.
- Monitoring overall portfolio quality and process integrity.
- Reporting loan quality statistics and trends to executive management and to the Board.
- Timely identification of problem credits.
- Establishing problem asset action plans for OREO and criticized assets.
- Identifying credit losses and presenting charge-off recommendations to the Asset Quality Committee and to the Board of Directors.
- Assessing and recommending appropriate credit risk ratings to ensure that adequate quarterly provisions from earnings are made and that an adequate Allowance for Loan Losses is maintained.

The Company has also initiated certain actions to ensure that our origination of new loans and the identification and management of problem loans is sound. These actions include:

- Implementation of added training for lending officers, portfolio managers and loan workout staff.
- Increased focus on loan approvals and renewals that are based on global cash flows rather than individual transactions.
- Implementation of more stringent real estate appraisal processes, policies and procedures.
- Implementation of updated and enhanced credit policies related to credit underwriting, credit review and problem asset management.
- Broadened focus on the reduction and collection of nonperforming and OREO assets through realignment of staff resources to ensure that we are acting on problem loans appropriately and in a timely manner.

The provision for loan losses is a charge to earnings in the current year to maintain the allowance at a level management has determined to be adequate based upon the factors noted above. The provision for loan losses amounted to $7.3 million for 2012, compared to $10.5 million for 2011. Net loan charge-offs/recoveries were $7.7 million in 2012 and $5.9 million in 2011.

At December 31, 2012, the Company's allowance for loan losses decreased to $18.9 million, from $19.3 million at December 31, 2011, a decrease of $387 thousand or 2.0%. The allowance for loan loss ratio decreased to 3.01% of gross loans at December 31, 2012, from 3.09% of gross loans at December 31, 2011. The allowance for loan losses to nonperforming loans coverage ratio decreased to 39.8% at December 31, 2012, from 43.5% at December 31, 2011. The decline in the allowance is primarily attributable to the charge-off of specific reserves that had been established at December 31, 2011.

We believe we have appropriately established adequate loss reserves on problem loans that we have identified and to cover credit risks that are inherent in the portfolio as of December 31, 2012. However, we believe that nonperforming and delinquent loans will continue to increase as the current recession persists. We are aggressively managing all loan relationships. Credit monitoring and tracking systems have been instituted. Updated appraisals are being obtained, where appropriate, to ensure that collateral values are sufficient to cover outstanding loan balances. 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 and actively negotiate with borrowers to resolve these nonperforming loans.

Income Taxes

The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation reserves are established against certain deferred tax assets when it is more likely than not that the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

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

For additional information on income taxes, see Note 10 to the Consolidated Financial Statements.

Interest Rate Sensitivity and Liquidity

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

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

Our management and the Board of Directors oversee the asset/liability management function through the asset/liability committee of the Board that meets periodically to monitor and manage the balance sheet, control interest rate exposure, and evaluate our pricing strategies. The asset mix of the balance sheet is continually evaluated in terms of several variables: yield, credit quality, appropriate funding sources and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

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

Rate Sensitivity Analysis. The interest rate sensitivity position as of December 31, 2012, is presented in the table below. Assets and liabilities are scheduled based on maturity or repricing data except for mortgage loans and mortgage-backed securities, which are based on prevailing prepayment assumptions and expected maturities and deposits which are based on recent retention experience of core deposits. The difference between rate-sensitive assets and rate-sensitive liabilities, or the interest rate sensitivity gap, is shown at the bottom of the table. As of December 31, 2012, our interest sensitive liabilities exceeded interest sensitive assets within a one year period by $20.2 million, or 58.2%, of total assets.

	As of December 31, 2012					
	3 Months or Less	Over 3 Months Through 12 Months	Over 1 Year Through 3 Years	Over 3 Years Through 5 Years	Over 5 Years Through 10 Years	Total
	(Amounts in thousands)					
Interest-earning assets:						
Loans	$72,712	$113,841	$167,577	$96,234	$133,859	$584,223
Investment securities	2,400	3,492	5,932	1,903	8,677	22,404
Federal funds sold and cash equivalents	74,265	—	—	—	—	74,265
Total interest-earning assets	$149,377	$117,333	$173,509	$98,137	$142,536	$680,892
Interest-bearing liabilities:						
Regular savings deposits	$10,785	$32,355	$86,280	$80,243	$20,958	$230,621
NOW and money market deposits	6,132	18,394	48,349	29,143	4,177	106,195
Retail time deposits	50,172	128,982	48,826	20,317	—	248,297
Brokered time deposits	4,934	11,810	5,008	—	—	21,752
Borrowed funds	13,403	10,000	20,448	—	—	43,851
Total interest-bearing liabilities	$85,426	$201,541	$208,911	$129,703	$25,135	$650,716
Interest rate sensitive gap	$63,951	$(84,208)	$(35,402)	$(31,566)	$117,401	$30,176
Cumulative interest rate gap	$63,951	$(20,257)	$(55,659)	$(87,225)	$30,176	—
Ratio of rate-sensitive assets to rate-sensitive liabilities	174.86%	58.22%	83.05%	75.66%	567.08%	104.64%

Liquidity describes our ability to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from earning assets. Our loan to deposit ratio was 98.8% and 98.5% at December 31, 2012 and December 31, 2011, respectively. Funds received from new and existing depositors provided a large source of liquidity during 2012 and 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 Bank also seeks to augment such deposits with longer term and higher yielding certificates of deposit.

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Brokered deposits are a more volatile source of funding than core deposits and do not increase the deposit franchise of the Bank. In a rising rate environment, the Bank may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with the Bank, they may need to be replaced with borrowings which could increase the Bank’s cost of funds and negatively impact its interest rate spread, financial condition and results of operation. To mitigate the potential negative impact associated with brokered deposits, the Bank joined Promontory Inter Financial Network to secure an additional alternative funding source. Promontory provides the Bank an additional source of external funds through their weekly CDARS® settlement process. The rates are comparable to brokered deposits and can be obtained within a shorter period time than brokered deposits. The Bank’s CDARS deposits included within the brokered deposit total amounted to $21.8 million and $22.9 million at December 31, 2012 and December 31, 2011, respectively. To the extent that retail deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short term funds market. Longer term funding requirements can be obtained through advances from the FHLBNY. As of December 31, 2012, the Bank maintained unused lines of credit with the FHLBNY totaling $75.5 million.

As of December 31, 2012, the Bank's investment securities portfolio included $12.9 million of mortgage-backed securities that provide additional cash flow each month. The majority of the investment portfolio is classified as available for sale, is readily marketable, and is available to meet liquidity needs. The Bank's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and provide an additional source of liquidity. Presently the residential mortgage loan portfolio and certain qualifying commercial real estate loans are pledged under a blanket lien to the FHLBNY as collateral. Management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

Off-Balance Sheet Arrangements

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2012 and 2011, commitments to extend credit amounted to approximately $50.8 million and $54.8 million, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2012 and 2011, standby letters of credit with customers were $5.8 million and $6.9 million, respectively.

Loan commitments and standby letters of credit are issued in the ordinary course of business to meet customer needs. Commitments to fund fixed-rate loans were immaterial at December 31, 2012. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

The following table sets forth information regarding the Bank's contractual obligations and commitments as of December 31, 2012.

	Payments Due by Period				
	Less than 1 year	1-3 Years	3-5 years	More than 5 years	Total
	(Amounts in thousands)				
Retail time deposits	$179,154	$48,826	$20,317	$—	$248,297
Brokered time deposits	16,744	5,008	—	—	21,752
Borrowed funds	10,000	20,448	—	13,403	43,851
Operating lease obligations	140	387	31	—	558
Total contractual obligations	$206,038	$74,669	$20,348	$13,403	$314,458

	Amount of Commitments Expiring by Period				
	Less than 1 year	1-3 Years	3-5 years	More than 5 years	Total
	(Amounts in thousands)				
Loan Commitments	$20,534	$—	$—	$—	$20,534
Lines of Credit	31,449	3,914	789	14,668	50,820
Total Commitments	$51,983	$3,914	$789	$14,668	$71,354

Impact of Inflation and Changing Prices

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

MARKET PRICES AND DIVIDENDS

General

The Company's common stock is listed on the Nasdaq Capital Market under the trading symbol of "PKBK". The following table reflects high and low sales prices as reported on www.nasdaq.com during each quarter of the last two fiscal years. Prices reflect a 10% stock dividend paid in May 2012.

2012	High		Low	
1st Quarter	$	6.49	$	4.95
2nd Quarter	$	6.93	$	4.88
3rd Quarter	$	5.50	$	5.01
4th Quarter	$	6.28	$	4.97

2011	High		Low	
1st Quarter	$	9.30	$	8.27
2nd Quarter	$	8.70	$	6.71
3rd Quarter	$	7.23	$	6.14
4th Quarter	$	6.72	$	4.72

The number of shareholders of record of common stock as of March 14, 2013, was approximately 343. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. At March 22, 2013, there were 5,383,893 shares of our common stock outstanding.

Holders of the Company's common stock are entitled to receive dividends when, and if declared by the Board of Directors out of funds legally available therefore. The timing and amount of future dividends will be within the discretion of the Board of Directors and will depend on the consolidated earnings, financial condition, liquidity, and capital requirements of the Company and its subsidiaries, applicable governmental regulations and policies, and other factors deemed relevant by the Board.

The Company's ability to pay dividends is substantially dependent upon the dividends it receives from the Bank and is subject to other restrictions. Under current regulations, the Bank's ability to pay dividends is restricted as well. On April 9, 2012, the Bank entered into Consent Orders with the FDIC and the New Jersey Department of Banking and Insurance (the “Department”) that requires the Bank to obtain the prior approval of the FDIC and the Department before declaring or paying any dividend (see Note 12).

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

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a- 15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

March 22, 2013

Vito S. Pantilione	John F. Hawkins
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

Parke Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2012

Parke Bancorp, Inc. and Subsidiaries

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Parke Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parke Bancorp, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP
Blue Bell, Pennsylvania
March 22, 2013

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and 2011

(in thousands except share and per share data)	December 31, 2012	December 31, 2011
Assets		
Cash and due from financial institutions	$ 2,601	$ 3,733
Federal funds sold and cash equivalents	74,265	106,495
Cash and cash equivalents	76,866	110,228
Investment securities available for sale, at fair value	19,340	22,517
Investment securities held to maturity (fair value of $2,239 at December 31, 2012 and $2,080 at December 31, 2011)	2,066	2,032
Total investment securities	21,406	24,549
Loans held for sale	495	225
Loans, net of unearned income	629,712	625,117
Less: Allowance for loan losses	(18,936)	(19,323)
Net loans	610,776	605,794
Accrued interest receivable	2,727	3,039
Premises and equipment, net	3,989	4,122
Other real estate owned (OREO)	26,057	19,410
Restricted stock, at cost	2,223	3,565
Bank owned life insurance (BOLI)	10,743	5,541
Deferred tax asset	11,898	10,594
Other assets	3,297	3,671
Total Assets	$ 770,477	$ 790,738
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 30,342	$ 31,146
Interest-bearing deposits	606,865	603,709
Total deposits	637,207	634,855
FHLBNY borrowings	20,448	50,607
Other borrowed funds	10,000	10,000
Subordinated debentures	13,403	13,403
Accrued interest payable	537	618
Other liabilities	5,339	3,982
Total liabilities	686,934	713,465
Equity		
Preferred stock, cumulative perpetual, $1,000 liquidation value; authorized 1,000,000 shares; Issued: 16,288 shares at December 31, 2012 and December 31, 2011	16,065	15,868
Common stock, $.10 par value; authorized 10,000,000 shares; Issued: 5,594,793 shares at December 31, 2012 and 5,097,078 shares at December 31, 2011	560	510
Additional paid-in capital	48,869	45,844

Retained earnings		21,068	17,808
Accumulated other comprehensive loss		(745)	(626)
Treasury stock, 210,900 shares at December 31, 2012 and December 31, 2011, at cost		(2,180)	(2,180)
Total shareholders' equity		83,637	77,224
Noncontrolling interest in consolidated subsidiaries		(94)	49
Total equity		83,543	77,273
Total liabilities and equity	$	770,477	$ 790,738

See accompanying notes to consolidated financial statements

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Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2012 and 2011

(in thousands except share and per share data)		2012			2011	
Interest income:						
Interest and fees on loans	$	36,474		$	39,851	
Interest and dividends on investments		1,026			1,329	
Interest on federal funds sold and cash equivalents		246			129	
Total interest income		37,746			41,309	
Interest expense:						
Interest on deposits		6,483			7,878	
Interest on borrowings		941			1,353	
Total interest expense		7,424			9,231	
Net interest income		30,322			32,078	
Provision for loan losses		7,300			10,450	
Net interest income after provision for loan losses		23,022			21,628	
Noninterest income						
Gain on sale of SBA loans		3,582			4,439	
Loan fees		394			220	
Net income from BOLI		202			179	
Service fees on deposit accounts		220			221	
Other than temporary impairment losses		—			(132	)
Portion of loss recognized in other comprehensive income (OCI) (before taxes)		—			3	
Net impairment losses recognized in earnings		—			(129	)
Loss on sale and write-down of real estate owned		(999	)		(557	)
Other		969			352	
Total noninterest income		4,368			4,725	
Noninterest expense						
Compensation and benefits		5,866			5,638	
Professional services		1,746			1,235	
Occupancy and equipment		1,043			1,006	
Data processing		410			405	
FDIC insurance		1,094			985	
OREO expense		1,529			642	
Other operating expense		3,391			2,714	
Total noninterest expense		15,079			12,625	
Income before income tax expense		12,311			13,728	
Income tax expense		4,242			5,524	
Net income attributable to Company and noncontrolling interest		8,069			8,204	
Net income attributable to noncontrolling interest		(756	)		(932	)
Net income attributable to Company		7,313			7,272	
Preferred stock dividend and discount accretion		1,012			1,000	
Net income available to common shareholders	$	6,301		$	6,272	
Earnings per common share						
Basic	$	1.17		$	1.17	
Diluted	$	1.17		$	1.15	

Weighted average shares outstanding		
Basic	5,379,558	5,374,561
Diluted	5,382,596	5,466,458

See accompanying notes to consolidated financial statements

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Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

	For the Year ended December 30,	
	2012	2011
	(in thousands)	
Net income attributable to Company and other comprehensive income:	$ 7,313	$ 7,272
Unrealized gains on securities:		
Non-credit related unrealized gains on securities with OTTI	25	24
Unrealized (losses) gains on securities without OTTI	(247)	21
Tax Impact	89	(18)
Total unrealized (losses) gains on securities	(133)	27
Gross pension liability adjustments	23	68
Tax Impact	(9)	(28)
Total pension liability adjustment	14	40
Total other comprehensive (loss) income	(119)	67
Total comprehensive income	$ 7,194	$ 7,339

See accompanying notes to consolidated financial statements

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Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Equity
Years Ended December 31, 2012 and 2011
(in thousands)

	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	(in thousands except share data)									
Balance, December 31, 2010	$15,683	4,653,133	$465	$41,931	$15,494	$(693)	$(2,180)	$70,700	$32	$70,732
Capital withdrawals by noncontrolling interest									(915)	(915)
10% common stock dividend		443,945	45	3,913	(3,958)			—		—
Net income					7,272			7,272	932	8,204
Changes in other comprehensive income						67		67		67
Dividend on preferred stock (5% annually)					(815)			(815)		(815)
Accretion of discount on preferred stock	185				(185)			—		—
Balance, December 31, 2011	$15,868	5,097,078	$510	$45,844	$17,808	$(626)	$(2,180)	$77,224	$49	$77,273
Capital withdrawals by noncontrolling interest									(899)	(899)
Stock options exercised		9,332	1	34				35		35
10% common stock dividend		488,383	49	2,991	(3,041)			(1)		(1)
Net income					7,313			7,313	756	8,069
Changes in other comprehensive income						(119)		(119)		(119)
Dividend on preferred stock (5% annually)					(815)			(815)		(815)
Accretion of discount on preferred stock	197				(197)			—		—
Balance, December 31, 2012	$16,065	5,594,793	$560	$48,869	$21,068	$(745)	$(2,180)	$83,637	$(94)	$83,543

See accompanying notes to consolidated financial statements

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Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Cash Flows from Operating Activities		
Net income	$8,069	$8,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	358	366
Provision for loan losses	7,300	10,450
Bank owned life insurance	(202)	(179)
Supplemental executive retirement plan expense	135	353
Gain on sale of SBA loans	(3,582)	(4,439)
SBA loans originated for sale	(32,199)	(27,171)
Proceeds from sale of SBA loans originated for sale	35,595	30,230
Loss on sale & write down of other real estate owned	999	558
Contribution of OREO property	139	—
Other than temporary decline in value of investments	—	129
Net accretion of purchase premiums and discounts on securities	3	(68)
Deferred income tax benefit	(1,343)	(1,801)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable and other assets	851	1,180
Increase (decrease) in accrued interest payable and other accrued liabilities	1,161	(328)
Net cash provided by operating activities	17,284	17,484
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(4,148)	(1,537)
Redemptions (purchases) of restricted stock	1,342	(525)
Purchase of additional bank owned life insurance	(5,000)	—
Proceeds from sale and call of securities available for sale	1,000	500
Proceeds from maturities and principal payments on mortgage backed securities	5,940	6,198
Proceeds from sale of other real estate owned	3,533	3,414
Advances on other real estate owned	(223)	(4,802)
Net increase in loans	(23,378)	(6,173)
Purchases of bank premises and equipment	(225)	(209)
Net cash used in investing activities	(21,159)	(3,134)
Cash Flows from Financing Activities		
Payment of dividend on preferred stock	(815)	(815)
Cash payment of fractional shares on 10% stock dividend	(1)	(1)
Minority interest capital withdrawal, net	(899)	(915)
Proceeds from exercise of stock options and warrants	35	—
Net (decrease) increase in FHLBNY and short term borrowings	(30,159)	9,848
Net (decrease) increase in noninterest-bearing deposits	(804)	7,978
Net increase in interest-bearing deposits	3,156	22,155
Net cash (used in) provided by financing activities	(29,487)	38,250
(Decrease) Increase in cash and cash equivalents	(33,362)	52,600
Cash and Cash Equivalents, January 1,	110,228	57,628
Cash and Cash Equivalents, December 31,	$76,866	$110,228
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		

Interest on deposits and borrowed funds	$7,505	$9,441
Income taxes	$5,600	$5,700
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	$11,095	$1,879

See accompanying notes to consolidated financial statements

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PARKE BANCORP, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

Investment Securities: At December 31, 2012 and 2011, the Company held investment securities that would be held for indefinite periods of time, including securities that would be used as part of the Company’s asset/liability management strategy and possibly sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as “available for sale” and are carried at fair value, with any temporary unrealized gains or losses reported as other comprehensive income, net of the related income tax effect.

At December 31, 2012 and 2011, the Company also reported investments in securities that were carried at cost, adjusted for amortization of premium and accretion of discount. The Company has the intent and ability to hold these investment securities to maturity considering all reasonably foreseeable events or conditions. These securities are classified as “held to maturity.”

Declines in the fair value of individual debt securities below their cost that are deemed to be other than temporary result in write-downs of the individual securities to their fair value. Debt securities that are deemed to be other than temporarily impaired are reflected in earnings as realized losses to the extent impairment is related to credit losses. The amount of the impairment for debt securities related to other

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factors is recognized in other comprehensive income (loss). In evaluating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the reasons for the decline in value, (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events, and (4) for fixed maturity securities, whether the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of the cost basis, which may be maturity.

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

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

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

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

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

- Reduction (absolute or contingent) of the stated interest rate;
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;

- Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or other agreement; or
- Reduction (absolute or contingent) of accrued interest.

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

Loans Held for Sale: Loans held for sale are the guaranteed portion of SBA loans and are carried at the lower of aggregate cost or fair value. The net amount of loan origination fees on loans sold is included in the carrying value and in the gain or loss on the sale. The Company originates loans to customers under an SBA program that generally provides for SBA guarantees of up to 75 percent of each loan. When the sale of the guaranteed portion of an SBA loan occurs, with retained servicing, the premium received on the sale and the present value of future cash flows of the servicing assets represent gain on the sale and are recognized in income over the estimated life of the loan. Income and fees collected for servicing are credited to noninterest income, net of amortization of the related servicing asset.

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

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

Allowance for Loan Losses: The allowance for loan losses is maintained through charges to the provision for loan losses in the Consolidated Statements of Income as losses are estimated to have occurred. Loans or portions thereof that are determined to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses in the balance of the loan portfolio, based on an evaluation of collectability of existing loans and prior loss experience. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically take into consideration changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. Such periodic assessments may, in management's judgment, require the Company to recognize additions or reductions to the allowance.

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

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

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

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

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

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

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

Income Taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference

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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.

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

The Company did not recognize any interest or penalties related to income tax during the years ended December 31, 2012 or 2011. The Company does not have an accrual for uncertain tax positions as of December 31, 2012 or 2011, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2009 and thereafter are subject to further examination by tax authorities, with the exception of the State of New Jersey for which tax returns for all years 2008 and thereafter are subject to further examination.

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

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

Reclassifications: Certain items in the 2011 financial statements have been reclassified to conform to the 2012 presentation. Such reclassifications have no impact on prior year earnings and shareholders equity.

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

gains and losses on available for sale securities and gains or losses, prior service costs or credits, and transition assets or obligations associated with pension or other postretirement benefits that have not been recognized as components of net periodic benefit cost.

The Company recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or a liability in the consolidated balance sheet and changes in that funded status through comprehensive income in the year the changes occur. The accounting guidance related to compensation-retirement benefits also requires an employer to measure the funded status of a plan as of the date of the employer's year-end statement of financial position. The Company has recorded an expense for the unfunded status of $198 thousand and $450 thousand for the years ended December 31, 2012 and 2011, respectively, relating to a Supplemental Executive Retirement Plan ("SERP") (Note 11).

Accumulated other comprehensive loss consisted of the following at December 31, 2012 and 2011:

	2012	2011
	(Amounts in thousands)	
Securities		
Non-credit unrealized losses on available for sale securities with OTTI	$ (499)	$ (524)
Unrealized losses on available for sale securities without OTTI	(499)	(252)
Minimum pension liability	(244)	(268)
Tax impact	497	418
	$ (745)	$ (626)

Earnings Per Common Share: Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share considers common stock equivalents (when dilutive) outstanding during the period such as options and warrants outstanding. To the extent that stock equivalents are anti-dilutive, they have been excluded from the earnings per share calculation. Both basic and diluted earnings per share computations give retroactive effect to a stock dividend declared and paid in 2012 and 2011 (Note 13). Earnings per common share have been computed based on the following for 2012 and 2011:

	2012	2011
	(Amounts in thousands, except share data)	
Basic earnings per common share		
Net income available to common shareholders	$ 6,301	$ 6,272
Average common shares outstanding	5,379,558	5,374,561
Basic earnings per common share	$ 1.17	$ 1.17
Diluted earnings per common share		
Net income available to common shareholders	$ 6,301	$ 6,272
Average common shares outstanding	5,379,558	5,374,561
Dilutive potential common shares	3,038	91,897
Total diluted average common shares outstanding	5,382,596	5,466,458
Diluted earnings per common share	$ 1.17	$ 1.15

For 2012 and 2011, options to purchase 301,553 shares and 335,214 shares, respectively, were outstanding but were not included in the computation of diluted EPS because the options' common stock equivalents were anti-dilutive.

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

Recently Issued Accounting Pronouncements:

In May 2011, FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted. This guidance is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. Adoption of this guidance has not had a material impact on results of operations or financial condition.

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 adopted the accounting standard on January 1, 2012, as required, with no material impact on its results of operations or financial position.

In April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. This ASU amends guidance clarifying when the Bank can recognize a sale upon the transfer of financial assets subject to a repurchase agreement. That determination is based, in part, on whether the Bank has maintained effective control over the transferred financial assets. Under the amended guidance, the FASB concluded that the assessment of effective control should focus on a transferor's contractual rights and obligations with respect to transferred financial assets, not on whether the transferor has the practical ability to perform in accordance with those rights or obligations. The amended guidance was effective for transactions that occur in interim and annual periods beginning on or after December 15, 2011. The Bank accounts for all of its existing repurchase agreements as secured borrowings and therefore, the adoption of this amended guidance on January 1, 2012 did not have a material impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU will require companies to disclose gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope will include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments are effective for interim and annual periods beginning on or after January 1, 2013. The amendment is not expected to impact the Company's financial condition, results of operations or cash flows.

Note 2. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy deposit reserve requirements, and to compensate other banks for certain correspondent services. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Company as of December 31, 2012 or 2011, because reserve requirements were covered by vault cash.

Note 3. Investment Securities

The following is a summary of the Company's investment in available for sale and held to maturity securities as of December 31, 2012 and 2011:

As of December 31, 2012	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	$				