

PARKE BANCORP, INC.
Form 10-Q
November 14, 2012

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: September 30, 2012.

or

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

For the transition period from _____ to _____

Commission File No. 000-51338

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

New Jersey
(State or other jurisdiction of incorporation or organization)

65-1241959
(IRS Employer Identification No.)

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

08080
(Zip Code)

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

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

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

Yes 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,

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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 November 14, 2012, there were issued and outstanding 5,383,893 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2012

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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)

	September 30, 2012	December 31, 2011
Assets		
Cash and due from financial institutions	\$ 1,934	\$ 3,733
Federal funds sold and cash equivalents	98,949	106,495
Total Cash and cash equivalents	100,883	110,228
Investment securities available for sale, at fair value	21,457	22,517
Investment securities held to maturity (fair value of \$2,209 at September 30, 2012 and \$2,080 at December 31, 2011)	2,058	2,032
Total investment securities	23,515	24,549
Loans held for sale	1,835	225
Loans, net of unearned income	603,560	625,117
Less: Allowance for loan losses	(17,487)	(19,323)
Net loans	586,073	605,794
Accrued interest receivable	2,765	3,039
Bank premises and equipment, net	4,072	4,122
Other real estate owned (OREO)	28,102	19,410
Restricted stock, at cost	2,225	3,565
Bank owned life insurance (BOLI)	5,679	5,541
Other assets	15,041	14,265
Total Assets	\$ 770,190	\$ 790,738
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 28,392	\$ 31,146
Interest-bearing deposits	611,308	603,709
Total deposits	639,700	634,855
FHLB borrowings	20,488	50,607
Other borrowed funds	10,000	10,000
Subordinated debentures	13,403	13,403
Accrued interest payable	631	618
Other liabilities	4,378	3,982
Total liabilities	688,600	713,465
Equity		
Preferred stock, cumulative perpetual, \$1,000 liquidation value;	16,016	15,868

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authorized 1,000,000 shares; Issued: 16,288 shares
at September

30, 2012 and December 31, 2011

Common stock, \$.10 par value; authorized
10,000,000 shares; Issued:

5,594,793 shares at September 30, 2012 and
5,097,078 shares

December 31, 2011	560		510
Additional paid-in capital	48,869		45,844
Retained earnings	19,366		17,808
Accumulated other comprehensive loss	(632	)	(626
Treasury stock, 210,900 shares at September 30, 2012 and			
December 31, 2011, at cost	(2,180	)	(2,180
Total shareholders' equity	81,999		77,224
Noncontrolling interest in consolidated subsidiaries	(409	)	49
Total equity	81,590		77,273
Total liabilities and equity	\$ 770,190		\$ 790,738

See accompanying notes to consolidated financial statements

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

	For the nine months ended		For the three months	
	September 30,		ended September 30,	
	2012	2011	2012	2011
Interest income:				
Interest and fees on loans	\$27,637	\$29,802	\$8,766	\$9,912
Interest and dividends on investments	800	1,033	259	329
Interest on federal funds sold and cash equivalents	178	75	59	31
Total interest income	28,615	30,910	9,084	10,272
Interest expense:				
Interest on deposits	5,011	5,965	1,552	1,960
Interest on borrowings	709	1,066	234	352
Total interest expense	5,720	7,031	1,786	2,312
Net interest income	22,895	23,879	7,298	7,960
Provision for loan losses	5,800	6,850	1,500	2,350
Net interest income after provision for loan losses	17,095	17,029	5,798	5,610
Noninterest income (loss):				
Loan fees	251	185	91	20
Net income from BOLI	138	133	47	45
Service fees on deposit accounts	166	166	62	58
Gain on sale of SBA loans	2,057	3,892	700	751
Other than temporary impairment losses	—	(132)	—	(48)
Portion of loss recognized in other comprehensive income (OCI) (before taxes)	—	47	—	20
Net impairment losses recognized in earnings	—	(85)	—	(28)
Loss on sale of real estate owned	(757)	(525)	(132)	(577)
Other	712	173	184	56
Total noninterest income	2,567	3,939	952	325
Noninterest expense:				
Compensation and benefits	4,267	4,227	1,415	1,406
Professional services	1,065	966	288	321
Occupancy and equipment	776	751	244	248
Data processing	307	316	103	92
FDIC insurance	824	877	278	192
OREO Expense	1,025	431	339	219
Other operating expense	2,704	1,940	803	574
Total noninterest expense	10,968	9,508	3,470	3,052
Income before income tax expense	8,694	11,460	3,280	2,883
Income tax expense	2,895	4,605	1,365	1,161
Net income attributable to Company and noncontrolling interest	5,799	6,855	1,915	1,722
Net income attributable to noncontrolling interest	(442)	(848)	(194)	(152)
Net income attributable to Company	5,357	6,007	1,721	1,570
Preferred stock dividend and discount accretion	758	749	253	251

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Net income available to common shareholders	\$4,599	\$5,258	\$1,468	\$1,319
Earnings per common share				
Basic	\$0.86	\$0.98	\$0.25	\$0.23
Diluted	\$0.85	\$0.96	\$0.25	\$0.23
Weighted average shares outstanding				
Basic	5,378,103	5,374,561	5,872,276	5,818,506
Diluted	5,381,347	5,458,044	5,872,643	5,841,855
See accompanying notes to consolidated financial statements				

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

	For the nine months ended		For the three months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Net income attributable to Company	\$5,357	\$6,007	\$1,721	\$1,570
Unrealized gains on securities:				
Non-credit related unrealized gains (losses) on securities with OTTI	12	16	(7	) (4
Net unrealized (losses) gains on securities without OTTI	(28	) 109	(58	) 22
Total unrealized (losses) gains on securities	(16	) 125	(65	) 18
Pension liability adjustments	10	31	4	14
Total other comprehensive (loss) income	(5	) 156	(61	) 32
Total comprehensive income	\$5,351	\$6,163	\$1,660	\$1,602
See accompanying notes to consolidated financial statements				

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

	For the nine months ended	
	September 30,	
	2012	2011
	(Amounts in thousands)	
Cash Flows from Operating Activities		
Net income	\$5,799	\$6,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	267	273
Provision for loan losses	5,800	6,850
Bank owned life insurance	(138)	(133)
Supplemental executive retirement plan expense	102	286
Gain on sale of SBA loans	(2,057)	(3,892)
SBA loans originated for sale	(18,679)	(21,993)
Proceeds from sale of SBA loans originated for sale	19,210	24,455
Loss on sale of other real estate owned	757	525
Contribution of OREO property	138	—
Other than temporary decline in value of investments	—	85
Net accretion of purchase premiums and discounts on securities	(10)	(59)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(448)	(908)
Increase (decrease) in accrued interest payable and other accrued liabilities	316	(1,047)
Net cash provided by operating activities	11,057	11,297
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(4,148)	—
Redemptions (purchases) of restricted stock	1,340	(77)
Proceeds from sale of securities available for sale	—	500
Proceeds from maturities, calls and principal payments on securities	5,039	2,983
Proceeds from sale of other real estate owned	1,331	3,175
Advances on other real estate owned	(227)	(4,387)
Net decrease (increase) in loans	3,230	(17,427)
Purchases of bank premises and equipment	(217)	(161)
Net cash provided by (used in) investing activities	6,348	(15,394)
Cash Flows from Financing Activities		
Payment of dividend on preferred stock	(610)	(611)
Cash payment of fractional shares on 10% stock dividend	(1)	(1)
Minority interest capital withdrawal, net	(900)	(812)
Net decrease in Federal Home Loan Bank and short term borrowings	(30,119)	—
Proceeds from exercise of stock options and warrants	35	—
Payments of Federal Home Loan Bank advances	—	(113)
Net (decrease) increase in noninterest-bearing deposits	(2,754)	227
Net increase in interest-bearing deposits	7,599	17,080
Net cash (used in) provided by financing activities	(26,750)	15,770
(Decrease) increase in cash and cash equivalents	(9,345)	11,673
Cash and Cash Equivalents, beginning of period	110,228	57,628

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Cash and Cash Equivalents, end of period	\$100,883	\$69,301
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest on deposits and borrowed funds	\$5,707	\$7,219
Income taxes	\$4,015	\$5,601
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	\$10,691	\$802

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

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

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

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

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

The FDIC and the New Jersey Department of Banking and Insurance Consent Orders: On April 9, 2012, the Bank entered into Consent Orders with the FDIC and the New Jersey Department of Banking and Insurance (the "Department"). Under the Consent Orders, the terms of which are substantially identical, the Bank is required, among other things, subject to review and approval by the FDIC and the Department: (i) to adopt and implement a plan to reduce the Bank's position in delinquent or classified assets; (ii) to adopt and implement a program providing for a periodic independent review of the Bank's loan portfolio and the identification of problem credits; (iii) to review and revise the Bank's loan policies and procedures to address identified lending deficiencies; and (iv) to adopt and implement a plan to reduce and manage each of the concentrations of credit identified by the FDIC and the Department.

The Consent Orders also require the Bank to obtain the prior approval of the FDIC and the New Jersey Department before declaring or paying any dividend or appointing or changing the title or responsibilities of any director or senior executive officer. Additional regulatory provisions require FDIC prior approval before the Bank enters into any employment agreement or other agreement or plan providing for the payment of a "golden parachute payment" or the making of any golden parachute payment.

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 Parke Bancorp, Inc. and its wholly-owned subsidiaries Parke Bank, Parke Capital Markets, Farm Folly, Inc. and Taylors Glen LLC. Also included are the accounts of 44 Business Capital Partners LLC, a joint venture formed in 2009 to originate and service SBA loans. Parke Bank has a 51% ownership interest in the joint venture. Parke Capital Trust I,

Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the requirements for consolidation under applicable accounting guidance. All significant inter-company balances and transactions have been eliminated.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in Parke Bancorp Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 since they do not include all of the information and footnotes required by GAAP. The accompanying interim financial statements for the nine months ended September 30, 2012 and 2011 are unaudited. The balance sheet as of December 31, 2011, 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 nine months ended September 30, 2012 are not necessarily indicative of the results for the full year.

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

Recently Issued Accounting Pronouncements:

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

In June 2011, the FASB issued guidance to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments are effective for interim and annual periods beginning after December 15, 2011 with retrospective application. The Company adopted the accounting standard on January 1, 2012, as required, with no material impact on its results of operations or financial position.

NOTE 3. INVESTMENT SECURITIES

The following is a summary of the Company's investments in available for sale and held to maturity securities as of September 30, 2012 and December 31, 2011:

As of September 30, 2012	Amortized cost (Amounts in thousands)	Gross unrealized gains	Gross unrealized losses	Other-than- temporary impairments in OCI	Fair Value
Available for sale:					
U.S. Government sponsored entities	\$7	\$—	\$—	\$—	\$7
Corporate debt obligations	1,500	51	—	—	1,551
Residential mortgage-backed securities	14,172	746	—	—	14,918
Collateralized mortgage obligations	1,024	62	—	—	1,086
Collateralized debt obligations	5,556	—	1,157	504	3,895
Total available for sale	\$22,259	\$859	\$1,157	\$504	\$21,457
Held to maturity:					
States and political subdivisions	\$2,058	\$151	\$—	\$—	\$2,209
As of December 31, 2011					
	Amortized cost (Amounts in thousands)	Gross unrealized gains	Gross unrealized losses	Other-than- temporary impairments in OCI	Fair Value
Available for sale:					
U.S. Government sponsored entities	\$1,006	\$5	\$—	\$—	\$1,011
Corporate debt obligations	1,500	43	57	—	1,486
Residential mortgage-backed securities	13,697	764	—	—	14,461
Collateralized mortgage obligations	1,534	73	—	13	1,594
Collateralized debt obligations	5,556	—	1,080	511	3,965
Total available for sale	\$23,293	\$885	\$1,137	\$524	\$22,517
Held to maturity:					
States and political subdivisions	\$2,032	\$87	\$39	\$—	\$2,080

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of September 30, 2012 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	7,062	5,452
Residential mortgage-backed securities and collateralized mortgage obligations	15,197	16,005
Total available for sale	\$22,259	\$21,457
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	2,058	2,209
Total held to maturity	\$2,058	\$2,209

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

As of September 30, 2012, securities with a carrying value of \$16.4 million, and fair value of \$17.3 million, were pledged as collateral for borrowed funds. In addition, securities with a carrying value of \$4.6 million, and fair value of \$5.0 million, were pledged to secure public deposits.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012 and December 31, 2011:

As of September 30, 2012	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Amounts in thousands)					
Available for sale:						
Collateralized debt obligations	—	—	3,593	1,157	3,593	1,157
Total available for sale	\$—	\$—	\$3,593	\$1,157	\$3,593	\$1,157
Held to maturity:						
States and political subdivisions	\$—	\$—	\$—	\$—	\$—	\$—
	(Amounts in thousands)					
As of December 31, 2011	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Amounts in thousands)					
Available for sale:						
Corporate debt obligations	—	—	443	57	443	57
Collateralized debt obligations	—	—	3,670	1,080	3,670	1,080
Total available for sale	\$—	\$—	\$4,113	\$1,137	\$4,113	\$1,137
Held to maturity:						
States and political subdivisions	\$758	\$39	\$—	\$—	\$758	\$39

Collateralized Debt Obligations: The Company's unrealized loss on investments in collateralized debt obligations ("CDOs") relates to three securities issued by financial institutions, totaling \$3.6 million. CDOs are pooled securities primarily secured by trust preferred securities ("TruPS"), subordinated debt and surplus notes issued by small and mid-sized banks and insurance companies. These securities are generally floating rate instruments with 30-year maturities, and are callable at par by the issuer after five years. The current economic downturn has had a significant adverse impact on the financial services industry; consequently, TruPS CDOs do not have an active trading market. With the assistance of competent third-party valuation specialists, the Company utilized the following methodology to determine the fair value:

Cash flows were developed based on the estimated speeds at which the trust preferred securities are expected to prepay (a range of 1% to 2%), the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default (a range of 0.57% to 0.66%), and the severity of the losses on securities which default (95%). Trust preferred securities

generally allow for prepayment by the issuer without a prepayment penalty any time after five years. Due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for conditional default rates (“CDR”) are based on the payment characteristics of the trust preferred securities themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the trust preferred issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions’ capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The fair value of each bond was assessed by discounting its projected cash flows by a discount rate. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks (3 month LIBOR plus a spread of 400 to 959 basis points). The fair value for previous reporting periods was based on indicative market bids and resulted in much lower values due to the inactive trading market.

The underlying issuers have been analyzed, and projections have been made regarding the future performance, considering factors including defaults and interest deferrals. The analysis indicates that the Company should expect to receive all contractual cash flows. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at September 30, 2012.

Other-Than-Temporarily Impaired Debt Securities

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

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

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

The following table presents a roll-forward of the credit loss component of the amortized cost of debt securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the periods ended September 30, 2012 and 2011.

	For the Nine Months Ended September 30,	
	2012	2011
	(Amounts in thousands)	
Beginning balance	\$ 1,950	\$ 2,657
Initial credit impairment	—	—
Subsequent credit impairments	—	85
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities sold	—	—
Reductions for securities deemed worthless	(731)	(524)
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	\$ 1,219	\$ 2,218

	For the Three Months Ended September 30,	
	2012	2011
	(Amounts in thousands)	
Beginning balance	\$ 1,551	\$ 2,398
Initial credit impairment	—	—
Subsequent credit impairments	—	28
Reductions for amounts recognized in earnings due to intent or requirement to sell	—	—
Reductions for securities sold	—	—
Reductions for securities deemed worthless	(332)	(208)
Reductions for increases in cash flows expected to be collected	—	—
Ending balance	\$ 1,219	\$ 2,218

A summary of investment gains and losses recognized in income during the nine month and three month periods ended September 30, 2012 and 2011 are as follows:

	For the Nine Months Ended September 30,	
	2012	2011
	(Amounts in thousands)	
Available for sale securities:		
Realized gains	\$ —	\$ —
Realized (losses)	—	—
Other than temporary impairment	—	(85)
Total available for sale securities	\$ —	\$ (85)
Held to maturity securities:		
Realized gains	\$ —	\$ —
Realized (losses)	—	—
Other than temporary impairment	—	—
Total held to maturity securities	\$ —	\$ —

	For the Three Months Ended September 30,	
	2012	2011
	(Amounts in thousands)	
Available for sale securities:		
Realized gains	\$ —	\$ —
Realized (losses)	—	—
Other than temporary impairment	—	(28)
Total available for sale securities	\$ —	\$ (28)
Held to maturity securities:		
Realized gains	\$ —	\$ —
Realized (losses)	—	—
Other than temporary impairment	—	—
Total held to maturity securities	\$ —	\$ —

NOTE 4. LOANS

The portfolio of loans outstanding consisted of the following at September 30, 2012 and December 31, 2011:

	September 30, 2012			December 31, 2011		
	Amount	Percentage of Total Loans (Amounts in thousands)	%	Amount	Percentage of Total Loans	%
Commercial and Industrial	\$21,955	3.6	%	\$24,136	3.9	%
Real Estate Construction:						
Residential	8,117	1.3	%	21,287	3.4	%
Commercial	41,190	6.8	%	50,361	8.1	%
Real Estate Mortgage:						
Commercial – Owner Occupied	148,785	24.7	%	147,449	23.6	%
Commercial – Non-owner Occupied	206,529	34.3	%	204,216	32.6	%
Residential – 1 to 4 Family	138,528	23.0	%	138,768	22.2	%
Residential – Multifamily	20,056	3.3	%	20,126	3.2	%
Consumer	18,400	3.0	%	18,774	3.0	%
Total Loans	\$603,560	100.0	%	\$625,117	100.0	%

The Company maintains interest reserves for the purpose of making periodic and timely interest payments for borrowers that qualify for development and construction loans. Total development and construction loans with interest reserves were \$6.4 million and \$14.6 million at September 30, 2012 and December 31, 2011, respectively. The amount of interest capitalized from interest reserves and recognized as interest income for the nine month periods ended September 30, 2012 and 2011 was \$158,000 and \$238,000, respectively. Interest reserves provide borrowers temporary sources of cash flow which can be used to make interest payments during the development or construction phases of a project. It is our expectation that equity in the project increases as the project moves towards completion and that cash flows will be positive once sales begin or stabilization occurs. Loans with interest reserves are monitored throughout the life of the project. Interest accrual may be suspended on interest reserve dependent loans that are not delinquent but are risk rated substandard or worse.

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. 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.

Consumer loans may carry a higher degree of repayment risk than residential mortgage loans. Repayment is typically dependent upon the borrower's financial stability which is more likely to be adversely affected by job loss, illness, or personal bankruptcy. To monitor and manage consumer loan risk, policies and procedures are developed and modified as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements. 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. In 2011 the Company expanded its risk monitoring program by creating a standalone Credit Risk Management Department. The external independent loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit risk management personnel.

Nonaccrual and Past Due Loans: Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when a loan is 90 days past due, unless the loan is well secured and in the process of collection, as required by regulatory provision. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued

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interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

An age analysis of past due loans by class follows:

September 30, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
(Amounts in thousands)							
Commercial and Industrial	\$ 68	\$ —	\$ 303	\$ 371	\$ 21,584	\$ 21,955	\$ —
Real Estate Construction:							
Residential	—	—	1,035	1,035	7,082	8,117	—
Commercial	—	—	14,501	14,501	26,689	41,190	—
Real Estate Mortgage:							
Commercial – Owner Occupied	—	—	1,864	1,864	146,921	148,785	—
Commercial – Non-owner Occupied	375	5,036	24,122	29,533	176,996	206,529	—
Residential – 1 to 4 Family	1,299	—	7,634	8,933	129,595	138,528	—
Residential – Multifamily	—	—	3,160	3,160	16,896	20,056	—
Consumer	66	—	291	357	18,043	18,400	—
Total	\$ 1,808	\$ 5,036	\$ 52,910	\$ 59,754	\$ 543,806	\$ 603,560	\$ —

December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Not Accruing	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
(Amounts in thousands)							
Commercial and Industrial	\$ 603	\$ —	\$ —	\$ 603	\$ 23,533	\$ 24,136	\$ —
Real Estate Construction:							
Residential	350	—	5,265	5,615	15,672	21,287	—
Commercial	—	—	7,703	7,703	42,658	50,361	—
Real Estate Mortgage:	1,358	—	4,797	6,155	141,294	147,449	—

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Commercial – Owner Occupied Commercial – Non-owner Occupied	1,574	—	18,132	19,706	184,510	204,216	—
Residential – 1 to 4 Family	2,587	—	7,691	10,278	128,490	138,768	—
Residential – Multifamily	—	—	597	597	19,529	20,126	—
Consumer	—	—	274	274	18,500	18,774	—
Total	\$ 6,472	\$ —	\$ 44,459	\$ 50,931	\$574,186	\$625,117	\$ —

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. In addition, any loan that is modified in a troubled debt restructuring is considered impaired.

All impaired loans have an independent third-party full appraisal to determine the net realizable value ("NRV") based on the fair value of the underlying collateral, less cost to sell (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. Prior to receiving the updated appraisal, we will establish a specific reserve for any estimated deterioration, based upon our assessment of market conditions, adjusted for estimated costs to sell and other identified costs. If the NRV is greater than the loan amount, then no impairment loss exists. If the NRV is less than the loan amount, the shortfall is recognized by a specific reserve. If the borrower fails to pledge additional collateral in the ninety day period, a charge-off equal to the difference between the loan carrying value and NRV will occur. In certain circumstances, however, a direct charge-off may be taken at the time that the NRV calculation reveals a shortfall. All impaired loans are evaluated based on the criteria stated above on a quarterly basis and any change in the reserve requirements are recorded in the period identified. All partially charged-off loans remain on nonaccrual status until they are brought current as to both principal and interest and have at least six months of payment history and future collectability of principal and interest is assured.

Impaired loans are set forth in the following tables.

September 30, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance
(Amounts in thousands)			
With no related allowance recorded:			
Commercial and Industrial	\$803	\$870	\$—
Real Estate Construction:			
Residential	1,519	3,319	—
Commercial	14,435	14,435	—
Real Estate Mortgage:			
Commercial – Owner Occupied	5,600	5,784	—
Commercial – Non-owner Occupied	47,547	51,019	—
Residential – 1 to 4 Family	12,608	13,464	—
Residential – Multifamily	3,538	3,538	—
Consumer	291	327	—
	86,341	92,756	—
With an allowance recorded:			
Commercial and Industrial	—	—	—
Real Estate Construction:			
Residential	—	—	—
Commercial	481	538	34
Real Estate Mortgage:			
Commercial – Owner Occupied	938	938	55
Commercial – Non-owner Occupied	3,571	3,571	45
Residential – 1 to 4 Family	507	764	16
Residential – Multifamily	—	—	—
Consumer	—	—	—
	5,497	5,811	150
Total:			
Commercial and Industrial	803	870	—
Real Estate Construction:			
Residential	1,519	3,319	—
Commercial	14,916	14,973	34
Real Estate Mortgage:			
Commercial – Owner Occupied	6,538	6,722	55
Commercial – Non-owner Occupied	51,118	54,590	45
Residential – 1 to 4 Family	13,115	14,228	16
Residential – Multifamily	3,538	3,538	—
Consumer	291	327	—
	\$91,838	\$98,567	\$150

December 31, 2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	\$ 603	\$ 603	\$—
Real Estate Construction:			
Residential	4,440	5,246	—
Commercial	12,898	13,118	—
Real Estate Mortgage:			
Commercial – Owner Occupied	6,946	6,946	—
Commercial – Non-owner Occupied	30,424	30,852	—
Residential – 1 to 4 Family	8,477	10,737	—
Residential – Multifamily	597	667	—
Consumer	229	229	—
	64,614	68,398	—
With an allowance recorded:			
Commercial and Industrial	—	—	—
Real Estate Construction:			
Residential	4,170	5,151	1,297
Commercial	3,329	3,329	380
Real Estate Mortgage:			
Commercial – Owner Occupied	590	590	23
Commercial – Non-owner Occupied	17,820	17,940	2,526
Residential – 1 to 4 Family	3,388	3,589	600
Residential – Multifamily	3,268	3,268	33
Consumer	—	—	—
	32,565	33,867	4,859
Total:			
Commercial and Industrial	603	603	—
Real Estate Construction:			
Residential	8,610	10,397	1,297
Commercial	16,227	16,447	380
Real Estate Mortgage:			
Commercial – Owner Occupied	7,536	7,536	23
Commercial – Non-owner Occupied	48,244	48,792	2,526
Residential – 1 to 4 Family	11,865	14,326	600
Residential – Multifamily	3,865	3,935	33
Consumer	229	229	—
	\$97,179	\$ 102,265	\$4,859

The following table presents by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the nine months and three months ended September 30, 2012 and 2011:

	Nine Months Ended September 30,			
	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Amounts in thousands)			
Commercial and Industrial	\$850	\$ 17	\$594	\$ 18
Real Estate Construction:				
Residential	2,126	47	12,614	336
Commercial	14,947	196	16,019	386
Real Estate Mortgage:				
Commercial – Owner Occupied	6,751	176	7,690	169
Commercial – Non-owner Occupied	52,619	1,469	57,521	2,533
Residential – 1 to 4 Family	13,877	370	16,363	233
Residential – Multifamily	3,604	60	4,762	247
Consumer	310	6	171	8
Total	\$95,084	\$ 2,341	\$115,734	\$ 3,930
	Three Months Ended September 30,			
	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Amounts in thousands)			
Commercial and Industrial	\$806	\$ 6	\$594	\$ 8
Real Estate Construction:				
Residential	1,497	15	12,413	148
Commercial	14,931	36	16,910	123
Real Estate Mortgage:				
Commercial – Owner Occupied	6,652	59	7,648	61
Commercial – Non-owner Occupied	51,475	408	50,766	1,299
Residential – 1 to 4 Family	13,556	85	15,943	84
Residential – Multifamily	3,559	6	4,883	83
Consumer	291	1	86	8
Total	\$92,767	\$ 616	\$109,243	\$ 1,814

Troubled debt restructurings: Periodically management evaluates our loans in order to determine the appropriate risk rating, interest accrual status and potential classification as a TDR, some of which are performing and accruing interest. A TDR is a loan on which we have granted a concession due to a borrower's financial difficulty. 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 on accrual status.

Performing TDRs (not reported as non-accrual loans) totaled \$39.0 million and \$41.1 million as of September 30, 2012 and December 31, 2011, respectively. Non-performing TDRs totaled \$31.3 million and \$25.8 million as of September 30, 2012 and December 31, 2011, respectively. All TORs are classified as impaired loans and are included in the impaired loan disclosures above.

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The following tables illustrate new TDRs and TDR default information for the nine months and three months ended September 30, 2012 and 2011.

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<p>Troubled Debt Restructurings</p> <p>Commercial and Industrial</p> <p>Construction:</p> <p> Residential</p> <p> Commercial</p> <p>Real Estate Mortgage:</p> <p> Commercial – Owner Occupied</p> <p> Commercial – Non-owner Occupied</p> <p> Residential – 1-4 Family</p> <p> Residential – Multifamily</p> <p>Consumer</p> <p>Total</p>	2	\$ 750	\$ 750	1	\$ 594	\$ 594
	1	415	415	1	959	959
	11	9,938	9,938	—	—	—
	1	3,220	3,220	1	315	315
	3	4,067	4,067	3	5,543	5,543
	3	4,168	4,168	4	6,250	6,250
	1	380	380	2	506	506
	—	—	—	—	—	—
	22	\$ 22,938	\$ 22,938	12	\$ 14,167	\$ 14,167

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<p>Troubled Debt Restructurings</p> <p>Commercial and Industrial</p> <p>Construction:</p> <p> Residential</p> <p> Commercial</p> <p>Real Estate Mortgage:</p> <p> Commercial – Owner Occupied</p> <p> Commercial – Non-owner Occupied</p> <p> Residential – 1-4 Family</p>	—	\$ —	\$ —	—	\$ —	\$ —
	—	—	—	—	—	—
	11	9,938	9,938	—	—	—
	—	—	—	—	—	—
	1	1,148	1,148	—	—	—
	1	203	203	—	—	—

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Residential – Multifamily	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	13	\$ 11,289	\$ 11,289	—	\$ —	\$ —

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The following tables shows the types of modifications made during the nine months and three months ended September 30, 2012 and 2011:

	Nine Months Ended September 30, 2012				Nine Months Ended September 30, 2011			
	Extension	Period of Interest Only	Interest Rate Reduction	Total	Extension	Period of Interest Only	Interest Rate Reduction	Total
	(Dollars in Thousands)							
Troubled Debt Restructurings Commercial and Industrial	\$ 500	\$ —	\$ 250	\$ 750	\$ —	\$ —	\$ 594	\$ 594
Construction:								
Residential	—	—	415	415	—	—	959	959
Commercial	8,008	—	1,930	9,938	—	—	—	—
Real Estate Mortgage:								
Commercial – Owner Occupied	3,220	—	—	3,220	—	—	315	315
Commercial – Non-owner Occupied Residential – 1-4 Family	1,156	—	2,911	4,067	—	1,505	4,038	5,543
Residential – Multifamily	924	—	3,244	4,168	—	—	6,250	6,250
Consumer	—	380	—	380	—	—	506	506
Total	\$ 13,808	\$ 380	\$ 8,750	\$ 22,938	\$ —	\$ 1,505	\$ 12,662	\$ 14,167

	Three Months Ended September 30, 2012				Three Months Ended September 30, 2011			
	Extension	Period of Interest Only	Interest Rate Reduction	Total	Extension	Period of Interest Only	Interest Rate Reduction	Total
	(Dollars in Thousands)							
Troubled Debt Restructurings Commercial and Industrial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction:								
Residential	—	—	—	—	—	—	—	—
Commercial	8,008	—	1,930	9,938	—	—	—	—
Real Estate Mortgage:								
Commercial – Owner Occupied	—	—	—	—	—	—	—	—
	1,148	—	—	1,148	—	—	—	—

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Commercial – Non-owner Occupied Residential – 1-4 Family	—	—	203	203	—	—	—	—
Residential – Multifamily	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	\$ 9,156	\$ —	\$ 2,133	\$ 11,289	\$ —	\$ —	\$ —	\$ —

Troubled Debt Restructurings That Subsequently Defaulted	For the nine months ended September 30, 2012		For the nine months ended September, 30 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in Thousands)			
Commercial and Industrial	1	\$ 603	—	\$ —
Real Estate Construction:				
Residential	1	1,004	1	316
Commercial	10	8,508	—	—
Real Estate Mortgage:				
Commercial – Owner Occupied	—	—	5	4,131
Commercial – Non-owner Occupied	3	4,779	1	121
Residential – 1-4 Family	4	978	1	929
Residential – Multifamily	1	3,267	—	—
Consumer	—	—	—	—
Total	20	\$ 19,139	8	\$ 5,497

Troubled Debt Restructurings That Subsequently Defaulted	For the three months ended September 30, 2012		For the three months ended September, 30 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in Thousands)			
Commercial and Industrial	—	\$ —	—	\$ —
Real Estate Construction:				
Residential	—	—	1	316
Commercial	9	8,008	—	—
Real Estate Mortgage:				
Commercial – Owner Occupied	—	—	—	—
Commercial – Non-owner Occupied	1	1,156	—	—
Residential – 1-4 Family	1	202	—	—
Residential – Multifamily	—	—	—	—
Consumer	—	—	—	—
Total	11	\$ 9,366	1	\$ 316

Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall allowance for loan losses estimate. The level of any re-defaults will likely be affected by future economic conditions. Once a loan becomes a TDR, it will continue to be reported as a TDR until it is repaid in full, foreclosed, sold or it meets the criteria to be removed from TDR status.

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 Parke 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) with 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.

decreases in required allowances for specific loans or loan pools.

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

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

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

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

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

An analysis of the allowance for loan losses for the nine month and three month periods ended September 30, 2012 and 2011 is as follows:

Allowance for Loan Losses:	For the nine month period ended September 30, 2012				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
	(Amounts in thousands)				
Commercial and Industrial	\$451	\$(66)	\$—	\$76	\$461
Real Estate Construction:					
Residential	2,613	(1,326)	37	(573)	751
Commercial	1,971	(310)	—	(642)	1,019
Real Estate Mortgage:					
Commercial – Owner Occupied	2,714	(1,058)	—	2,028	3,684
Commercial – Non-owner Occupied	6,742	(3,756)	—	2,746	5,732
Residential – 1 to 4 Family	4,190	(1,531)	407	1,360	4,426
Residential – Multifamily	278	—	—	3	281
Consumer	148	(36)	—	237	349
Unallocated	216	—	—	568	784
Total	\$19,323	\$(8,083)	\$444	\$5,803	\$17,487

Allowance for Loan Losses:	For the nine month period ended September 30, 2011				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
	(Amounts in thousands)				
Commercial and Industrial	\$448	\$(22)	\$—	\$30	\$456
Real Estate Construction:					
Residential	2,980	(2,764)	22	2,171	2,409
Commercial	1,576	(494)	—	1,030	2,112
Real Estate Mortgage:					
Commercial – Owner Occupied	2,508	—	—	203	2,711
Commercial – Non-owner Occupied	3,792	—	—	783	4,575
Residential – 1 to 4 Family	2,848	(1,910)	—	2,919	3,857
Residential – Multifamily	372	—	—	(167)	205
Consumer	130	—	1	16	147
Unallocated	135	—	—	(135)	—
Total	\$14,789	\$(5,190)	\$23	\$6,850	\$16,472

	For the three month period ended September 30, 2012				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
	(Amounts in thousands)				
Commercial and Industrial	\$494	\$—	\$—	\$(33)	) \$461
Real Estate Construction:					
Residential	1,290	(37)	) —	(502)	) 751
Commercial	1,481	—	—	(462)	) 1,019
Real Estate Mortgage:					
Commercial – Owner Occupied	3,521	(311)	) —	474	3,684
Commercial – Non-owner Occupied	6,268	(816)	) —	280	5,732
Residential – 1 to 4 Family	4,408	(1,181)	) 4	1,195	4,426
Residential – Multifamily	268	—	—	13	281
Consumer	178	—	—	171	349
Unallocated	417	—	—	367	784
Total	\$18,325	\$(2,345)	) \$4	\$1,503	\$17,487

	For the three month period ended September 30, 2011				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
	(Amounts in thousands)				
Commercial and Industrial	\$ 496	\$ —	\$ —	\$(40)	\$ 456
Real Estate Construction:					
Residential	2,494	(37)	22	(70)	2,409
Commercial	2,077	(494)	—	529	2,112
Real Estate Mortgage:					
Commercial – Owner Occupied	2,508	—	—	203	2,711
Commercial – Non-owner Occupied	4,452	—	—	123	4,575
Residential – 1 to 4 Family	3,694	(1,910)	—	2,073	3,857
Residential – Multifamily	372	—	—	(167)	205
Consumer	143	—	1	3	147
Unallocated	304	—	—	(304)	—
Total	\$ 16,540	\$ (2,441)	\$ 23	\$ 2,350	\$ 16,472

Allowance for Loan Losses, at September 30, 2012	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ —	\$ 461	\$ 461
Real Estate Construction:			
Residential	—	751	751
Commercial	34	985	1,019
Real Estate Mortgage:			
Commercial – Owner Occupied	55	3,629	3,684
Commercial – Non-owner Occupied	45	5,687	5,732
Residential – 1 to 4 Family	16	4,410	4,426
Residential – Multifamily	—	281	281
Consumer	—	349	349
Unallocated	—	784	784
Total	\$ 150	\$ 17,337	\$ 17,487

Allowance for Loan Losses, at December 31, 2011	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ —	\$ 451	\$ 451
Real Estate Construction:			
Residential	1,297	1,316	2,613
Commercial	380	1,591	1,971
Real Estate Mortgage:			
Commercial – Owner Occupied	23	2,691	2,714
Commercial – Non-owner Occupied	2,526	4,216	6,742
Residential – 1 to 4 Family	600	3,590	4,190
Residential – Multifamily	33	245	278
Consumer	—	148	148
Unallocated	—	216	216
Total	\$ 4,859	\$ 14,464	\$ 19,323

Loans, at September 30, 2012:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 803	\$ 21,152	\$ 21,955
Real Estate Construction:			
Residential	1,519	6,598	8,117
Commercial	14,916	26,274	41,190
Real Estate Mortgage:			
Commercial – Owner Occupied	6,538	142,247	148,785
Commercial – Non-owner Occupied	51,118	155,411	206,529
Residential – 1 to 4 Family	13,115	125,413	138,528
Residential – Multifamily	3,538	16,518	20,056
Consumer	291	18,109	18,400
Total	\$ 91,838	\$ 511,722	\$ 603,560

Loans, at December 31, 2011:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(Amounts in thousands)		
Commercial and Industrial	\$ 603	\$ 23,533	\$ 24,136
Real Estate Construction:			
Residential	8,610	12,677	21,287
Commercial	16,227	34,134	50,361
Real Estate Mortgage:			
Commercial – Owner Occupied	7,536	139,913	147,449
Commercial – Non-owner Occupied	48,244	155,972	204,216
Residential – 1 to 4 Family	11,865	126,903	138,768
Residential – Multifamily	3,865	16,261	20,126
Consumer	229	18,545	18,774
Total	\$ 97,179	\$ 527,938	\$ 625,117

NOTE 6. REGULATORY RESTRICTIONS

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

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

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 September 30, 2012
(Amounts in thousands except ratios)

Total Risk Based Capital (to Risk Weighted Assets)	\$ 103,629	16.44	%	\$ 50,430	8	%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	\$ 95,631	15.17	%	\$ 25,215	4	%	N/A	N/A
Tier 1 Capital (to Average Assets)	\$ 95,631	12.32	%	\$ 31,056	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, 2011
(Amounts in thousands except ratios)

Total Risk Based Capital (to Risk Weighted Assets)	\$ 98,992	15.46	%	\$ 51,209	8	%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	\$ 90,851	14.19	%	\$ 25,604	4	%	N/A	N/A
Tier 1 Capital	\$ 90,851	12.06	%	\$ 30,122	4	%	N/A	N/A

(to Average Assets)

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Parke Bank	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of September 30, 2012 (Amounts in thousands except ratios)							
Total Risk Based Capital (to Risk Weighted Assets)	\$ 103,596	16.43	% \$ 50,430	8	% \$ 63,037	10	%
Tier 1 Capital (to Risk Weighted Assets)	\$ 95,598	15.17	% \$ 25,215	4	% \$ 37,822	6	%
Tier 1 Capital (to Average Assets)	\$ 95,598	12.31	% \$ 31,056	4	% \$ 38,820	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, 2011 (Amounts in thousands except ratios)							
Total Risk Based Capital (to Risk Weighted Assets)	\$ 98,817	15.44	% \$ 51,208	8	% \$ 64,010	10	%
Tier 1 Capital (to Risk Weighted Assets)	\$ 90,676	14.17	% \$ 25,604	4	% \$ 38,406	6	%
Tier 1 Capital (to Average Assets)	\$ 90,676	12.04	% \$ 30,122	4	% \$ 37,652	5	%

On October 3, 2008 Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the U.S. Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to the U.S. markets. One of the provisions resulting from the Act was the Treasury Capital Purchase Program (CPP) which provides for the direct equity investment of perpetual preferred stock by the U.S. Treasury in qualified financial institutions. This program was voluntary and requires an institution to comply with several restrictions and provisions, including limits on executive compensation, stock redemptions, and declaration of dividends. The perpetual preferred stock has a dividend rate of 5% per year until the fifth anniversary of the Treasury investment and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15%

of the capital invested by the U.S. Treasury. The Company received an investment in perpetual preferred stock of \$16,288,000 on January 30, 2009. These proceeds were allocated between the preferred stock and warrants based on relative fair value in accordance with FASB ASC Topic 470-20, "Debt with Conversion and Other Options." The allocation of proceeds resulted in a discount on the preferred stock that is being accreted over five years. The Company issued 329,757 common stock warrants to the U.S. Treasury and \$930,000 of those proceeds was allocated to the warrants. The warrants are accounted for as equity securities. The warrants have a contractual life of 10 years and an exercise price of \$6.12 per share of common stock.

NOTE 7. OTHER COMPREHENSIVE INCOME

The Company's accumulated other comprehensive income consisted of the following at:

	September 30, 2012	December 31, 2011
	(Amounts in thousands)	
Securities		
Non-credit unrealized losses on securities with OTTI	\$ (504)	\$ (524)
Unrealized losses on securities without OTTI	(298)	(252)
Minimum pension liability	(250)	(268)
Tax impact	420	418
Other comprehensive income	\$ (632)	\$ (626)

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 trust preferred securities.

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 trust preferred securities are expected to prepay (a range of 1% to 2%), the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default (a range of 0.57% to 0.66%), and the severity of the losses on securities which default (95%). Trust preferred securities generally allow for prepayment by the issuer without a prepayment penalty any time after five years. Due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, a relatively modest rate of prepayment was assumed going forward. Estimates for CDRs are based on the payment characteristics of the trust preferred securities themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the trust preferred issuers in the pool. Estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Finally, we consider whether or not the financial institution has received TARP funding, and if it has, the amount. Longer-term rates of deferral and defaults are based on historical averages. The fair value of each bond was assessed by discounting its projected cash flows by a discount rate. The discount rates were based on the yields of publicly traded TruPS and preferred stock issued by comparably rated banks (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 September 30, 2012				
U.S. Government sponsored entities	\$ —	\$ 7	\$ —	\$ 7
Corporate debt obligations	—	1,551	—	1,551
Residential mortgage-backed securities	—	14,918	—	14,918
Collateralized mortgage-backed securities	—	1,080	6	1,086
Collateralized debt obligations	—	—	3,895	3,895
Total	\$ —	\$ 17,556	\$ 3,901	\$ 21,457
As of December 31, 2011				
U.S. Government sponsored entities	\$ —	\$ 1,011	\$ —	\$ 1,011
Corporate debt obligations	—	1,486	—	1,486
Residential mortgage-backed securities	—	14,461	—	14,461
Collateralized mortgage-backed securities	—	1,437	157	1,594
Collateralized debt obligations	—	—	3,965	3,965
Total	\$ —	\$ 18,395	\$ 4,122	\$ 22,517

For the nine months ending September 30, 2012, 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 nine months ending September 30:

	Securities Available for Sale	
	2012	2011
	(Amounts in thousands)	
Beginning balance at January 1,	\$ 4,122	\$ 4,560
Total net losses included in:		
Net loss	(128)	(85)
Other comprehensive loss	(93)	(47)
Settlements	—	(161)
Net transfers into Level 3	—	—
Ending balance September 30,	\$ 3,901	\$ 4,267

Fair Value on a Non-recurring Basis:

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

Financial Assets	Level 1	Level 2	Level 3	Total
	(Amounts in thousands)			
As of September 30, 2012				
Collateral dependent impaired loans	\$—	\$—	\$65,945	\$65,945
OREO	—	—	28,102	28,102
As of December 31, 2011				
Collateral dependent impaired loans	\$—	\$—	\$72,958	\$72,958
OREO	—	—	19,410	19,410

Collateral dependent impaired loans, which are measured in accordance with FASB ASC Topic 310 "Receivables", for impairment, had a carrying amount of \$91.7 million and \$92.3 million at September 30, 2012 and December 31, 2011 respectively, with a valuation allowance of \$200,000 and \$4.9 million at September 30, 2012 and December 31, 2011 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 less estimated disposition costs, which is adjusted based upon management's review and changes in market conditions (Level 3 inputs). Properties are reappraised annually.

Fair Value of Financial Instruments

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

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

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

Investment Securities: Fair value of securities available for sale is described above. Fair value of held to maturity securities is based upon quoted market prices (Level 2 inputs).

Loans (other than impaired): Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, residential mortgage and other consumer. Each loan category is further segmented into groups by fixed and adjustable rate interest terms and by performing and non-performing categories. The fair value of performing loans is calculated by discounting scheduled cash flows through their estimated maturity, using estimated market discount rates that reflect the credit and interest rate risk inherent in each group of loans (Level 2 inputs). The estimate of maturity is based on contractual maturities for loans within each group, or on the Company's historical experience with repayments for each loan classification, modified as required by an estimate of the effect of current economic conditions.

Deposits: The fair value of time deposits is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities (Level 2 inputs).

Borrowings: The fair values of 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 (Level 2 inputs).

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

The following table summarizes the carrying amounts and fair values for financial instruments at September 30, 2012 and December 31, 2011:

	Level in Fair Value Hierarchy (Amounts in thousands)	September 30, 2012		December 31, 2011	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and cash equivalents	Level 1	\$100,883	\$100,883	\$110,228	\$110,228
Investment securities (available for sale and held to maturity)	(1)	23,515	23,666	24,549	24,597
Restricted stock	Level 2	2,225	2,225	3,565	3,565
Loans held for sale	Level 2	—	—	225	225
Loans, net	(2)	586,073	608,991	605,794	622,801
Accrued interest receivable	Level 2	2,765	2,765	3,039	3,039
Financial Liabilities:					
Demand and savings deposits	Level 2	\$363,969	\$363,969	\$356,440	\$356,440
Time deposits	Level 2	275,731	277,613	278,415	280,147
Borrowings	Level 2	43,891	51,478	74,010	79,997
Accrued interest payable	Level 2	631	631	618	618

(1) See the recurring fair value table above.

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

NOTE 9. INCOME TAXES

	For the nine months ended		For the three months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(Amount in thousands)			
Income Taxes				
Pre-tax Income	\$8,694	\$11,460	\$3,280	\$2,883
Income Tax Expense	2,895	4,605	1,365	1,161

For the nine months ended September 30, 2012, the Company recorded a net tax expense of \$2.9 million compared to a net tax expense of \$4.6 million for the nine months ended September 30, 2011. For the three months ended September 30, 2012, the Company recorded a net tax expense of \$1.4 million compared to a net tax expense of \$1.2 million for the three months ended September 30, 2011.

Deferred federal and state 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. The decrease in income tax expense is due to lower earnings and the change to an alternative tax methodology for bank owned life insurance ("BOLI") income whereby it is treated on a tax free basis. The portion related to prior years is \$576,000.

NOTE 10. EARNINGS PER SHARE (“EPS”)

The following tables set forth the calculation of basic and diluted EPS for the nine month periods ending September 30, 2012 and 2011.

	For the nine months ended September 30,		For the three months ended September 30,	
	2012	2011	2012	2011
	(Amounts in thousands except share data)			
Basic earnings per common share				
Net income available to common shareholders	\$4,599	\$5,258	\$1,468	\$1,319
Average common shares outstanding	5,378,103	5,374,561	5,872,276	5,818,506
Basic earnings per common share	\$0.86	\$0.98	\$0.25	\$0.23
Diluted earnings per common share				
Net income available to common shareholders	\$4,599	\$5,258	\$1,468	\$1,319
Average common shares outstanding	5,378,103	5,374,561	5,872,276	5,818,506
Dilutive potential common shares	3,244	115,237	367	23,349
Total diluted average common shares outstanding	5,381,347	5,489,798	5,872,643	5,841,855
Diluted earnings per common share	\$0.85	\$0.96	\$0.25	\$0.23

For the nine months ended September 30, 2012 and 2011, options to purchase 335,186 shares and 308,274 shares, respectively, were outstanding but were not included in the computation of diluted EPS because the options' common stock equivalents were antidilutive.

For the three months ended September 30, 2012 and 2011, options to purchase 335,186 shares and 319,284 shares, respectively, were outstanding but were not included in the computation of diluted EPS because the options' common stock equivalents were antidilutive.

In May of 2012 and May of 2011 the Company paid a 10% common stock dividend to shareholders. All weighted share information has been retroactively adjusted to give effect to this stock dividend for the periods presented.

NOTE 11. 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.

New Jersey's coastal areas recently suffered extensive flooding caused by tropical storm Sandy. The Bank is currently in the process of assessing any potential impact on loan collateral and OREO located along the coast in Southern New Jersey. It is not expected that it will have any material impact to the Company's financial results.

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

Comparison of Financial Condition at September 30, 2012 and December 31, 2011

At September 30, 2012, the Company's total assets decreased to \$770.2 million from \$790.7 million at December 31, 2011, a decrease of \$20.5 million or 2.6%.

Cash and cash equivalents decreased \$9.3 million to \$100.9 million at September 30, 2012 from \$110.2 million at December 31, 2011.

Total investment securities decreased to \$23.5 million at September 30, 2012 (\$21.5 million classified as available for sale or 91.2%) from \$24.5 million at December 31, 2011, a decrease of \$1.0 million or 4.2%.

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 and nine months ended September 30, 2012, the Company did not recognize any credit-related OTTI charges.

Total gross loans decreased to \$603.6 million at September 30, 2012 from \$625.1 million at December 31, 2011, a decrease of \$21.5 million or 3.4%. The decrease in the loan portfolio was a result of charge-offs of impaired loan balances and loan pay-offs.

Delinquent loans totaled \$59.7 million or 9.9% of total loans at September 30, 2012, an increase of \$8.8 million from December 31, 2011. Delinquent loan balances by number of days delinquent were: 30 to 59 days --- \$1.8 million; 60 to 89 days --- \$5.0 million; 90 days and greater not accruing interest --- \$52.9 million.

At September 30, 2012, the Company had \$52.9 million in nonaccrual loans or 8.8% of total loans, an increase from \$44.5 million or 7.1% of total loans at December 31, 2011. The three largest relationships in nonaccrual loans are a \$7.9 million retail center construction loan, a \$6.6 million retail center construction loan and a \$3.2 million residential condominium loan.

The composition of nonaccrual loans as of September 30, 2012 and December 31, 2011 was as follows:

	September 30, 2012	December 31, 2011
	(Amounts in thousands except ratios)	
Commercial and Industrial	\$ 303	\$ —
Real Estate Construction:		
Residential	1,035	5,265
Commercial	14,501	7,703
Real Estate Mortgage:		
Commercial – Owner Occupied	1,864	4,797
Commercial – Non-owner Occupied	24,122	18,132
Residential – 1 to 4 Family	7,634	7,691
Residential – Multifamily	3,160	597
Consumer	291	274
Total	\$ 52,910	\$ 44,459
Nonperforming loans to total loans	8.76 %	7.11 %

At September 30, 2012 Parke Bancorp's allowance for loan losses was \$17.5 million, a decrease of \$1.8 million from December 31, 2011. The ratio of allowance for loan losses to total loans decreased to 2.9% at September 30, 2012 from 3.1% at December 31, 2011. During the nine month period ended September 30, 2012, the Company charged-off \$8.1 million in loans. Specific allowances for loan losses have been established in the amount of \$150,000 on impaired loans totaling \$91.8 million at September 30, 2012. To our knowledge, we have provided for all losses that are both probable and reasonably estimable at September 30, 2012 and December 31, 2011. There can be no assurance, however, that further additions to the allowance will not be required in future periods.

The negative economic trends that began in 2008, including the weakness in the residential and commercial real estate markets and high levels of unemployment, have had a significant impact on the credit quality of our loan portfolio. Nonperforming assets have increased from 8.1% of total assets at December 31, 2011 to 10.5% at September 30, 2012. We are aggressively managing all loan relationships by enhancing our credit monitoring and tracking systems. New processes have been established to manage delinquencies. We are working closely with borrowers to resolve these non-performing loans. Updated appraisals are being obtained, where appropriate, to ensure that collateral values are sufficient to cover outstanding loan balances, and we are establishing specific reserves for any potential shortfall. See Note 4 – Loans for additional information. Cash flow-dependent commercial real estate properties are being visited to inspect current tenant lease status. Where necessary, we will apply our loan work-out experience to protect our collateral position.

OREO at September 30, 2012 was \$28.1 million, compared to \$19.4 million at December 31, 2011, the largest being a condominium development valued at \$12.7 million. This property was sold in 2010 but does not qualify for a sales treatment under GAAP.

An analysis of OREO activity is as follow:

	For the Nine Months Ended September 30,	
	2012	2011
	(Amounts in thousands)	
Balance at beginning of period	\$ 19,410	\$ 16,701
Real estate acquired in settlement of loans	10,691	802
Sales of real estate	(1,331)	(3,175)
Loss on sale of real estate	(757)	(45)
Write-down of real estate carrying values	(138)	(480)
Capitalized improvements to real estate	227	4,387
Balance at end of period	\$ 28,102	\$ 18,190

At September 30, 2012, the Bank's total deposits increased to \$639.7 million from \$634.9 million at December 31, 2011, an increase of \$4.8 million or 0.8%. The increase was due to continued core deposit growth.

At September 30, 2012, total equity increased to \$81.6 million from \$77.3 million at December 31, 2011, an increase of \$4.3 million, or 5.6% due to the retention of earnings from the period.

Comparison of Operating Results for the Nine Months Ended September 30, 2012 and 2011

General: Net income available to common shareholders for the nine months ended September 30, 2012 was \$4.6 million, compared to \$5.3 million for the same period in 2011. The decrease was impacted by the following:

Interest Income: Interest income decreased \$2.3 million, or 7.4%, to \$28.6 million for the nine months ended September 30, 2012, from \$30.9 million for the nine months ended September 30, 2011. The decrease is attributable to lower average loan balances and lower average yield on loans. Average loans for the nine month period ended September 30, 2012 were \$614.0 million compared to \$634.8 million for the same period last year. The average yield on loans was 6.01% for the nine months ended September 30, 2012 compared to 6.28% for the same period in 2011.

Interest Expense: Interest expense decreased \$1.3 million to \$5.7 million for the nine months ended September 30, 2012, from \$7.0 million for the nine months ended September 30, 2011. The decrease is primarily attributable to a lower cost of deposits as the Bank has been able to re-price deposits due to the current, historically low, interest rate environment while still maintaining strong deposit growth. The average rate paid on deposits for the nine month period ended September 30, 2012 was 1.09% compared to 1.39% for the same period last year.

Net Interest Income: Net interest income decreased \$984,000 to \$22.9 million for the nine months ended September 30, 2012, as compared to the same period last year. We experienced a decrease in our net interest rate spread of 29 basis points, to 4.03% for the nine months ended September 30, 2012, from 4.32% for the same period last year. Our net interest margin decreased 32 basis points to 4.15% for the nine months ended September 30, 2012, from 4.47% for the same period last year.

Provision for Loan Losses: We recorded a provision for loan losses of \$5.8 million for the nine months ended September 30, 2012, compared to \$6.9 million for the same period last year. The continued high level of provision for losses correlates to credit deterioration within the loan portfolio and management's analysis of non-performing loans, and credit risks inherent in the overall loan portfolio.

Non-interest Income: Non-interest income was \$2.6 million for the nine months ended September 30, 2012, compared to \$3.9 million for the same period last year. There was a \$1.8 million decrease in gain on sale of SBA loans as compared to the same period in 2011. The 2011 gain was higher due to a change in the SBA sales agreement; warranty language was removed from the sales agreement and Parke Bancorp was no longer required to defer the recognition of the gain for 90 days. The gain recorded in the 2011 period represented loans sold during the 2011 period as well as previously deferred gains of \$1.4 million from the quarter ended December 31, 2010. In addition, the Company recorded a loss on OREO of \$895,000 during the nine month period ended September 30, 2012 as compared to a loss of \$525,000 in the corresponding period in 2011.

Non-interest Expense: Non-interest expense increased \$1.5 million to \$11.0 million for the nine months ended September 30, 2012, from \$9.5 million for the nine months ended September 30, 2011. The increase was primarily attributable to OREO and loan expenses related to the payment of expenses resulting from a higher level of properties acquired through foreclosure or deed in lieu of foreclosure.

Income Taxes: The Company recorded income tax expense of \$2.9 million, on income before taxes of \$8.7 million for the nine months ended September 30, 2012, resulting in an effective tax rate of 33.3%, compared to income tax expense of \$4.6 million on income before taxes of \$11.4 million for the same period of 2011, resulting in an effective tax rate of 40.2%. The decrease in income tax expense is due to lower earnings and the change to an alternative tax methodology for BOLI income whereby it is treated on a tax free basis.

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The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, and have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense. Yields and costs have been annualized.

	For the Nine Months Ended September 30,						
	Average Balance	2012 Interest Income/ Expense	Yield/ Cost		Average Balance	2011 Interest Income/ Expense	Yield/ Cost
(Amounts in thousands, except percentages)							
Assets							
Loans	\$ 614,015	\$ 27,637	6.01 %		\$ 634,841	\$ 29,802	6.28 %
Investment securities	23,798	800	4.49 %		31,060	1,033	4.45 %
Federal funds sold and cash equivalents	99,314	178	0.24 %		47,555	75	0.21 %
Total interest-earning assets	737,127	28,615	5.19 %		713,456	30,910	5.79 %
Other assets	58,977				45,393		
Allowance for loan losses	(18,758)				(16,046)		
Total assets	\$ 777,346				\$ 742,803		
Liabilities and Shareholders' Equity							
Interest bearing deposits							
NOWs	\$ 18,952	99	0.70 %		\$ 15,354	113	0.98 %
Money markets	93,871	581	0.83 %		90,427	734	1.09 %
Savings	221,317	1,524	0.92 %		192,368	1,784	1.24 %
Time deposits	258,275	2,599	1.34 %		228,231	2,652	1.55 %
Brokered certificates of deposit	23,824	208	1.17 %		47,420	682	1.92 %
Total interest-bearing deposits	616,239	5,011	1.09 %		573,800	5,965	1.39 %
Borrowings	46,938	709	2.02 %		64,099	1,066	2.22 %
Total interest-bearing liabilities	663,177	5,720	1.15 %		637,899	7,031	1.47 %
Non-interest bearing deposits							
	29,620				22,122		
Other liabilities	4,466				8,194		
Total liabilities	697,263				668,215		
Shareholders' equity	80,083				74,588		
Total liabilities and shareholders' equity	\$ 777,346				\$ 742,803		
Net interest income		\$ 22,895				\$ 23,879	
Interest rate spread			4.03 %				4.32 %

Net interest margin

4.15 %

4.47 %

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Comparison of Operating Results for the Three Months Ended September 30, 2012 and 2011

General: Net income available to common shareholders for the three months ended September 30, 2012 was \$1.5 million, compared to \$1.3 million for the same period in 2011. The change was impacted by the following:

Interest Income: Interest income decreased \$1.2 million, or 11.6%, to \$9.1 million for the three months ended September 30, 2012, from \$10.3 million for the three months ended September 30, 2011. The decrease is attributable to lower average loan balances and lower yield on loans. Average loans for the three month period ended September 30, 2012 were \$607.4 million compared to \$631.6 million for the same period last year. The average yield on loans was 5.74% for the three months ended September 30, 2012 compared to 6.24% for the same period in 2011.

Interest Expense: Interest expense decreased \$526,000 to \$1.8 million for the three months ended September 30, 2012, from \$2.3 million for the three months ended September 30, 2011. The decrease is primarily attributable to a lower cost of deposits as the Bank has been able to re-price deposits due to the current, historically low, interest rate environment while still maintaining deposit growth. The average rate paid on deposits for the three month period ended September 30, 2012 was 1.00% compared to 1.33% for the same period last year.

Net Interest Income: Net interest income decreased \$662,000 to \$7.3 million for the three months ended September 30, 2012, as compared to the same period last year. We experienced a decrease in our net interest rate spread of 40 basis points, to 3.85% for the three months ended September 30, 2012, from 4.25% for the same period last year. Our net interest margin decreased 42 basis points to 3.96% for the three months ended September 30, 2012, from 4.38% for the same period last year.

Provision for Loan Losses: We recorded a provision for loan losses of \$1.5 million for the three months ended September 30, 2012, a decrease of \$850,000 for the same period last year. The continued high level of provision for losses correlates to credit deterioration within the loan portfolio and management's analysis of non-performing loans, and credit risks inherent in the overall loan portfolio.

Non-interest Income: Non-interest income was \$952,000 for the three months ended September 30, 2012, compared to \$325,000 for the same period last year. The increase was primarily attributable to lower OREO losses.

Non-interest Expense: Non-interest expense increased \$418,000 to \$3.5 million for the three months ended September 30, 2012, from \$3.1 million for the three months ended September 30, 2011. The increase was primarily attributable to OREO and loan expenses related to the payment of expenses resulting from a higher level of properties acquired through foreclosure or deed in lieu of foreclosure.

Income Taxes: The Company recorded income tax expense of \$1.4 million, on income before taxes of \$3.3 million for the three months ended September 30, 2012, resulting in an effective tax rate of 41.6%, compared to income tax expense of \$1.2 million on income before taxes of \$2.9 million for the same period of 2011, resulting in an effective tax rate of 40.3%. The increase in income tax expense is due to higher earnings.

	For the Three Months Ended September 30,						
	Average Balance	2012 Interest Income/ Expense	Yield/ Cost		Average Balance	2011 Interest Income/ Expense	Yield/ Cost
(Amounts in thousands, except percentages)							
Assets							
Loans	\$ 607,399	8,766	5.74 %		\$ 631,648	\$ 9,912	6.24 %
Investment securities	24,646	259	4.18 %		30,023	329	4.36 %
Federal funds sold and cash equivalents	101,422	59	0.23 %		59,685	31	0.21 %
Total interest-earning assets	733,467	9,084	4.93 %		721,356	10,272	5.66 %
Other assets	60,765				49,643		
Allowance for loan losses	(18,543)				(17,214)		
Total assets	\$ 775,689				\$ 753,785		
Liabilities and Shareholders' Equity							
Interest bearing deposits							
NOWs	\$ 19,749	31	0.62 %		\$ 15,900	39	0.98 %
Money markets	88,971	167	0.75 %		87,486	237	1.08 %
Savings	227,217	463	0.81 %		203,665	637	1.24 %
Time deposits	256,771	825	1.28 %		235,701	871	1.47 %
Brokered certificates of deposit	23,219	66	1.13 %		42,534	176	1.65 %
Total interest-bearing deposits	615,927	1,552	1.00 %		585,286	1,960	1.33 %
Borrowings	43,906	234	2.12 %		64,062	352	2.19 %
Total interest-bearing liabilities	659,833	1,786	1.08 %		649,348	2,312	1.42 %
Non-interest bearing deposits	29,506				23,443		
Other liabilities	4,687				4,411		
Total liabilities	694,026				676,202		
Shareholders' equity	81,663				76,583		
Total liabilities and shareholders' equity	\$ 775,689				\$ 753,785		
Net interest income		7,298				\$ 7,960	
Interest rate spread			3.85 %				4.25 %
Net interest margin			3.96 %				4.38 %

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 non-performing loans, loan concentrations by loan category and by property type, seasonality of the portfolio, internal and external analysis of credit quality, peer group data, loan charge offs, local and national economic conditions and single and total credit exposure. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, commercial business loans, and construction loans are evaluated individually for impairment in accordance with FASB ASC Topic 310 "Receivables". If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's effective interest rate or at the fair value of collateral if repayment is expected solely from the collateral. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as projected events change.

Management reviews the level of the allowance monthly. Although management used the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the 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 certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Liquidity: Liquidity describes the ability to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from interest-earning assets. The loan to deposit ratio was 94.4% and 98.5% at September 30, 2012 and December 31, 2011, respectively. Funds received from new and existing depositors provided a large source of liquidity for the nine month period ended September 30, 2012. 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 September 30, 2012, the Company maintained lines of credit with the FHLB of \$106.3 million, of which \$25.5 million was outstanding at September 30, 2012.

As of September 30, 2012, the Company's investment securities portfolio included \$14.9 million of mortgage-backed securities that provide cash flow each month. The majority of the investment portfolio is classified as available for sale, is marketable, and is available to meet liquidity needs. The Company's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and accordingly could be sold in the secondary mortgage

market if needed as an additional source of liquidity. The Company's management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

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

At September 30, 2012, management believes that the Company and the Bank are "well-capitalized" and in compliance with all applicable regulatory 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.

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.DEF	XBRL Definition Linkbase Document *
101.LAB	XBRL Labels Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *

* Submitted electronically herewith

SIGNATURES

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

PARKE BANCORP, INC.

Date: November 14, 2012

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

Date: November 14, 2012

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