

PARKE BANCORP, INC.
Form 10-Q
May 15, 2015

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

FORM 10-Q

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

For the quarterly period ended: March 31, 2015.

or

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

For the transition period from _____ to _____

Commission File No. 000-51338

PARKE BANCORP, INC.
(Exact name of registrant as specified in its charter)

New Jersey 65-1241959
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

601 Delsea Drive, Washington Township, New Jersey 08080
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

As of May 15, 2015, there were issued and outstanding 6,256,012 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2015

INDEX

		Page
Part I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 4.	Controls and Procedures	42
Part II	OTHER INFORMATION	
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3.	Defaults Upon Senior Securities	42
Item 4.	Mine Safety Disclosures	42
Item 5.	Other Information	42
Item 6.	Exhibits	43
SIGNATURES		
EXHIBITS and CERTIFICATIONS		

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(in thousands except share and per share data)

	March 31, 2015	December 31, 2014
Assets		
Cash and due from financial institutions	\$3,260	\$4,033
Federal funds sold and cash equivalents	36,523	32,205
Total cash and cash equivalents	39,783	36,238
Investment securities available for sale, at fair value	47,836	28,208
Investment securities held to maturity (fair value of \$2,456 at March 31, 2015 and \$2,377 at December 31, 2014)	2,151	2,141
Total investment securities	49,987	30,349
Loans held for sale	905	2,932
Loans, net of unearned income	717,960	713,061
Less: Allowance for loan losses	(16,183)	(18,043)
Net loans	701,777	695,018
Accrued interest receivable	2,837	2,827
Premises and equipment, net	4,430	4,490
Other real estate owned (OREO)	22,516	20,931
Restricted stock, at cost	4,072	3,152
Bank owned life insurance (BOLI)	11,552	11,464
Deferred tax asset	10,526	10,518
Other assets	5,245	3,787
Total Assets	\$853,630	\$821,706
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$45,626	\$42,554
Interest-bearing deposits	613,178	605,379
Total deposits	658,804	647,933
FHLB NY borrowings	69,807	49,352
Subordinated debentures	13,403	13,403
Accrued interest payable	442	445
Other liabilities	6,546	7,523
Total liabilities	749,002	718,656
Equity		
Preferred stock, 1,000,000 shares authorized, \$1,000 liquidation value Series B - non-cumulative convertible; Issued: 20,000 shares at March 31, 2015 and December 31, 2014	20,000	20,000
Common stock, \$.10 par value; authorized 15,000,000 shares; Issued: 6,256,012 shares at March 31, 2015 and 6,208,259 shares at December 31, 2014	626	621

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

Additional paid-in capital	51,698	51,316
Retained earnings	34,521	32,983
Accumulated other comprehensive income	185	165
Treasury stock, 241,900 shares at March 31, 2015 and 210,900 shares at December 31, 2014, at cost	(2,531)	(2,180)
Total shareholders' equity	104,499	102,905
Noncontrolling interest in consolidated subsidiaries	129	145
Total equity	104,628	103,050
Total liabilities and equity	\$853,630	\$821,706

See accompanying notes to consolidated financial statements

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

	For the three months ended March 31,	
	2015	2014
	(in thousands except share data)	
Interest income:		
Interest and fees on loans	\$9,139	\$9,290
Interest and dividends on investments	246	293
Interest on federal funds sold and cash equivalents	15	23
Total interest income	9,400	9,606
Interest expense:		
Interest on deposits	1,131	1,177
Interest on borrowings	213	221
Total interest expense	1,344	1,398
Net interest income	8,056	8,208
Provision for loan losses	840	1,000
Net interest income after provision for loan losses	7,216	7,208
Noninterest income:		
Gain on sale of SBA loans	557	321
Loan fees	316	215
Net income from BOLI	87	88
Service fees on deposit accounts	70	57
Loss on sale and write-down of real estate owned	(169) (396
Realized gain on sale of AFS securities	—) 178
Other	400	497
Total noninterest income	1,261	960
Noninterest expense:		
Compensation and benefits	1,990	1,843
Professional services	509	410
Occupancy and equipment	325	296
Data processing	139	117
FDIC insurance	165	241
OREO expense	486	760
Other operating expense	736	876
Total noninterest expense	4,350	4,543
Income before income tax expense	4,127	3,625
Income tax expense	1,521	1,162
Net income attributable to Company and noncontrolling interest	2,606	2,463
Net income attributable to noncontrolling interest	(106) (137
Net income attributable to Company	2,500) 2,326
Preferred stock dividend and discount accretion	300	300

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

Net income available to common shareholders	\$2,200	\$2,026
Earnings per common share:		
Basic	\$0.37	\$0.34
Diluted	\$0.31	\$0.29
Weighted average shares outstanding:		
Basic	6,010,792	5,988,742
Diluted	7,939,684	7,912,972
See accompanying notes to consolidated financial statements		

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

	For the three months ended	
	March 31,	
	2015	2014
	(in thousands)	
Net income attributable to Company	\$2,500	\$2,326
Unrealized gains (losses) on securities:		
Non-credit related unrealized gains on securities with OTTI	26	—
Unrealized gains on securities without OTTI	9	416
Less reclassification adjustment for gains on securities included in net income	—	(178)
Tax impact	(15)	(95)
Total unrealized gains on securities	20	143
Gross pension liability adjustments	—	—
Tax Impact	—	—
Total pension liability adjustment	—	—
Total other comprehensive income	20	143
Total comprehensive income	\$2,520	\$2,469
See accompanying notes to consolidated financial statements		

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

	For the three months ended March 31,	
	2015	2014
	(amounts in thousands)	
Cash Flows from Operating Activities:		
Net income	\$2,606	\$2,463
Adjustments to reconcile net income to net cash provided (used in) operating activities:		
Depreciation and amortization	79	86
Provision for loan losses	840	1,000
Net gain from sales of investment securities	—	(178)
Bank owned life insurance	(87)	(88)
Gain on sale of SBA loans	(557)	(321)
SBA loans originated for sale	(3,018)	(8,331)
Proceeds from sale of SBA loans originated for sale	5,602	3,364
Loss on sale & write down of OREO	169	396
Net accretion of purchase premiums and discounts on securities	(680)	(22)
Contribution of OREO property	—	22
Deferred income tax benefit	(8)	(8,013)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable and other assets	(2,143)	6,356
Decrease in accrued interest payable and other accrued liabilities	(980)	(608)
Net cash provided by (used in) operating activities	1,823	(3,874)
Cash Flows from Investing Activities:		
Purchases of investment securities available for sale	(19,976)	—
(Purchases) redemptions of restricted stock	(920)	205
Proceeds from sale and call of securities available for sale	—	3,974
Proceeds from maturities and principal payments on mortgage backed securities	1,050	978
Proceeds from sale of OREO	751	241
Advances on OREO	(242)	(66)
Net (increase) decrease in loans	(9,862)	2,315
Purchases of bank premises and equipment	(19)	(50)
Net cash (used in) provided by investing activities	(29,218)	7,597
Cash Flows from Financing Activities:		
Payment of dividend on preferred stock	(300)	(57)
Purchase of treasury stock	(351)	—
Minority interest capital withdrawal, net	(122)	(150)
Proceeds from exercise of stock options and warrants	387	61
Net increase (decrease) in FHLB NY and short term borrowings	20,455	(4,544)
Net increase (decrease) in noninterest-bearing deposits	3,072	(1,246)
Net increase in interest-bearing deposits	7,799	7,931
Net cash provided by financing activities	30,940	1,995
Net increase in cash and cash equivalents	3,545	5,718
Cash and Cash Equivalents, January 1,	36,238	45,661
Cash and Cash Equivalents, March 31,	\$39,783	\$51,379
Supplemental Disclosure of Cash Flow Information:		

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

Cash paid during the year for:

Interest on deposits and borrowed funds	\$1,347	\$1,367
Income taxes	\$2,500	\$1,650
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	\$2,263	\$1,324

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 since they do not include all of the information and footnotes required by GAAP. The accompanying interim financial statements for the three months ended March 31, 2015 and 2014 are unaudited. The balance sheet as of December 31, 2014, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results for the full year. Certain reclassifications have been made to prior period amounts to conform to the current year presentation, with no impact on current earnings or shareholders' equity.

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.

Recently Issued Accounting Pronouncements:

In January 2014, the FASB issued ASU 2014-04, "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-04 clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU 2014-04 requires interim and annual disclosure of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in ASU 2014-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of the ASU.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (ASU 2014-09)," which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," which changes the accounting for repurchase-to-maturity transactions (repos-to-maturity) and enhances the required disclosures for repurchase agreements and other similar transactions (repos). Repos-to-maturity and the repurchase financings will be accounted for as secured borrowings. In addition, the standard requires new disclosures for repos. ASU No. 2014-11 provisions are effective for the first interim or annual period beginning after December 15, 2014. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of the ASU.

In August 2014, the FASB issued ASU No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure," which will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the

amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. ASU 2014-14 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. There was no significant impact to amounts reported in the consolidated financial position or results of operations from the adoption of the ASU.

NOTE 3. INVESTMENT SECURITIES

The following is a summary of the Company's investments in available for sale and held to maturity securities as of March 31, 2015 and December 31, 2014:

As of March 31, 2015	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than- temporary impairments in OCI	Fair value
(amounts in thousands)					
Available for sale:					
Corporate debt obligations	\$500	\$25	\$—	\$—	\$525
Residential mortgage-backed securities	45,886	816	116	—	46,586
Collateralized mortgage obligations	336	14	—	—	350
Collateralized debt obligations	806	—	—	431	375
Total available for sale	\$47,528	\$855	\$116	\$431	\$47,836
Held to maturity:					
States and political subdivisions	\$2,151	\$305	\$—	\$—	\$2,456
As of December 31, 2014	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than- temporary impairments in OCI	Fair value
(amounts in thousands)					
Available for sale:					
Corporate debt obligations	\$500	\$22	\$—	\$—	\$522
Residential mortgage-backed securities	26,252	754	59	—	26,947
Collateralized mortgage obligations	375	15	—	—	390
Collateralized debt obligations	806	—	—	457	349
Total available for sale	\$27,933	\$791	\$59	\$457	\$28,208
Held to maturity:					
States and political subdivisions	\$2,141	\$236	\$—	\$—	\$2,377

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of March 31, 2015 are as follows:

	Amortized Cost	Fair Value
	(amounts in thousands)	
Available for sale:		
Due within one year	\$—	\$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	1,306	900
Residential mortgage-backed securities and collateralized mortgage obligations	46,222	46,936
Total available for sale	\$47,528	\$47,836
Held to maturity:		
Due within one year	\$—	\$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	2,151	2,456
Total held to maturity	\$2,151	\$2,456

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

There were no securities pledged as collateral for borrowed funds as of March 31, 2015 and December 31, 2014. Securities with a carrying value of \$13.9 million and \$15.0 million were pledged to secure public deposits at March 31, 2015 and December 31, 2014, respectively.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired ("OTTI"), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2015 and December 31, 2014:

As of March 31, 2015	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
(amounts in thousands)						
Available for sale:						
Residential mortgage-backed securities	21,409	83	3,837	33	25,246	116
Total available for sale	\$ 21,409	\$ 83	\$ 3,837	\$ 33	\$ 25,246	\$ 116

As of December 31, 2014	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

(amounts in thousands)

Available for sale:

Residential mortgage-backed
securities

	3,968	59	—	—	3,968	59
Total available for sale	\$ 3,968	\$ 59	\$ —	\$ —	\$ 3,968	\$ 59

9

Residential Mortgage-Backed Securities: The unrealized losses on the Company's investment in mortgage-backed securities relates to seven securities. The losses were caused by movement in interest rates. The securities were issued by FNMA, a government sponsored entity. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in these securities to be OTTI at March 31, 2015.

Other Than Temporarily Impaired Debt Securities

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

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

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

The following table presents a roll-forward of the credit loss component of the amortized cost of debt securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the three month periods ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
	2015	2014
	(amounts in thousands)	
Beginning balance	\$ 171	\$ 1,126
Initial credit impairment	—	—
Subsequent credit impairments	—	—
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities sold	—	(955)
Reductions for securities deemed worthless	—	—
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	\$ 171	\$ 171

During the three months ended March 31, 2014, the Bank sold three Trust Preferred securities, which resulted in a \$178,000 gain reflected in the income statement.

NOTE 4. LOANS

The portfolio of loans outstanding consists of the following:

	March 31, 2015		December 31, 2014		
	Amount	Percentage of Total Loans (amounts in thousands)	Amount	Percentage of Total Loans	
Commercial and Industrial	\$29,392	4.1	% \$30,092	4.2	%
Real Estate Construction:					
Residential	5,990	0.8	5,859	0.8	
Commercial	46,840	6.5	47,921	6.7	
Real Estate Mortgage:					
Commercial – Owner Occupied	180,783	25.2	176,649	24.8	
Commercial – Non-owner Occupied	240,308	33.5	237,918	33.4	
Residential – 1 to 4 Family	177,456	24.7	171,894	24.1	
Residential – Multifamily	19,704	2.8	25,173	3.5	
Consumer	17,487	2.4	17,555	2.5	
Total Loans	\$717,960	100.0	% \$713,061	100.0	%

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

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. Commercial real estate loans may be riskier than loans for one-to-four family residences and are typically larger in dollar size. These loans are viewed primarily as cash

flow loans and secondarily as loans secured by real estate. The repayment of these loans is generally largely dependent on the successful operation and management of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location within our market area. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also monitors economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

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

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

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

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

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

An age analysis of past due loans by class at March 31, 2015 and December 31, 2014 follows:

March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing (amounts in thousands)	Total Past Due	Current	Total Loans
Commercial and Industrial	\$ —	\$ —	\$ 2,372	\$ 2,372	\$ 27,020	\$ 29,392
Real Estate Construction:						
Residential	—	—	—	—	5,990	5,990
Commercial	—	—	7,389	7,389	39,451	46,840
Real Estate Mortgage:						
Commercial – Owner Occupied	630	—	106	736	180,047	180,783
Commercial – Non-owner Occupied	177	—	5,424	5,601	234,707	240,308
Residential – 1 to 4 Family	352	—	6,550	6,902	170,554	177,456
Residential – Multifamily	—	362	—	362	19,342	19,704
Consumer	6	—	93	99	17,388	17,487
Total Loans	\$ 1,165	\$ 362	\$ 21,934	\$ 23,461	\$ 694,499	\$ 717,960

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing (amounts in thousands)	Total Past Due	Current	Total Loans
Commercial and Industrial	\$ —	\$ 1,874	\$ 61	\$ 1,935	\$ 28,157	\$ 30,092
Real Estate Construction:						
Residential	—	—	238	238	5,621	5,859
Commercial	—	—	10,773	10,773	37,148	47,921
Real Estate Mortgage:						
Commercial – Owner Occupied	—	—	735	735	175,914	176,649
Commercial – Non-owner Occupied	—	—	8,624	8,624	229,294	237,918
Residential – 1 to 4 Family	629	20	6,367	7,016	164,878	171,894
Residential – Multifamily	364	—	—	364	24,809	25,173
Consumer	—	—	94	94	17,461	17,555
Total Loans	\$ 993	\$ 1,894	\$ 26,892	\$ 29,779	\$ 683,282	\$ 713,061

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

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

Impaired loans at March 31, 2015 and December 31, 2014 are set forth in the following tables.

March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	\$ 130	\$ 130	\$—
Real Estate Construction:			
Residential	—	—	—
Commercial	2,978	3,056	—
Real Estate Mortgage:			
Commercial – Owner Occupied	106	106	—
Commercial – Non-owner Occupied	5,424	6,913	—
Residential – 1 to 4 Family	3,024	3,819	—
Residential – Multifamily	—	—	—
Consumer	93	93	—
	11,775	14,117	—
With an allowance recorded:			
Commercial and Industrial	2,708	2,709	1,276
Real Estate Construction:			
Residential	—	—	—
Commercial	7,635	10,089	478
Real Estate Mortgage:			
Commercial – Owner Occupied	5,147	5,177	94
Commercial – Non-owner Occupied	21,099	21,098	454
Residential – 1 to 4 Family	4,909	5,084	401
Residential – Multifamily	362	362	5
Consumer	—	—	—
	41,860	44,519	2,708
Total:			
Commercial and Industrial	2,838	2,839	1,276
Real Estate Construction:			
Residential	—	—	—
Commercial	10,613	13,145	478
Real Estate Mortgage:			
Commercial – Owner Occupied	5,253	5,283	94
Commercial – Non-owner Occupied	26,523	28,011	454
Residential – 1 to 4 Family	7,933	8,903	401
Residential – Multifamily	362	362	5
Consumer	93	93	—
	\$53,615	\$58,636	\$2,708

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	\$61	\$401	\$—
Real Estate Construction:			
Residential	—	—	—
Commercial	4,033	4,161	—
Real Estate Mortgage:			
Commercial – Owner Occupied	735	1,132	—
Commercial – Non-owner Occupied	8,175	10,616	—
Residential – 1 to 4 Family	2,548	3,291	—
Residential – Multifamily	—	—	—
Consumer	94	94	—
	15,646	19,695	—
With an allowance recorded:			
Commercial and Industrial	2,346	2,346	1,040
Real Estate Construction:			
Residential	238	979	238
Commercial	10,025	10,025	2,535
Real Estate Mortgage:			
Commercial – Owner Occupied	5,216	5,245	114
Commercial – Non-owner Occupied	22,232	22,232	828
Residential – 1 to 4 Family	5,412	5,575	573
Residential – Multifamily	364	364	5
Consumer	—	—	—
	45,833	46,766	5,333
Total:			
Commercial and Industrial	2,407	2,747	1,040
Real Estate Construction:			
Residential	238	979	238
Commercial	14,058	14,186	2,535
Real Estate Mortgage:			
Commercial – Owner Occupied	5,951	6,377	114
Commercial – Non-owner Occupied	30,407	32,848	828
Residential – 1 to 4 Family	7,960	8,866	573
Residential – Multifamily	364	364	5
Consumer	94	94	—
	\$61,479	\$66,461	\$5,333

The following tables present by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized (amounts in thousands)	Average Recorded Investment	Interest Income Recognized
Commercial and Industrial	\$4,187	\$ 26	\$957	\$ 4
Real Estate Construction:				
Residential	—	—	851	—
Commercial	13,175	72	11,723	48
Real Estate Mortgage:				
Commercial – Owner Occupied	6,268	55	6,944	74
Commercial – Non-owner Occupied	28,162	229	32,426	319
Residential – 1 to 4 Family	8,918	54	14,632	64
Residential – Multifamily	363	6	368	6
Consumer	93	—	94	—
Total	\$61,166	\$ 442	\$67,995	\$ 515

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

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

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

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

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

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

Performing TDRs (not reported as non-accrual loans) totaled \$31.7 million and \$32.7 million with related allowances of \$727,000 and \$812,000 as of March 31, 2015 and December 31, 2014, respectively. Nonperforming TDRs totaled \$7.5 million and \$9.5 million with related allowances of \$248,000 and \$293,000 as of March 31, 2015 and December 31, 2014, respectively. All TDRs are classified as impaired loans and are included in the impaired loan disclosures above.

There were no new loans modified as a TDR during the three months ended March 31, 2015 and 2014.

There were no loans that were modified and deemed TDRs that subsequently defaulted during the three months ended March 31, 2015. Some loans classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall allowance for loan losses estimate. The level of any re-defaults will likely be affected by future economic conditions. Once a loan becomes a TDR, it will continue to be reported as a TDR until it is repaid in full, foreclosed, sold or it meets the criteria to be removed from TDR status.

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

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

1. **Good:** Borrower exhibits the strongest overall financial condition and represents the most creditworthy profile.
2. **Satisfactory (A):** Borrower reflects a well-balanced financial condition, demonstrates a high level of creditworthiness and typically will have a strong banking relationship with the Bank.
3. **Satisfactory (B):** Borrower exhibits a balanced financial condition and does not expose the Bank to more than a normal or average overall amount of risk. Loans are considered fully collectable.
4. **Watch List:** Borrower reflects a fair financial condition, but there exists an overall greater than average risk. Risk is deemed acceptable by virtue of increased monitoring and control over borrowings. Probability of timely repayment is present.
5. **Other Assets Especially Mentioned (OAEM):** Financial condition is such that assets in this category have a potential weakness or pose unwarranted financial risk to the Bank even though the asset value is not currently impaired. The asset does not currently warrant adverse classification but if not corrected could weaken and could create future increased risk exposure. Includes loans which require an increased degree of monitoring or servicing as a result of internal or external changes.
6. **Substandard:** This classification represents more severe cases of #5 (OAEM) characteristics that require increased monitoring. Assets are characterized by the distinct possibility that the Bank will sustain

some loss if the deficiencies are not corrected. Assets are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral. Asset has a well-defined weakness or weaknesses that impairs the ability to repay debt and jeopardizes the timely liquidation or realization of the collateral at the asset's net book value.

7. Doubtful: Assets which have all the weaknesses inherent in those assets classified #6 (Substandard) but the risks are more severe relative to financial deterioration in capital and/or asset value; accounting/evaluation techniques may be questionable and the overall possibility for collection in full is highly improbable. Borrowers in this category require constant monitoring, are considered work-out loans and present the potential for future loss to the Bank.

An analysis of the credit risk profile by internally assigned grades as of March 31, 2015 and December 31, 2014 is as follows:

At March 31, 2015	Pass	OAEM	Substandard	Doubtful	Total
			(amounts in thousands)		
Commercial and Industrial	\$26,335	\$629	\$2,428	\$—	\$29,392
Real Estate Construction:					
Residential	5,990	—	—	—	5,990
Commercial	35,451	4,000	7,389	—	46,840
Real Estate Mortgage:					
Commercial – Owner Occupied	176,269	3,246	1,268	—	180,783
Commercial – Non-owner Occupied	224,420	5,223	10,665	—	240,308
Residential – 1 to 4 Family	168,389	743	8,324	—	177,456
Residential – Multifamily	19,342	—	362	—	19,704
Consumer	17,394	—	93	—	17,487
Total	\$673,590	\$13,841	\$30,529	\$—	\$717,960

At December 31, 2014	Pass	OAEM	Substandard	Doubtful	Total
			(amounts in thousands)		
Commercial and Industrial	\$27,104	\$642	\$2,346	\$—	\$30,092
Real Estate Construction:					
Residential	5,621	—	238	—	5,859
Commercial	34,255	2,893	10,773	—	47,921
Real Estate Mortgage:					
Commercial – Owner Occupied	170,685	4,051	1,913	—	176,649
Commercial – Non-owner Occupied	218,230	5,791	13,897	—	237,918
Residential – 1 to 4 Family	162,787	613	8,494	—	171,894
Residential – Multifamily	24,809	—	364	—	25,173
Consumer	17,461	—	94	—	17,555
Total	\$660,952	\$13,990	\$38,119	\$—	\$713,061

NOTE 5. ALLOWANCE FOR LOAN LOSSES

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

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

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

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

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Bank's loan policies, procedures and internal controls; (iii)

changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; and (ix) the impact of rising interest rates on portfolio risk. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, high-moderate, moderate, low-moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

An analysis of the allowance for loan losses for the three month periods ended March 31, 2015 and 2014 is as follows:

Allowance for Loan Losses:	For the three months ended March 31, 2015				
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credits)	Ending Balance
	(amounts in thousands)				
Commercial and Industrial	\$1,679	\$—	\$19	\$171	\$1,869
Real Estate Construction:					
Residential	316	(238)	—	108	186
Commercial	3,015	(2,380)	—	983	1,618
Real Estate Mortgage:					
Commercial – Owner Occupied	3,296	—	10	38	3,344
Commercial – Non-owner Occupied	4,962	(381)	398	(398)	4,581
Residential – 1 to 4 Family	4,156	(128)	—	17	4,045
Residential – Multifamily	357	—	—	(78)	279
Consumer	262	—	—	(1)	261
Unallocated	—	—	—	—	—
Total	\$18,043	\$(3,127)	\$427	\$840	\$16,183

Allowance for Loan Losses:	For the three months ended March 31, 2014				
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credits)	Ending Balance
	(amounts in thousands)				
Commercial and Industrial	\$591	\$—	\$—	\$282	\$873
Real Estate Construction:					
Residential	414	—	—	(276)	138
Commercial	948	—	—	(199)	749
Real Estate Mortgage:					
Commercial – Owner Occupied	4,735	(80)	2	53	4,710
Commercial – Non-owner Occupied	7,530	—	—	(1,557)	5,973
Residential – 1 to 4 Family	3,612	(20)	—	2,410	6,002
Residential – Multifamily	389	—	—	(19)	370
Consumer	341	(24)	—	2	319
Unallocated	—	—	—	304	304
Total	\$18,560	\$(124)	\$2	\$1,000	\$19,438

Allowance for Loan Losses, at March 31, 2015	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	\$ 1,276	\$ 593	\$ 1,869
Real Estate Construction:			
Residential	—	186	186
Commercial	478	1,140	1,618
Real Estate Mortgage:			
Commercial – Owner Occupied	94	3,250	3,344
Commercial – Non-owner Occupied	454	4,127	4,581
Residential – 1 to 4 Family	401	3,644	4,045
Residential – Multifamily	5	274	279
Consumer	—	261	261
Unallocated	—	—	—
Total	\$ 2,708	\$ 13,475	\$ 16,183

Allowance for Loan Losses, at December 31, 2014	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	\$ 1,040	\$ 639	\$ 1,679
Real Estate Construction:			
Residential	238	78	316
Commercial	2,535	480	3,015
Real Estate Mortgage:			
Commercial – Owner Occupied	114	3,182	3,296
Commercial – Non-owner Occupied	828	4,134	4,962
Residential – 1 to 4 Family	573	3,583	4,156
Residential – Multifamily	5	352	357
Consumer	—	262	262
Unallocated	—	—	—
Total	\$ 5,333	\$ 12,710	\$ 18,043

Loans, at March 31, 2015:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	\$2,838	\$26,554	\$29,392
Real Estate Construction:			
Residential	—	5,990	5,990
Commercial	10,613	36,227	46,840
Real Estate Mortgage:			
Commercial – Owner Occupied	5,253	175,530	180,783
Commercial – Non-owner Occupied	26,523	213,785	240,308
Residential – 1 to 4 Family	7,933	169,523	177,456
Residential – Multifamily	362	19,342	19,704
Consumer	93	17,394	17,487
Total	\$53,615	\$664,345	\$717,960

Loans, at December 31, 2014:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	\$2,407	\$27,685	\$30,092
Real Estate Construction:			
Residential	238	5,621	5,859
Commercial	14,058	33,863	47,921
Real Estate Mortgage:			
Commercial – Owner Occupied	5,951	170,698	176,649
Commercial – Non-owner Occupied	30,407	207,511	237,918
Residential – 1 to 4 Family	7,960	163,934	171,894
Residential – Multifamily	364	24,809	25,173
Consumer	94	17,461	17,555
Total	\$61,479	\$651,582	\$713,061

NOTE 6. REGULATORY RESTRICTIONS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

Parke Bancorp, Inc.	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2015 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 126,406	17.05%	\$ 59,296	8%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	\$ 117,142	15.80%	\$ 29,648	4%	N/A	N/A
Tier 1 Capital (to Average Assets)	\$ 117,142	14.27%	\$ 32,840	4%	N/A	N/A

Parke Bancorp, Inc.	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 123,539	17.23%	\$ 57,367	8%	N/A	N/A

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

Tier 1 Capital (to Risk Weighted Assets)	\$	114,593	15.98%	\$	28,684	4%	N/A	N/A
Tier 1 Capital (to Average Assets)	\$	114,593	14.12%	\$	32,460	4%	N/A	N/A

Parke Bank	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2015 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 126,496	17.07%	\$ 59,296	8%	\$ 74,120	10%
Tier 1 Capital (to Risk Weighted Assets)	\$ 117,234	15.82%	\$ 29,648	4%	\$ 44,472	6%
Tier 1 Capital Common Equity (to Risk Weighted Assets)	\$ 117,234	15.82%	\$ 29,648	4%	\$ 44,472	6%
Tier 1 Capital (to Average Assets)	\$ 117,234	14.29%	\$ 32,824	4%	\$ 41,030	5%

Parke Bank	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014 (amounts in thousands except ratios)						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 123,609	17.22%	\$ 57,426	8%	\$ 71,783	10%
Tier 1 Capital (to Risk Weighted Assets)	\$ 114,664	15.97%	\$ 28,713	4%	\$ 43,070	6%
Tier 1 Capital (to Average Assets)	\$ 114,664	14.27%	\$ 32,150	4%	\$ 40,188	5%

NOTE 7. OTHER COMPREHENSIVE INCOME

The Company's accumulated other comprehensive income consisted of the following at March 31, 2015 and December 31, 2014:

	March 31, 2015		December 31, 2014
		(amounts in thousands)	
Securities:			
Non-credit unrealized losses on securities with OTTI	\$ (431)		\$ (457)
Unrealized gains on securities without OTTI	740		731
Tax impact	(124)		(109)
Accumulated other comprehensive income	\$ 185		\$ 165

NOTE 8. FAIR VALUE

Fair Value Measurements

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

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

Level 1 Input:

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

Level 2 Inputs:

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

Level 3 Inputs:

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

Fair Value on a Recurring Basis:

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

Investment Securities Available for Sale:

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

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

Cash flows were developed based on the estimated speeds at which the TruPS are expected to prepay (a range of 1% to 2%), the estimated rates at which the TruPS are expected to defer payments, the estimated rates at which the TruPS are expected to default (a range of 0.57% to 0.66%), and the severity of the losses on securities which default (95%). TruPS generally allow for prepayment by the issuer without a prepayment penalty any time after five years. Due to the lack of new TruPS and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for the Constant Default Rate ("CDR") are based on the payment characteristics of the TruPS themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the TruPS issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The fair value of each bond was assessed by discounting its projected cash flows by a discount rate. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks (3 month LIBOR plus a spread of 400 to 959 basis points).

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

Financial Assets	Level 1	Level 2	Level 3	Total
		(amounts in thousands)		
Securities Available for Sale				
As of March 31, 2015				
Corporate debt obligations	\$—	\$525	\$—	\$525
Residential mortgage-backed securities	—	46,586	—	46,586
Collateralized mortgage-backed securities	—	350	—	350
Collateralized debt obligations	—	—	375	375
Total	\$—	\$47,461	\$375	\$47,836
As of December 31, 2014				
Corporate debt obligations	\$—	\$522	\$—	\$522
Residential mortgage-backed securities	—	26,947	—	26,947
Collateralized mortgage-backed securities	—	390	—	390
Collateralized debt obligations	—	—	349	349
Total	\$—	\$27,859	\$349	\$28,208

For the three months ended March 31, 2015, there were no transfers between the levels within the fair value hierarchy.

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

	Securities Available for Sale	
	2015	2014
	(amounts in thousands)	
Beginning balance at January 1,	\$349	\$4,144
Total net gains included in:		
Net gain	—	178
Other comprehensive income	26	—
Settlements	—	(3,973)
Net transfers into Level 3	—	—
Ending balance	\$375	\$349

Fair Value on a Non-recurring Basis:

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

Financial Assets	Level 1	Level 2	Level 3	Total
		(amounts in thousands)		
As of March 31, 2015				
Collateral dependent impaired loans	\$—	\$—	\$28,634	\$28,634
OREO	—	—	22,516	22,516
As of December 31, 2014				
Collateral dependent impaired loans	\$—	\$—	\$35,711	\$35,711
OREO	—	—	20,931	20,931

Collateral dependent impaired loans, which are measured in accordance with FASB ASC Topic 310 “Receivables”, for impairment, had a carrying amount of \$28.6 million and \$35.7 million at March 31, 2015 and December 31, 2014 respectively, with a valuation allowance of \$2.1 million and \$4.7 million at March 31, 2015 and December 31, 2014, respectively. The valuation allowance for collateral dependent impaired loans is included in the allowance for loan losses on the balance sheet. All collateral dependent impaired loans have an independent third-party full appraisal to determine the NRV based on the fair value of the underlying collateral, less cost to sell (a range of 5% to 10%) and other costs, such as unpaid real estate taxes, that have been identified, or the present value of discounted cash flows in the case of certain impaired loans that are not collateral dependent. The appraisal will be based on an “as-is” valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

OREO consists of commercial real estate properties which are recorded at fair value based upon current appraised value, or agreements of sale less estimated disposition costs on level 3 inputs. Properties are reappraised annually.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

The following table summarizes the carrying amounts and fair values for financial instruments at March 31, 2015 and December 31, 2014:

	Level in Fair Value Hierarchy	March 31, 2015		December 31, 2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value
(amounts in thousands)					
Financial Assets:					
Cash and cash equivalents	Level 1	\$ 39,783	\$ 39,783	\$ 36,238	\$ 36,238
Investment securities AFS	(1)	47,836	47,836	28,208	28,208
Investment securities HTM	Level 2	2,151	2,456	2,141	2,377
Restricted stock	Level 2	4,072	4,072	3,152	3,152
Loans held for sale	Level 2	905	905	2,932	3,328
Loans, net	(2)	701,777	709,871	695,018	698,843
Accrued interest receivable	Level 2	2,837	2,837	2,827	2,827
Financial Liabilities:					
Demand and savings deposits	Level 2	\$ 382,115	\$ 382,115	\$ 372,827	\$ 372,827
Time deposits	Level 2	276,689	278,146	275,106	276,528
Borrowings	Level 2	83,210	81,277	62,755	60,297
Accrued interest payable	Level 2	442	442	445	445

(1) See the recurring fair value table above.

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

NOTE 9. EARNINGS PER SHARE (“EPS”)

The following tables set forth the calculation of basic and diluted EPS for the three month periods ended March 31, 2015 and 2014.

	For the three months ended March 31,	
	2015	2014
	(amounts in thousands except share data)	
Basic earnings per common share		
Net income available to common shareholders	\$2,200	\$2,026
Average common shares outstanding	6,010,792	5,988,742
Basic earnings per common share	\$0.37	\$0.34
Diluted earnings per common share		
Net income available to common shareholders	\$2,200	\$2,026
Dividend on Preferred Series B	300	300
Average common shares outstanding	6,010,792	5,988,742
Dilutive potential common shares	1,928,892	1,924,230
Total diluted average common shares outstanding	7,939,684	7,912,972
Diluted earnings per common share	\$0.31	\$0.29

On March 24, 2015 the Company declared a quarterly cash dividend of \$0.06 per share to shareholders on record as of April 16, 2015 and payable on April 30, 2015.

NOTE 10. SUBSEQUENT EVENTS

Accounting guidance establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, Management has evaluated subsequent events after March 31, 2015 through the date the financial statements were issued and determined that no subsequent events warranted recognition in or disclosure in the interim financial statements.

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

Forward-Looking Statements

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

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

General

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

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

Comparison of Financial Condition at March 31, 2015 and December 31, 2014

At March 31, 2015, the Company's total assets increased to \$853.6 million from \$821.7 million at December 31, 2014, an increase of \$31.9 million or 3.9%.

Cash and cash equivalents increased \$3.6 million to \$39.8 million at March 31, 2015 from \$36.2 million at December 31, 2014.

Total investment securities increased to \$50.0 million at March 31, 2015, from \$30.3 million at December 31, 2014, an increase of \$19.7 million or 64.7%. During the quarter, the company purchased \$20.7 million in mortgage-backed securities to increase on-balance sheet liquidity to fund future growth. The purchase was funded with borrowings from the FHLB.

Management evaluates the investment portfolio for OTTI on a quarterly basis. Factors considered in the analysis include, but are not limited to, whether an adverse change in cash flows has occurred, the length of time and the extent to which the fair value has been less than cost, whether the Company intends to sell, or will more likely than not be required to sell, the investment before recovery of its amortized cost basis, which may be maturity, credit rating downgrades, the percentage of performing collateral that would need to default or defer to cause a break in yield or a temporary interest shortfall, and management's assessment of the financial condition of the underlying issuers. For the three months ended March 31, 2015, the Company did not recognize any credit-related OTTI charges.

Total gross loans increased to \$718.0 million at March 31, 2015 from \$713.1 million at December 31, 2014, an increase of \$4.9 million or 0.7%.

Delinquent loans totaled \$23.4 million or 3.3% of total loans at March 31, 2015, a decrease of \$6.3 million from December 31, 2014. Delinquent loan balances by number of days delinquent at March 31, 2014 were: 30 to 89 days --- \$1.5 million; 90 days and greater not accruing interest --- \$21.9 million.

At March 31, 2015, the Company had \$21.9 million in nonaccrual loans or 3.1% of total loans, a decrease from \$26.9 million or 3.8% of total loans at December 31, 2014. The three largest nonperforming loan relationships are a \$4.4 million land development loan, a \$2.8 residential home loan and a \$2.5 million land development loan.

The composition of nonaccrual loans as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
	(amounts in thousands except ratios)	
Commercial and Industrial	\$ 2,372	\$ 61
Real Estate Construction:		
Residential	—	238
Commercial	7,389	10,773
Real Estate Mortgage:		
Commercial – Owner Occupied	106	735
Commercial – Non-owner Occupied	5,424	8,624
Residential – 1 to 4 Family	6,550	6,367
Residential – Multifamily	—	—
Consumer	93	94
Total	\$ 21,934	\$ 26,892
Nonperforming loans to total loans	3.1	%
	3.8	%

At March 31, 2015, the allowance for loan losses was \$16.2 million, as compared to \$18.0 million at December 31, 2014. The ratio of allowance for loan losses to total loans was 2.3% at March 31, 2015, compared to 2.5% at December 31, 2014. The decrease is due to continuing improvements in the credit quality of the loan portfolio. The ratio of allowance for loan losses to non-performing loans improved to 73.8% at March 31, 2015, compared to 67.1% at December 31, 2014. During the three month period ended March 31, 2015, the Company charged-off \$3.1 million in loans, and recovered \$428,000, compared to \$124,000 in loans charged off in the three months ended March 31, 2014, and \$2,000 in recoveries. Specific allowances for loan losses have been established in the amount of \$2.7 million on impaired loans totaling \$53.6 million at March 31, 2015, as compared to \$5.3 million at December 31, 2014. We have provided for all losses that are both probable and reasonably estimable at March 31, 2015 and December 31, 2014. There can be no assurance, however, that further additions to the allowance will not be required in future periods.

OREO at March 31, 2015 was \$22.5 million, compared to \$20.9 million at December 31, 2014, the largest being a condominium development valued at \$8.7 million.

An analysis of OREO activity is as follows:

	For the three Months Ended March 31,	
	2015	2014
	(amounts in thousands)	
Balance at beginning of period	\$ 20,931	\$ 28,910
Real estate acquired in settlement of loans	2,263	1,324
Sales of real estate	(751)	(241)
Gain (loss) on sale of real estate	31	(76)
Write-down of real estate carrying values	(200)	(319)
Donated property	—	(22)
Capitalized improvements to real estate	242	66
Balance at end of period	\$ 22,516	\$ 29,642

At March 31, 2015, the Bank's total deposits increased to \$658.8 million from \$647.9 million at December 31, 2014, an increase of \$10.9 million or 1.7%.

Total borrowings increased to \$83.2 million at March 31, 2015 from \$62.8 million at December 31, 2014, an increase of \$20.4 million or 32.6% due to the additional borrowings used to fund the mortgage-backed securities purchases described above.

Total shareholders' equity increased to \$104.5 million at March 31, 2015 from \$102.9 million at December 31, 2014, an increase of \$1.6 million or 1.6%, due to the retention of earnings from the period.

Comparison of Operating Results for the Three Months Ended March 31, 2015 and 2014

General: Net income available to common shareholders for the three months ended March 31, 2015 was \$2.2 million, compared to \$2.0 million for the same period in 2014. The change was impacted by the following:

Interest Income: Interest income decreased \$206,000, or 2.1%, to \$9.4 million for the three months ended March 31, 2015, from \$9.6 million for the three months ended March 31, 2014. The decrease is attributable to a decrease in the average yield, partially offset by an increase in average loan balances. Average loans for the three month period ended March 31, 2015 were \$716.5 million compared to \$652.7 million for the same period last year. The average yield on loans was 5.17% for the three months ended March 31, 2015 compared to 5.77% for the same period in 2014.

Interest Expense: Interest expense decreased \$54,000 to \$1.3 million for the three months ended March 31, 2015, from \$1.4 million for the three months ended March 31, 2014. The decrease is primarily attributable to a lower average cost of deposits partially offset by an increase in average deposit balances. Average deposits for the three month period ended March 31, 2015 were \$603.8 million, compared to \$597.1 million for the same period last year. The average rate paid on deposits for the three month period ended March 31, 2015 was 0.76%, compared to 0.80% for the same period last year. The average rate on borrowings decreased to 1.31% for the three months ended March 31, 2015, from 1.37% for the same period last year.

Net Interest Income: Net interest income decreased \$152,000 to \$8.1 million for the three months ended March 31, 2015, as compared to \$8.2 million for the same period last year. We experienced a decrease in our net interest rate spread of 36 basis points to 4.08% for the three months ended March 31, 2015, from 4.44% for the same period last year. Our net interest margin decreased 34 basis points to 4.19% for the three months ended March 31, 2015, from 4.53% for the same period last year.

Provision for Loan Losses: We recorded a provision for loan losses of \$840,000 for the three months ended March 31, 2015, compared to \$1.0 million for the same period last year.

Non-interest Income: Non-interest income was \$1.3 million for the three months ended March 31, 2015, compared to \$960,000 for the same period last year. The increase was primarily attributable to a \$236,000 increase in gain on sale of loans; a \$101,000 increase in loan fees; and the loss on sale of OREO was lower by \$227,000.

Non-interest Expense: Non-interest expense decreased \$193,000 to \$4.4 million for the three months ended March 31, 2015, from \$4.5 million for the three months ended March 31, 2014. The decrease was primarily due to a \$274,000 decrease in OREO expenses, offset by a \$147,000 increase in compensation expenses.

Income Taxes: The Company recorded income tax expense of \$1.5 million on income before taxes of \$4.1 million for the three months ended March 31, 2015, resulting in an effective tax rate of 36.9%, compared to income tax expense of \$1.2 million on income before taxes of \$3.6 million for the same period of 2014, resulting in an effective tax rate of 32.1%. The increase is due to an immaterial over accrual in a prior period that was corrected during this period last year.

Edgar Filing: PARKE BANCORP, INC. - Form 10-Q

For the Three Months Ended March 31,

	Average Balance	2015 Interest Income/ Expense	Yield/ Cost		Average Balance	2014 Interest Income/ Expense	Yield/ Cost
(amounts in thousands, except percentages)							
Assets							
Loans	\$ 716,505	\$ 9,139	5.17 %		\$ 652,666	\$ 9,290	5.77 %
Investment securities	34,256	246	2.91 %		39,642	293	3.00 %
Federal funds sold and cash equivalents	28,411	15	0.21 %		43,015	23	0.22 %
Total interest-earning assets	779,172	\$ 9,400	4.89 %		735,323	\$ 9,606	5.30 %
Other assets	59,987				77,122		
Allowance for loan losses	(18,158)				(19,071)		
Total assets	\$ 821,001				\$ 793,374		
Liabilities and Shareholders' Equity							
Interest bearing deposits:							
NOWs	\$ 30,385	\$ 37	0.49 %		\$ 27,231	\$ 34	0.51 %
Money markets	104,855	130	0.50 %		93,797	138	0.60 %
Savings	196,730	259	0.53 %		221,659	341	0.62 %
Time deposits	249,041	676	1.10 %		246,039	643	1.06 %
Brokered certificates of deposit	22,758	29	0.52 %		8,399	21	1.01 %
Total interest-bearing deposits	603,769	1,131	0.76 %		597,125	1,177	0.80 %
Borrowings	65,780	213	1.31 %		65,204	221	1.37 %
Total interest-bearing liabilities	669,549	1,344	0.81 %		662,329	1,398	0.86 %
Non-interest bearing deposits	41,298				31,965		
Other liabilities	5,777				4,950		
Total non-interest bearing liabilities	47,075				36,915		
Shareholders' equity	104,377				94,130		
Total liabilities and shareholders' equity	\$ 821,001				\$ 793,374		
Net interest income		\$ 8,056				\$ 8,208	
Interest rate spread			4.08 %				4.44 %
Net interest margin			4.19 %				4.53 %

Critical Accounting Policies

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

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

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

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

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

Other Than Temporary Impairment on Investment Securities: Management periodically performs analyses to determine whether there has been an OTTI in the value of one or more securities. The available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholder's equity. The held to maturity securities portfolio, consisting of debt securities for which there is a positive intent and ability to hold to maturity, is carried at amortized cost. Management conducts a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, the cost basis of the security is adjusted by writing down the security to estimated fair market value through a charge to current period earnings to the extent that such decline is credit related. All other changes in unrealized gains or losses for investment securities available for sale are recorded, net of tax effect, through other comprehensive income.

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

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

Liquidity: Liquidity describes the ability of the Company to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from interest-earning assets. The loan to deposit ratio was 109.0% and 113.8% at March 31, 2015 and December 31, 2014, respectively. Funds received from new and existing depositors provided a large source of liquidity for the three month period ended March 31, 2015. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support loan growth. The Company also seeks to augment such deposits with longer term and higher yielding certificates of deposit. To the extent that retail deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds market. Longer term funding can be obtained through advances from the FHLB. As of March 31, 2015, the Company maintained lines of credit with the FHLB of \$138.3 million, of which \$69.8 million was outstanding at March 31, 2015.

As of March 31, 2015, the Company's investment securities portfolio included \$46.2 million of residential mortgage-backed securities that provide cash flow each month. The majority of the investment portfolio is classified as available for sale, is marketable, and is available to meet liquidity needs. The Company's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and accordingly could be sold in the secondary mortgage market if needed as an additional source of liquidity. The Company's management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

Capital: On January 1, 2015, new capital rules, approved by the Federal Reserve Board and other federal banking agencies, became effective for Parke Bancorp, Inc's subsidiary Parke Bank. Under the new capital rules, Parke Bank, as a non-advanced approaches banking organization, had the option to exclude the effects of certain AOCI items from the equity calculation. Parke Bank did exercise the one-time irrevocable option to exclude these certain components of AOCI from the equity calculation.

We actively review our capital strategies in light of current and anticipated business risks, future growth opportunities, industry standards, and compliance with regulatory requirements. The assessment of overall capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings stability, competitive forces, economic conditions, and strength of management. At March 31, 2015, the capital ratios of Parke Bank exceed the "well capitalized" thresholds under the current capital requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable as the Company is a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the required time periods specified in the SEC's rules and forms.

Internal Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was not a party to any material legal proceedings other than routine matters in the ordinary course of business.

ITEM 1A. RISK FACTORS

Not applicable as the Company is a smaller reporting company.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Certification of CEO required by Rule 13a-14(a).

31.2 Certification of CFO required by Rule 13a-14(a).

32 Certification required by 18 U.S.C. §1350.

101.INS XBRL Instance Document *

101.SCH XBRL Schema Document *

101.CAL XBRL Calculation Linkbase Document *

101.LAB XBRL Labels Linkbase Document *

101.PRE XBRL Presentation Linkbase Document *

101.DEF XBRL Definition Linkbase Document *

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARKE BANCORP, INC.

Date: May 15, 2015

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

Date: May 15, 2015

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