

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

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

(Mark One)

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

For the fiscal year ended: December 31, 2018 or

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

For the transition period from _____ to _____

Commission File No. 000-51338

PARKE BANCORP, INC.

(Exact name of Registrant as specified in its Charter)

New Jersey

65-1241959

(State or other Jurisdiction of
Incorporation or Organization)

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

601 Delsea Drive, Washington Township, New Jersey

08080

(Address of Principal Executive Offices)

(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.10 par value

The Nasdaq Stock Market LLC

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

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

YES ☐ NO ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Capital Market on June 29, 2018, was approximately \$184.8 million.

As of March 6, 2019 there were 10,750,239 outstanding shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders for the Fiscal Year Ended December 31, 2018 (Parts II and IV)
 2. Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders. (Parts II and III)
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FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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Forward-Looking Statements

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

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that 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’s wholly-owned subsidiary, Parke Bank (the “Bank”), conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Bank and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors’ products and services; the impact of changes in financial services’ laws and regulations (including laws concerning taxes, banking, securities and insurance); the effect of any change in federal government enforcement of federal laws affecting the medical-use cannabis industry; technological changes; changes in consumer spending and saving habits; and the success of the Company at managing the risks resulting from these factors.

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

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

PART I

Item 1. Business

General

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

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

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

At December 31, 2018, we had total assets of \$1.47 billion , including loans \$1.24 billion , total deposits of \$ 1.18 billion and total equity of \$155.0 million .

Market Area

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

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

Competition

The Bank faces significant competition, both in making loans and attracting deposits. The Bank's competition in both areas comes principally from other commercial banks, thrift and savings institutions, including savings and loan associations and credit unions, and other types of financial institutions, including brokerage firms and credit card companies. The Bank faces additional competition for deposits from short-term money market mutual funds and other corporate and government securities funds.

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

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

Medical-Use Cannabis Related Business

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

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

At December 31, 2018 and 2017, deposit balances from medical-use cannabis customers were approximately \$253.8 million and \$37.0 million, or 21.4% and 4.3% of total deposits, respectively, with two customers accounting for 65.9% and 28.5% of the total at December 31, 2018 and 2017. At December 31, 2018 and 2017, there was one cannabis-related loan in the amounts of \$970,000 and \$1.0 million, respectively. We recorded approximately \$51,000 and \$50,000 of interest incomes in 2018 and 2017, respectively, related to that loan.

Lending Activities

Our lending relationships are primarily with small to mid-sized businesses and individual consumers residing in and around Southern New Jersey and Philadelphia, Pennsylvania. Our lending activities consist primarily of the following:

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

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

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

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

Construction loans are secured by the properties under development and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Bank considers the financial condition and reputation of the borrower and any guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information.

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

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

Construction financing is labor intensive for the Bank, requiring employees of the Bank to expend substantial time and resources in monitoring and servicing each construction loan to completion. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and development, the accuracy of projections, such as the sales of homes or the future leasing of commercial space, and the accuracy of the estimated cost (including interest) of construction. Substantial deviations can occur in such projections. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be

inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. Also, a construction loan that is in default can cause problems for the Bank such as selecting replacement builders for a project, considering alternate uses for the project and site and handling any structural and environmental issues that might arise.

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

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

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

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

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

Loans to One Borrower. Federal regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus. At December 31, 2018, the Bank's loan to one borrower limit was approximately \$28.1 million and the Bank had no borrowers with loan balances in excess of this amount. At December 31, 2018, the Bank's largest loan to one borrower was a combination construction loan/line of credit with a balance of loan and line of credit of \$19.7 million that was secured by the real estate. At December 31, 2018, this loan was current and performing in accordance with the terms of the loan agreement.

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

As of December 31, 2018, no one industry sector concentration exceeded 10% of total loans.

Non-Performing and Problem Assets

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or

the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above. Total impaired loans, which include non-accrual loans and performing troubled debt restructurings (“TDRs”), were \$21.9 million, \$25.5 million, \$36.4 million, \$42.2 million, and \$61.5 million at December 31, 2018, 2017, 2016, 2015, and 2014 respectively. Included in impaired loans at December 31, 2018, 2017, 2016, 2015, and 2014 were \$18.8 million, \$21.2 million, \$28.1 million, \$32.2 million, and \$42.2 million of loans classified as TDRS as defined within accounting guidance and regulatory literature.

The following table sets forth information regarding non-accrual loans at the dates indicated.

| | At December 31, | | | | |
|---|-----------------|----------|-----------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| (Amounts in thousands, except percentages) | | | | | |
| Loans accounted for on a non-accrual basis: | | | | | |
| Commercial and Industrial | \$ 14 | \$ 17 | \$ 159 | \$ 740 | \$ 61 |
| Construction | 1,365 | 1,392 | 3,241 | 5,204 | 11,011 |
| Real Estate Mortgage: | | | | | |
| Commercial - Owner Occupied | — | 155 | 430 | 358 | 735 |
| Commercial - Non-Owner Occupied | — | 597 | 3,958 | 4,002 | 8,624 |
| Residential - 1 to 4 Family | 1,686 | 2,292 | 3,095 | 3,255 | 6,367 |
| Residential – Multifamily | — | — | 308 | — | — |
| Consumer | — | 81 | 107 | — | 94 |
| Total non-accrual loans | 3,065 | 4,534 | 11,298 | 13,559 | 26,892 |
| Accruing loans delinquent 90 days or more: | | | | | |
| Commercial and Industrial | — | — | — | — | — |
| Construction | — | — | — | — | — |
| Real Estate Mortgage: | | | | | |
| Commercial - Owner Occupied | — | — | — | — | — |
| Commercial - Non-Owner Occupied | — | — | — | — | — |
| Residential - 1 to 4 Family | — | — | — | — | — |
| Residential – Multifamily | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Total | — | — | — | — | — |
| Total non-performing loans | \$ 3,065 | \$ 4,534 | \$ 11,298 | \$ 13,559 | \$ 26,892 |
| Total non-performing loans as a percentage of loans | 0.25% | 0.45% | 1.30% | 1.79% | 3.80% |

As of December 31, 2018, there was \$6.7 million in loans which were not then on non-accrual status or a TDR but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-performing in the future.

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

Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Such interest, when ultimately collected, is applied either to the outstanding principal or recorded as interest income, depending on management’s assessment of ultimate collectability of principal and interest. At December 31, 2018, the Bank had \$ 3.1 million in loans that were on a non-accrual basis. Interest income of \$37,000 was recognized on these loans during the year ended December 31, 2018. Gross interest income of \$133,500 would have been recorded during the year ended December 31, 2018, if these loans had been performing in accordance with their terms.

Classified Assets. Federal Regulations provide for a classification system for problem assets of insured institutions. Under this classification system, problem assets of insured institutions are classified as substandard, doubtful or loss. An asset is considered “substandard” if it involves more than an acceptable level of risk due to a deteriorating financial condition, unfavorable history

of the borrower, inadequate payment capacity, insufficient security or other negative factors within the industry, market or management. Substandard loans have clearly defined weaknesses that can jeopardize the timely payments of the loan.

Assets classified as “doubtful” exhibit all of the weaknesses defined under the Substandard Category but with enough risk to present a high probability of some principal loss on the loan, although not yet fully ascertainable in amount. Assets classified as “loss” are those considered uncollectable or of little value, even though a collection effort may continue after the classification and potential charge-off.

The Bank also internally classifies certain assets as “other assets especially mentioned” (“OAEM”); such assets do not demonstrate a current potential for loss but are monitored in response to negative trends which, if not reversed, could lead to a substandard rating in the future.

When an insured institution classifies problem assets as either “substandard” or “doubtful,” it may establish specific allowances for loan losses in an amount deemed prudent by management. When an insured institution classifies problem assets as “loss,” it is required either to establish an allowance for losses equal to 100% of that portion of the assets so classified or to charge off such amount. All of the Bank’s loans rated “substandard” and worse are also on non-accrual and deemed impaired. There were no loans classified as Doubtful at December 31, 2018 .

At December 31, 2018 , the Bank had assets classified as follows:

| | Loan Balance | |
|-------------|------------------------|--------|
| | (Amounts in thousands) | |
| OAEM | \$ | 5,222 |
| Substandard | | 9,806 |
| | \$ | 15,028 |

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate owned is acquired, it is recorded at its fair value less disposal costs. Management also periodically performs valuations of real estate owned and establishes allowances to reduce book values of the properties to their net realizable values when necessary. Any write-down of real estate owned is charged to operations. Real estate owned at December 31, 2018 was \$ 5.1 million . Real estate owned consisted of 8 properties, the largest being a condominium development located in Absecon, New Jersey carried at \$1.5 million as of December 31, 2018 .

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

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

The following table sets forth information with respect to the Bank's allowance for losses on loans at the dates and for the periods indicated.

| | For the Year Ended December 31, | | | | |
|--|---------------------------------|--------------|------------|------------|------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | | | |
| Balance at beginning of the period | \$ 16,533 | \$ 15,580 | \$ 16,136 | \$ 18,043 | \$ 18,560 |
| Charge-offs: | | | | | |
| Commercial and Industrial | (128) | (134) | (76) | (1,554) | (395) |
| Construction | (27) | (687) | (1,081) | (2,983) | (16) |
| Real Estate Mortgage: | | | | | |
| Commercial - Owner Occupied | — | (430) | — | — | (476) |
| Commercial - Non-Owner Occupied | (49) | (622) | (154) | (638) | (50) |
| Residential - 1 to 4 Family | — | (118) | (704) | (504) | (2,841) |
| Residential - Multifamily | — | (50) | (45) | — | — |
| Consumer | (19) | — | (6) | (1) | (31) |
| Total charge-offs: | (223) | (2,041) | (2,066) | (5,680) | (3,809) |
| Recoveries: | | | | | |
| Commercial and Industrial | 47 | 45 | 8 | 121 | — |
| Construction | 600 | — | — | — | 5 |
| Real Estate Mortgage: | | | | | |
| Commercial - Owner Occupied | 189 | 113 | 1 | 66 | 5 |
| Commercial - Non-Owner Occupied | 86 | 319 | — | 398 | — |
| Residential - 1 to 4 Family | 43 | 17 | 39 | 148 | 32 |
| Residential - Multifamily | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Total recoveries: | 965 | 494 | 48 | 733 | 42 |
| Net charge-offs | 742 | (1,547) | (2,018) | (4,947) | (3,767) |
| Provision for loan losses | 1,800 | 2,500 | 1,462 | 3,040 | 3,250 |
| Balance at end of period | \$ 19,075 | \$ 16,533 | \$ 15,580 | \$ 16,136 | \$ 18,043 |
| Period-end loans outstanding (net of deferred costs/fees) | \$ 1,241,157 | \$ 1,011,717 | \$ 851,953 | \$ 758,501 | \$ 713,061 |
| Average loans outstanding | \$ 1,110,915 | \$ 923,271 | \$ 800,677 | \$ 731,032 | \$ 669,771 |
| Allowance as a percentage of period end loans | 1.54% | 1.63% | 1.83% | 2.13% | 2.53% |
| Loans charged off as a percentage of average loans outstanding | 0.02% | 0.22% | 0.26% | 0.78% | 0.57% |

Investment Activities

The investment policy of the Company is established by senior management and approved by the Board of Directors. It is based on asset and liability management goals and is designed to provide a portfolio of high quality investments that foster interest income within acceptable interest rate risk and liquidity guidelines. In accordance with accounting guidance, the Company classifies the majority of its portfolio of investment securities as "available for sale" with the remainder, which are municipal bonds, as "held to maturity." At December 31, 2018, the Bank's investment policy allowed investments in instruments such as: (i) U.S. Treasury obligations, (ii) U.S. government agency or government-sponsored agency obligations, (iii) local municipal obligations, (iv) mortgage-backed securities, (v) certificates of deposit, and (vi) investment grade corporate bonds, trust preferred securities and mutual funds. The Board of Directors may authorize additional investments. At December 31, 2018, no one issuer of investment securities represented 10% or more of the Company's stockholders' equity.

Sources of Funds

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

Deposits. The Bank offers individuals and businesses a wide variety of accounts, including checking, savings, money market accounts, individual retirement accounts and certificates of deposit. Deposits are obtained primarily from communities that the Bank serves, however, the Bank held brokered deposits of \$ 92.4 million , \$83.5 million and \$51.2 million at December 31, 2018, 2017 and 2016, respectively. Brokered deposits are a more volatile source of funding than core deposits and do not increase the deposit franchise of the Bank. In a rising rate environment, the Bank may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with the Bank, they may need to be replaced with borrowings which could increase the Bank's cost of funds and negatively impact its interest rate spread, financial condition and results of operation. To mitigate the potential negative impact associated with brokered deposits, the Bank joined Promontory Interfinancial Network ("Promontory") during 2007 to secure an additional alternative funding source. Promontory provides the Bank an additional source of external funds through their weekly CDARS[™] settlement process. The rates are comparable to brokered deposits and can be obtained within a shorter period of time than brokered deposits. The Bank's CDARS[™] deposits included within the brokered deposit total amounted to \$ 92.4 million , \$83.5 million and \$51.2 million at December 31, 2018, 2017 and 2016, respectively.

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

Borrowings. Borrowings consist of subordinated debt and advances from the FHLB and other parties. At December 31, 2018 , we had \$ 104.7 million in FHLB advances with a weighted average rate of 2.00% . Outstanding advances from the FHLB had fixed rates ranging from 1.55% to 3.11% at December 31, 2018 . Pursuant to collateral agreements with the FHLB, the advances are secured by qualifying loans and other qualified assets with the FHLB. As a member of the FHLB, we are required to purchase and hold shares of capital stock in the FHLB. As of December 31, 2018 , our FHLB stock investment totaled \$ 5.8 million . Borrowings from the FHLB outstanding during 2018 , 2017 , and 2016 had maturities of ten years or less and cannot be prepaid without penalty. At December 31, 2018 , we also had \$13.4 million of trust preferred debentures outstanding. Interest rates of these trust preferred securities are reset quarterly at base rate plus three-month LIBOR. The interest rates on \$10.3 million and \$3.1 million of the trust preferred debentures were 4.31% and 4.29%, respectively, at December 31, 2018 .

The following table sets forth information regarding the Bank's FHLB advances:

| | December 31, | | |
|--|--------------------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| | (Amounts in thousands, except rates) | | |
| Amount outstanding at year end | \$ 104,650 | \$ 114,650 | \$ 79,650 |
| Weighted average interest rates at year end | 2.67% | 1.76% | 1.57% |
| Maximum outstanding at any month end | \$ 134,650 | \$ 114,650 | \$ 103,053 |
| Average outstanding | \$ 105,883 | \$ 91,705 | \$ 89,720 |
| Weighted average interest rate during the year | 2.00% | 1.53% | 1.49% |

Subsidiary Activities

The largest subsidiary of the Company is the Bank. The Company has a joint venture with Bridgestone Capital LLC in PDL LLC, a joint venture formed in 2018 to originate short-term alternative real estate loan products. The Company has a 51% ownership interest in the joint venture. For the year ended December 31, 2018, the Bridgestone Capital LLC made a \$1.2 million capital contribution to PDL.

Personnel

At December 31, 2018, the Bank had 79 full-time and 19 part-time employees.

Regulation

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

Economic Growth, Regulatory Relief and Consumer Protection Act

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (“EGRRCPA”) was enacted. EGRRCPA provided targeted regulatory relief to institutions of all sizes. For community banks and their holding companies, the most significant provisions include (i) an increase in the limit for applicability of the Small Bank Holding Company Policy Statement from \$1 billion to \$3 billion in total assets; (ii) an extension of the period between examinations from 12 months to 18 months for well managed institutions; (iii) the end of the Volcker Rule for most community banks; (iv) the establishment of a Community Bank Leverage Ratio, which, if satisfied, would satisfy all applicable capital requirements; (v) Home Mortgage Disclosure Act (“HMDA”) relief for institutions originating fewer than 500 closed-end or 500 open-end in each of the preceding two calendar years provided the institutions also have a CRA rating of satisfactory or better; (vi) changes to the definition of a “brokered deposit” under the FDIC’s regulations; (vii) the creation of a safe harbor under the “ability to pay” rules and definition of “qualified mortgage” and (viii) various other regulatory relief provisions. EGRRCPA also made significant changes affecting larger institutions including an immediate increase in the threshold for being deemed a systemically important financial institution (“SIFI”) from \$50 billion in total assets to \$100 billion with the threshold to be further increased to \$250 billion in total assets 18 months after enactment of EGRRCPA. While certain of the provisions were immediately effective, others require rulemaking with such rules in various stages of being finalized.

Holding Company Regulation

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

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

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

Extensions of credit by the Bank to executive officers, directors, and principal shareholders of the Bank or any affiliate thereof, including the Company, are subject to Section 22(h) of the Federal Reserve Act, which among other things, generally prohibits loans to any such individual where the aggregate amount exceeds an amount equal to 15% of a bank's unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral.

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

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

Financial Modernization. The Gramm-Leach-Bliley Act permits greater affiliation among banks, securities firms, insurance companies, and other companies under a new type of financial services company known as a "financial holding company." A financial holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The Act also permits the Federal Reserve and the Treasury Department to authorize additional activities for financial holding companies if they are "financial in nature" or "incidental" to financial activities. A bank holding company may become a financial holding company if it and each of its subsidiary banks is well capitalized and well managed, and each of its subsidiary banks has at least a "satisfactory" CRA rating. A financial holding company must provide notice to the Federal Reserve within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible. The Company has not submitted notice to the Federal Reserve Board of its intent to be deemed a financial holding company.

Regulatory Capital Requirements. The Federal Reserve has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHC Act. The Federal Reserve's capital adequacy guidelines are similar to those imposed on the Bank by the FDIC. See "Regulation of the Bank-Regulatory Capital Requirements." The Federal Reserve, however, has adopted a policy statement that exempts bank holding companies with less than \$3.0 billion in consolidated assets that are not engaged in significant non-banking or off-balance sheet activities and that do not have a material amount of debt or equity securities registered with the SEC from its regulatory capital requirements as long as their bank subsidiaries are well capitalized, such bank holding companies need only maintain a pro forma debt to equity ratio of less than 1.0 in order to pay dividends and repurchase stock and to be eligible for expedited treatment on applications.

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

Regulation of the Bank

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

Any change in applicable statutory and regulatory requirements, whether by the New Jersey Department of Banking and Insurance, the FDIC, or the United States Congress could have a material adverse impact on the Bank, and its operations. The adoption of regulations or the enactment of laws that restrict the operations of the Bank or impose burdensome requirements upon

it could reduce its profitability and could impair the value of the Bank's franchise which could hurt the trading price of the Bank's stock.

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision, and control of the New Jersey Department of Banking and Insurance. As an FDIC-insured institution, the Bank is subject to regulation, supervision and control of the FDIC, an agency of the federal government. The regulations of the FDIC and the New Jersey Department of Banking and Insurance affect virtually all activities of the Bank, including the minimum level of capital the Bank must maintain, the ability of the Bank to pay dividends, the ability of the Bank to expand through new branches or acquisitions and various other matters.

Federal Deposit Insurance. The Bank's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased from \$100,000 to \$250,000.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. The assessment base is the institution's average consolidated assets less average tangible equity. Insured banks with more than \$1.0 billion in assets must calculate quarterly average assets based on daily balances while smaller banks and newly chartered banks may use weekly averages. In the case of a merger, the average assets of the surviving bank for the quarter must include the average assets of the merged institution for the period in the quarter prior to the merger. Average assets are reduced by goodwill and other intangibles. Average tangible equity equals Tier 1 capital. For institutions with more than \$1.0 billion in assets, average tangible equity is calculated on a weekly basis while smaller institutions may use the quarter-end balance.

Effective July 1, 2016, the FDIC amended its assessment regulations for banks with less than \$10 billion in assets to replace the previous risk categories with updated financial ratios that are designed to better predict the risk of failure of insured institutions. The amended rules became effective during the first quarter after the reserve ratio of the Deposit Insurance Fund reached 1.15% and will remain in effect until the reserve ratio reaches 2.0%. The amended regulations set a maximum rate that banks rated CAMELS 1 or 2 may be charged and a minimum rate that CAMELS 3, 4 and 5 banks may be charged. Under the amended rules, the FDIC uses a bank's weighted average CAMELS component ratings and the following financial measures to determine assessments: Tier 1 leverage ratio; ratio of net income before taxes to total assets; ratio of non-performing loans to gross assets; and ratio of other real estate owned to gross assets. In addition, assessments take into consideration core deposits to total assets, one-year asset growth and a loan mix index. The loan mix measures the extent to which a bank's total assets include higher risk loans. To calculate the loan mix index, each category of loan in the bank's portfolio (other than credit card loans) would be divided by the bank's total assets to determine the percentage of assets represented by that loan category. Each percentage is then multiplied by that loan category's historical weighted average industry-wide charge-off rate. The sum of these numbers determines the loan mix index value for that bank. The amended regulations are intended to be revenue neutral to the FDIC but to shift premium payments to higher risk institutions. Most institutions are expected to see lower premiums. A companion regulation assesses banks over \$10 billion in assets at higher rates for two years in accordance with the requirements of the Dodd-Frank Act.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged 0.00385% of insured deposits on an annualized basis in fiscal year 2018. These assessments will continue until the FICO bonds mature in 2019.

Regulatory Capital Requirements. The FDIC has promulgated capital adequacy requirements for state-chartered banks that, like the Bank, are not members of the Federal Reserve System. Effective January 1, 2015, the capital adequacy requirements were substantially revised to conform them to the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as "Basel III". The final rule applies to all depository institutions as well as to all top-tier bank and savings and loan holding companies that are not subject to the Federal Reserve Board's Small Bank Holding Company Policy Statement.

Under the FDIC's revised capital adequacy regulations, the Bank is required to meet four minimum capital standards: (1) "Tier 1" or "core" capital leverage ratio equal to at least 4% of total adjusted assets, (2) a common equity Tier 1 capital ratio equal to 4.5% of risk-weighted assets, (3) a Tier 1 risk-based ratio equal to 6% of risk-weighted assets, and (4) a total capital ratio equal to 8% of total risk-weighted assets. Common equity Tier 1 capital is defined as common stock instruments, retained earnings, any common equity Tier 1 minority interest and, unless the bank has made an "opt-out" election, accumulated other comprehensive income, net of goodwill and certain other intangible assets. Tier 1 or core capital is defined as common equity Tier 1 capital plus certain qualifying subordinated interests and grandfathered capital instruments. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, qualifying subordinated instruments and certain grandfathered capital instruments. An institution's risk-based capital requirements are measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount

of each off-balance-sheet item after being multiplied by an assigned risk weight. Risk weightings range from 0% for cash to 100% for property acquired through foreclosure, commercial loans, and certain other assets to 150% for exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. Pursuant to EGRRCPA, the federal banking agencies may only apply a heightened risk weight to a higher volatility commercial real estate exposure that constitutes a higher volatility commercial real estate acquisition, development or construction loan as defined in EGRRCPA and which was originated on or after January 1, 2015.

In addition to higher capital requirements, the new capital rules will require banks and covered financial institution holding companies to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement is being phased in over four years beginning January 1, 2016. The fully phased-in capital buffer requirement will effectively raise the minimum required risk-based capital ratios to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital on a fully phased-in basis.

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

EGRRCPA directs the federal banking agencies to develop a community bank leverage ratio of tangible capital to average total consolidated assets of between 8% and 10% as an alternative to the current leverage and risk-based capital rules for qualifying community banks and satisfying any other leverage or capital requirements to which they are subject. Qualifying community banks meeting the community bank leverage ratio would also be deemed well-capitalized for purposes of the prompt corrective action rules. A qualifying community bank is a depository institution or holding company with total consolidated assets of less than \$10 billion that is not excluded from qualification by the federal banking regulators based on the institution's risk profile. Under regulations proposed by the federal banking agencies, a qualifying community bank may opt in to the community bank leverage ratio framework if its community bank leverage ratio exceeds 9%. The proposed regulations would define tangible equity as total bank equity capital less: (i) accumulated other comprehensive income; (ii) intangible assets (other than mortgage servicing assets); and (iii) deferred tax assets (net of related valuation allowances) arising from net operating loss and tax credit carryforwards. Under the proposal, a qualifying community bank must have total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancellable commitments) of 25% or less of total consolidated assets, total trading assets and liabilities of 5% or less of total consolidated assets, mortgage servicing assets of 25% or less of tangible equity and temporary difference deferred tax assets of less than 25% of tangible equity.

Prompt Corrective Regulatory Action . Under applicable federal statutes, the federal bank regulatory agencies are required to take "prompt corrective action" with respect to institutions that do not meet specified minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, under capitalized, significantly under capitalized and critically under capitalized. Under the FDIC's prompt corrective action regulations, an institution is deemed to be "well capitalized" if it has a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 8.0% or greater, a Common Equity Tier 1 risk-based capital ratio of 6.5% or better and a leverage ratio of 5.0% or greater. An institution is "adequately capitalized" if it has a Total Risk-Based Capital Ratio of 8.0% or greater, a Tier 1 Risk-Based Capital Ratio of 6.0% or greater, a Common Equity Tier 1 Capital Ratio of 4.5% or better and a Leverage Ratio of 4.0% or greater. An institution is "under capitalized" if it has a Total Risk-Based Capital Ratio of less than 8.0%, a Tier 1 Risk-Based Capital ratio of less than 6.0%, a Common Equity Tier 1 ratio of less than 4.5% or a Leverage Ratio of less than 4.0%. An institution is deemed to be "significantly under capitalized" if it has a Total Risk-Based Capital Ratio of less than 6.0%, a Tier 1 Risk-Based Capital Ratio of less than 4.0%, a Common Equity Tier 1 ratio of less than 3.0% or a Leverage Ratio of less than 3.0%. An institution is considered to be "critically under capitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%

The prompt corrective action regulations provide for the imposition of a variety of requirements and limitations on institutions that fail to meet the above capital requirements. In particular, the FDIC may require any non-member bank that is not "adequately capitalized" to take certain action to increase its capital ratios. If the non-member bank's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the bank's activities may be restricted. At December 31, 2018, the Bank qualified as "well capitalized" under the prompt corrective action rules.

Under the proposed community bank leverage ratio regulations, a qualifying community bank would be deemed: well capitalized if it has a community bank leverage ratio greater than 9%; adequately capitalized if its community bank leverage ratio is 7.5% or greater; undercapitalized if its community bank leverage ratio is less than 7.5% and significantly undercapitalized if its community bank leverage ratio is less than 6%. A qualifying community bank will continue to be treated as critically undercapitalized if it has a ratio of tangible equity to total assets of 2% or less.

Volcker Rule. On July 21, 2015, banking entities, which include insured depository institutions, their holding companies and affiliates of either, became subject to regulations implementing the so-called Volcker Rule of the Dodd-Frank Act, which prohibits proprietary trading for the entity's own account in certain financial instruments, including securities, derivatives, futures and options but excluding loans, physical commodities and foreign exchange and currency. Under the rules adopted by the federal financial regulatory agencies, the purchase or sale of a financial instrument that has been held for less than 60 days is presumed to be proprietary trading for the purpose of short-term resale or benefiting from short-term price movements or for another prohibited purpose unless the banking organization can demonstrate a contrary purpose. Purchases and sales of financial instruments pursuant to repurchase and reverse repurchase agreements or securities lending agreements, however, are excluded from the definition of proprietary trading. Also excluded from the definition of proprietary trading are purchases and sales of financial instruments where the bank is acting solely as agent for a customer, as trustee for a pension or deferred compensation plan or in connection with the collection of debts previously contracted. Purchases and sales of highly liquid securities that are not reasonably expected to result in short-term trading gains and in an amount consistent with near-term funding needs are excluded from proprietary trading if conducted pursuant to a documented liquidity management plan. Certain proprietary trading activities are permitted if conducted in connection with underwriting or market-making activities or risk-mitigating hedging activities. Proprietary trading is also permitted in U.S. government, agency and government sponsored-enterprise securities and obligations of states and political subdivisions and the FDIC but not in derivatives of the foregoing.

The Volcker Rule also prohibits banking entities from sponsoring or directly or indirectly acquiring as principal any ownership interest in a "covered fund" unless permitted by the rule. For purposes of this prohibition, a covered fund is any investment fund such as a hedge or private equity fund that would be required to register as an investment company under SEC rules but for the statutory exemptions for funds held by not more than 100 persons or owned solely by high net worth investors, any exempt or substantively similar non-exempt commodity pool and certain foreign investment funds. Excluded from the definition of covered fund are wholly owned subsidiaries of a banking entity or its affiliates, certain permissible joint ventures, insurance company separate accounts for which the banking entity is a beneficiary provided the banking entity does not control investment decisions on the underlying assets or participate in the profits for the separate account except in accordance with supervisory guidance regarding bank owned life insurance, certain vehicles for loan and other permissible securitizations, small business investment companies, public welfare companies permitted under the National Bank Act, business development companies, registered investment companies and investment funds exempt from SEC registration under other statutory provisions. Investments in pooled trust preferred securities are permitted if acquired before December 10, 2013 and the banking entity reasonably believes that the trust preferred securities in the pool were issued prior to May 19, 2010 by depository institution holding companies with less than \$15 billion in assets or by mutual holding companies.

The Volcker Rule prohibits a banking entity from engaging in certain covered transactions, including loans, securities and asset purchases, with any covered fund for which it serves as investment manager, advisor or sponsor or that it organizes and offers. Any transactions with a covered fund must be on terms as favorable to the banking entity as transactions with non-affiliates. Finally, the Volcker Rule prohibits any otherwise permitted proprietary trading or covered fund activity that would involve a material conflict of interest between the banking entity and its customers, result in a material exposure of the banking entity to high risk assets or trading strategies or would pose a threat to the safety and soundness of the banking entity or the financial stability of the United States.

EGRRCPA amends the definition of banking entity to exclude banks that do not have, and are not controlled by a company that has, more than \$10 billion in total consolidated assets and total trading assets that are more than 5% of total consolidated assets and the federal banking agencies have proposed to amend their implementing regulations to incorporate this exclusion. Since the Bank qualifies for this exclusion, it will no longer be subject to the restrictions of the Volcker Rule.

Item 1A. Risk Factors

This item is not applicable because the Company meets the definition of a smaller reporting company.

Item 1B. Unresolved Staff Comments

None.

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

The Company's and the Bank's main office is located in Washington Township, Gloucester County, New Jersey, in an office building of approximately 13,000 square feet. The main office facilities include teller windows, a lobby area, drive-through windows, automated teller machine, a night depository, and executive and administrative offices. In December 2002, the Bank executed its lease option to purchase the building for \$1.5 million.

The Bank also conducts business from a full-service office in Northfield, New Jersey, a full-service office in Washington Township, Gloucester County, New Jersey, a full-service office in Philadelphia, Pennsylvania, and a full-service office in Galloway Township, NJ. These offices were opened by the Bank in September 2002, February 2003, August 2006 and May 2010, respectively. The Northfield office and the Philadelphia office are leased. The Washington Township office was purchased in February 2003. The Bank opened two new offices, a full service office in Collingswood, New Jersey, opened in September 2016, and a full service office in Philadelphia, Pennsylvania, opened December 2016. Both the new offices are leased. Management considers the physical condition of all offices to be good and adequate for the conduct of the Bank's business. At December 31, 2018, net property and equipment totaled approximately \$ 6.8 million.

Item 3. Legal Proceedings

On June 19, 2015, Devon Drive Lionville, LP, North Charlotte Road Pottstown, LP, Main Street Peckville, LP, Rhoads Avenue Newtown Square, LP, VG West Chester Pike, LP, 1301 Phoenix, LP, John M. Shea and George Spaeder (collectively, the "Plaintiffs"), filed suit in the U.S. District Court for the Eastern District of Pennsylvania, against Parke Bancorp, Inc., Parke Bank and Parke Bank's President and Chief Executive Officer and Senior Vice President (collectively the "Parke Parties") alleging civil violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), among other claims, seeking compensatory and punitive damages. The allegations stem from a series of loans made by Parke Bank to the various Plaintiffs which subsequently went into default. The Plaintiffs are alleging that funds of one or more of the Plaintiffs were used to repay loans of another. The Parke Parties believe the material allegations of wrongdoing are without merit and intend to vigorously defend against the claims asserted in this litigation. Following extensive motion practice over the course of several years, the Court dismissed all of the Plaintiffs' claims against the Parke Parties, and each of them, with prejudice. Plaintiffs have now appealed the case to the United States Circuit Court of Appeals for the Third Circuit. The matter has been briefed and is now sub judice.

Item 4. Mine Safety Disclosures

Not applicable

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

- (a) The information contained under the section captioned "Market Prices and Dividends" in the Company's 2018 Annual Report filed as Exhibit 13 hereto (the "Annual Report") is incorporated herein by reference.
- (b) Not applicable.
- (c) There were no repurchases of shares of the Company's Common Stock during the last quarter of 2018.

Item 6. Selected Financial Data

Not applicable

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

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

Item 8. Financial Statements and Supplementary Data

The Company's financial statements listed under Item 15 and included in the Annual Report are incorporated herein by reference.

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

None

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Internal Control Over Financial Reporting

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

Management's report on the Company's internal control over financial reporting appears in the Company's financial statements that are contained in the 2018 Annual Report filed as Exhibit 13 to this Annual Report on Form 10-K. Such report is incorporated herein by reference.

2. Changes in internal control over financial reporting .

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

3. Internal control over financial reporting

The effectiveness of the Company's internal control over financial reporting at December 31, 2018 , has been audited by RSM US LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm appearing in in the Company's financial statements that are contained in the Annual Report. Such report is incorporated herein by reference.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the headings "Section 16(a) Beneficial Ownership Reporting Compliance", "Proposal I - Election of Directors", "Corporate Governance" and "Compensation Committee Report" in the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of the Code of Ethics will be furnished

without charge upon written request to the Chief Financial Officer, Parke Bancorp, Inc., 601 Delsea Drive, Washington Township, New Jersey, 08080.

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

Item 11. Executive Compensation

The information contained in the sections captioned "Compensation Discussion and Analysis," "Executive Compensation," "Director Compensation," "Corporate Governance - Committees of the Board of Directors - Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in the Proxy Statement is incorporated herein by reference.

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

(a) Security Ownership of Certain Beneficial Owners

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

(b) Security Ownership of Management

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

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

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2018, with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

| | (a) Number of Securities to be issued upon exercise of outstanding options | (b) Weighted-average exercise price of outstanding options | (c) Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|--|
| Equity compensation plans approved by shareholders | | | |
| 2015 Equity incentive plan | 291,584 | 14.36 | 352,631 |
| Total | 291,584 | \$14.36 | 352,631 |

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

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

Item 14. Principal Accountant Fees and Services

The information contained in the section captioned “Proposal II - Ratification of Appointment of Auditors” in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Listed below are all financial statements and exhibits filed as part of this report.

1 The following financial statements and the independent auditors’ report included in the Annual Report are incorporated herein by reference:

- Management’s Report on Internal Controls
- Report of Independent Registered Public Accounting Firm Regarding Internal Controls
- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2018 and 2017
- Consolidated Statements of Income for the Years Ended December 31, 2018 and 2017
- Consolidated Statements of Equity for the Years Ended December 31, 2018 and 2017
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2017
- Notes to Consolidated Financial Statements

2 Schedules omitted as they are not applicable.

3 The following exhibits are included in this Report or incorporated herein by reference:

- 3.1 [Certificate of Incorporation of Parke Bancorp, Inc.](#) ⁽¹⁾
 - 3.2 [Bylaws of Parke Bancorp, Inc.](#) ⁽¹⁾
 - 3.3 [Certificate of Amendment setting forth the terms of the Registrant’s 6.00% Non-Cumulative Perpetual Convertible Preferred Stock, Series B](#) ⁽²⁾
 - 4.1 [Specimen stock certificate of Parke Bancorp, Inc.](#) ⁽¹⁾
 - 10.1 [Amended Employment Agreement Between Bancorp. Bank and Vito S. Pantilione](#) ⁽³⁾
 - 10.2 [Supplemental Executive Retirement Plan](#) ⁽¹⁾
 - 10.7 [2015 Equity Incentive Plan](#) ⁽⁴⁾
 - 10.8 [SERP Agreement with Elizabeth A. Milavsky](#) ⁽⁵⁾
 - 10.9 [SERP Agreement with John F. Hawkins](#) ⁽⁵⁾
 - 10.10 [Management Change in Control Severance Agreement with Elizabeth A. Milavsky](#) ⁽³⁾
-

| | |
|---------|---|
| 10.11 | <u>Management Change in Control Severance Agreement with John F. Hawkins</u> ⁽³⁾ |
| 10.12 | <u>Management Change in Control Severance Agreement with David Middlebrook</u> |
| 10.13 | <u>Management Change in Control Severance Agreement with Paul Palmieri</u> |
| 10.15 | <u>Management Change in Control Severance Agreement with Ralph Gallo</u> |
| 13 | <u>Annual Report to Shareholders for the fiscal year ended December 31, 2018</u> |
| 21 | <u>Subsidiaries of the Registrant</u> |
| 23 | <u>Consent of RSM US LLP</u> |
| 31.1 | <u>Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2 | <u>Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32 | <u>Certification of CEO & CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Schema Document * |
| 101.CAL | XBRL Calculation Linkbase Document * |
| 101.LAB | XBRL Labels Linkbase Document * |
| 101.PRE | XBRL Presentation Linkbase Document * |
| 101.DEF | XBRL Definition Linkbase Document * |

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

- (1) Incorporated by Reference to the Company's Current Report on Form S-4 filed with the SEC on January 31, 2005.
- (2) Incorporated by Reference to Company's Current Report on Form 8-K filed with the SEC on December 24, 2013.
- (3) Incorporated by Reference to Company's Registration Statement on Form 8-K filed with the SEC on July 20, 2016.
- (4) Incorporated by Reference to Company's Current Report on Form S-8 filed with the SEC on November 16, 2015.
- (5) Incorporated by Reference to Company's Current Report on Form 8-K filed with the SEC on January 22, 2016.

Not applicable

SIGNATURES

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

PARKE BANCORP, INC.

Dated: March 15, 2019

By: /s/ Vito S. Pantilione
Vito S. Pantilione
President, Chief Executive Officer and Director

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 15, 2019.

/s/ Celestino R. Pennoni
Celestino R. Pennoni
Chairman of the Board and Director

/s/ Vito S. Pantilione
Vito S. Pantilione
President, Chief Executive Officer and Director

/s/ Arret F. Dobson
Arret F. Dobson
Director

/s/ Anthony Jannetti
Anthony Jannetti
Director

/s/ Jack C. Sheppard, Jr.
Jack C. Sheppard, Jr.

Director

/s/ Daniel J. Dalton
Daniel J. Dalton

Director

/s/ Fred G. Choate
Fred G. Choate

Director

/s/ Edward Infantolino
Edward Infantolino

Director

/s/ Jeffrey H. Krippitz
Jeffrey H. Krippitz

Director

/s/ John F. Hawkins
John F. Hawkins

Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

MANAGEMENT CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS MANAGEMENT CHANGE IN CONTROL SEVERANCE AGREEMENT (this “Agreement”) is made on and as of this 19 day of July, 2016 (“Effective Date”), by and between Parke Bancorp, Inc. (“Company”), a corporation organized under the laws of the State of New Jersey which serves as a bank holding company, with its principal office at 601 Delsea Drive, Sewell, New Jersey 08080, Parke Bank (“Bank”), a banking corporation organized under the laws of the State of New Jersey, with its principal office at 601 Delsea Drive, Sewell, New Jersey 08080, and **David O. Middlebrook** (the “Executive”).

WHEREAS, the Executive is, as of the effective date of this Agreement, employed by the Company and the Bank, a wholly owned subsidiary of the Company, as **Senior Vice President and Chief Credit Officer** (“Officer Position”); and

WHEREAS, the Board of Directors of the Bank believes that the Executive has worked, and will continue to work, diligently in his position in pursuing the business objectives of the Bank to the direct benefit of the Company and its shareholders;

WHEREAS, the Board believes that, if the Company receives any proposal from a third-party concerning a possible business combination with, or the acquisition of equity securities of, the Company, it is imperative that the Company and its Board be able to rely upon the Executive to continue in his or her position with the Company and the Bank, and that the Board be able to receive and rely upon his advice, if they request it, as to the best interests of the Company and its shareholders, without concern that the Executive might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, to achieve that goal, and to retain the Executive’s services as an executive employee of the Company and the Bank prior to and through the occurrence of a potential future Change in Control, as defined in this Agreement, the Company, the Bank and the Executive have, with the full support and concurrence of the Board of Directors of each of the Company and the Bank, agreed to enter into this Agreement to provide to the Executive certain benefits in the event that his or her employment as an executive employee of the Company or the Bank is terminated in conjunction with or after a Change in Control of the Company or the Bank.

NOW THEREFORE, in order to assure the Company and the Bank that they will have the continued dedication of the Executive and the availability of his or her ongoing advice and contribution notwithstanding the possibility, threat or occurrence of a change in the control or ownership of the Company or the Bank, and to induce the Executive to remain in the employ of the Company and the Bank pending such potential Change in Control, the Company, the Bank and the Executive, each intending to be legally bound hereby, agree as follows:

1. **Definitions.**

- a. **Cause.** For purposes of this Agreement, “Cause”, with respect to the termination by the Employer of the Executive’s employment shall mean (i) the willful and continued failure by the Executive to perform his or her duties for the Employer under this Agreement after at least one warning in writing from the President and Chief Executive Officer of the Employer identifying specifically any such failure and providing at least a ten day period for an opportunity to cure such failure detailed in such warning; (ii) if the Executive shall have engaged in conduct involving fraud, deceit, personal dishonesty, breach of fiduciary duty or illegal conduct in his or her business and/or personal matters; (iii) willful misconduct of any type by the Executive, including, but not limited to, the disclosure or improper use of confidential information under Section 11 of this Agreement, which causes material injury to the Company or any of its subsidiaries or affiliates, as specified in a written notice to the Executive from President and Chief Executive Officer of the Employer; (iv) the Executive’s conviction of a crime (other than a traffic violation); (v) if the Executive shall have become subject to continuing intemperance in the use of alcohol or drugs which has adversely affected, or may adversely affect, the business or reputation of the Company or the Bank as determined by the Board or the President and Chief Executive Officer of the Employer; (vi) if the Executive shall have violated any banking law or regulation, memorandum of understanding, cease and desist order, or other agreement with any banking agency having jurisdiction over the Company or the Bank which, in the judgment of the Board or the President and Chief Executive Officer of the Employer, has adversely affected, or may adversely affect, the business or reputation of the Company or the Bank; (vii) if the Executive shall have filed, or had filed against him or her, any petition under the federal bankruptcy laws or any state insolvency laws; or (viii) if any banking authority having supervisory jurisdiction over the Company or the Bank initiates any proceedings for removal of the Executive. No act or failure to act on the part of the Executive shall be considered to have been

willful for purposes of clause (i) or (iii) of this Section 1(a) unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the action or omission was in the best interest of the Company or any of its subsidiaries or affiliates.

b. **Change in Control.** “Change in Control” shall mean the occurrence of any of the following events:

(i) Merger: The Company or the Bank merges into or consolidates with another entity, or merges another bank or corporation into the Bank or the Company, and as a result, less than a majority of the combined voting power of the resulting corporation immediately after the merger or consolidation is held by persons who were stockholders of the Company or the Bank immediately before the merger or consolidation;

(ii) Acquisition of Significant Share Ownership: There is filed, or is required to be filed, a report on Schedule 13D or another form or schedule (other than Schedule 13G) required under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended, if the schedule discloses that the filing person or persons acting in concert has or have become the beneficial owner of 25% or more of a class of the Company’s or the Bank’s voting securities; provided, however, this clause (ii) shall not apply to beneficial ownership of the Company’s or the Bank’s voting shares held in a fiduciary capacity by an entity of which the Company directly or indirectly beneficially owns 50% or more of its outstanding voting securities;

(iii) Change in Board Composition: Individuals who constitute the Company’s or the Bank’s Board of Directors on the Effective Date hereof (the “Incumbent Board”) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Effective Date whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board shall be considered, for purposes of this clause (iii), as though he or she was a member of the Incumbent Board; or

(iv) Sale of Assets: The Company or the Bank sells to a third party all or substantially all of its assets.

The definition of Change in Control shall be construed to be consistent with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and Treasury Regulations promulgated thereunder.

c. **Contract Period.** “Contract Period” shall mean the period commencing on the business day immediately preceding a Change in Control and ending on the earlier of (i) the second anniversary of the date of the Change in Control, or (ii) the death of the Executive.

d. **Employer.** “Employer” shall mean the Company and/or the Bank, whichever entity that shall employ the Executive from time to time, and any successor entity thereto.

e. **Good Reason.** When used with reference to a voluntary termination by the Executive of his or her employment with the Employer, “Good Reason” shall mean any of the following, if taken without the Executive’s express written consent:

- (1) a material diminution in the Executive’s base compensation during the Contract Period;
- (2) a material diminution in the Executive’s authority, duties, or responsibilities during the Contract Period;
- (3) a material diminution in the budget over which the Executive retains authority;

(4) a more than 25 mile change in the geographic location of the Executive’s office location during the Contract Period, including assignment to a work location outside of New Jersey; or

(5) any other action or inaction that constitutes a material breach by the Employer of the agreement under which the Executive provides services.

2. **Employment.** The Employer hereby agrees to employ the Executive, and the Executive hereby accepts such employment, during the Contract Period upon the terms and conditions set forth herein. The Company and the Bank may, in the exercise of their sole discretion, transfer the Executive’s employment relationship from the Bank to the

Company, or from the Company to the Bank, in which case the transferee employer shall be the Employer for all purposes of this Agreement. The transfer of the Executive's employment relationship between the Bank and the Company shall not be deemed to be either an actual or constructive termination of the Executive or "Good Reason" for any purpose of this Agreement, and the Executive's employment shall be deemed to have continued without interruption for all purposes of this Agreement.

3. **Job Position**. During the Contract Period, the Executive shall be employed in the Officer Position with the Company and the Bank, or such other corporate or divisional profit center as shall then be the principal successor to the business, assets and properties of the Bank, with a comparable position title and comparable professional job duties, responsibilities and required experience and skill level as were in effect before the Change in Control. The Executive shall devote his or her full time professional effort and attention to the business of the Employer, and shall not, during the Contract Period, be engaged in any other business activity without the written consent of the Employer.
4. **Cash Compensation**. The Employer shall pay to the Executive compensation for his or her services during the Contract Period as follows:
 - a. **Base Compensation**. The base compensation shall be equal to not less than such annual compensation, including both salary and bonus, as was paid to or accrued by, or for the benefit of, the Executive in the twelve (12) months immediately prior to the Change in Control. The annual salary portion of base compensation shall be payable in installments in accordance with the Employer's usual payroll method. The bonus portion, if any, shall be payable at the time and in the manner as to which the Employer paid such bonuses prior to the Change in Control. Any increase in the Executive's annual compensation pursuant to paragraph 4(b) below, or otherwise, shall automatically and permanently increase the base compensation.
 - b. **Annual Increase**. During the Contract Period, the Board of Directors of the Employer shall review not less than annually, the Executive's compensation and shall award him or her additional compensation to reflect the Executive's performance and the performance of the Employer and the Company corporate group, and competitive compensation levels, all as determined in the discretion of the Board of Directors of the Employer.

Additional compensation may take any form including but not limited to increases in annual salary, incentive bonuses and/or bonuses not tied to performance.

5. **Expenses and Fringe Benefits**. During the Contract Period, the Executive shall be entitled to reimbursement for all business expenses incurred by him or her with respect to the business of the Employer in the same manner and to the same extent as such expenses were previously reimbursed to him or her immediately prior to the Change in Control. If prior to the Change in Control, the Executive was entitled to the use of an automobile, he or she shall continue to be entitled to the same use of an automobile at least comparable to the automobile provided to him or her prior to the Change in Control, and he or she shall be entitled to vacation leave and sick days, in accordance with the practices and procedures of the Employer, as such existed immediately prior to the Change in Control. During the Contract Period, the Executive also shall be entitled to hospital, health, medical and life insurance, and any other material benefits enjoyed, from time to time, by executive officers of the Employer, all upon terms as favorable as those enjoyed by other executive officers of the Employer. Notwithstanding anything in this section to the contrary, if the Employer adopts any change in the expenses allowed to, or fringe benefits provided for, executive officers of the Employer, and such policy is uniformly applied to all executive officers of the Employer, and any successor or acquirer of the Employer, if any, including the chief executive officer of such entities, then no such change in policy shall be deemed to be a violation of this provision.
6. **Termination for Cause**. At all times, including both before and during the Contract Period, the Employer shall have the right to terminate the Executive for Cause, upon written notice to him or her of the termination, which notice shall specify the reasons for the termination. In the event of termination for Cause, the Executive shall not be entitled to any further benefits under this Agreement.
7. **Disability**. During the Contract Period, if the Executive becomes permanently and totally disabled within the meaning of the Social Security Act, the Employer may terminate the employment of the Executive. In which event, the Executive shall not be entitled to any further benefits under this Agreement other than payments under any disability policy which the Employer may maintain for the benefit of its senior officers generally.
8. **Death Benefits**. Upon the Executive's death during the Contract Period, the Executive shall be entitled to the

benefits of any life insurance policy or supplemental executive retirement plan paid for, or maintained by, the Employer, but his estate shall not be entitled to any further benefits under this Agreement.

9. Termination without Cause or Resignation for Good Reason.

- a. The Employer may terminate the Executive without Cause during the Contract Period by giving the Executive not less than four weeks' prior written notice to the Executive. During the Contract Period, the Executive may resign within 90 days following the initial occurrence of a condition constituting a Good Reason upon giving not less than four weeks' prior written notice to the Employer specifying the condition constituting Good Reason. The date of termination of employment for Good Reason shall be no later than twenty-four months following commencement of the Contract Period. If the Employer terminates the Executive's employment during the Contract Period without Cause or if the Executive resigns for Good Reason, the Employer shall, upon such termination of employment, pay the Executive a lump sum amount equal to **250%** times the average of the annualized compensation, comprised of annualized salary and cash incentive or bonus compensation, paid or accrued to the Executive during the thirty-six month period (or such lesser number of months of actual employment) immediately prior to the Change in Control (the "Lump Sum Payment"). Notwithstanding the foregoing, any notice of resignation for Good Reason during the Contract Period furnished by the Executive to the Employer shall not be effective prior to the date that is three months following the date of the Change in Control, and the Executive shall continue to work through such three month period, unless the Employer shall agree in writing to an earlier effective date of such resignation .
- b. For a period of eighteen (18) months following the effective date of such termination of employment following a Change in Control, whether resulting from without Cause termination initiated by the Employer or for Good Reason initiated by the Executive, the Employer shall continue to provide the Executive with and pay the applicable premiums for medical and hospital insurance, disability insurance and life insurance benefits, as were provided and paid for at the time of the termination of his employment with the Employer; provided that, if at any time during such eighteen month period, the Executive becomes employed by another employer which provides one or more such benefits, the Employer shall, immediately and from the date when such benefits are made available to the Executive by the successor employer, be relieved of its obligation to provide such benefits to the extent such benefits are duplicative of what is provided to the Executive by the Executive's new employer. If the Employer cannot provide the benefits set forth in this Section 9(b) because Executive is no longer an employee and applicable rules and regulations prohibit the continuation of such benefits in the manner contemplated, or it would subject the Employer to penalties, then the Employer shall pay Executive a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination. The cash payment shall be made in a lump sum within thirty (30) days after the later of Executive's date of termination or the effective date of the rules or regulations prohibiting the benefits or subjecting the Bank to penalties.
- c. The Executive shall not have a duty to mitigate the damages suffered by him or her in connection with the termination by the Employer of his employment without Cause or a resignation for Good Reason during the Contract Period. If the Employer fails to pay the Executive the Lump Sum Payment or to provide him or her with the benefits due under this Section 9, the Executive, after giving ten (10) days' written notice to the Employer identifying the Employer's failure, shall be entitled to recover from the Employer all of his reasonable legal fees and expenses incurred in connection with his or her enforcement against the Employer of the terms of this Agreement. The Employer agrees to pay such legal fees and expenses to the Executive on demand. The Executive shall be denied payment of his or her legal fees and expenses only if a court finds that the Executive sought payment of such fees without reasonable cause and in bad faith.

Notwithstanding the foregoing, in the event that the Executive delivers written notice to the Employer of his or her termination of employment for Good Reason, the Employer will have a period of 30 calendar days during which the Employer may remedy the condition constituting Good Reason and if such condition is remedied, shall not be required to pay the amount due to the Executive under this Section 9 and such termination of employment shall not be effective.

10. **Resignation without Good Reason.** The Executive shall be entitled to resign from the employment of the Employer at any time during the Contract Period without Good Reason, but upon such resignation, the Executive shall not be entitled to any additional compensation for the time after which he or she ceases to be employed by the Employer, and shall not be entitled to any of the other benefits provided for herein, except as may otherwise be provided by the terms of such other plans or arrangements of the Employer or in accordance with applicable law. No such resignation shall be effective unless in writing with four weeks' notice thereof.

11. **Restrictions and Limitations on Executive Conduct.**

- a. **Non-Disclosure of Confidential Information.** Except in the course of his or her employment with the Employer and in pursuit of the business of the Company, the Bank or any of their subsidiaries or affiliates, the Executive shall not, at any time during or following the Contract Period, disclose or use for any purpose any confidential information or proprietary data of the Company, the Bank or any of their respective subsidiaries or affiliates. The Executive agrees that, among other things, all information concerning the identity of, and the Company's and the Bank's relations with, their respective customers is confidential and proprietary information.
- b. **Covenant Not to Compete.** The Executive agrees that for a period of twelve months following termination of employment in conjunction with or after a Change in Control, the Executive shall not become employed or retained by, directly or indirectly, any FDIC insured depository institution whereby the Executive shall have a new work location that is within 15 miles of any branch or office of the Bank in existence as of the date of the Change in Control. The Executive acknowledges that the terms and conditions of this restrictive covenant are reasonable and necessary to protect the Company, its subsidiaries, its affiliates, and any successors in interest, and that the Employer's tender of compensation under this Agreement is fair, adequate and valid consideration in exchange for his or her promises and restrictions under this subparagraph of this Agreement. The Executive further acknowledges that his knowledge, skills and abilities are sufficient to permit him or her to earn a satisfactory livelihood without violating the provisions of this subparagraph.
- c. **Non-Solicitation of Business.** The Executive agrees that for a period of one year following termination of employment in conjunction with or after a Change in Control, the Executive shall not contact (with a view toward selling any product or service competitive with any product or service sold or proposed to be sold by the Company, the Bank or any successors thereto ("Companies")) any person, firm, association or corporation (a) to which the Companies sells any product or service, (b) which the Executive solicited, contacted or otherwise dealt with on behalf of the Companies, or (c) which the Executive is otherwise aware is a client of the Companies. During such one-year period, the Executive will not directly or indirectly make any such contact, either for his own benefit or for the benefit of any other person, firm, association, or corporation.
- d. **Non-Solicitation of Employees.** The Executive agrees that for a period of one year following termination of employment in conjunction with or after a Change in Control, the Executive shall not contact, on his or her own behalf or on behalf of others, employ, solicit, or induce, or attempt to employ, solicit or induce, any employee of the Companies for purposes of employment or other business relationship with any other business entity, nor will the Executive directly or indirectly, on his behalf or for others, seek to influence any Companies' employee to leave the employ of the Companies.
- e. **Specific Performance and Severability.** The Executive agrees that the Company and the Bank do not have an adequate remedy at law for the breach of this Section 11 and agrees that he or she shall be subject to injunctive relief and equitable remedies as a result of any breach of this section. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any provision of this Agreement shall not affect the force and effect of the remaining provisions.
- f. **Survival.** This Section 11 shall survive the termination or resignation of the Executive's employment during the Contract Period for any reason and the expiration of this Agreement.

12. **Term and Effect Prior to Change in Control.**

- a. **Term.** Except as otherwise provided for herein, this Agreement shall commence on the Effective Date hereof and shall remain in effect for a period of **two (2) years** thereafter (the "Term") or until the end of the Contract Period, whichever is later. The Term shall be automatically extended for an additional one (1) year period on each annual anniversary date of the Effective Date, unless the Board of Directors of the Employer then in office votes not to so extend such Term prior to each such annual anniversary date. The Executive shall be promptly notified of the passage of such a resolution on non-extension of such Term. In the event that the Contract Period shall not commence prior to the expiration of the Term of this Agreement, then this Agreement shall terminate upon the expiration of the Term, unless such Term shall be extended prior to its expiration.

b. **No Effect Prior to Change in Control.** This Agreement shall not, in any respect, affect any rights of the Employer or the Executive prior to a Change in Control, nor shall this Agreement affect or limit any rights of the Executive granted in accordance with any other agreement, plan or arrangement. The rights, duties and benefits provided hereunder shall only become effective upon the occurrence of a Change in Control, as defined in this Agreement. If the employment of the Executive is terminated by the Employer for any reason in good faith prior to a Change in Control, this Agreement shall thereafter be of no further force and effect.

13. **Limitations under Section 280G.** Notwithstanding the forgoing, all sums payable hereunder shall be reduced in such manner and to such extent so that no such payments made hereunder when aggregated with all other payments to be made to the Executive by the Company and the Bank shall be deemed an "excess parachute payment" in accordance with Section 280G of the Code, and thereby subjecting the Executive to the excise tax provided at Section 4999(a) of the Code.

14. **Release in Favor of the Company Corporate Group.** Notwithstanding anything herein to the contrary, such payment due in accordance with Section 9 herein shall be made to the Executive by the Employer on the date which is sixty (60) days following the date of Termination of Employment (the "Payment Date"); provided that the Executive shall have executed and delivered to the Employer within fifty (50) days following the date of Termination of Employment a release in favor of the Company, the Bank, their respective affiliates and subsidiaries, and their respective employees, officers, directors and agents, which release shall be substantially in form and content as the form of General Release set forth at Exhibit A hereto (with any changes as are reasonably requested by the Employer to reflect changes in law or practice) and all permissible revocation periods have lapsed with respect to such release without being exercised by the Executive prior to such Payment Date. If the release requirements at this Section 14 have not been satisfied by the Executive prior to such Payment Date, including the lapse of all such revocation periods prior to such Payment Date, then the obligations of the Employer to make such payment to the Executive in accordance with Section 9 herein shall be nullified at such time.

15. **Severance Compensation and Benefits not in Derogation of Other Benefits.** Subject only to those particular terms of this Agreement to the contrary, the payment or obligation to pay any monies, or the granting of any benefits, rights or privileges to the Executive as provided in this Agreement shall not be in lieu or derogation of the rights and privileges that the Executive now has or will have under any plans or programs of the Employer.

16. **Miscellaneous.** This Agreement shall be the joint and several obligation of the Company, the Bank and any acquiring entity(ies) which assumes the obligations of the Company and the Bank under this Agreement. The terms of this Agreement shall be governed by, and interpreted and construed in accordance with the provisions of, the laws of New Jersey and, to the extent applicable, Federal law. Except as specifically set forth in this Agreement, this Agreement supersedes all prior agreements and understandings with respect to the matters covered hereby. The amendment or termination of this Agreement may be made only in a writing executed by the Company, the Bank and the Executive, and no amendment or termination of this Agreement shall be effective unless and until made in such a writing. This Agreement shall be binding to the extent of its applicability upon any successor (whether direct or indirect, by purchase, merge, consolidation, liquidation or otherwise) to all or substantially all of the assets of the Company or the Bank. This Agreement is personal to the Executive, and the Executive may not assign any of his rights or duties hereunder, but this Agreement shall be enforceable by the Executive's legal representatives, executors or administrators. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. The Company or the Bank, as the case may be, shall, as part of any Change in Control involving an acquiring entity or successor to the Company or the Bank, obtain an enforceable assumption in writing by (i) the entity which is the acquiring entity or successor to the Company or the Bank, as the case may be, in the Change in Control and, (ii) if the acquiring entity or successor to the Company or the Bank, as the case may be, is a bank, the holding company parent of the acquiring entity or successor, of this Agreement and the obligations of the Company or the Bank, as the case may be, under this Agreement, and shall provide a copy of such assumption to the Executive prior to any Change in Control.

17. **Regulatory Matters.**

Notwithstanding anything herein to the contrary, any payments made to the Executive pursuant to the Agreement, or otherwise, shall be subject to and conditioned upon compliance with 12 USC § 1828(k) and FDIC Regulation 12 CFR Part 359, Golden Parachute and Indemnification Payments promulgated thereunder.

18. **Section 409A Compliance.**

- a. This Agreement shall be amended to the extent necessary to comply with Section 409A of the Code and regulations promulgated thereunder. Prior to such amendment, and notwithstanding anything contained herein to the contrary, this Agreement shall be construed in a manner consistent with Section 409A of the Code and the parties shall take such actions as are required to comply in good faith with the provisions of Section 409A of the Code such that payments shall not be made to the Executive at such time if such payments shall subject the Executive to the penalty tax under Section 409A of the Code, but rather such payments shall be made by the Bank to the Executive at the earliest time permissible thereafter without the Executive having liability for such penalty tax under Section 409A of the Code.
- b. If and to the extent termination payments under this Agreement constitute deferred compensation within the meaning of Section 409A of the Code and regulations promulgated thereunder, and if the payment under this Section 9 does not qualify as a short-term deferral under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(4) (or any similar or successor provisions), and the Executive is a Specified Employee within the meaning of Section 409A of the Code and regulations promulgated thereunder, then the payment of such termination payments that constitute deferred compensation under Section 409A of the Code shall comply with Section 409A(a)(2)(B)(i) of the Code and the regulations thereunder, which generally provide that distributions of deferred compensation (within the meaning of Section 409A of the Code) to a Specified Employee that are payable on account of Termination of Employment may not commence prior to the six (6) month anniversary of the Executive's Termination of Employment (or, if earlier, the date of the Executive's death). Amounts that would otherwise be distributed to the Executive during such six (6) month period but for the preceding sentence shall be accumulated and paid to the Executive on the 185th day following the date of the Executive's Termination of Employment.

"Specified Employee" means, for an applicable twelve (12) month period beginning on April 1, a key employee (as described in Section 416(i) of the Code, determined without regard to paragraph (5) thereof) during the calendar year ending on the December 31 immediately preceding such April 1.

"Termination of Employment" shall have the same meaning as "separation from service", as that phrase is defined in Section 409A of the Code (taking into account all rules and presumptions provided for in the Section 409A of the Code regulations).

- c. Notwithstanding the six-month delay rule set forth in Section 18b. above:

- (i) To the maximum extent permitted under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(9)(iii) (or any similar or successor provisions), the Employer will pay the Executive an amount equal to the lesser of two times (1) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the Executive's Termination of Employment occurs, and (2) the sum of the Executive's annualized compensation based upon the annual rate of pay for services provided to the Employer for the taxable year of the Executive preceding the taxable year of the Executive in which his or her Termination of Employment occurs (adjusted for any increase during that year that was expected to continue indefinitely if the Executive had not had a Termination of Employment); provided that amounts paid under this Section 18c. must be paid no later than the last day of the second taxable year of the Executive following the taxable year of the Executive in which occurs the Termination of Employment and such amounts paid will count toward, and will not be in addition to, the total payment amount required to be made to the Executive by the Employer under Section 9; and

- (ii) To the maximum extent permitted under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(9)(v)(D) (or any similar or successor provisions), within ten (10) days of the Termination of Employment, the Employer will pay the Executive an amount equal to the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year of the Executive's Termination of Employment; provided that the amount paid under this Section 18c. will count toward, and will not be in addition to, the total payment amount required to be made to the Executive by the Employer under this Section 9.

- d. To the extent that any reimbursements or in-kind payments are subject to Section 409A of the Code, then such expenses (other than medical expenses) must be incurred before the last day of the second taxable year following the taxable year in which the termination occurred, provided that any reimbursement for such expenses shall be paid before the Executive's third taxable year following the taxable year in which the termination occurred. For medical expenses, to the extent the Agreement entitles the Executive to reimbursement by the Employer of payments of

medical expenses incurred and paid by the Executive but not reimbursed by a person other than the Employer and allowable as a deduction under Section 213 of the Code (disregarding the requirement of Section 213(a) of the Code that the deduction is available only to the extent that such expenses exceed 7.5 percent of adjusted gross income), then the reimbursement applies during the period of time during which the Executive would be entitled (or would, but for the Agreement, be entitled) to continuation coverage under a group health plan of the Bank or the Company under Section 4980B of the Code (COBRA) if the Executive elected such coverage and paid the applicable premiums.

IN WITNESS WHEREOF, the Company and the Bank have caused this Agreement to be signed by their respective duly authorized representatives pursuant to the authority of their respective Boards of Directors, and the Executive has personally executed this Agreement, all as of the date and year first written above.

ATTEST: PARKE BANK

_____/s/ Vito S. Pantilione
Secretary By: Vito S. Pantilione

ATTEST: PARKE BANCORP, INC.

_____/s/ Vito S. Pantilione
Secretary By: Vito S. Pantilione

WITNESS: EXECUTIVE:

_____/s/ David O. Middlebrook
David O. Middlebrook

MANAGEMENT CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS MANAGEMENT CHANGE IN CONTROL SEVERANCE AGREEMENT (this “Agreement”) is made on and as of this 19 day of July, 2016 (“Effective Date”), by and between Parke Bancorp, Inc. (“Company”), a corporation organized under the laws of the State of New Jersey which serves as a bank holding company, with its principal office at 601 Delsea Drive, Sewell, New Jersey 08080, Parke Bank (“Bank”), a banking corporation organized under the laws of the State of New Jersey, with its principal office at 601 Delsea Drive, Sewell, New Jersey 08080, and **Paul E. Palmieri** (the “Executive”).

WHEREAS, the Executive is, as of the effective date of this Agreement, employed by the Company and the Bank, a wholly owned subsidiary of the Company, as **Senior Vice President and Chief Loan Officer** (“Officer Position”); and

WHEREAS, the Board of Directors of the Bank believes that the Executive has worked, and will continue to work, diligently in his position in pursuing the business objectives of the Bank to the direct benefit of the Company and its shareholders;

WHEREAS, the Board believes that, if the Company receives any proposal from a third-party concerning a possible business combination with, or the acquisition of equity securities of, the Company, it is imperative that the Company and its Board be able to rely upon the Executive to continue in his or her position with the Company and the Bank, and that the Board be able to receive and rely upon his advice, if they request it, as to the best interests of the Company and its shareholders, without concern that the Executive might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, to achieve that goal, and to retain the Executive’s services as an executive employee of the Company and the Bank prior to and through the occurrence of a potential future Change in Control, as defined in this Agreement, the Company, the Bank and the Executive have, with the full support and concurrence of the Board of Directors of each of the Company and the Bank, agreed to enter into this Agreement to provide to the Executive certain benefits in the event that his or her employment as an executive employee of the Company or the Bank is terminated in conjunction with or after a Change in Control of the Company or the Bank.

NOW THEREFORE, in order to assure the Company and the Bank that they will have the continued dedication of the Executive and the availability of his or her ongoing advice and contribution notwithstanding the possibility, threat or occurrence of a change in the control or ownership of the Company or the Bank, and to induce the Executive to remain in the employ of the Company and the Bank pending such potential Change in Control, the Company, the Bank and the Executive, each intending to be legally bound hereby, agree as follows:

1. **Definitions.**

- a. **Cause.** For purposes of this Agreement, “Cause”, with respect to the termination by the Employer of the Executive’s employment shall mean (i) the willful and continued failure by the Executive to perform his or her duties for the Employer under this Agreement after at least one warning in writing from the President and Chief Executive Officer of the Employer identifying specifically any such failure and providing at least a ten day period for an opportunity to cure such failure detailed in such warning; (ii) if the Executive shall have engaged in conduct involving fraud, deceit, personal dishonesty, breach of fiduciary duty or illegal conduct in his or her business and/or personal matters; (iii) willful misconduct of any type by the Executive, including, but not limited to, the disclosure or improper use of confidential information under Section 11 of this Agreement, which causes material injury to the Company or any of its subsidiaries or affiliates, as specified in a written notice to the Executive from President and Chief Executive Officer of the Employer; (iv) the Executive’s conviction of a crime (other than a traffic violation); (v) if the Executive shall have become subject to continuing intemperance in the use of alcohol or drugs which has adversely affected, or may adversely affect, the business or reputation of the Company or the Bank as determined by the Board or the President and Chief Executive Officer of the Employer; (vi) if the Executive shall have violated any banking law or regulation, memorandum of understanding, cease and desist order, or other agreement with any banking agency having jurisdiction over the Company or the Bank which, in the judgment of the Board or the President and Chief Executive Officer of the Employer, has adversely affected, or may adversely affect, the business or reputation of the Company or the Bank; (vii) if the Executive shall have filed, or had filed against him or her, any petition under the federal bankruptcy laws or any state insolvency laws; or (viii) if any banking authority having supervisory jurisdiction over the Company or the Bank initiates any proceedings for removal of the Executive. No act or failure to act on the part of the Executive shall be considered to have been willful for purposes of clause (i) or (iii) of this Section 1(a) unless done, or omitted to be done, by the

Executive not in good faith and without reasonable belief that the action or omission was in the best interest of the Company or any of its subsidiaries or affiliates.

b. **Change in Control.** “Change in Control” shall mean the occurrence of any of the following events:

(i) Merger: The Company or the Bank merges into or consolidates with another entity, or merges another bank or corporation into the Bank or the Company, and as a result, less than a majority of the combined voting power of the resulting corporation immediately after the merger or consolidation is held by persons who were stockholders of the Company or the Bank immediately before the merger or consolidation;

(ii) Acquisition of Significant Share Ownership: There is filed, or is required to be filed, a report on Schedule 13D or another form or schedule (other than Schedule 13G) required under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended, if the schedule discloses that the filing person or persons acting in concert has or have become the beneficial owner of 25% or more of a class of the Company’s or the Bank’s voting securities; provided, however, this clause (ii) shall not apply to beneficial ownership of the Company’s or the Bank’s voting shares held in a fiduciary capacity by an entity of which the Company directly or indirectly beneficially owns 50% or more of its outstanding voting securities;

(iii) Change in Board Composition: Individuals who constitute the Company’s or the Bank’s Board of Directors on the Effective Date hereof (the “Incumbent Board”) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Effective Date whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board shall be considered, for purposes of this clause (iii), as though he or she was a member of the Incumbent Board; or

(iv) Sale of Assets: The Company or the Bank sells to a third party all or substantially all of its assets.

The definition of Change in Control shall be construed to be consistent with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and Treasury Regulations promulgated thereunder.

c. **Contract Period.** “Contract Period” shall mean the period commencing on the business day immediately preceding a Change in Control and ending on the earlier of (i) the second anniversary of the date of the Change in Control, or (ii) the death of the Executive.

d. **Employer.** “Employer” shall mean the Company and/or the Bank, whichever entity that shall employ the Executive from time to time, and any successor entity thereto.

e. **Good Reason.** When used with reference to a voluntary termination by the Executive of his or her employment with the Employer, “Good Reason” shall mean any of the following, if taken without the Executive’s express written consent:

- (1) a material diminution in the Executive’s base compensation during the Contract Period;
- (2) a material diminution in the Executive’s authority, duties, or responsibilities during the Contract Period;
- (3) a material diminution in the budget over which the Executive retains authority;
- (4) a more than 25 mile change in the geographic location of the Executive’s office location during the Contract

Period; or

(5) any other action or inaction that constitutes a material breach by the Employer of the agreement under which the Executive provides services.

2. **Employment.** The Employer hereby agrees to employ the Executive, and the Executive hereby accepts such employment, during the Contract Period upon the terms and conditions set forth herein. The Company and the Bank may, in the exercise of their sole discretion, transfer the Executive’s employment relationship from the Bank to the Company, or from the Company to the Bank, in which case the transferee employer shall be the Employer for all

purposes of this Agreement. The transfer of the Executive's employment relationship between the Bank and the Company shall not be deemed to be either an actual or constructive termination of the Executive or "Good Reason" for any purpose of this Agreement, and the Executive's employment shall be deemed to have continued without interruption for all purposes of this Agreement.

3. **Job Position**. During the Contract Period, the Executive shall be employed in the Officer Position with the Company and the Bank, or such other corporate or divisional profit center as shall then be the principal successor to the business, assets and properties of the Bank, with a comparable position title and comparable professional job duties, responsibilities and required experience and skill level as were in effect before the Change in Control. The Executive shall devote his or her full time professional effort and attention to the business of the Employer, and shall not, during the Contract Period, be engaged in any other business activity without the written consent of the Employer.
4. **Cash Compensation**. The Employer shall pay to the Executive compensation for his or her services during the Contract Period as follows:
 - a. **Base Compensation**. The base compensation shall be equal to not less than such annual compensation, including both salary and bonus, as was paid to or accrued by, or for the benefit of, the Executive in the twelve (12) months immediately prior to the Change in Control. The annual salary portion of base compensation shall be payable in installments in accordance with the Employer's usual payroll method. The bonus portion, if any, shall be payable at the time and in the manner as to which the Employer paid such bonuses prior to the Change in Control. Any increase in the Executive's annual compensation pursuant to paragraph 4(b) below, or otherwise, shall automatically and permanently increase the base compensation.
 - b. **Annual Increase**. During the Contract Period, the Board of Directors of the Employer shall review not less than annually, the Executive's compensation and shall award him or her additional compensation to reflect the Executive's performance and the performance of the Employer and the Company corporate group, and competitive compensation levels, all as determined in the discretion of the Board of Directors of the Employer.

Additional compensation may take any form including but not limited to increases in annual salary, incentive bonuses and/or bonuses not tied to performance.

5. **Expenses and Fringe Benefits**. During the Contract Period, the Executive shall be entitled to reimbursement for all business expenses incurred by him or her with respect to the business of the Employer in the same manner and to the same extent as such expenses were previously reimbursed to him or her immediately prior to the Change in Control. If prior to the Change in Control, the Executive was entitled to the use of an automobile, he or she shall continue to be entitled to the same use of an automobile at least comparable to the automobile provided to him or her prior to the Change in Control, and he or she shall be entitled to vacation leave and sick days, in accordance with the practices and procedures of the Employer, as such existed immediately prior to the Change in Control. During the Contract Period, the Executive also shall be entitled to hospital, health, medical and life insurance, and any other material benefits enjoyed, from time to time, by executive officers of the Employer, all upon terms as favorable as those enjoyed by other executive officers of the Employer. Notwithstanding anything in this section to the contrary, if the Employer adopts any change in the expenses allowed to, or fringe benefits provided for, executive officers of the Employer, and such policy is uniformly applied to all executive officers of the Employer, and any successor or acquirer of the Employer, if any, including the chief executive officer of such entities, then no such change in policy shall be deemed to be a violation of this provision.
6. **Termination for Cause**. At all times, including both before and during the Contract Period, the Employer shall have the right to terminate the Executive for Cause, upon written notice to him or her of the termination, which notice shall specify the reasons for the termination. In the event of termination for Cause, the Executive shall not be entitled to any further benefits under this Agreement.
7. **Disability**. During the Contract Period, if the Executive becomes permanently and totally disabled within the meaning of the Social Security Act, the Employer may terminate the employment of the Executive. In which event, the Executive shall not be entitled to any further benefits under this Agreement other than payments under any disability policy which the Employer may maintain for the benefit of its senior officers generally.
8. **Death Benefits**. Upon the Executive's death during the Contract Period, the Executive shall be entitled to the benefits of any life insurance policy or supplemental executive retirement plan paid for, or maintained by, the

Employer, but his estate shall not be entitled to any further benefits under this Agreement.

9. **Termination without Cause or Resignation for Good Reason .**

- a. The Employer may terminate the Executive without Cause during the Contract Period by giving the Executive not less than four weeks' prior written notice to the Executive. During the Contract Period, the Executive may resign within 90 days following the initial occurrence of a condition constituting a Good Reason upon giving not less than four weeks' prior written notice to the Employer specifying the condition constituting Good Reason. The date of termination of employment for Good Reason shall be no later than twenty-four months following commencement of the Contract Period. If the Employer terminates the Executive's employment during the Contract Period without Cause or if the Executive resigns for Good Reason, the Employer shall, upon such termination of employment, pay the Executive a lump sum amount equal to **250%** times the average of the annualized compensation, comprised of annualized salary and cash incentive or bonus compensation, paid or accrued to the Executive during the thirty-six month period (or such lesser number of months of actual employment) immediately prior to the Change in Control (the "Lump Sum Payment"). Notwithstanding the foregoing, any notice of resignation for Good Reason during the Contract Period furnished by the Executive to the Employer shall not be effective prior to the date that is three months following the date of the Change in Control, and the Executive shall continue to work through such three month period, unless the Employer shall agree in writing to an earlier effective date of such resignation .
- b. For a period of eighteen (18) months following the effective date of such termination of employment following a Change in Control, whether resulting from without Cause termination initiated by the Employer or for Good Reason initiated by the Executive, the Employer shall continue to provide the Executive with and pay the applicable premiums for medical and hospital insurance, disability insurance and life insurance benefits, as were provided and paid for at the time of the termination of his employment with the Employer; provided that, if at any time during such eighteen month period, the Executive becomes employed by another employer which provides one or more such benefits, the Employer shall, immediately and from the date when such benefits are made available to the Executive by the successor employer, be relieved of its obligation to provide such benefits to the extent such benefits are duplicative of what is provided to the Executive by the Executive's new employer. If the Employer cannot provide the benefits set forth in this Section 9(b) because Executive is no longer an employee and applicable rules and regulations prohibit the continuation of such benefits in the manner contemplated, or it would subject the Employer to penalties, then the Employer shall pay Executive a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination. The cash payment shall be made in a lump sum within thirty (30) days after the later of Executive's date of termination or the effective date of the rules or regulations prohibiting the benefits or subjecting the Bank to penalties.
- c. The Executive shall not have a duty to mitigate the damages suffered by him or her in connection with the termination by the Employer of his employment without Cause or a resignation for Good Reason during the Contract Period. If the Employer fails to pay the Executive the Lump Sum Payment or to provide him or her with the benefits due under this Section 9, the Executive, after giving ten (10) days' written notice to the Employer identifying the Employer's failure, shall be entitled to recover from the Employer all of his reasonable legal fees and expenses incurred in connection with his or her enforcement against the Employer of the terms of this Agreement. The Employer agrees to pay such legal fees and expenses to the Executive on demand. The Executive shall be denied payment of his or her legal fees and expenses only if a court finds that the Executive sought payment of such fees without reasonable cause and in bad faith.

Notwithstanding the foregoing, in the event that the Executive delivers written notice to the Employer of his or her termination of employment for Good Reason, the Employer will have a period of 30 calendar days during which the Employer may remedy the condition constituting Good Reason and if such condition is remedied, shall not be required to pay the amount due to the Executive under this Section 9 and such termination of employment shall not be effective.

10. **Resignation without Good Reason .** The Executive shall be entitled to resign from the employment of the Employer at any time during the Contract Period without Good Reason, but upon such resignation, the Executive shall not be entitled to any additional compensation for the time after which he or she ceases to be employed by the Employer, and shall not be entitled to any of the other benefits provided for herein, except as may otherwise be provided by the terms of such other plans or arrangements of the Employer or in accordance with applicable law. No such resignation shall be effective unless in writing with four weeks' notice thereof.

11. **Restrictions and Limitations on Executive Conduct.**

- a. **Non-Disclosure of Confidential Information.** Except in the course of his or her employment with the Employer and in pursuit of the business of the Company, the Bank or any of their subsidiaries or affiliates, the Executive shall not, at any time during or following the Contract Period, disclose or use for any purpose any confidential information or proprietary data of the Company, the Bank or any of their respective subsidiaries or affiliates. The Executive agrees that, among other things, all information concerning the identity of, and the Company's and the Bank's relations with, their respective customers is confidential and proprietary information.
- b. **Covenant Not to Compete.** The Executive agrees that for a period of twelve months following termination of employment in conjunction with or after a Change in Control, the Executive shall not become employed or retained by, directly or indirectly, any FDIC insured depository institution whereby the Executive shall have a new work location that is within 15 miles of any branch or office of the Bank in existence as of the date of the Change in Control. The Executive acknowledges that the terms and conditions of this restrictive covenant are reasonable and necessary to protect the Company, its subsidiaries, its affiliates, and any successors in interest, and that the Employer's tender of compensation under this Agreement is fair, adequate and valid consideration in exchange for his or her promises and restrictions under this subparagraph of this Agreement. The Executive further acknowledges that his knowledge, skills and abilities are sufficient to permit him or her to earn a satisfactory livelihood without violating the provisions of this subparagraph.
- c. **Non-Solicitation of Business.** The Executive agrees that for a period of one year following termination of employment in conjunction with or after a Change in Control, the Executive shall not contact (with a view toward selling any product or service competitive with any product or service sold or proposed to be sold by the Company, the Bank or any successors thereto ("Companies")) any person, firm, association or corporation (a) to which the Companies sells any product or service, (b) which the Executive solicited, contacted or otherwise dealt with on behalf of the Companies, or (c) which the Executive is otherwise aware is a client of the Companies. During such one-year period, the Executive will not directly or indirectly make any such contact, either for his own benefit or for the benefit of any other person, firm, association, or corporation.
- d. **Non-Solicitation of Employees.** The Executive agrees that for a period of one year following termination of employment in conjunction with or after a Change in Control, the Executive shall not contact, on his or her own behalf or on behalf of others, employ, solicit, or induce, or attempt to employ, solicit or induce, any employee of the Companies for purposes of employment or other business relationship with any other business entity, nor will the Executive directly or indirectly, on his behalf or for others, seek to influence any Companies' employee to leave the employ of the Companies.
- e. **Specific Performance and Severability.** The Executive agrees that the Company and the Bank do not have an adequate remedy at law for the breach of this Section 11 and agrees that he or she shall be subject to injunctive relief and equitable remedies as a result of any breach of this section. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any provision of this Agreement shall not affect the force and effect of the remaining provisions.
- f. **Survival.** This Section 11 shall survive the termination or resignation of the Executive's employment during the Contract Period for any reason and the expiration of this Agreement.

12. **Term and Effect Prior to Change in Control.**

- a. **Term.** Except as otherwise provided for herein, this Agreement shall commence on the Effective Date hereof and shall remain in effect for a period of **two (2) years** thereafter (the "Term") or until the end of the Contract Period, whichever is later. The Term shall be automatically extended for an additional one (1) year period on each annual anniversary date of the Effective Date, unless the Board of Directors of the Employer then in office votes not to so extend such Term prior to each such annual anniversary date. The Executive shall be promptly notified of the passage of such a resolution on non-extension of such Term. In the event that the Contract Period shall not commence prior to the expiration of the Term of this Agreement, then this Agreement shall terminate upon the expiration of the Term, unless such Term shall be extended prior to its expiration.
- b. **No Effect Prior to Change in Control.** This Agreement shall not, in any respect, affect any rights of the

Employer or the Executive prior to a Change in Control, nor shall this Agreement affect or limit any rights of the Executive granted in accordance with any other agreement, plan or arrangement. The rights, duties and benefits provided hereunder shall only become effective upon the occurrence of a Change in Control, as defined in this Agreement. If the employment of the Executive is terminated by the Employer for any reason in good faith prior to a Change in Control, this Agreement shall thereafter be of no further force and effect.

13. **Limitations under Section 280G.** Notwithstanding the forgoing, all sums payable hereunder shall be reduced in such manner and to such extent so that no such payments made hereunder when aggregated with all other payments to be made to the Executive by the Company and the Bank shall be deemed an "excess parachute payment" in accordance with Section 280G of the Code, and thereby subjecting the Executive to the excise tax provided at Section 4999(a) of the Code.
14. **Release in Favor of the Company Corporate Group.** Notwithstanding anything herein to the contrary, such payment due in accordance with Section 9 herein shall be made to the Executive by the Employer on the date which is sixty (60) days following the date of Termination of Employment (the "Payment Date"); provided that the Executive shall have executed and delivered to the Employer within fifty (50) days following the date of Termination of Employment a release in favor of the Company, the Bank, their respective affiliates and subsidiaries, and their respective employees, officers, directors and agents, which release shall be substantially in form and content as the form of General Release set forth at Exhibit A hereto (with any changes as are reasonably requested by the Employer to reflect changes in law or practice) and all permissible revocation periods have lapsed with respect to such release without being exercised by the Executive prior to such Payment Date. If the release requirements at this Section 14 have not been satisfied by the Executive prior to such Payment Date, including the lapse of all such revocation periods prior to such Payment Date, then the obligations of the Employer to make such payment to the Executive in accordance with Section 9 herein shall be nullified at such time.
15. **Severance Compensation and Benefits not in Derogation of Other Benefits.** Subject only to those particular terms of this Agreement to the contrary, the payment or obligation to pay any monies, or the granting of any benefits, rights or privileges to the Executive as provided in this Agreement shall not be in lieu or derogation of the rights and privileges that the Executive now has or will have under any plans or programs of the Employer.
16. **Miscellaneous.** This Agreement shall be the joint and several obligation of the Company, the Bank and any acquiring entity(ies) which assumes the obligations of the Company and the Bank under this Agreement. The terms of this Agreement shall be governed by, and interpreted and construed in accordance with the provisions of, the laws of New Jersey and, to the extent applicable, Federal law. Except as specifically set forth in this Agreement, this Agreement supersedes all prior agreements and understandings with respect to the matters covered hereby. The amendment or termination of this Agreement may be made only in a writing executed by the Company, the Bank and the Executive, and no amendment or termination of this Agreement shall be effective unless and until made in such a writing. This Agreement shall be binding to the extent of its applicability upon any successor (whether direct or indirect, by purchase, merge, consolidation, liquidation or otherwise) to all or substantially all of the assets of the Company or the Bank. This Agreement is personal to the Executive, and the Executive may not assign any of his rights or duties hereunder, but this Agreement shall be enforceable by the Executive's legal representatives, executors or administrators. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. The Company or the Bank, as the case may be, shall, as part of any Change in Control involving an acquiring entity or successor to the Company or the Bank, obtain an enforceable assumption in writing by (i) the entity which is the acquiring entity or successor to the Company or the Bank, as the case may be, in the Change in Control and, (ii) if the acquiring entity or successor to the Company or the Bank, as the case may be, is a bank, the holding company parent of the acquiring entity or successor, of this Agreement and the obligations of the Company or the Bank, as the case may be, under this Agreement, and shall provide a copy of such assumption to the Executive prior to any Change in Control.
17. **Regulatory Matters.**

Notwithstanding anything herein to the contrary, any payments made to the Executive pursuant to the Agreement, or otherwise, shall be subject to and conditioned upon compliance with 12 USC § 1828(k) and FDIC Regulation 12 CFR Part 359, Golden Parachute and Indemnification Payments promulgated thereunder.
18. **Section 409A Compliance.**

- a. This Agreement shall be amended to the extent necessary to comply with Section 409A of the Code and regulations promulgated thereunder. Prior to such amendment, and notwithstanding anything contained herein to the contrary, this Agreement shall be construed in a manner consistent with Section 409A of the Code and the parties shall take such actions as are required to comply in good faith with the provisions of Section 409A of the Code such that payments shall not be made to the Executive at such time if such payments shall subject the Executive to the penalty tax under Section 409A of the Code, but rather such payments shall be made by the Bank to the Executive at the earliest time permissible thereafter without the Executive having liability for such penalty tax under Section 409A of the Code.
- b. If and to the extent termination payments under this Agreement constitute deferred compensation within the meaning of Section 409A of the Code and regulations promulgated thereunder, and if the payment under this Section 9 does not qualify as a short-term deferral under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(4) (or any similar or successor provisions), and the Executive is a Specified Employee within the meaning of Section 409A of the Code and regulations promulgated thereunder, then the payment of such termination payments that constitute deferred compensation under Section 409A of the Code shall comply with Section 409A(a)(2)(B)(i) of the Code and the regulations thereunder, which generally provide that distributions of deferred compensation (within the meaning of Section 409A of the Code) to a Specified Employee that are payable on account of Termination of Employment may not commence prior to the six (6) month anniversary of the Executive's Termination of Employment (or, if earlier, the date of the Executive's death). Amounts that would otherwise be distributed to the Executive during such six (6) month period but for the preceding sentence shall be accumulated and paid to the Executive on the 185th day following the date of the Executive's Termination of Employment.

"Specified Employee" means, for an applicable twelve (12) month period beginning on April 1, a key employee (as described in Section 416(i) of the Code, determined without regard to paragraph (5) thereof) during the calendar year ending on the December 31 immediately preceding such April 1.

"Termination of Employment" shall have the same meaning as "separation from service", as that phrase is defined in Section 409A of the Code (taking into account all rules and presumptions provided for in the Section 409A of the Code regulations).

- c. Notwithstanding the six-month delay rule set forth in Section 18b. above:

(i) To the maximum extent permitted under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(9)(iii) (or any similar or successor provisions), the Employer will pay the Executive an amount equal to the lesser of two times (1) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the Executive's Termination of Employment occurs, and (2) the sum of the Executive's annualized compensation based upon the annual rate of pay for services provided to the Employer for the taxable year of the Executive preceding the taxable year of the Executive in which his or her Termination of Employment occurs (adjusted for any increase during that year that was expected to continue indefinitely if the Executive had not had a Termination of Employment); provided that amounts paid under this Section 18c. must be paid no later than the last day of the second taxable year of the Executive following the taxable year of the Executive in which occurs the Termination of Employment and such amounts paid will count toward, and will not be in addition to, the total payment amount required to be made to the Executive by the Employer under Section 9; and

(ii) To the maximum extent permitted under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(9)(v)(D) (or any similar or successor provisions), within ten (10) days of the Termination of Employment, the Employer will pay the Executive an amount equal to the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year of the Executive's Termination of Employment; provided that the amount paid under this Section 18c. will count toward, and will not be in addition to, the total payment amount required to be made to the Executive by the Employer under this Section 9.

- d. To the extent that any reimbursements or in-kind payments are subject to Section 409A of the Code, then such expenses (other than medical expenses) must be incurred before the last day of the second taxable year following the taxable year in which the termination occurred, provided that any reimbursement for such expenses shall be paid before the Executive's third taxable year following the taxable year in which the termination occurred. For medical expenses, to the extent the Agreement entitles the Executive to reimbursement by the Employer of payments of

medical expenses incurred and paid by the Executive but not reimbursed by a person other than the Employer and allowable as a deduction under Section 213 of the Code (disregarding the requirement of Section 213(a) of the Code that the deduction is available only to the extent that such expenses exceed 7.5 percent of adjusted gross income), then the reimbursement applies during the period of time during which the Executive would be entitled (or would, but for the Agreement, be entitled) to continuation coverage under a group health plan of the Bank or the Company under Section 4980B of the Code (COBRA) if the Executive elected such coverage and paid the applicable premiums.

IN WITNESS WHEREOF, the Company and the Bank have caused this Agreement to be signed by their respective duly authorized representatives pursuant to the authority of their respective Boards of Directors, and the Executive has personally executed this Agreement, all as of the date and year first written above.

ATTEST: PARKE BANK

_____/s/ Vito S. Pantilione
Secretary By: Vito S. Pantilione

ATTEST: PARKE BANCORP, INC.

_____/s/ Vito S. Pantilione
Secretary By: Vito S. Pantilione

WITNESS: EXECUTIVE:

_____/s/ Paul E. Palmieri
Paul E. Palmieri

MANAGEMENT CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS MANAGEMENT CHANGE IN CONTROL SEVERANCE AGREEMENT (this “Agreement”) is made on and as of this 19 day of July, 2016 (“Effective Date”), by and between Parke Bancorp, Inc. (“Company”), a corporation organized under the laws of the State of New Jersey which serves as a bank holding company, with its principal office at 601 Delsea Drive, Sewell, New Jersey 08080, Parke Bank (“Bank”), a banking corporation organized under the laws of the State of New Jersey, with its principal office at 601 Delsea Drive, Sewell, New Jersey 08080, and Ralph Gallo (the “Executive”).

WHEREAS, the Executive is, as of the effective date of this Agreement, employed by the Company and the Bank, a wholly owned subsidiary of the Company, as **Senior Vice President** (“Officer Position”); and

WHEREAS, the Board of Directors of the Bank believes that the Executive has worked, and will continue to work, diligently in his position in pursuing the business objectives of the Bank to the direct benefit of the Company and its shareholders;

WHEREAS, the Board believes that, if the Company receives any proposal from a third-party concerning a possible business combination with, or the acquisition of equity securities of, the Company, it is imperative that the Company and its Board be able to rely upon the Executive to continue in his or her position with the Company and the Bank, and that the Board be able to receive and rely upon his advice, if they request it, as to the best interests of the Company and its shareholders, without concern that the Executive might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, to achieve that goal, and to retain the Executive’s services as an executive employee of the Company and the Bank prior to and through the occurrence of a potential future Change in Control, as defined in this Agreement, the Company, the Bank and the Executive have, with the full support and concurrence of the Board of Directors of each of the Company and the Bank, agreed to enter into this Agreement to provide to the Executive certain benefits in the event that his or her employment as an executive employee of the Company or the Bank is terminated in conjunction with or after a Change in Control of the Company or the Bank.

NOW THEREFORE, in order to assure the Company and the Bank that they will have the continued dedication of the Executive and the availability of his or her ongoing advice and contribution notwithstanding the possibility, threat or occurrence of a change in the control or ownership of the Company or the Bank, and to induce the Executive to remain in the employ of the Company and the Bank pending such potential Change in Control, the Company, the Bank and the Executive, each intending to be legally bound hereby, agree as follows:

1. **Definitions.**

- a. **Cause.** For purposes of this Agreement, “Cause”, with respect to the termination by the Employer of the Executive’s employment shall mean (i) the willful and continued failure by the Executive to perform his or her duties for the Employer under this Agreement after at least one warning in writing from the President and Chief Executive Officer of the Employer identifying specifically any such failure and providing at least a ten day period for an opportunity to cure such failure detailed in such warning; (ii) if the Executive shall have engaged in conduct involving fraud, deceit, personal dishonesty, breach of fiduciary duty or illegal conduct in his or her business and/or personal matters; (iii) willful misconduct of any type by the Executive, including, but not limited to, the disclosure or improper use of confidential information under Section 11 of this Agreement, which causes material injury to the Company or any of its subsidiaries or affiliates, as specified in a written notice to the Executive from President and Chief Executive Officer of the Employer; (iv) the Executive’s conviction of a crime (other than a traffic violation); (v) if the Executive shall have become subject to continuing intemperance in the use of alcohol or drugs which has adversely affected, or may adversely affect, the business or reputation of the Company or the Bank as determined by the Board or the President and Chief Executive Officer of the Employer; (vi) if the Executive shall have violated any banking law or regulation, memorandum of understanding, cease and desist order, or other agreement with any banking agency having jurisdiction over the Company or the Bank which, in the judgment of the Board or the President and Chief Executive Officer of the Employer, has adversely affected, or may adversely affect, the business or reputation of the Company or the Bank; (vii) if the Executive shall have filed, or had filed against him or her, any petition under the federal bankruptcy laws or any state insolvency laws; or (viii) if any banking authority having supervisory jurisdiction over the Company or the Bank initiates any proceedings for removal of the Executive. No act or failure to act on the part of the Executive shall be considered to have been willful for purposes of clause (i) or (iii) of this Section 1(a) unless done, or omitted to be done, by the

Executive not in good faith and without reasonable belief that the action or omission was in the best interest of the Company or any of its subsidiaries or affiliates.

b. **Change in Control.** “Change in Control” shall mean the occurrence of any of the following events:

(i) Merger: The Company or the Bank merges into or consolidates with another entity, or merges another bank or corporation into the Bank or the Company, and as a result, less than a majority of the combined voting power of the resulting corporation immediately after the merger or consolidation is held by persons who were stockholders of the Company or the Bank immediately before the merger or consolidation;

(ii) Acquisition of Significant Share Ownership: There is filed, or is required to be filed, a report on Schedule 13D or another form or schedule (other than Schedule 13G) required under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended, if the schedule discloses that the filing person or persons acting in concert has or have become the beneficial owner of 25% or more of a class of the Company’s or the Bank’s voting securities; provided, however, this clause (ii) shall not apply to beneficial ownership of the Company’s or the Bank’s voting shares held in a fiduciary capacity by an entity of which the Company directly or indirectly beneficially owns 50% or more of its outstanding voting securities;

(iii) Change in Board Composition: Individuals who constitute the Company’s or the Bank’s Board of Directors on the Effective Date hereof (the “Incumbent Board”) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Effective Date whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board shall be considered, for purposes of this clause (iii), as though he or she was a member of the Incumbent Board; or

(iv) Sale of Assets: The Company or the Bank sells to a third party all or substantially all of its assets.

The definition of Change in Control shall be construed to be consistent with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and Treasury Regulations promulgated thereunder.

c. **Contract Period.** “Contract Period” shall mean the period commencing on the business day immediately preceding a Change in Control and ending on the earlier of (i) the second anniversary of the date of the Change in Control, or (ii) the death of the Executive.

d. **Employer.** “Employer” shall mean the Company and/or the Bank, whichever entity that shall employ the Executive from time to time, and any successor entity thereto.

e. **Good Reason.** When used with reference to a voluntary termination by the Executive of his or her employment with the Employer, “Good Reason” shall mean any of the following, if taken without the Executive’s express written consent:

- (1) a material diminution in the Executive’s base compensation during the Contract Period;
- (2) a material diminution in the Executive’s authority, duties, or responsibilities during the Contract Period;
- (3) a material diminution in the budget over which the Executive retains authority;

(4) a more than 25 mile change in the geographic location of the Executive’s office location during the Contract Period, including assignment to a work location outside of New Jersey; or

(5) any other action or inaction that constitutes a material breach by the Employer of the agreement under which the Executive provides services.

2. **Employment.** The Employer hereby agrees to employ the Executive, and the Executive hereby accepts such employment, during the Contract Period upon the terms and conditions set forth herein. The Company and the Bank may, in the exercise of their sole discretion, transfer the Executive’s employment relationship from the Bank to the Company, or from the Company to the Bank, in which case the transferee employer shall be the Employer for all

purposes of this Agreement. The transfer of the Executive's employment relationship between the Bank and the Company shall not be deemed to be either an actual or constructive termination of the Executive or "Good Reason" for any purpose of this Agreement, and the Executive's employment shall be deemed to have continued without interruption for all purposes of this Agreement.

3. **Job Position**. During the Contract Period, the Executive shall be employed in the Officer Position with the Company and the Bank, or such other corporate or divisional profit center as shall then be the principal successor to the business, assets and properties of the Bank, with a comparable position title and comparable professional job duties, responsibilities and required experience and skill level as were in effect before the Change in Control. The Executive shall devote his or her full time professional effort and attention to the business of the Employer, and shall not, during the Contract Period, be engaged in any other business activity without the written consent of the Employer.
4. **Cash Compensation**. The Employer shall pay to the Executive compensation for his or her services during the Contract Period as follows:
 - a. **Base Compensation**. The base compensation shall be equal to not less than such annual compensation, including both salary and bonus, as was paid to or accrued by, or for the benefit of, the Executive in the twelve (12) months immediately prior to the Change in Control. The annual salary portion of base compensation shall be payable in installments in accordance with the Employer's usual payroll method. The bonus portion, if any, shall be payable at the time and in the manner as to which the Employer paid such bonuses prior to the Change in Control. Any increase in the Executive's annual compensation pursuant to paragraph 4(b) below, or otherwise, shall automatically and permanently increase the base compensation.
 - b. **Annual Increase**. During the Contract Period, the Board of Directors of the Employer shall review not less than annually, the Executive's compensation and shall award him or her additional compensation to reflect the Executive's performance and the performance of the Employer and the Company corporate group, and competitive compensation levels, all as determined in the discretion of the Board of Directors of the Employer.

Additional compensation may take any form including but not limited to increases in annual salary, incentive bonuses and/or bonuses not tied to performance.

5. **Expenses and Fringe Benefits**. During the Contract Period, the Executive shall be entitled to reimbursement for all business expenses incurred by him or her with respect to the business of the Employer in the same manner and to the same extent as such expenses were previously reimbursed to him or her immediately prior to the Change in Control. If prior to the Change in Control, the Executive was entitled to the use of an automobile, he or she shall continue to be entitled to the same use of an automobile at least comparable to the automobile provided to him or her prior to the Change in Control, and he or she shall be entitled to vacation leave and sick days, in accordance with the practices and procedures of the Employer, as such existed immediately prior to the Change in Control. During the Contract Period, the Executive also shall be entitled to hospital, health, medical and life insurance, and any other material benefits enjoyed, from time to time, by executive officers of the Employer, all upon terms as favorable as those enjoyed by other executive officers of the Employer. Notwithstanding anything in this section to the contrary, if the Employer adopts any change in the expenses allowed to, or fringe benefits provided for, executive officers of the Employer, and such policy is uniformly applied to all executive officers of the Employer, and any successor or acquirer of the Employer, if any, including the chief executive officer of such entities, then no such change in policy shall be deemed to be a violation of this provision.
6. **Termination for Cause**. At all times, including both before and during the Contract Period, the Employer shall have the right to terminate the Executive for Cause, upon written notice to him or her of the termination, which notice shall specify the reasons for the termination. In the event of termination for Cause, the Executive shall not be entitled to any further benefits under this Agreement.
7. **Disability**. During the Contract Period, if the Executive becomes permanently and totally disabled within the meaning of the Social Security Act, the Employer may terminate the employment of the Executive. In which event, the Executive shall not be entitled to any further benefits under this Agreement other than payments under any disability policy which the Employer may maintain for the benefit of its senior officers generally.
8. **Death Benefits**. Upon the Executive's death during the Contract Period, the Executive shall be entitled to the benefits of any life insurance policy or supplemental executive retirement plan paid for, or maintained by, the

Employer, but his estate shall not be entitled to any further benefits under this Agreement.

9. **Termination without Cause or Resignation for Good Reason .**

- a. The Employer may terminate the Executive without Cause during the Contract Period by giving the Executive not less than four weeks' prior written notice to the Executive. During the Contract Period, the Executive may resign within 90 days following the initial occurrence of a condition constituting a Good Reason upon giving not less than four weeks' prior written notice to the Employer specifying the condition constituting Good Reason. The date of termination of employment for Good Reason shall be no later than twenty-four months following commencement of the Contract Period. If the Employer terminates the Executive's employment during the Contract Period without Cause or if the Executive resigns for Good Reason, the Employer shall, upon such termination of employment, pay the Executive a lump sum amount equal to **150%** times the average of the annualized compensation, comprised of annualized salary and cash incentive or bonus compensation, paid or accrued to the Executive during the thirty-six month period (or such lesser number of months of actual employment) immediately prior to the Change in Control (the "Lump Sum Payment"). Notwithstanding the foregoing, any notice of resignation for Good Reason during the Contract Period furnished by the Executive to the Employer shall not be effective prior to the date that is three months following the date of the Change in Control, and the Executive shall continue to work through such three month period, unless the Employer shall agree in writing to an earlier effective date of such resignation .
- b. For a period of eighteen (18) months following the effective date of such termination of employment following a Change in Control, whether resulting from without Cause termination initiated by the Employer or for Good Reason initiated by the Executive, the Employer shall continue to provide the Executive with and pay the applicable premiums for medical and hospital insurance, disability insurance and life insurance benefits, as were provided and paid for at the time of the termination of his employment with the Employer; provided that, if at any time during such eighteen month period, the Executive becomes employed by another employer which provides one or more such benefits, the Employer shall, immediately and from the date when such benefits are made available to the Executive by the successor employer, be relieved of its obligation to provide such benefits to the extent such benefits are duplicative of what is provided to the Executive by the Executive's new employer. If the Employer cannot provide the benefits set forth in this Section 9(b) because Executive is no longer an employee and applicable rules and regulations prohibit the continuation of such benefits in the manner contemplated, or it would subject the Employer to penalties, then the Employer shall pay Executive a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination. The cash payment shall be made in a lump sum within thirty (30) days after the later of Executive's date of termination or the effective date of the rules or regulations prohibiting the benefits or subjecting the Bank to penalties.
- c. The Executive shall not have a duty to mitigate the damages suffered by him or her in connection with the termination by the Employer of his employment without Cause or a resignation for Good Reason during the Contract Period. If the Employer fails to pay the Executive the Lump Sum Payment or to provide him or her with the benefits due under this Section 9, the Executive, after giving ten (10) days' written notice to the Employer identifying the Employer's failure, shall be entitled to recover from the Employer all of his reasonable legal fees and expenses incurred in connection with his or her enforcement against the Employer of the terms of this Agreement. The Employer agrees to pay such legal fees and expenses to the Executive on demand. The Executive shall be denied payment of his or her legal fees and expenses only if a court finds that the Executive sought payment of such fees without reasonable cause and in bad faith.

Notwithstanding the foregoing, in the event that the Executive delivers written notice to the Employer of his or her termination of employment for Good Reason, the Employer will have a period of 30 calendar days during which the Employer may remedy the condition constituting Good Reason and if such condition is remedied, shall not be required to pay the amount due to the Executive under this Section 9 and such termination of employment shall not be effective.

10. **Resignation without Good Reason .** The Executive shall be entitled to resign from the employment of the Employer at any time during the Contract Period without Good Reason, but upon such resignation, the Executive shall not be entitled to any additional compensation for the time after which he or she ceases to be employed by the Employer, and shall not be entitled to any of the other benefits provided for herein, except as may otherwise be provided by the terms of such other plans or arrangements of the Employer or in accordance with applicable law. No such resignation shall be effective unless in writing with four weeks' notice thereof.

11. **Restrictions and Limitations on Executive Conduct.**

- a. **Non-Disclosure of Confidential Information.** Except in the course of his or her employment with the Employer and in pursuit of the business of the Company, the Bank or any of their subsidiaries or affiliates, the Executive shall not, at any time during or following the Contract Period, disclose or use for any purpose any confidential information or proprietary data of the Company, the Bank or any of their respective subsidiaries or affiliates. The Executive agrees that, among other things, all information concerning the identity of, and the Company's and the Bank's relations with, their respective customers is confidential and proprietary information.
- b. **Covenant Not to Compete.** The Executive agrees that for a period of twelve months following termination of employment in conjunction with or after a Change in Control, the Executive shall not become employed or retained by, directly or indirectly, any FDIC insured depository institution whereby the Executive shall have a new work location that is within 15 miles of any branch or office of the Bank in existence as of the date of the Change in Control. The Executive acknowledges that the terms and conditions of this restrictive covenant are reasonable and necessary to protect the Company, its subsidiaries, its affiliates, and any successors in interest, and that the Employer's tender of compensation under this Agreement is fair, adequate and valid consideration in exchange for his or her promises and restrictions under this subparagraph of this Agreement. The Executive further acknowledges that his knowledge, skills and abilities are sufficient to permit him or her to earn a satisfactory livelihood without violating the provisions of this subparagraph.
- c. **Non-Solicitation of Business.** The Executive agrees that for a period of one year following termination of employment in conjunction with or after a Change in Control, the Executive shall not contact (with a view toward selling any product or service competitive with any product or service sold or proposed to be sold by the Company, the Bank or any successors thereto ("Companies")) any person, firm, association or corporation (a) to which the Companies sells any product or service, (b) which the Executive solicited, contacted or otherwise dealt with on behalf of the Companies, or (c) which the Executive is otherwise aware is a client of the Companies. During such one-year period, the Executive will not directly or indirectly make any such contact, either for his own benefit or for the benefit of any other person, firm, association, or corporation.
- d. **Non-Solicitation of Employees.** The Executive agrees that for a period of one year following termination of employment in conjunction with or after a Change in Control, the Executive shall not contact, on his or her own behalf or on behalf of others, employ, solicit, or induce, or attempt to employ, solicit or induce, any employee of the Companies for purposes of employment or other business relationship with any other business entity, nor will the Executive directly or indirectly, on his behalf or for others, seek to influence any Companies' employee to leave the employ of the Companies.
- e. **Specific Performance and Severability.** The Executive agrees that the Company and the Bank do not have an adequate remedy at law for the breach of this Section 11 and agrees that he or she shall be subject to injunctive relief and equitable remedies as a result of any breach of this section. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any provision of this Agreement shall not affect the force and effect of the remaining provisions.
- f. **Survival.** This Section 11 shall survive the termination or resignation of the Executive's employment during the Contract Period for any reason and the expiration of this Agreement.

12. **Term and Effect Prior to Change in Control.**

- a. **Term.** Except as otherwise provided for herein, this Agreement shall commence on the Effective Date hereof and shall remain in effect for a period of **two (2) years** thereafter (the "Term") or until the end of the Contract Period, whichever is later. The Term shall be automatically extended for an additional one (1) year period on each annual anniversary date of the Effective Date, unless the Board of Directors of the Employer then in office votes not to so extend such Term prior to each such annual anniversary date. The Executive shall be promptly notified of the passage of such a resolution on non-extension of such Term. In the event that the Contract Period shall not commence prior to the expiration of the Term of this Agreement, then this Agreement shall terminate upon the expiration of the Term, unless such Term shall be extended prior to its expiration.
- b. **No Effect Prior to Change in Control.** This Agreement shall not, in any respect, affect any rights of the

Employer or the Executive prior to a Change in Control, nor shall this Agreement affect or limit any rights of the Executive granted in accordance with any other agreement, plan or arrangement. The rights, duties and benefits provided hereunder shall only become effective upon the occurrence of a Change in Control, as defined in this Agreement. If the employment of the Executive is terminated by the Employer for any reason in good faith prior to a Change in Control, this Agreement shall thereafter be of no further force and effect.

13. **Limitations under Section 280G.** Notwithstanding the forgoing, all sums payable hereunder shall be reduced in such manner and to such extent so that no such payments made hereunder when aggregated with all other payments to be made to the Executive by the Company and the Bank shall be deemed an "excess parachute payment" in accordance with Section 280G of the Code, and thereby subjecting the Executive to the excise tax provided at Section 4999(a) of the Code.
14. **Release in Favor of the Company Corporate Group.** Notwithstanding anything herein to the contrary, such payment due in accordance with Section 9 herein shall be made to the Executive by the Employer on the date which is sixty (60) days following the date of Termination of Employment (the "Payment Date"); provided that the Executive shall have executed and delivered to the Employer within fifty (50) days following the date of Termination of Employment a release in favor of the Company, the Bank, their respective affiliates and subsidiaries, and their respective employees, officers, directors and agents, which release shall be substantially in form and content as the form of General Release set forth at Exhibit A hereto (with any changes as are reasonably requested by the Employer to reflect changes in law or practice) and all permissible revocation periods have lapsed with respect to such release without being exercised by the Executive prior to such Payment Date. If the release requirements at this Section 14 have not been satisfied by the Executive prior to such Payment Date, including the lapse of all such revocation periods prior to such Payment Date, then the obligations of the Employer to make such payment to the Executive in accordance with Section 9 herein shall be nullified at such time.
15. **Severance Compensation and Benefits not in Derogation of Other Benefits.** Subject only to those particular terms of this Agreement to the contrary, the payment or obligation to pay any monies, or the granting of any benefits, rights or privileges to the Executive as provided in this Agreement shall not be in lieu or derogation of the rights and privileges that the Executive now has or will have under any plans or programs of the Employer.
16. **Miscellaneous.** This Agreement shall be the joint and several obligation of the Company, the Bank and any acquiring entity(ies) which assumes the obligations of the Company and the Bank under this Agreement. The terms of this Agreement shall be governed by, and interpreted and construed in accordance with the provisions of, the laws of New Jersey and, to the extent applicable, Federal law. Except as specifically set forth in this Agreement, this Agreement supersedes all prior agreements and understandings with respect to the matters covered hereby. The amendment or termination of this Agreement may be made only in a writing executed by the Company, the Bank and the Executive, and no amendment or termination of this Agreement shall be effective unless and until made in such a writing. This Agreement shall be binding to the extent of its applicability upon any successor (whether direct or indirect, by purchase, merge, consolidation, liquidation or otherwise) to all or substantially all of the assets of the Company or the Bank. This Agreement is personal to the Executive, and the Executive may not assign any of his rights or duties hereunder, but this Agreement shall be enforceable by the Executive's legal representatives, executors or administrators. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. The Company or the Bank, as the case may be, shall, as part of any Change in Control involving an acquiring entity or successor to the Company or the Bank, obtain an enforceable assumption in writing by (i) the entity which is the acquiring entity or successor to the Company or the Bank, as the case may be, in the Change in Control and, (ii) if the acquiring entity or successor to the Company or the Bank, as the case may be, is a bank, the holding company parent of the acquiring entity or successor, of this Agreement and the obligations of the Company or the Bank, as the case may be, under this Agreement, and shall provide a copy of such assumption to the Executive prior to any Change in Control.
17. **Regulatory Matters.**

Notwithstanding anything herein to the contrary, any payments made to the Executive pursuant to the Agreement, or otherwise, shall be subject to and conditioned upon compliance with 12 USC § 1828(k) and FDIC Regulation 12 CFR Part 359, Golden Parachute and Indemnification Payments promulgated thereunder.
18. **Section 409A Compliance.**

- a. This Agreement shall be amended to the extent necessary to comply with Section 409A of the Code and regulations promulgated thereunder. Prior to such amendment, and notwithstanding anything contained herein to the contrary, this Agreement shall be construed in a manner consistent with Section 409A of the Code and the parties shall take such actions as are required to comply in good faith with the provisions of Section 409A of the Code such that payments shall not be made to the Executive at such time if such payments shall subject the Executive to the penalty tax under Section 409A of the Code, but rather such payments shall be made by the Bank to the Executive at the earliest time permissible thereafter without the Executive having liability for such penalty tax under Section 409A of the Code.
- b. If and to the extent termination payments under this Agreement constitute deferred compensation within the meaning of Section 409A of the Code and regulations promulgated thereunder, and if the payment under this Section 9 does not qualify as a short-term deferral under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(4) (or any similar or successor provisions), and the Executive is a Specified Employee within the meaning of Section 409A of the Code and regulations promulgated thereunder, then the payment of such termination payments that constitute deferred compensation under Section 409A of the Code shall comply with Section 409A(a)(2)(B)(i) of the Code and the regulations thereunder, which generally provide that distributions of deferred compensation (within the meaning of Section 409A of the Code) to a Specified Employee that are payable on account of Termination of Employment may not commence prior to the six (6) month anniversary of the Executive's Termination of Employment (or, if earlier, the date of the Executive's death). Amounts that would otherwise be distributed to the Executive during such six (6) month period but for the preceding sentence shall be accumulated and paid to the Executive on the 185th day following the date of the Executive's Termination of Employment.

"Specified Employee" means, for an applicable twelve (12) month period beginning on April 1, a key employee (as described in Section 416(i) of the Code, determined without regard to paragraph (5) thereof) during the calendar year ending on the December 31 immediately preceding such April 1.

"Termination of Employment" shall have the same meaning as "separation from service", as that phrase is defined in Section 409A of the Code (taking into account all rules and presumptions provided for in the Section 409A of the Code regulations).

- c. Notwithstanding the six-month delay rule set forth in Section 18b. above:

- (i) To the maximum extent permitted under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(9)(iii) (or any similar or successor provisions), the Employer will pay the Executive an amount equal to the lesser of two times (1) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the Executive's Termination of Employment occurs, and (2) the sum of the Executive's annualized compensation based upon the annual rate of pay for services provided to the Employer for the taxable year of the Executive preceding the taxable year of the Executive in which his or her Termination of Employment occurs (adjusted for any increase during that year that was expected to continue indefinitely if the Executive had not had a Termination of Employment); provided that amounts paid under this Section 18c. must be paid no later than the last day of the second taxable year of the Executive following the taxable year of the Executive in which occurs the Termination of Employment and such amounts paid will count toward, and will not be in addition to, the total payment amount required to be made to the Executive by the Employer under Section 9; and

- (ii) To the maximum extent permitted under Section 409A of the Code and Treas. Reg. §1.409A-1(b)(9)(v)(D) (or any similar or successor provisions), within ten (10) days of the Termination of Employment, the Employer will pay the Executive an amount equal to the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year of the Executive's Termination of Employment; provided that the amount paid under this Section 18c. will count toward, and will not be in addition to, the total payment amount required to be made to the Executive by the Employer under this Section 9.

- d. To the extent that any reimbursements or in-kind payments are subject to Section 409A of the Code, then such expenses (other than medical expenses) must be incurred before the last day of the second taxable year following the taxable year in which the termination occurred, provided that any reimbursement for such expenses shall be paid before the Executive's third taxable year following the taxable year in which the termination occurred. For medical expenses, to the extent the Agreement entitles the Executive to reimbursement by the Employer of payments of

medical expenses incurred and paid by the Executive but not reimbursed by a person other than the Employer and allowable as a deduction under Section 213 of the Code (disregarding the requirement of Section 213(a) of the Code that the deduction is available only to the extent that such expenses exceed 7.5 percent of adjusted gross income), then the reimbursement applies during the period of time during which the Executive would be entitled (or would, but for the Agreement, be entitled) to continuation coverage under a group health plan of the Bank or the Company under Section 4980B of the Code (COBRA) if the Executive elected such coverage and paid the applicable premiums.

IN WITNESS WHEREOF, the Company and the Bank have caused this Agreement to be signed by their respective duly authorized representatives pursuant to the authority of their respective Boards of Directors, and the Executive has personally executed this Agreement, all as of the date and year first written above.

ATTEST: PARKE BANK

_____/s/ Vito S. Pantilione
Secretary By: Vito S. Pantilione

ATTEST: PARKE BANCORP, INC.

_____/s/ Vito S. Pantilione
Secretary By: Vito S. Pantilione

WITNESS: EXECUTIVE:

_____/s/ Ralph Gallo
Ralph Gallo

PARKE BANCORP, INC.

2018 ANNUAL REPORT TO SHAREHOLDERS

PARKE BANCORP, INC.
2018 ANNUAL REPORT TO SHAREHOLDERS

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To Our Shareholders

It is great when you can lead off a letter to your shareholders saying that it was a record year for your Company. What could be more fitting than achieving record earnings during our 20th Anniversary. Our net income for 2018 was \$24.4 million, \$2.28 per diluted share, a 127% increase over 2017 and a 41% increase over 2016's net income, which is when we sold our SBA Company and generated a substantial profit. The Company generated a return on average assets of 2% in 2018, which is substantially higher than our peer group. The increase in our net income was primarily due to the strong growth in our loan portfolio, which generated an increase in interest income, while maintaining tight controls of our expenses. The reduction in our Federal corporate tax rate also helped earnings, although it was somewhat offset by the increase in our State corporate tax rate.

A detailed analysis of our financial results is illustrated in this 2018 Annual Report. Salient highlights include a 29% increase in total assets from December 31, 2017 to \$1.47 billion, quite an increase from \$8 million when we started in 1999. Our loan portfolio grew to \$1.24 billion, a 22.5% increase in twelve months. The growth in our deposits supported our loan growth, increasing 36.6% since December 31, 2017 to \$1.18 billion. The strong growth of our net income supported a 13.9% increase in shareholders' equity to \$153.6 million, which is above Federal banking guidelines for a well-capitalized bank. An additional factor having a positive effect on our strong financial performance in 2018 is the improvement of our credit quality. Nonperforming loans decreased 32.4% from December 31, 2017 to \$3.1 million. OREO decreased \$2.1 million to \$5.1 million, a 29% decrease from December 31, 2017.

Deposit growth is one of the many challenges facing the banking industry in the country and even more so in our region. Money that is flowing into the stock market and real estate investments is coming out of banks. Competition is fierce and includes community, regional and nationwide banks. Savings, money market and CD rates have escalated dramatically in the last twelve months, while loan rates have increased at a much slower rate. This increase in funding costs challenges the banking industry's net interest margin, including ours. Our Company is fortunate to be well positioned to continue generating strong loan volume with competitive interest rates that support the strength in our net interest income.

Our Company's strong financial performance supported the Board of Directors' approval of an increase in our cash dividend to 14 cents per share, per quarter. The Board also approved a 10% stock dividend, which also enhanced shareholder value.

There have been several bank mergers in our region over the last year that could create opportunities for Parke Bank to acquire additional quality branches. New branches could assist our Company with funding needs. There has been an overlap of branches with the merged institutions that have made over 30 branches available in the Delaware Valley. There may also be opportunities to hire quality experienced personnel that could be beneficial to the continued growth of the Company.

The country, including our region enjoyed a strong economy in 2018. The GDP was strong, with unemployment at record lows. Some experts, including the Federal Reserve, believe that the country is experiencing full employment. The strong economy and low unemployment raised Fed concerns for the potential of inflation. In response to their concerns, the Fed raised interest rates four times in 2018. The tariff wars, the apparent weakening of the European economy combined with the continued political confusion doesn't calm many concerns for 2019. The Federal Reserve seems to be indicating that it may be taking a break from increasing interest rates. Some believe that if the Fed continues to push up interest rates, it will trigger a recession. We have no control over any of these factors that are affecting the economy. However, we will continue to work hard in maintaining strong reserves, disciplined loan underwriting policies, tight control of our expenses and be focused on insuring that we are in a good position to take advantage of market opportunities, while working to enhance shareholder value.

A handwritten signature in dark ink, appearing to read 'C. Pennoni'.

C.R. "Chuck" Pennoni
Chairman

A handwritten signature in dark ink, appearing to read 'V. Pantilione'.

Vito S. Pantilione
President and Chief Executive Officer

| | Selected Financial Data | | | | |
|--|---------------------------------------|--------------|--------------|------------|------------|
| | At or for the Year Ended December, 31 | | | | |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Balance Sheet Data: (in thousands) | | | | | |
| Assets | \$ 1,467,398 | \$ 1,137,452 | \$ 1,016,185 | \$ 885,124 | \$ 821,706 |
| Loans receivable, Net | 1,222,082 | 995,184 | 836,373 | 742,365 | 695,018 |
| Securities Available for Sale | 31,278 | 37,991 | 44,854 | 42,567 | 28,208 |
| Securities Held to Maturity | 1,113 | 2,268 | 2,224 | 2,181 | 2,141 |
| Cash and Cash Equivalents | 154,471 | 42,113 | 70,720 | 27,429 | 36,238 |
| OREO | 5,124 | 7,248 | 10,528 | 16,629 | 20,931 |
| Deposits | 1,183,873 | 866,383 | 788,694 | 665,210 | 647,933 |
| Borrowings | 118,053 | 128,053 | 93,053 | 98,053 | 62,755 |
| Shareholders' Equity | 153,557 | 134,780 | 127,134 | 112,040 | 102,905 |
| Operational Data: (in thousands) | | | | | |
| Interest Income | \$ 61,864 | \$ 48,655 | \$ 42,202 | \$ 39,410 | \$ 38,132 |
| Interest Expense | 13,771 | 8,280 | 6,764 | 5,812 | 5,579 |
| Net Interest Income | 48,093 | 40,375 | 35,438 | 33,598 | 32,553 |
| Provision for Loan Losses | 1,800 | 2,500 | 1,462 | 3,040 | 3,250 |
| Net Interest Income after Provision for Loan Losses | 46,293 | 37,875 | 33,976 | 30,558 | 29,303 |
| Noninterest Income | 3,417 | 1,645 | 10,290 | 5,080 | 7,631 |
| Noninterest Expense | 16,295 | 15,293 | 16,628 | 16,852 | 18,911 |
| Income Before Income Tax Expense | 33,415 | 24,227 | 27,638 | 18,786 | 18,023 |
| Income Tax Expense | 8,377 | 12,389 | 8,695 | 6,843 | 5,711 |
| Net Income Attributable to Company and Noncontrolling Interest | 25,038 | 11,838 | 18,943 | 11,943 | 12,312 |
| Net Income Attributable to Noncontrolling Interest | 214 | 32 | (433) | (1,246) | (1,839) |
| Preferred Stock Dividend and Discount Accretion | 446 | 1,119 | 1,200 | 1,200 | 1,200 |
| Net Income Available to Common Shareholders | \$ 24,378 | \$ 10,751 | \$ 17,310 | \$ 9,497 | \$ 9,273 |
| Per Share Data: ¹ | | | | | |
| Basic Earnings per Common Share | \$ 2.53 | \$ 1.28 | \$ 2.10 | \$ 1.42 | \$ 1.28 |
| Diluted Earnings per Common Share | \$ 2.28 | \$ 1.13 | \$ 1.75 | \$ 1.22 | \$ 0.96 |
| Book Value per Common Share | \$ 14.28 | \$ 13.60 | \$ 13.08 | \$ 11.38 | \$ 10.65 |
| Performance Ratios: | | | | | |
| Return on Average Assets | 1.96% | 1.13% | 1.97% | 1.25% | 1.30% |
| Return on Average Common Equity | 17.99% | 9.40% | 17.04% | 10.82% | 11.77% |
| Net Interest Margin | 3.92% | 4.01% | 3.96% | 4.14% | 4.33% |
| Efficiency Ratio | 31.63% | 36.39% | 45.64% | 43.57% | 47.06% |
| Capital Ratios: | | | | | |
| Equity to Assets | 10.56% | 11.85% | 12.51% | 12.68% | 12.53% |
| Dividend Payout | 21.63% | 32.39% | 13.19% | 19.99% | —% |
| Tier 1 Risk-based Capital ² | 15.43% | 15.56% | 16.67% | 15.87% | 15.97% |
| Total Risk-based Capital ² | 16.69% | 16.81% | 17.93% | 17.13% | 17.22% |
| Asset Quality Ratios: | | | | | |
| Nonperforming Loans/Total Loans | 0.25% | 0.45% | 1.30% | 1.79% | 3.77% |
| Allowance for Loan Losses/Total Loans | 1.54% | 1.63% | 1.83% | 2.13% | 2.53% |
| Allowance for Loan Losses/Non-performing Loans | 622.30% | 364.68% | 137.90% | 119.01% | 67.09% |

¹ Per share computations give retroactive effect to stock dividends declared in each of 2016, 2017, and 2018

² Capital ratios for Parke Bank

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

Forward Looking Statements

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

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

Overview

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

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

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

Our business operations are subject to risks and uncertainties that could material affect our operating results. While economic growth has continued and the macroeconomic environment remains positive, there continue to be various economic, political and other risks and uncertainties that could impact the Company's businesses and future results, particularly changes in the U.S. economic condition, market interest rates, the Federal Reserve monetary policy, and other government policies and actions of regulatory agencies.

As of December 31, 2018 , we had total assets of \$1.47 billion , and total equity of \$155.0 million . Net income available to common shareholders for 2018 was \$24.4 million . We continue to be in a strong position to deliver attractive growth and returns. In 2018, the Company delivered 97.7% growth in earnings per basic common share and increased the return on average common equity to nearly 91.4% over previous year.

Results of Operations

Net Income

We recorded net income available to common shareholders of \$24.4 million or \$2.53 per basic common share and \$2.28 per diluted common share, for the year ended December 31, 2018 compared to \$10.8 million , or \$1.28 per basic common share and \$1.13 per diluted common share for the year ended December 31, 2017 , an increase of \$13.6 million or 126.8% . Results for 2017 were impacted by the enactment of the Tax Cuts and Jobs Act (the "Tax Reform Act") in December 2017, which required us to re-measure our deferred tax asset, resulting in a tax charge of \$3.2 million in the quarter ended December 31, 2017.

Net Interest Income

Net interest income increased \$7.7 million , or 19.1% , to \$48.1 million for the year ended 2018 compared to \$40.4 million for the year ended 2017 . The increase in net interest income was primarily due to loan portfolio growth and higher yields on loans, partially offset by higher interest expense related to deposit growth and higher deposit rates. Interest income for 2018 increased to \$ 61.9 million , an increase of \$ 13.2 million , or 27.1% , from \$ 48.7 million for 2017. Interest expense increased to \$13.8 million for 2018, from \$8.3 million for 2017.

Interest income increases were primarily driven by:

- growth in our residential real estate, non-owner occupied, and construction loan portfolios; and
- higher yields as a result of higher interest rates.

These drivers were partially offset by higher interest expense due to the net effect of higher interest rates, as well as growth and mix changes in our interest-bearing liabilities.

Comparative Average Balances, Yields and Rates

The following table presents the average daily balances of assets, liabilities and equity and the respective interest earned or paid on interest-earning assets and interest-bearing liabilities, as well as average annualized rates, for the year ended 2018 and 2017 . Interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is net interest income divided by average earning assets. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances and have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

For the Years Ended December 31,

| 2018 | | | 2017 | | |
|-----------------|-------------------------|------------|-----------------|-------------------------|------------|
| Average Balance | Interest Income/Expense | Yield/Cost | Average Balance | Interest Income/Expense | Yield/Cost |

(Dollars in thousands except Yield/ Cost data)

Assets

| | | | | | | |
|---|---------------------|-----------|-------|---------------------|-----------|-------|
| Loans | \$ 1,110,915 | \$ 59,139 | 5.32% | \$ 923,271 | \$ 46,847 | 5.07% |
| Investment securities | 42,521 | 1,342 | 3.16% | 49,675 | 1,429 | 2.88% |
| Federal funds sold and cash equivalents | 73,106 | 1,383 | 1.89% | 35,274 | 379 | 1.07% |
| Total interest-earning assets | 1,226,542 | \$ 61,864 | 5.04% | 1,008,220 | \$ 48,655 | 4.83% |
| Non-interest earning assets | 57,919 | | | 62,276 | | |
| Allowance for loan losses | (17,583) | | | (16,052) | | |
| Total assets | \$ 1,266,878 | | | \$ 1,054,444 | | |

Liabilities and Equity

| | | | | | | |
|-------------------------------------|---------------------|-----------|-------|---------------------|----------|-------|
| Interest bearing deposits | | | | | | |
| NOWs | \$ 52,596 | \$ 267 | 0.51% | \$ 42,582 | \$ 209 | 0.49% |
| Money markets | 176,359 | 2,894 | 1.64% | 138,084 | 1,071 | 0.78% |
| Savings | 154,229 | 818 | 0.53% | 180,908 | 960 | 0.53% |
| Time deposits | 314,609 | 4,977 | 1.58% | 288,617 | 3,373 | 1.17% |
| Brokered certificates of deposit | 100,244 | 2,115 | 2.11% | 74,357 | 865 | 1.16% |
| Total interest-bearing deposits | 798,037 | 11,071 | 1.39% | 724,548 | 6,478 | 0.89% |
| Borrowings | 119,286 | 2,700 | 2.26% | 105,108 | 1,802 | 1.71% |
| Total interest-bearing liabilities | 917,323 | \$ 13,771 | 1.50% | 829,656 | \$ 8,280 | 1.00% |
| Non-interest bearing deposits | 196,068 | | | 84,758 | | |
| Other liabilities | 7,897 | | | 6,358 | | |
| Total liabilities | 1,121,288 | | | 920,772 | | |
| Equity | 145,590 | | | 133,672 | | |
| Total liabilities and equity | \$ 1,266,878 | | | \$ 1,054,444 | | |
| Net interest income | \$ 48,093 | | | \$ 40,375 | | |
| Interest rate spread | | | 3.54% | | | 3.83% |
| Net interest margin | | | 3.92% | | | 4.00% |

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

Rate/Volume Analysis

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

| Years ended December 31, | | | |
|------------------------------------|-------------------|-------------------|--------------------------------|
| 2018 vs 2017 | | | |
| Variance due to change in | | | |
| | Average Volume | Average Rate | Net Increase/ (Decrease) |
| (Dollars in thousands) | | | |
| Interest Income: | | | |
| Loans (net of deferred costs/fees) | \$ 9,898 | \$ 2,394 | \$ 12,292 |
| Investment securities | (218) | 131 | (87) |
| Federal funds sold | 587 | 417 | 1,004 |
| Total interest income | 10,267 | 2,942 | 13,209 |
| Interest Expense: | | | |
| Deposits | 713 | 3,880 | 4,593 |
| Borrowed funds | 266 | 632 | 898 |
| Total interest expense | 979 | 4,512 | 5,491 |
| Net interest income | \$ 9,288 | \$ (1,570) | \$ 7,718 |

Provision for loan and lease losses

Our provision for loan and lease losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses. We recorded a provision for loan and lease losses of \$1.8 million and \$2.5 million in 2018 and 2017, respectively. The provision for loan and lease losses as a percentage of interest income was 2.91% and 5.14% in 2018 and 2017, respectively.

Our provision for loan and lease losses decreased by \$700,000 in 2018 compared to 2017 primarily due to improved loan credit quality. For more information about our provision and allowance for loan and lease losses and our loss experience, see “Risk Management and Asset Quality-Allowance for Loan and Lease Losses” and [NOTE 4. Loans and Allowance for Loan and Lease Losses](#) in the Consolidated Financial Statements.

Non-interest Income

The table below displays the components of non-interest income for 2018 and 2017.

| | 2018 | 2017 |
|---|------------------------|-----------------|
| | (Dollars in thousands) | |
| Gain on sale of SBA loans | \$ 378 | 477 |
| Other Loan fees | 1,121 | 654 |
| Bank owned life insurance income | 613 | 652 |
| Service fees on deposit accounts | 1,482 | 416 |
| Gain (loss) on sale and valuation adjustments of OREO | (690) | (1,421) |
| Other | 513 | 867 |
| Total non-interest income | \$ 3,417 | \$ 1,645 |

Non-interest income increased by \$1.8 million to \$3.4 million in 2018 compared to 2017 primarily due to:

- an increase in fee income related to the commercial deposit accounts;
- an increase in loan fees; and
- a decrease in losses related to the sale of other real estate owned (OREO)

The fee income for the year ended December 31, 2018 from the commercial deposit accounts of depositors who do business in the medical-use cannabis industry totaled \$613,000 and is included in service fees on deposit accounts, in the accompanying consolidated statements of income. We did not record deposit fee income from customers in the medical-use cannabis industry

during the year ended December 31, 2017 . Please refer to [Note 14. Commitments and Contingencies](#) in the Notes to the Consolidated Financial Statements for our banking services to customers who do business in the medical-use cannabis industry.

Non-Interest Expense

The following table displays the components of non-interest expense for 2018 and 2017.

| | 2018 | 2017 |
|----------------------------|-------------------------|------------------|
| | (Dollars in thousands) | |
| Compensation and benefits | \$ 8,251 | \$ 7,362 |
| Professional services | 1,419 | 1,573 |
| Occupancy and equipment | 1,675 | 1,443 |
| Data processing | 835 | 736 |
| FDIC insurance | 420 | 296 |
| OREO expense | 611 | 625 |
| Other operating expense | 3,084 | 3,258 |
| Total non-interest expense | <u>\$ 16,295</u> | <u>\$ 15,293</u> |

Non-interest expense increased \$1.0 million to \$16.3 million for 2018, from \$15.3 million for 2017 primarily due to

- Increase in occupancy expense; and
- Increase in compensation and benefits.

These increase were partially offset by decrease in expense of professional services expense. The increase in noninterest expense was primarily due to the growth of the business. The less-than-proportional increase in noninterest expense for the year 2018 when compared with the increases in interest income in 2018 reflected an increase in the operating efficiency of the Company.

Income Tax

Income tax expense was \$8.4 million on income before taxes of \$33.4 million for 2018, resulting in an effective tax rate of 25.1% , compared to income tax expense of \$12.4 million on income before taxes of \$24.2 million for 2017, resulting in an effective tax rate of 51.1% . Income tax expense decreased \$4.0 million primarily due to the combined effects of increased income for the year and the impact of the Tax Reform Act in December of 2017. The Tax Reform Act reduced the corporate statutory tax rate from 35% to 20%. As a result of this reduction, the Company revalued its deferred tax asset in December 2017 which resulted in a charge-off of a portion of the asset in 2017 which was recorded as part of income tax expense in that period.

Financial Condition

General

At December 31, 2018 , the Company's total assets were \$1.47 billion , an increase of \$329.9 million or 29.0% , from December 31, 2017 . The increase in total assets was primarily attributable to increase in loans and cash and cash equivalents. Total loans outstanding increased \$228.3 million , primarily due to the increase in the one-to-four-family residential loan portfolio, which increased \$129.1 million to \$545.4 million at December 31, 2018 from \$416.3 million at December 31, 2017 . Cash and cash equivalents increased \$112.4 million from December 31, 2017 to \$154.5 million at December 31, 2018 .

Total liabilities were \$ 1.31 billion at December 31, 2018 . This represented a \$ 309.7 million , or 30.9% , increase from \$ 1.00 billion at December 31, 2017 . The increase in total liabilities was primarily due to an increase in total deposits, which increased \$ 317.5 million , or 36.6% , to \$ 1.18 billion at December 31, 2018 , from \$ 866.4 million at December 31, 2017 .

Total equity was \$ 155.0 million and \$ 134.8 million at December 31, 2018 and December 31, 2017 , respectively, for an increase of \$ 20.2 million from December 31, 2017 .

The following table presents certain key condensed balance sheet data as of December 31, 2018 and December 31, 2017 :

| | December 31, 2018 | December 31, 2017 |
|-------------------------------|-------------------------|----------------------|
| | (Dollars in thousands) | |
| Cash and cash equivalents | \$ 154,471 | \$ 42,113 |
| Investment securities | 32,391 | 40,259 |
| Loans held for sale | 419 | 1,541 |
| Loans, net of unearned income | 1,241,157 | 1,011,717 |
| Allowance for loan losses | 19,075 | 16,533 |
| Total assets | 1,467,398 | 1,137,452 |
| Total deposits | 1,183,873 | 866,383 |
| FHLBNY borrowings | 104,650 | 114,650 |
| Subordinated debt | 13,403 | 13,403 |
| Total liabilities | 1,312,402 | 1,002,672 |
| Total equity | 154,996 | 134,780 |
| Total liabilities and equity | 1,467,398 | 1,137,452 |

Cash and cash equivalents

Cash and cash equivalents increased \$112.4 million to \$154.5 million at December 31, 2018 from \$42.1 million at December 31, 2017 , an increase of 266.8% . The increase was primarily due to the cash received from the increase in deposits.

Investment securities

Total investment securities decreased to \$32.4 million at December 31, 2018 , from \$ 40.3 million at December 31, 2017 , a decrease of \$7.9 million or 19.5% . The decrease was due to the normal pay downs of mortgage-backed securities and \$1.7 million in calls of securities from the municipal and corporate security categories. The following table presents a summary of our investment securities portfolio at December 31, 2018, 2017, and 2016.

| | At December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| | (Dollars in thousands) | | |
| <u>Securities Held to Maturity :</u> | | | |
| State and political subdivisions | \$ 1,113 | \$ 2,268 | \$ 2,224 |
| <u>Securities Available for Sale :</u> | | | |
| Corporate debt obligations | 500 | 1,033 | 1,011 |
| Residential mortgage-backed securities | 30,721 | 36,863 | 43,240 |
| Collateralized mortgage obligations | 57 | 95 | 166 |
| Collateralized debt obligations | — | — | 437 |
| Total securities available for sale | 31,278 | 37,991 | 44,854 |
| Total | \$ 32,391 | \$ 40,259 | \$ 47,078 |

The following table sets forth information regarding the scheduled maturities, amortized costs, estimated fair values, and weighted average yields of the Bank's investment securities portfolio at December 31, 2018 , by contractual maturity. The following table does not take into consideration the effects of scheduled repayments or the effects of possible prepayments. The yield information does not give effect to changes in fair value that are reflected as a component of stockholder's equity.

At December 31, 2018

| One to Five Years | | After Five to Ten Years | | More Than Ten Years | | Total Investment Securities | | |
|-------------------|---------------|-------------------------|---------------|---------------------|---------------|-----------------------------|---------------|------------|
| Amortized Cost | Average Yield | Amortized Cost | Average Yield | Amortized Cost | Average Yield | Amortized Cost | Average Yield | Fair Value |

(Amounts in thousands, except yields)

Securities Held to

Maturity :

| | | | | | | | | | | | | | | |
|----------------------------------|----|---|----|----|-------|-------|----|---|----|----|-------|-------|----|-------|
| State and political subdivisions | \$ | — | —% | \$ | 1,113 | 4.76% | \$ | — | —% | \$ | 1,113 | 4.76% | \$ | 1,292 |
|----------------------------------|----|---|----|----|-------|-------|----|---|----|----|-------|-------|----|-------|

Securities Available

for Sale :

| | | | | | | | | | | | | | | |
|--|----|-----|-------|----|--------|-------|----|--------|-------|-----|--------|-------|-----|--------|
| Corporate debt obligations | \$ | — | — | \$ | 500 | 4.75 | \$ | — | — | 500 | 4.75 | \$ | 500 | |
| Residential mortgage-backed securities | | 274 | 0.47 | | 13,856 | 2.31 | | 17,423 | 2.58 | | 31,553 | 2.44 | | 30,721 |
| Collateralized mortgage obligations | | — | — | | — | — | | 56 | 4.61 | | 56 | 4.61 | | 57 |
| Total securities available for sale | | 274 | 0.47 | | 14,356 | 2.38 | | 17,479 | 2.59 | | 32,109 | 2.48 | | 31,278 |
| Total | \$ | 274 | 0.47% | \$ | 15,469 | 2.54% | \$ | 17,479 | 2.59% | \$ | 33,222 | 2.54% | \$ | 32,570 |

For additional information of our investment portfolio, see [NOTE 3 - Investment Securities](#) to the Consolidated Financial Statements.

Loans

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

We originate residential mortgage loans with adjustable and fixed-rates that are secured by 1- 4 family and multifamily residential properties. These loans are generally underwritten under terms, conditions and documentation acceptable to the secondary mortgage market. A substantial majority of such loans can be sold in the secondary market or pledged for potential borrowings.

We originate commercial real estate loans that are secured by commercial real estate properties that are owner and non-owner occupied real estate properties. These loans are typically larger in dollar size and are primarily secured by office buildings, retail buildings, warehouses and general purpose business space. The commercial mortgages loans generally have maturities of twenty years, but re-price within five years.

The construction loans we originate provide real estate acquisition development and construction funds to individuals and real estate developers. The loans are secured by the properties under development. The construction loan funds are disbursed periodically at pre-specified stages of completion.

We also originate commercial and industrial loans, which provide liquidity to businesses in the form of lines of credit and may be secured by accounts receivable, inventory, equipment or other assets. In addition, we have a small consumer loan portfolio providing funds to individual borrowers.

At December 31, 2018 , the total loan portfolio increased to \$1.24 billion compared to \$1.01 billion at December 31, 2017 .

Loans held for sale (HFS) : Loans held for sale are comprised of SBA loans originated for sale. Loans held for sale totaled \$0.4 million at December 31, 2018 and \$1.5 million at December 31, 2017 .

Loans receivable: Loans receivable increased to \$1.24 billion at December 31, 2018 from \$1.01 billion at December 31, 2017 . The increase was largely driven by the growth of the residential 1 - 4 family mortgage loan portfolio. Loans receivable, excluding loans held for sale, as of December 31, 2018 , 2017, 2016, 2015, and 2014 consisted of the following:

| | December 31, 2018 | December 31, 2017 | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Amount | Amount | Amount | Amount | Amount |
| (Dollars in thousands) | | | | | |
| Commercial and Industrial | \$ 34,640 | \$ 38,972 | \$ 26,774 | \$ 27,140 | \$ 30,092 |
| Construction | 139,877 | 95,625 | 67,294 | 52,995 | 53,780 |
| Real Estate Mortgage: | | | | | |
| Commercial – Owner Occupied | 135,617 | 126,250 | 123,898 | 172,040 | 176,649 |
| Commercial – Non-owner Occupied | 321,580 | 270,472 | 268,123 | 256,471 | 237,918 |
| Residential – 1 to 4 Family | 545,391 | 416,317 | 309,340 | 213,266 | 171,894 |
| Residential – Multifamily | 49,628 | 47,832 | 39,804 | 18,113 | 25,173 |
| Consumer | 14,424 | 16,249 | 16,720 | 18,476 | 17,555 |
| Total Loans | \$ 1,241,157 | \$ 1,011,717 | \$ 851,953 | \$ 758,501 | \$ 713,061 |

Amounts presented include adjustments for related unamortized deferred costs and fees.

Maturities and sensitivity of loans to changes in interest rate: The following table sets forth contractual maturities of selected categories of loans and the contractual distribution of loans in those categories to changes in interest rates at December 31, 2018 .

| | Due within one year | Due after one through five years | Due after five years | Total |
|---|------------------------|--|-------------------------|------------|
| (Dollars in thousands) | | | | |
| Commercial and Industrial | \$ 8,413 | \$ 12,768 | \$ 13,459 | \$ 34,640 |
| Construction | 60,825 | 42,926 | 36,126 | 139,877 |
| Commercial Real Estate Mortgage: | | | | |
| Commercial - Owner Occupied | 11,156 | 31,698 | 92,763 | 135,617 |
| Commercial - Non-Owner Occupied | 22,634 | 93,032 | 205,914 | 321,580 |
| Total | \$ 103,028 | \$ 180,424 | \$ 348,262 | \$ 631,714 |
| | | | | |
| Loans at fixed interest rates | \$ 24,100 | \$ 30,051 | \$ 13,728 | \$ 67,879 |
| Loans at floating/variable interest rates | 78,928 | 150,373 | 334,534 | 563,835 |
| Total | \$ 103,028 | \$ 180,424 | \$ 348,262 | \$ 631,714 |

Deposits

We offer individuals and businesses a wide variety of accounts, including checking, savings, money market accounts, individual retirement accounts and certificates of deposit. Deposits are obtained primarily from communities that the Bank serves. At December 31, 2018 , the Bank's total deposits increased to \$1.18 billion from \$866.4 million at December 31, 2017 , an increase of \$317.5 million , or 36.6% . The increase in deposits was primarily related to the increase in non-interest bearing deposits, money market deposits, and time deposits.

| | December 31 | |
|---------------------|------------------------|-------------------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Noninterest-bearing | \$ 360,329 | \$ 124,356 |
| Interest-bearing | | |
| Checking | 52,721 | 51,629 |
| Savings | 131,127 | 173,226 |
| Money market | 208,335 | 149,311 |
| Time deposits | 431,361 | 367,861 |
| Total deposits | <u>\$ 1,183,873</u> | <u>\$ 866,383</u> |

The following tables detail the average amount, the average rate paid, and the percentage of each category to total deposits for the most recent three years ended December 31, 2018, 2017, and 2016.

| | 2018 | | |
|--------------------------------------|--|------------|------------------|
| | Average Balance | Yield/Rate | Percent of Total |
| | (Dollars in thousands, except percentages) | | |
| NOWs | \$ 52,596 | 0.51% | 5.29% |
| Money markets | 176,359 | 1.64% | 17.75 |
| Savings | 154,229 | 0.53% | 15.51 |
| Time deposits | 314,609 | 1.58% | 31.65 |
| Brokered CDs | 100,244 | 2.11% | 10.08 |
| Total interest-bearing deposits | 798,037 | 1.39% | |
| Non-interest bearing demand deposits | 196,068 | | 19.72 |
| Total deposits | <u>\$ 994,105</u> | | <u>100.00%</u> |

| | 2017 | | |
|--------------------------------------|--|------------|------------------|
| | Average Balance | Yield/Rate | Percent of Total |
| | (Dollars in thousands, except percentages) | | |
| NOWs | \$ 42,582 | 0.49% | 5.26% |
| Money markets | 138,084 | 0.78% | 17.06 |
| Savings | 180,908 | 0.53% | 22.36 |
| Time deposits | 288,617 | 1.17% | 35.66 |
| Brokered CDs | 74,357 | 1.16% | 9.19 |
| Total interest-bearing deposits | 724,548 | 0.89% | |
| Non-interest bearing demand deposits | 84,758 | | 10.47 |
| Total deposits | <u>\$ 809,306</u> | | <u>100.00%</u> |

| | 2016 | | |
|--------------------------------------|---|------------|------------|
| | Average | Yield/Rate | Percent of |
| | Balance | | Total |
| | (Dollars in thousands, except percentages) | | |
| NOWs | \$ 32,499 | 0.50% | 4.49% |
| Money markets | 123,017 | 0.51% | 17.01 |
| Savings | 175,163 | 0.53% | 24.22 |
| Time deposits | 284,018 | 1.17% | 39.28 |
| Brokered CDs | 45,961 | 0.83% | 6.36 |
| Total interest-bearing deposits | 660,658 | 0.82% | |
| Non-interest bearing demand deposits | 62,483 | | 8.64 |
| Total deposits | \$ 723,141 | | 100.00% |

The following table indicates the amount of the Company's certificates of deposit of \$100,000 or more by time remaining until maturity as of December 31, 2018 .

| Maturity Period | Certificates of Deposit | |
|-----------------------------|-------------------------|---------|
| | (Dollars in thousands) | |
| Within three months | \$ | 49,118 |
| Three through twelve months | | 205,049 |
| Over twelve months | | 27,614 |
| Total | \$ | 281,781 |

Borrowings

Borrowings consist of subordinated debt and advances from the FHLB and other parties. At December 31, 2018 , we had \$ 104.7 million in FHLB advances. The advances are secured by qualifying loans and other qualified assets with the FHLB. As a member of the FHLB, we are required to purchase and hold shares of capital stock in the FHLB in an amount at least equal to 0.10% of our member asset value plus 4.00% of advances outstanding. As of December 31, 2018 , our FHLB stock investment totaled \$ 5.8 million . At December 31, 2018 , we also have \$13.4 million trust preferred debentures outstanding. Interest rates of these trust preferred securities are reset quarterly at base rate plus three-month LIBOR. The interest rates on \$10.3 million and \$3.1 million of the trust preferred debentures were 4.31% and 4.29%, respectively, at December 31, 2018 . Total borrowings decreased \$ 10.0 million to \$118.1 million at December 31, 2018 from \$128.1 million at December 31, 2017 .

The following tables set forth information regarding our FHLB advances:

| | December 31, | |
|--|--------------------------------------|------------|
| | 2018 | 2017 |
| | (Dollars in thousands, except rates) | |
| Amount outstanding at year end | \$ 104,650 | \$ 114,650 |
| Weighted average interest rates at year end | 2.67% | 1.76% |
| Maximum outstanding at any month end | \$ 134,650 | \$ 114,650 |
| Average outstanding for the years | \$ 105,883 | \$ 91,705 |
| Weighted average interest rate during the year | 2.00% | 1.53% |

For more information on the Company's borrowings, refer to the [Note 7. Borrowings](#) i n the Notes to Consolidated Financial Statements.

Equity

Total shareholders' equity increase d to \$153.6 million at December 31, 2018 from \$134.8 million at December 31, 2017 , an increase of \$18.8 million or 13.9% . Total equity increase to \$155.0 million at December 31, 2018 from \$134.8 million at December 31, 2017 . The increases in total shareholders' equity and total equity were primarily due to the retention of earnings from the period.

Risk Management and Asset Quality

In the normal course of business the Company is exposed to a variety of operational, reputational, legal, regulatory, market, liquidity, and credit risks that could adversely affect our financial performance and financial position. Sound risk management enables us to serve our customers and deliver for our shareholders.

Our asset risk is primarily tied to credit risk. We define credit risk as the risk of loss associated with a borrower or counterparty default. Credit risk exists with many of our assets and exposures including loans, deposit overdrafts, and assets held-for-sale. The discussion below focuses on our loan portfolios, which represent the largest component of assets on our balance sheet for which we have credit risk.

We manage our credit risk by establishing what we believe are sound credit policies for underwriting new loans, while monitoring and reviewing the performance of our existing loan portfolios. We employ various credit risk management and monitoring activities to mitigate risks associated with loans we hold or originate. In making credit decisions, we consider loan concentrations and related credit quality, economic and market conditions, regulatory mandates, and changes in interest rates.

A key to our credit risk management is adherence to a well-controlled underwriting process. When we originate a loan, we assess the borrower's ability to meet the loan's terms and conditions based on the risk profile of the borrower, repayment sources, the nature of underlying collateral, and other support given current events, conditions and expectations. We actively monitor and review our loan portfolio throughout a borrower's credit cycle. A borrower's ability to repay can be adversely affected by economic and personal financial changes as well as other factors. Likewise, changes in market conditions and other external factors can affect collateral valuations. We adjust our financial assessments to reflect changes in the financial condition, cash flow, risk profile or outlook of a borrower.

We have established credit monitoring and tracking systems and closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. The system supplements the credit review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit risk, loan delinquencies, TDRs, nonperforming loans and potential problems loans.

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

Although credit policies are designed to minimize risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio as well as general and regional economic conditions.

Allowance for Loan and Lease Losses:

We maintain the allowance for loan and lease losses at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the portfolios as of the balance sheet date. Refer to the Note 1. Description of Business and Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements for further discussion of management's methodology for estimating the allowance for loan losses.

For the year ended December 31, 2018, our loan portfolios continued to show strong credit quality. The loss levels of our loan portfolios remained near historically low levels and reflected our long-term risk focus. At December 31, 2018, the allowance for loan losses was \$19.1 million, as compared to \$16.5 million at December 31, 2017. The ratio of the allowances for loan losses to total loans was 1.54% and 1.63% at December 31, 2018 and December 31, 2017, respectively. The provision for loan losses amounted to \$1.8 million for 2018, compared to \$2.5 million for 2017. During the year ended December 31, 2018, the Company charged off \$223,000 in loans, and recovered \$965,000, compared to \$2.0 million in loans charged off in the year ended December 31, 2017, and \$494,000 in recoveries.

The following table sets forth the Company's allowance for loan losses by loan category at the date indicated and related percentage of the loans in the portfolio.

| | December 31, 2018 | | December 31, 2017 | | December 31, 2016 | | December 31, 2015 | | December 31, 2014 | |
|---------------------------------|-------------------|------------------------|-------------------|---------------------------|-------------------|---------------------------|-------------------|---------------------------|-------------------|---------------------------|
| | Amount | % Loans to total Loans | Amount | % of Loans to total Loans | Amount | % of Loans to total Loans | Amount | % of Loans to total Loans | Amount | % of Loans to total Loans |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial and Industrial | \$ 718 | 2.8% | \$ 684 | 4.0% | \$ 1,188 | 3.1% | \$ 952 | 3.6% | \$ 1,679 | 4.2% |
| Construction | 1,694 | 11.3 | 2,068 | 9.4 | 2,764 | 7.9 | 2,748 | 7.0 | 3,331 | 7.5 |
| Real Estate Mortgage: | | | | | | | | | | |
| Commercial – Owner Occupied | 2,062 | 10.9 | 2,017 | 12.5 | 2,082 | 14.5 | 3,267 | 22.7 | 3,296 | 24.8 |
| Commercial – Non-owner Occupied | 5,853 | 25.9 | 4,630 | 26.7 | 3,889 | 31.5 | 3,838 | 33.8 | 4,962 | 33.4 |
| Residential – 1 to 4 Family | 7,917 | 43.9 | 6,277 | 41.1 | 4,916 | 36.3 | 4,802 | 28.1 | 4,156 | 24.1 |
| Residential – Multifamily | 621 | 4.0 | 627 | 4.7 | 505 | 4.7 | 254 | 2.4 | 357 | 3.5 |
| Consumer | 210 | 1.2 | 230 | 1.6 | 236 | 2.0 | 275 | 2.4 | 262 | 2.5 |
| Total Loans | <u>\$ 19,075</u> | <u>100.0%</u> | <u>\$ 16,533</u> | <u>100.0%</u> | <u>\$ 15,580</u> | <u>100.0%</u> | <u>\$ 16,136</u> | <u>100.0%</u> | <u>\$ 18,043</u> | <u>100.0%</u> |

Impaired loans and Nonperforming Assets:

A loan is considered impaired when, based on the current information and events, it is probable that the Company will be unable to collect the payments of principal and interest as of the date such payments are due. Loans that are 30 days or more past due in terms of principal and interest payments are considered delinquent. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when a loan is 90 days past due, unless the loan is well secured and in the process of collection, as required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired loans include nonperforming loans and TDRs, regardless of nonperforming status. At December 31, 2018, we had \$21.9 million of loans deemed impaired compared to \$25.5 million at December 31, 2017. Delinquent loans totaled \$3.4 million, or 0.25% of total loans at December 31, 2018, a decrease of \$1.6 million from December 31, 2017. At December 31, 2018, loans 30 to 89 days delinquent totaled \$297,000, a decrease of \$147,000 from December 31, 2017. Loans delinquent 90 days or more and not accruing interest totaled \$3.1 million or 0.25% of total loans at December 31, 2018, a decrease of \$1.5 million from \$4.5 million or 0.45% of total loans at December 31, 2017. The two largest nonperforming loan relationships as of December 31, 2018 were a \$1.4 million construction loan and a \$427,000 residential one-to-four-family loan.

The table below presents an age analysis of past due loans by loan class and the percentage of the nonperforming loans to total loans at December 31, 2018:

| December 31, 2018 | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days and Not Accruing (NPL) | Greater than 90 Days and Accruing | Current | Total Loans | NPL to Loan Type % |
|---------------------------------------|---------------------------|---------------------------|--|--|---------------------|---------------------|-----------------------|
| (Dollars in thousands except ratios) | | | | | | | |
| Commercial and Industrial | \$ — | \$ — | \$ 14 | \$ — | \$ 34,626 | \$ 34,640 | 0.04% |
| Construction | — | — | 1,365 | — | 138,512 | 139,877 | 0.98% |
| Real Estate Mortgage: | | | | | | | |
| Commercial – Owner Occupied | — | — | — | — | 135,617 | 135,617 | —% |
| Commercial – Non-owner Occupied | — | — | — | — | 321,580 | 321,580 | —% |
| Residential – 1 to 4 Family | 81 | 154 | 1,686 | — | 543,470 | 545,391 | 0.31% |
| Residential – Multifamily | — | — | — | — | 49,628 | 49,628 | —% |
| Consumer | 62 | — | — | — | 14,362 | 14,424 | —% |
| Total Loans | \$ 143 | \$ 154 | \$ 3,065 | \$ — | \$ 1,237,795 | \$ 1,241,157 | 0.25% |

Troubled Debt Restructurings (TDRs)

We did not have any nonperforming TDR at December 31, 2018 . There were no new loans modified as a TDR and no additional commitments to lend additional funds to debtors whose loans have been modified in TDRs for the year ended December 31, 2018 and the year ended December 31, 2017 , respectively. Non-performing TDRs were \$277,000 at December 31, 2017. We reported performing TDR loans (not reported as non-accrual loans) of \$18.8 million and \$ 20.9 million, respectively, at December 31, 2018 and December 31, 2017 . Refer to the [Note 1. Description of Business and Summary of Significant Accounting Policies](#) i n the Notes to Consolidated Financial Statements for further discussion on management's methodology for TDR policy.

Other Real Estate Owned(OREO)

OREO at December 31, 2018 was \$5.1 million , compared to \$7.2 million at December 31, 2017 , a decreased of \$2.1 million . Refer to the [Note 5. OREO](#) in the Notes to Consolidated Financial Statements for detailed information regarding OREO.

At December 31, 2018, the Company had \$8.2 million in nonperforming assets, which includes \$3.1 million of nonperforming loans and \$5.1 million of OREO, or 0.56% of total assets, a decrease from \$11.8 million , or 1.04% of total assets at December 31, 2017. Specific allowances for loan losses on impaired loans have been established in the amount of \$610,000 at December 31, 2018 , as compared to \$458,000 on impaired loans at December 31, 2017 . The ratio of the allowance for loan losses to non-performing assets increased to 622.3% at December 31, 2018 , compared to 364.7% at December 31, 2017 .

Liquidity and Capital Resources

Liquidity is a measure of our ability to generate cash to support asset growth, meet deposit withdrawals, satisfy other contractual obligations, and otherwise operate on an ongoing basis. At December 31, 2018 , our cash position was \$154.5 million . We invest cash that is in excess of our immediate operating needs primarily in our interest-bearing account at the Federal Reserve.

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

We also use brokered deposits as a funding source, which is more volatile than core deposits. The Bank also joined Promontory Inter Financial Network to secure an additional alternative funding source. Promontory provides the Bank an additional source of external funds through their weekly CDARS® settlement process. The rates are comparable to brokered deposits and can be obtained within a shorter period time than brokered deposits. While deposit accounts comprise the vast majority of our funding needs, we maintain secured borrowing lines with the FHLBNY. As of December 31, 2018 , the Company had lines of credit with the FHLBNY of \$305.7 million, of which \$104.7 million was outstanding, and an additional \$40 million was used for a letter of credit at December 31, 2018 .

Our investment portfolio primarily consists of mortgage-backed available for sale securities issued by US government agency and government sponsored entities. These available for sale securities are readily marketable and are available to meet our additional liquidity needs. At December 31, 2018, the Company's investment securities portfolio classified as available for sale was \$ 31.3 million.

We had outstanding loan commitments of \$150.6 million at December 31, 2018. Our loan commitments are normally originated with the full amount of collateral. Such commitments have historically been drawn at only a fraction of the total commitment. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The funding requirements for such commitments occur on a measured basis over time and would be funded by normal deposit growth.

The following is a discussion of our cash flows for the years ended December 31, 2018 and 2017.

Operating cash flows were \$ 28.9 million for the year ended December 31, 2018, compared to \$19.0 million for the same period in the prior year. The increase in operating cash flow was primarily due to higher interest income and other cash inflow in the current year, principally reflecting increased income from loans, increased cash proceeds from the sale of SBA loans and a decrease in use of cash for the origination of SBA loans for sale, and partially offset by an increase in tax paid during the year.

Cash used for investing was \$ 219.9 million for the year ended December 31, 2018, compared to \$ 156.0 million in the prior year period. The cash used in the investing activities was primarily due to the cash outflow required for net loan growth during the period.

Cash from financing was \$ 303.3 million for the year ended December 31, 2018, compared to cash from financing \$ 108.4 million in the same period of last year. The increase in financing cash flow was primarily due to a \$239.8 million increase in deposits, and partially offset by \$10 million repayments in 2018 for FHLB advances compared to \$35 million in additional FHLB advances in 2017.

Capital Adequacy

We utilize a comprehensive process for assessing the Company's overall capital adequacy. We actively review our capital strategies in light of current and anticipated business risks, future growth opportunities, industry standards, and compliance with regulatory requirements. The assessment of overall capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings stability, competitive forces, economic conditions, and strength of management. Our objective is to maintain capital at an amount commensurate with our risk profile and risk tolerance objectives, and to meet both regulatory and market expectations. We primarily manage our capital through the retention of earnings. We also use other meanings to manage our capital. Total shareholder's equity increased \$20.2 million from December 31, 2017, predominantly from the Company's net income of \$24.8 million from the period, net of common and preferred stock dividends of \$5.7 million.

Banks and bank holding companies are subject to various regulatory capital requirements administered by federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The 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. Failure to meet minimum capital requirements can result in regulatory actions.

Under the current capital rules, the Company and the Bank elected to exclude the effects of certain Accumulated Other Comprehensive Income ("AOCI") items from its regulatory capital calculation. At December 31, 2018, the Bank and the Company were both considered "well capitalized."

The following table presents the regulatory capital and ratios of the Company and the Bank at December 31, 2018:

| | Amount | Ratio | Amount | Ratio |
|---------------------------|--------------------------------------|--------|------------|--------|
| | (Dollars in thousands except ratios) | | | |
| | Company | | Parke Bank | |
| Total risk-based capital | \$ 182,316 | 16.73% | \$ 181,760 | 16.69% |
| Tier 1 risk-based capital | \$ 168,629 | 15.48% | \$ 168,078 | 15.43% |
| Tier 1 leverage | \$ 168,629 | 12.15% | \$ 168,078 | 12.10% |
| Tier 1 common equity | \$ 153,020 | 14.04% | \$ 166,639 | 15.30% |

Interest Rate Sensitivity

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

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

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

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

Rate Sensitivity Analysis. The interest rate sensitivity position as of December 31, 2018, is presented in the following table. Assets and liabilities are scheduled based on maturity or re-pricing data except for mortgage loans and mortgage-backed securities, which are based on prevailing prepayment assumptions and expected maturities and deposits which are based on recent retention experience of core deposits. The difference between rate-sensitive assets and rate-sensitive liabilities, or the interest rate sensitivity gap, is shown at the bottom of the table. As of December 31, 2018, our interest sensitive assets exceeded interest sensitive liabilities within a one-year period by \$ 39.6 million million, or 2.7%, of total assets.

As of December 31, 2018

| | 3 Months or Less | Over 3 Months Through 12 Months | Over 1 Year Through 3 Years | Over 3 Years Through 5 Years | Over 5 Years | Total |
|--|---------------------|--|-----------------------------------|------------------------------------|------------------|---------------------|
| (Dollars in thousands) | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans ⁽¹⁾ | \$ 273,690 | \$ 138,737 | \$ 365,304 | \$ 392,686 | \$ 67,780 | \$ 1,238,197 |
| Investment securities | 1,311 | 3,194 | 9,235 | 8,025 | 10,626 | 32,391 |
| Federal funds sold and cash equivalents | 147,818 | — | — | — | — | 147,818 |
| Total interest-earning assets | \$ 422,819 | \$ 141,931 | \$ 374,539 | \$ 400,711 | \$ 78,406 | \$ 1,418,406 |
| Interest-bearing liabilities: | | | | | | |
| NOW, Saving and Money market deposits | 22,254 | 66,762 | 178,442 | 112,099 | 12,627 | 392,184 |
| Retail time deposits | 41,785 | 233,326 | 55,291 | 8,550 | 15 | 338,967 |
| Brokered time deposits | 28,333 | 64,061 | — | — | — | 92,394 |
| Borrowed funds | 32,500 | 36,150 | 36,000 | — | — | 104,650 |
| Total interest-bearing liabilities | \$ 124,872 | \$ 400,299 | \$ 269,733 | \$ 120,649 | \$ 12,642 | \$ 928,195 |
| Interest rate sensitive gap | \$ 297,947 | \$ (258,368) | \$ 104,806 | \$ 280,062 | \$ 65,764 | \$ 490,211 |
| Cumulative interest rate gap | \$ 297,947 | \$ 39,579 | \$ 144,385 | \$ 424,447 | \$ 490,211 | \$ — |
| Ratio of rate-sensitive assets to rate-sensitive liabilities | 338.60% | 35.46% | 138.86% | 332.13% | 620.20% | 152.81% |
| Cumulative interest sensitivity gap to total assets | 20.30% | 2.70% | 9.84% | 28.93% | 33.41% | — |

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

Off-Balance Sheet Arrangements and Contractual Obligations

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

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

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

Commitments to extend credit, or net unfunded loan commitments, represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. These commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer's credit quality deteriorates. At December 31, 2018 and December 31, 2017, used commitments to extend credit amounted to approximately \$180.0 million and \$118.7 million, respectively. Commitments to fund fixed-rate loans were immaterial at December 31, 2018. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition of the Company.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At the December 31, 2018 and December 31, 2017, standby letters of credit with customers were \$19.3 million and \$14.0 million, respectively.

Contractual Obligations

At December 31, 2018, we had contractual obligations primarily relating to commitments to extent credits, deposits, secured and unsecured borrowings, and operating leases. We have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. Please referred to the Notes 6,7, 8, and 14 of the Notes to the Consolidated Financial Statements for detailed information regarding our contractual obligations.

Impact of Inflation and Changing Prices

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

Critical Accounting Policies

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

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

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

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

Fair Value Estimates: The ASC 820 - Fair Value Measurements defines fair value as a market-based measurement and is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. We classify fair value measurements of financial instruments based on the three-level fair value hierarchy in the accounting standards. We are required to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value. The fair values of assets may include using estimates, assumptions, and judgments. Valuations of assets or liabilities using techniques non quoted market price are sensitive to assumptions used for the significant inputs. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Changes in underlying factors, assumptions, or estimates used for estimating fair values could materially impact our future financial condition and results of operations.

The majority of our assets recorded at fair value are included in the securities available for sale portfolio. The fair values of our available for sale securities are provided by independent third-party valuation services. We also have small SBA loans recorded at fair value, which represents the face value of the guaranteed portion of the SBA loans pending settlement. Other real estate

owned (OREO) is recorded at fair value on a non-recurring basis and is based on the values of independent third-party full appraisals, less costs to sell (a range of 5% to 10%). Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value. Refer to [Note 15 - Fair Value](#) in the Notes to the Consolidated Financial Statements for further information.

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

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

Current Expected Credit Losses : In June 2016, the Financial Accounting Standards Board adopted a new accounting standard that will be effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, for public business entities. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which would likely require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. See [Note 1 of the Notes to Consolidated Financial Statements](#).

Quarterly Financial Data (unaudited)

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

| | Three Months Ended | | | |
|---|--|---------------|-----------|-----------|
| | December 31, | September 30, | June 30, | March 31, |
| | (Dollars in thousands, except per share amounts) | | | |
| 2018 | | | | |
| Interest income | \$ 17,466 | \$ 16,013 | \$ 14,880 | \$ 13,505 |
| Interest expense | 4,265 | 3,737 | 3,285 | 2,484 |
| Net interest income | 13,201 | 12,276 | 11,595 | 11,021 |
| Provision for loan losses | 600 | 600 | 200 | 400 |
| Income before income tax expense | 8,937 | 8,833 | 8,050 | 7,595 |
| Income tax expense | 2,004 | 2,615 | 1,923 | 1,835 |
| Net income | 6,827 | 6,126 | 6,111 | 5,760 |
| Preferred stock dividends | 17 | 22 | 168 | 239 |
| Net income available to common shareholders | 6,810 | 6,104 | 5,943 | 5,521 |
| Net income per common share: | | | | |
| Basic | \$ 0.65 | \$ 0.60 | \$ 0.66 | \$ 0.62 |
| Diluted | \$ 0.63 | \$ 0.56 | \$ 0.56 | \$ 0.53 |

| | Three Months Ended | | | |
|---|--|---------------|-----------|-----------|
| | December 31, | September 30, | June 30, | March 31, |
| | (Dollars in thousands, except per share amounts) | | | |
| 2017 | | | | |
| Interest income | \$ 12,953 | \$ 12,838 | \$ 11,769 | \$ 11,095 |
| Interest expense | 2,325 | 2,147 | 1,967 | 1,841 |
| Net interest income | 10,628 | 10,691 | 9,802 | 9,254 |
| Provision for loan losses | 500 | 500 | 1,000 | 500 |
| Income before income tax expense | 6,340 | 6,593 | 5,833 | 5,461 |
| Income tax expense | 5,799 | 2,435 | 2,151 | 2,004 |
| Net income | 551 | 4,161 | 3,699 | 3,459 |
| Preferred stock dividends | 226 | 297 | 297 | 299 |
| Net income available to common shareholders | 325 | 3,864 | 3,402 | 3,160 |
| Net income per common share: | | | | |
| Basic | \$ 0.04 | \$ 0.46 | \$ 0.41 | \$ 0.38 |
| Diluted | \$ 0.04 | \$ 0.38 | \$ 0.34 | \$ 0.31 |

MARKET PRICES AND DIVIDENDS

The Company's common stock is listed on the Nasdaq Capital Market under the trading symbol of "PKBK". The following table reflects high and low daily closing prices of the common stock during the periods indicated in 2018 and 2017, and cash dividends paid during each quarter. Prices reflect a 10% stock dividend paid in May 2018 and May 2017.

| | Cash Dividends | | High | | Low |
|-------------------------|-------------------|------|------|-------|----------|
| <u>2018</u> | | | | | |
| 1 st Quarter | \$ | 0.12 | \$ | 21.65 | \$ 19.35 |
| 2 nd Quarter | \$ | 0.14 | \$ | 24.35 | \$ 20.30 |
| 3 rd Quarter | \$ | 0.14 | \$ | 24.20 | \$ 22.15 |
| 4 th Quarter | \$ | 0.14 | \$ | 22.37 | \$ 16.79 |
| <u>2017</u> | | | | | |
| 1 st Quarter | \$ | 0.10 | \$ | 19.51 | \$ 17.05 |
| 2 nd Quarter | \$ | 0.10 | \$ | 22.51 | \$ 19.11 |
| 3 rd Quarter | \$ | 0.12 | \$ | 22.68 | \$ 18.00 |
| 4 th Quarter | \$ | 0.12 | \$ | 22.73 | \$ 19.70 |

The number of shareholders of record of common stock as of March 6, 2019, was approximately 263. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. At March 6, 2019, there were 10,750,239 shares of our common stock outstanding.

The Company paid quarterly cash dividends on common stock in 2018 and 2017 totaling \$4.7 million and \$3.2 million, respectively. The timing and amount of future dividends will be within the discretion of the Board of Directors and will depend on the consolidated earnings, financial condition, liquidity, and capital requirements of the Company and its subsidiaries, applicable governmental regulations and policies, and other factors deemed relevant by the Board.

The Company's ability to pay dividends is substantially dependent upon the dividends it receives from the Bank and is subject to other restrictions. Under current regulations, the Bank's ability to pay dividends is restricted as well.

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

Pursuant to the terms of the Series B Preferred Stock, the Company may not pay a cash dividend on the common stock unless all dividends on the Series B Preferred Stock for the then-current dividend period have been paid or set aside.

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

Parke Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2018

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Under supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

RSM US LLP, an independent registered public accounting firm that audited the 2018 consolidated financial statements of the Company has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. Their report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 is included on page 2 herein under the heading "Report of Independent Registered Public Accounting Firm."

March 15, 2019



Vito S. Pantilione
President and Chief Executive Officer



John F. Hawkins
Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited Parke Bancorp, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes to the consolidated financial statements of the Company and our report dated March 15, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Blue Bell, Pennsylvania
March 15, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Parke Bancorp, Inc. and its subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

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

Blue Bell, Pennsylvania
March 15, 2019

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2018 and 2017
(Dollars in thousands except share and per share data)

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and due from financial institutions | \$ 6,653 | \$ 14,452 |
| Federal funds sold and cash equivalents | 147,818 | 27,661 |
| Cash and cash equivalents | 154,471 | 42,113 |
| Investment securities available for sale, at fair value | 31,278 | 37,991 |
| Investment securities held to maturity (fair value of \$1,292 at December 31, 2018 and \$2,468 at December 31, 2017) | 1,113 | 2,268 |
| Total investment securities | 32,391 | 40,259 |
| Loans held for sale | 419 | 1,541 |
| Loans, net of unearned income | 1,241,157 | 1,011,717 |
| Less: Allowance for loan losses | (19,075) | (16,533) |
| Net loans | 1,222,082 | 995,184 |
| Accrued interest receivable | 5,191 | 4,025 |
| Premises and equipment, net | 6,783 | 7,025 |
| Other real estate owned (OREO) | 5,124 | 7,248 |
| Restricted stock, at cost | 5,858 | 6,172 |
| Bank owned life insurance (BOLI) | 25,809 | 25,196 |
| Deferred tax asset | 6,511 | 6,420 |
| Other assets | 2,759 | 2,269 |
| Total Assets | <u>\$ 1,467,398</u> | <u>\$ 1,137,452</u> |
| Liabilities and Equity | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing deposits | \$ 360,329 | \$ 124,356 |
| Interest-bearing deposits | 823,544 | 742,027 |
| Total deposits | 1,183,873 | 866,383 |
| FHLBNY borrowings | 104,650 | 114,650 |
| Subordinated debentures | 13,403 | 13,403 |
| Accrued interest payable | 1,390 | 719 |
| Other liabilities | 9,086 | 7,517 |
| Total liabilities | <u>1,312,402</u> | <u>1,002,672</u> |
| Equity | | |
| Preferred stock, 1,000,000 shares authorized, \$1,000 liquidation value Series B non-cumulative convertible; 1,224 shares and 15,971 shares outstanding at December 31, 2018 and 2017, respectively | 1,224 | 15,971 |
| Common stock, \$.10 par value; authorized 15,000,000 shares; Issued: 10,953,081 shares at December 31, 2018 and 8,301,497 shares at December 31, 2017 | 1,095 | 830 |
| Additional paid-in capital | 112,807 | 81,940 |
| Retained earnings | 42,079 | 39,184 |
| Accumulated other comprehensive loss | (633) | (130) |
| Treasury stock, 284,522 shares at December 31, 2018 and December 31, 2017, at cost | (3,015) | (3,015) |
| Total shareholders' equity | <u>153,557</u> | <u>134,780</u> |
| Noncontrolling interest in consolidated subsidiaries | 1,439 | — |
| Total equity | <u>154,996</u> | <u>134,780</u> |
| Total liabilities and equity | <u>\$ 1,467,398</u> | <u>\$ 1,137,452</u> |

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2018 and 2017
(Dollars in thousands except share and per share data)

| | 2018 | 2017 |
|--|------------|------------|
| Interest income: | | |
| Interest and fees on loans | \$ 59,139 | \$ 46,847 |
| Interest and dividends on investments | 1,342 | 1,429 |
| Interest on federal funds sold and cash equivalents | 1,383 | 379 |
| Total interest income | 61,864 | 48,655 |
| Interest expense: | | |
| Interest on deposits | 11,071 | 6,478 |
| Interest on borrowings | 2,700 | 1,802 |
| Total interest expense | 13,771 | 8,280 |
| Net interest income | 48,093 | 40,375 |
| Provision for loan losses | 1,800 | 2,500 |
| Net interest income after provision for loan losses | 46,293 | 37,875 |
| Non-interest income | | |
| Gain on sale of SBA loans | 378 | 477 |
| Other loan fees | 1,121 | 654 |
| Bank owned life insurance income | 613 | 652 |
| Service fees on deposit accounts | 1,482 | 416 |
| Net loss on sale and valuation adjustments of OREO | (690) | (1,421) |
| Other | 513 | 867 |
| Total non-interest income | 3,417 | 1,645 |
| Non-interest expense | | |
| Compensation and benefits | 8,251 | 7,362 |
| Professional services | 1,419 | 1,573 |
| Occupancy and equipment | 1,675 | 1,443 |
| Data processing | 835 | 736 |
| FDIC insurance and other assessments | 420 | 296 |
| OREO expense | 611 | 625 |
| Other operating expense | 3,084 | 3,258 |
| Total non-interest expense | 16,295 | 15,293 |
| Income before income tax expense | 33,415 | 24,227 |
| Income tax expense | 8,377 | 12,389 |
| Net income attributable to Company and noncontrolling interest | 25,038 | 11,838 |
| Net income (loss) attributable to noncontrolling interest | 214 | (32) |
| Net income attributable to Company | 24,824 | 11,870 |
| Preferred stock dividend | (446) | (1,119) |
| Net income available to common shareholders | \$ 24,378 | \$ 10,751 |
| Earnings per common share | | |
| Basic | \$ 2.53 | \$ 1.28 |
| Diluted | \$ 2.28 | \$ 1.13 |
| Weighted average common shares outstanding | | |
| Basic | 9,629,467 | 8,423,532 |
| Diluted | 10,911,344 | 10,515,599 |

All share and per share information has been adjusted for the stock dividend effective on May 18, 2018.
See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

| | For the Year ended December 31 , | |
|---|----------------------------------|-----------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Net income | \$ 25,038 | \$ 11,838 |
| Unrealized gains on investment securities, net of reclassification into income: | | |
| Non-credit related unrealized gains on OTTI securities | — | 309 |
| Unrealized (losses) gains on non-OTTI securities | (624) | 66 |
| Tax impact on unrealized gain (loss) | 148 | (156) |
| Reclassification of prior tax effects | (27) | — |
| Total unrealized (losses) gains on investment securities | (503) | 219 |
| Comprehensive income | 24,535 | 12,057 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 214 | (32) |
| Comprehensive income attributable to the Company | \$ 24,321 | \$ 12,089 |
| See accompanying notes to consolidated financial statements | | |

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Equity
Years Ended December 31, 2018, and 2017
(Dollars in thousands except share data)

| | Preferred Stock | Shares of Common Stock issued | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Shareholders' Equity | Non- Controlling Interest | Total Equity |
|---|--------------------|--|-----------------|----------------------------------|----------------------|---|-------------------|----------------------------------|---------------------------------|-------------------|
| Balance, December 31, 2016 | \$20,000 | 7,147,952 | \$ 715 | \$ 62,300 | \$ 47,483 | \$ (349) | \$(3,015) | \$ 127,134 | \$ (44) | \$ 127,090 |
| Capital activity by minority (non-controlling) interest | — | — | — | — | — | — | — | — | 76 | 76 |
| Net income | — | — | — | — | 11,870 | — | — | 11,870 | (32) | 11,838 |
| Common stock options exercised | — | 8,470 | — | 3,752 | — | — | — | 3,752 | — | 3,752 |
| Preferred stock shares conversion | (4,029) | 456,229 | 46 | 317 | — | — | — | (3,666) | — | (3,666) |
| Other comprehensive income | — | — | — | — | — | 219 | — | 219 | — | 219 |
| Stock compensation expense | — | — | — | 72 | — | — | — | 72 | — | 72 |
| Stock dividend | — | 688,846 | 69 | 15,499 | (15,568) | — | — | — | — | — |
| Dividend on preferred stock | — | — | — | — | (1,119) | — | — | (1,119) | — | (1,119) |
| Dividend on common stock | — | — | — | — | (3,482) | — | — | (3,482) | — | (3,482) |
| Balance, December 31, 2017 | <u>\$15,971</u> | <u>8,301,497</u> | <u>\$ 830</u> | <u>\$ 81,940</u> | <u>\$ 39,184</u> | <u>\$ (130)</u> | <u>\$(3,015)</u> | <u>\$ 134,780</u> | <u>\$ —</u> | <u>\$ 134,780</u> |
| Retained earnings adjustment for stranded tax effects | — | — | — | — | 27 | — | — | 27 | — | 27 |
| Capital activity by non-controlling interest | — | — | — | — | — | — | — | — | 1,225 | 1,225 |
| Net income | — | — | — | — | 24,824 | — | — | 24,824 | 214 | 25,038 |
| Common stock options exercised | — | 5,539 | 1 | 42 | — | — | — | 43 | — | 43 |
| Preferred stock shares conversion | (14,747) | 1,843,761 | 184 | 14,563 | — | — | — | — | — | — |
| Other comprehensive loss | — | — | — | — | — | (503) | — | (503) | — | (503) |
| Stock compensation expense | — | — | — | 109 | — | — | — | 109 | — | 109 |
| Stock dividend | — | 802,284 | 80 | 16,153 | (16,237) | — | — | (4) | — | (4) |
| Dividend on preferred stock | — | — | — | — | (446) | — | — | (446) | — | (446) |
| Dividend on common stock | — | — | — | — | (5,273) | — | — | (5,273) | — | (5,273) |
| Balance, December 31, 2018 | <u>\$ 1,224</u> | <u>10,953,081</u> | <u>\$ 1,095</u> | <u>\$ 112,807</u> | <u>\$ 42,079</u> | <u>\$ (633)</u> | <u>\$(3,015)</u> | <u>\$ 153,557</u> | <u>\$ 1,439</u> | <u>\$ 154,996</u> |

See accompanying notes to consolidated financial statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017
(Dollars in thousands)

| | 2018 | 2017 |
|---|------------------|------------------|
| Cash Flows from Operating Activities | | |
| Net income | \$ 25,038 | \$ 11,838 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 380 | 320 |
| Provision for loan losses | 1,800 | 2,500 |
| Increase in value of bank-owned life insurance | (613) | (652) |
| Gain on sale of SBA loans | (378) | (477) |
| SBA loans originated for sale | (4,696) | (5,807) |
| Proceeds from sale of SBA loans originated for sale | 6,196 | 4,743 |
| Net loss on sale of OREO and valuation adjustments | 690 | 1,422 |
| Net accretion of purchase premiums and discounts on securities | 45 | 65 |
| Stock based compensation | 109 | 72 |
| Deferred income tax | 58 | 4,143 |
| Net changes in: | | |
| Increase in accrued interest receivable and other assets | (1,657) | (59) |
| Increase in accrued interest payable and other accrued liabilities | 1,929 | 888 |
| Net cash provided by operating activities | 28,901 | 18,996 |
| Cash Flows from Investing Activities | | |
| Repayments and maturities of investment securities available for sale | 5,995 | 7,129 |
| Repayments and maturities of investment securities held to maturity | 1,204 | — |
| Net increase in loans | (230,320) | (161,590) |
| Purchases of bank premises and equipment | (138) | (2,148) |
| Proceeds from sale of OREO, net | 3,056 | 2,137 |
| Redemptions (purchases) of restricted stock | 314 | (1,514) |
| Net cash used in investing activities | (219,889) | (155,986) |
| Cash Flows from Financing Activities | | |
| Cash dividends | (5,412) | (4,385) |
| Proceeds from exercise of stock options | 43 | 132 |
| Capital contribution (withdrawal) from non-controlling interest | 1,225 | (53) |
| Net (decrease) increase in FHLBNY and short-term borrowings | (10,000) | 35,000 |
| Net increase in noninterest-bearing deposits | 235,973 | 31,821 |
| Net increase in interest-bearing deposits | 81,517 | 45,868 |
| Net cash provided by financing activities | 303,346 | 108,383 |
| Increase (Decrease) in cash and cash equivalents | 112,358 | (28,607) |
| Cash and Cash Equivalents, January 1, | 42,113 | 70,720 |
| Cash and Cash Equivalents, December 31, | \$ 154,471 | \$ 42,113 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | \$ 13,100 | \$ 8,330 |
| Income taxes paid | \$ 8,654 | \$ 7,404 |
| Non-cash Investing and Financing Items | | |
| Loans transferred to OREO | \$ 1,622 | \$ 279 |
| See accompanying notes to consolidated financial statements | | |

PARKE BANCORP, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

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

Business:

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

The Bank is a commercial bank, which was incorporated on August 25, 1998, and commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and Insurance and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office at 601 Delsea Drive, Sewell, New Jersey, and seven additional branch office locations; 501 Tilton Road, Northfield, New Jersey, 567 Egg Harbor Road, Washington Township, New Jersey, 67 East Jimmie Leeds Road, Galloway Township, New Jersey, 1150 Haddon Avenue, Collingswood, New Jersey, 1610 Spruce Street, Philadelphia, Pennsylvania, and 1032 Arch Street, Philadelphia, Pennsylvania.

Accounting Policies:

The accounting and financial reporting policies of the Company and Subsidiaries conform to accounting principles generally accepted in the United States of America ("GAAP"). We have reclassified certain prior year amounts to conform to the 2018 presentation, which did not have a material impact on our consolidated financial condition or results of operations. The accounting policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

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

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

Investment Securities: Debt securities are recorded on a trade-date basis. We classify debt securities as held to maturity and carry them at amortized cost if we have the positive intent and ability to hold the securities to maturity. Debt securities not classified as held to maturity or trading are designated as securities available for sale ("AFS") and carried at fair value with unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive income (loss). We did not have any securities classified as trading securities during 2018 or 2017.

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

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

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

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

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

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

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

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

- Reduction (absolute or contingent) of the stated interest rate;
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or other agreement; or
- Reduction (absolute or contingent) of accrued interest.

TDRs are reported as impaired loans. Interest income on TDR loans is recognized consistent with the Company’s non-accrual loan policy stated above.

Allowance for Loan and Lease Losses : The allowance for loan and lease losses represents management’s estimate of probable losses inherent in the Company’s lending activities excluding loans accounted for under fair value. The allowance for loan losses is maintained through charges to the provision for loan losses in the Consolidated Statements of Income as losses are estimated to have occurred. Loans or portions thereof that are determined to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

The Company performs periodic reviews of its loan and lease portfolios to identify credit risks and to assess the overall collectability of those portfolios. The Company's allowance for loan losses includes a formula-based component and an asset-specific component. The asset-specific component of the allowance relates to loans considered to be impaired, which includes performing TDRs as well as nonperforming loans. To determine the asset-specific component of the allowance, the loans are evaluated individually based on the borrower's ability to repay amounts owed, collateral, relative risk grade of the loans, and other factors given current events and conditions. The Company generally measures the asset-specific allowance as the difference between the fair value (net realizable value) and the recorded investment of a loan.

The formula-based component of the allowance evaluates the impairments of pools of the loan and lease portfolio collectively. It incorporates a historical valuation allowance and general valuation allowance. The historical loss experience is measured by type of credit and internal risk grade, loss severity, specific homogeneous risk pools. A historical loss ratio and valuation allowance are established for each pool of similar loans and updated periodically based on actual charge-off experience and current events. The general valuation allowance is based on general economic conditions and other qualitative risk factors both internal and external to the Company. It is generally determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Bank's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; (ix) the impact of rising interest rates on portfolio risk; and (x) national and local economic trends and conditions, and industry conditions. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, high-moderate, moderate, low-moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

The process of determining the level of the allowance for loan and lease losses requires a high degree of estimate and judgment. It is reasonably possible that actual outcomes may differ from our estimates.

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

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

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

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

Other Real Estate Owned ("OREO") : Real estate acquired through foreclosure or other proceedings is initially carried at fair value less estimated costs of disposal which establishes a new cost basis. Costs of improving OREO are capitalized to the extent that the carrying value does not exceed its fair value less estimated selling costs. Subsequent valuation adjustments, declines, if any,

are recognized as a charge against current earnings. Holding costs are charged to expense. Gains and losses on sales are recognized in noninterest income as they occur.

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

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

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

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

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

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

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

The Company did not recognize any interest or penalties related to income tax during the years ended December 31, 2018 and 2017. The Company does not have an accrual for uncertain tax positions as of December 31, 2018 and 2017, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2015 and thereafter are subject to further examination by tax authorities, with the exception of the State of New Jersey for which tax returns for all years from 2014 and thereafter are subject to further examination.

The Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017 and introduces significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduced the U.S. corporate statutory tax rate from 35% to 21%.

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

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

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

Following table provides the components of other comprehensive income, reclassifications to net income and the related tax effect for the year ended December 31, 2018 and 2017 :

| Year ended December 31, | 2018 | 2017 |
|--|------------------------|---------------|
| | (Dollars in thousands) | |
| Investment securities: | | |
| Net unrealized gains (losses) arising during the period | \$ (624) | \$ 331 |
| Less: Amounts reclassified from accumulated other comprehensive income | — | (44) |
| Tax effect related to the unrealized loss during the periods | 148 | (156) |
| Reclassification of prior tax effects | (27) | — |
| Change in other comprehensive income | <u>\$ (503)</u> | <u>\$ 219</u> |

Earnings Per Common Share : Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share considers common stock equivalents (when dilutive) outstanding during the period such as options outstanding and convertible preferred stock. To the extent that stock equivalents are anti-dilutive, they have been excluded from the earnings per share calculation. Both basic and diluted earnings per share computations give retroactive effect to a stock dividend declared and paid in 2018 and 2017 (Note 12). Earnings per common share have been computed based on the following for 2018 and 2017 :

| | 2018 | 2017 |
|--|---|------------|
| | (Dollars in thousands, except share data) | |
| Basic earnings per common share | | |
| Net income available to common shareholders | \$ 24,378 | \$ 10,751 |
| Basic weighted-average common shares outstanding | 9,629,467 | 8,423,532 |
| Basic earnings per common share | \$ 2.53 | \$ 1.28 |
| Diluted earnings per common share | | |
| Net income available to common shareholders | \$ 24,378 | \$ 10,751 |
| Dividend on Preferred Series B | 446 | 1,119 |
| Net income attributable to diluted common shares | \$ 24,824 | \$ 11,870 |
| Basic weighted-average common shares outstanding | 9,629,467 | 8,423,532 |
| Dilutive potential common shares | 1,281,877 | 2,092,067 |
| Total diluted weighted-average common shares outstanding | 10,911,344 | 10,515,599 |
| Diluted earnings per common share | \$ 2.28 | \$ 1.13 |

All share and per share information has been adjusted for the 10% stock dividend effective on May 18, 2018.

For 2018, there were 46,500 weighted average option shares outstanding that were not included in the computation of diluted EPS because these shares were anti-dilutive and no options outstanding for 2017 that were not included in the computation of diluted EPS.

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

Recently Issued Accounting Pronouncements:

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendment in this update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the December 22, 2017, enactment of the reduced federal corporate income tax rate, which is effective in 2018. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The amendment can be adopted at the beginning of the period or on a retrospective basis. The Company early adopted the ASU in the second quarter of 2018. The reclassification of the cumulative-effect of \$27,000 from accumulated other comprehensive income to retained earnings was immaterial to our consolidated financial statements.

During August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230). The new guidance clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The guidance also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company adopted the ASU in the first quarter of 2018. The adoption of this guidance does not have a material effect on the consolidated financial statements.

During June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses* (Topic 326). ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the process of gathering historical loan data required for the credit loss methodology and is reviewing a model from a third-party vendor. While we expect this standard will have an impact on the Company's financial statements, we are still in process of conducting our evaluation.

On January 5, 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU's changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Also, the ASU requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Upon adoption, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update did not have a material impact on the Company's consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 includes a lessee accounting model that recognizes two types of leases - finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Leases with terms of less than 12 months are exempt from the new standard. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as finance or operating lease. New disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases are also required. These disclosures include qualitative and quantitative requirements, providing information about the amounts recorded in the financial statements. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; that is, for a calendar year-end public entity, the changes took effect beginning January 1, 2019. We are adopting the guidance in the first quarter of 2019 under modified retrospective transition approach. The Company leases three retail branch locations and will recognize right-of-use assets of \$1.3 million and lease liabilities of \$1.3 million. In addition, the Company has a 99 -year land lease for a retail location. The appropriate valuation of this lease is currently being determined.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 (Topic 606) supersedes the revenue recognition requirements in Accounting Standards Codification, Topic 605. The amendment requires a contract-based approach revenue model. For public companies, this update was effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. The Company's revenue is primarily composed of interest income on financial instruments, including investment securities and loans, which are excluded from the scope of this update. Also excluded from the scope of the update is revenue from bank-owned life insurance, loan fees, and letter of credit fees. Deposit account related fees are within the scope of the guidance; however, revenue recognition practices did not change under the guidance, as deposits agreements are considered day to day contracts. Deposits account transaction related fees will continue to be recognized as the services are performed. Implementation of this guidance did not change current business practices. Adoption of the guidance did not result in any material changes in the timing of revenue recognition. Implementation of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*, which expands the scope of Topic 718 to include share based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The ASU is effective for public business entities for fiscal years beginning after December 15, 2018. The Company does not expect the amendments will have any material impact on our consolidated financial statements.

Note 2. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy deposit reserve requirements, and to compensate other banks for certain correspondent services. Management is responsible for assessing the credit risk of its correspondent banks. At December 31, 2018 or 2017, vast majority of the Company's cash deposits with other banks were due from the Federal Reserve Bank of Philadelphia and the Federal Home Loan Bank of New York.

Note 3. Investment Securities

The following is a summary of the Company's investments in available for sale and held to maturity securities as of December 31, 2018 and 2017 :

| <u>As of December 31, 2018</u> | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|--|-------------------------|------------------------------|-------------------------------|------------------|
| | (Dollars in thousands) | | | |
| Available for sale: | | | | |
| Corporate debt obligations | \$ 500 | \$ — | \$ — | \$ 500 |
| Residential mortgage-backed securities | 31,553 | 74 | 906 | 30,721 |
| Collateralized mortgage obligations | 56 | 1 | — | 57 |
| Total available for sale | <u>\$ 32,109</u> | <u>\$ 75</u> | <u>\$ 906</u> | <u>\$ 31,278</u> |
| Held to maturity: | | | | |
| States and political subdivisions | <u>\$ 1,113</u> | <u>\$ 179</u> | <u>\$ —</u> | <u>\$ 1,292</u> |
| | | | | |
| <u>As of December 31, 2017</u> | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (Dollars in thousands) | | | |
| Available for sale: | | | | |
| Corporate debt obligations | \$ 1,000 | \$ 33 | \$ — | \$ 1,033 |
| Residential mortgage-backed securities | 37,105 | 194 | 436 | 36,863 |
| Collateralized mortgage obligations | 93 | 2 | — | 95 |
| Total available for sale | <u>\$ 38,198</u> | <u>\$ 229</u> | <u>\$ 436</u> | <u>\$ 37,991</u> |
| Held to maturity: | | | | |
| States and political subdivisions | <u>\$ 2,268</u> | <u>\$ 200</u> | <u>\$ —</u> | <u>\$ 2,468</u> |

The amortized cost and fair value of debt securities classified as available for sale and held to maturity, by contractual maturity as of December 31, 2018 , are as follows:

| | Amortized Cost | Fair Value |
|--|-------------------------|------------------|
| | (Dollars in thousands) | |
| Available for sale: | | |
| Due within one year | \$ — | \$ — |
| Due after one year through five years | 274 | 261 |
| Due after five years through ten years | 14,356 | 14,077 |
| Due after ten years | 17,479 | 16,940 |
| Total available for sale | <u>\$ 32,109</u> | <u>\$ 31,278</u> |
| Held to maturity: | | |
| Due within one year | \$ — | \$ — |
| Due after one year through five years | — | — |
| Due after five years through ten years | 1,113 | 1,292 |
| Due after ten years | — | — |
| Total held to maturity | <u>\$ 1,113</u> | <u>\$ 1,292</u> |

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

During the year ending December 31, 2018 , the Company did not sell any investment securities. During the years ending December 31, 2017 , the Company sold one security, a Trust Preferred security, for a loss of \$44,000 .

At December 31, 2018 , the Company used a letter of credit of \$40.0 million as collateral to secure public deposits as compared to \$32.5 million of securities available for sale pledged to secure public deposits at December 31, 2017 .

The following tables show the gross unrealized losses and fair value of the Company's investments which are aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and December 31, 2017 .

| As of December 31, 2018 | Less Than 12 Months | | 12 Months or Greater | | Total | |
|--|---------------------|-------------------|----------------------|-------------------|------------------|-------------------|
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (Dollars in thousands) | | | | | | |
| Available for sale: | | | | | | |
| Residential mortgage-backed securities | \$ 12,665 | \$ 257 | \$ 14,527 | \$ 649 | \$ 27,192 | \$ 906 |
| Total available for sale | <u>\$ 12,665</u> | <u>\$ 257</u> | <u>\$ 14,527</u> | <u>\$ 649</u> | <u>\$ 27,192</u> | <u>\$ 906</u> |

| As of December 31, 2017 | Less Than 12 Months | | 12 Months or Greater | | Total | |
|--|---------------------|-------------------|----------------------|-------------------|------------------|-------------------|
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (Dollars in thousands) | | | | | | |
| Available for sale: | | | | | | |
| Residential mortgage-backed securities | \$ 2,729 | \$ 16 | \$ 15,117 | \$ 420 | \$ 17,846 | \$ 436 |
| Total available for sale | <u>\$ 2,729</u> | <u>\$ 16</u> | <u>\$ 15,117</u> | <u>\$ 420</u> | <u>\$ 17,846</u> | <u>\$ 436</u> |

The Company's unrealized loss for the debt securities is comprised of 5 securities in the less than 12 months loss position and 9 securities in the 12 months or greater loss position at December 31, 2018 and 3 securities in the less than 12 months loss position and 8 securities in the 12 months or greater loss position at December 31, 2017 . The mortgage-backed securities that had unrealized losses were issued or guaranteed by the US government or government sponsored entities. The unrealized losses associated with those mortgage-backed securities are generally driven by changes in interest rates and not due to credit losses given the explicit or implicit guarantees provided by the U.S. government. Because the Company does not intend to sell the securities and it is not

more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, the Company does not consider the unrealized loss in these securities to be OTTI at December 31, 2018 .

Other Than Temporarily Impaired Debt Securities (OTTI)

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

Note 4. Loans and Allowance for Loan and Lease Losses

As of December 31, 2018 , the Company had \$1.24 billion in loans receivable outstanding. Loans held for sale totaled \$419,000 at December 31, 2018 . Outstanding balances include a total net reduction of \$105,000 and \$300,000 at December 31, 2018 and 2017, respectively, for unearned income, net deferred loan fees, and unamortized discounts and premiums. The portfolios of loans receivable at December 31, 2018 , and December 31, 2017 , consist of the following:

| | December 31, 2018 | December 31, 2017 |
|---------------------------------|------------------------|---------------------|
| | (Dollars in thousands) | |
| Commercial and Industrial | \$ 34,640 | \$ 38,972 |
| Construction | 139,877 | 95,625 |
| Real Estate Mortgage: | | |
| Commercial – Owner Occupied | 135,617 | 126,250 |
| Commercial – Non-owner Occupied | 321,580 | 270,472 |
| Residential – 1 to 4 Family | 545,391 | 416,317 |
| Residential – Multifamily | 49,628 | 47,832 |
| Consumer | 14,424 | 16,249 |
| Total Loans | \$ 1,241,157 | \$ 1,011,717 |

An age analysis of past due loans by class at December 31, 2018 and December 31, 2017 as follows:

December 31, 2018

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days and Not Accruing | Total Past Due | Current | Total Loans | Loans > 90 Days and Accruing |
|---------------------------------|---------------------------|---------------------------|---|-------------------|---------------------|---------------------|------------------------------------|
| | (Dollars in thousands) | | | | | | |
| Commercial and Industrial | \$ — | \$ — | \$ 14 | \$ 14 | \$ 34,626 | \$ 34,640 | — |
| Construction | — | — | 1,365 | 1,365 | 138,512 | 139,877 | — |
| Real Estate Mortgage: | | | | | | | |
| Commercial – Owner Occupied | — | — | — | — | 135,617 | 135,617 | — |
| Commercial – Non-owner Occupied | — | — | — | — | 321,580 | 321,580 | — |
| Residential – 1 to 4 Family | 81 | 154 | 1,686 | 1,921 | 543,470 | 545,391 | — |
| Residential – Multifamily | — | — | — | — | 49,628 | 49,628 | — |
| Consumer | 62 | — | — | 62 | 14,362 | 14,424 | — |
| Total Loans | \$ 143 | \$ 154 | \$ 3,065 | \$ 3,362 | \$ 1,237,795 | \$ 1,241,157 | — |

December 31, 2017

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days and Not Accruing | Total Past Due | Current | Total Loans | Loans > 90 Days and Accruing |
|---------------------------------|---------------------------|---------------------------|---|-------------------|--------------|--------------|------------------------------------|
| (Dollars in thousands) | | | | | | | |
| Commercial and Industrial | \$ — | \$ — | \$ 17 | \$ 17 | \$ 38,955 | \$ 38,972 | — |
| Construction | — | — | 1,392 | 1,392 | 94,233 | 95,625 | — |
| Real Estate Mortgage: | | | | | | | |
| Commercial – Owner Occupied | — | — | 155 | 155 | 126,095 | 126,250 | — |
| Commercial – Non-owner Occupied | — | — | 597 | 597 | 269,875 | 270,472 | — |
| Residential – 1 to 4 Family | — | 352 | 2,292 | 2,644 | 413,673 | 416,317 | — |
| Residential – Multifamily | — | — | — | — | 47,832 | 47,832 | — |
| Consumer | 92 | — | 81 | 173 | 16,076 | 16,249 | — |
| Total Loans | \$ 92 | \$ 352 | \$ 4,534 | \$ 4,978 | \$ 1,006,739 | \$ 1,011,717 | — |

Allowance For Loan and Lease Losses (ALLL)

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

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

| Twelve Months Ended December 31, 2018 | | | | | | | | |
|--|------------------------------|--------------|---------------------------------|-------------------------------------|------------------------------|----------------------------|-----------|--------------|
| As of December 31, 2018 | Real Estate Mortgage | | | | | | | |
| (Dollars in thousands) | Commercial and Industrial | Construction | Commercial Owner Occupied | Commercial Non-owner Occupied | Residential 1 to 4 Family | Residential Multifamily | Consumer | Total |
| December 31, 2017 | \$ 684 | \$ 2,068 | \$ 2,017 | \$ 4,630 | \$ 6,277 | \$ 627 | \$ 230 | \$ 16,533 |
| Charge-offs | (128) | (27) | — | (49) | — | — | (19) | (223) |
| Recoveries | 47 | 600 | 189 | 86 | 43 | — | — | 965 |
| Provisions | 115 | (947) | (144) | 1,186 | 1,597 | (6) | (1) | 1,800 |
| Ending Balance December 31 2018 | \$ 718 | \$ 1,694 | \$ 2,062 | \$ 5,853 | \$ 7,917 | \$ 621 | \$ 210 | \$ 19,075 |
| Allowance for loan losses | | | | | | | | |
| Individually evaluated for impairment | \$ 14 | \$ 69 | \$ 36 | \$ 192 | \$ 299 | \$ — | \$ — | 610 |
| Collectively evaluated for impairment | 704 | 1,625 | 2,026 | 5,661 | 7,618 | 621 | 210 | 18,465 |
| Balance at December 31, 2018 | \$ 718 | \$ 1,694 | \$ 2,062 | \$ 5,853 | \$ 7,917 | \$ 621 | \$ 210 | \$ 19,075 |
| Loans | | | | | | | | |
| Individually evaluated for impairment | \$ 14 | \$ 5,589 | \$ 2,441 | \$ 11,299 | \$ 2,514 | \$ — | \$ — | 21,857 |
| Collectively evaluated for impairment | 34,626 | 134,288 | 133,176 | 310,281 | 542,877 | 49,628 | 14,424 | 1,219,300 |
| Balance at December 31, 2018 | \$ 34,640 | \$ 139,877 | \$ 135,617 | \$ 321,580 | \$ 545,391 | \$ 49,628 | \$ 14,424 | \$ 1,241,157 |

Twelve Months Ended December 31, 2017

| As of December 31, 2017 | | Real Estate Mortgage | | | | | | |
|------------------------------------|------------------------------|----------------------|---------------------------------|-------------------------------------|---------------------------------|----------------------------|----------|-----------|
| (Dollars in thousands) | Commercial and Industrial | Construction | Commercial Owner Occupied | Commercial Non-owner Occupied | Residential 1 to 4 Family | Residential Multifamily | Consumer | Total |
| December 31, 2016 | \$ 1,188 | \$ 2,764 | \$ 2,082 | \$ 3,889 | \$4,916 | \$ 505 | \$ 236 | \$ 15,580 |
| Charge-offs | (134) | (687) | (430) | (622) | (118) | (50) | — | (2,041) |
| Recoveries | 45 | — | 113 | 319 | 17 | — | — | 494 |
| Provisions | (415) | (9) | 252 | 1,044 | 1,462 | 172 | (6) | 2,500 |
| Ending Balance December 31 2017 | \$ 684 | \$ 2,068 | \$ 2,017 | \$ 4,630 | \$ 6,277 | \$ 627 | \$ 230 | \$ 16,533 |

| Allowance for loan losses | | | | | | | | |
|---------------------------------------|--------|----------|----------|----------|----------|--------|--------|-----------|
| Individually evaluated for impairment | \$ — | \$ 135 | \$ 58 | \$ 250 | \$ 15 | \$ — | \$ — | 458 |
| Collectively evaluated for impairment | 684 | 1,933 | 1,959 | 4,380 | 6,262 | 627 | 230 | 16,075 |
| Balance at December 31, 2017 | \$ 684 | \$ 2,068 | \$ 2,017 | \$ 4,630 | \$ 6,277 | \$ 627 | \$ 230 | \$ 16,533 |

| Loans | | | | | | | | |
|---------------------------------------|-----------|-----------|------------|------------|------------|-----------|-----------|-------------|
| Individually evaluated for impairment | \$ 17 | \$ 5,952 | \$ 3,790 | \$ 12,401 | \$ 3,211 | \$ — | \$ 81 | 25,452 |
| Collectively evaluated for impairment | 38,955 | 89,673 | 122,460 | 258,071 | 413,106 | 47,832 | 16,168 | 986,265 |
| Balance at December 31, 2017 | \$ 38,972 | \$ 95,625 | \$ 126,250 | \$ 270,472 | \$ 416,317 | \$ 47,832 | \$ 16,249 | \$1,011,717 |

Impaired Loans:

A loan is considered impaired when, based on the current information and events, it is probable that the Company will be unable to collect the payments of principal and interest as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when a loan is 90 days past due, unless the loan is well secured and in the process of collection, as required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

The following tables provide further detail on impaired loans and the associated ALLL at December 31, 2018 and December 31, 2017 :

| December 31, 2018 | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|-------------------------------------|------------------------|--------------------------------|----------------------|
| | (Dollars in thousands) | | |
| With no related allowance recorded: | | | |
| Commercial and Industrial | \$ — | \$ — | \$ — |
| Construction | — | — | — |
| Real Estate Mortgage: | | | |
| Commercial – Owner Occupied | — | — | — |
| Commercial – Non-owner Occupied | — | — | — |
| Residential – 1 to 4 Family | 1,131 | 1,131 | — |
| Residential – Multifamily | — | — | — |
| Consumer | — | — | — |
| | 1,131 | 1,131 | — |
| With an allowance recorded: | | | |
| Commercial and Industrial | 14 | 19 | 14 |
| Construction | 5,589 | 10,080 | 69 |
| Real Estate Mortgage: | | | |
| Commercial – Owner Occupied | 2,441 | 2,441 | 36 |
| Commercial – Non-owner Occupied | 11,299 | 11,299 | 192 |
| Residential – 1 to 4 Family | 1,383 | 1,383 | 299 |
| Residential – Multifamily | — | — | — |
| Consumer | — | — | — |
| | 20,726 | 25,222 | 610 |
| Total: | | | |
| Commercial and Industrial | 14 | 19 | 14 |
| Construction | 5,589 | 10,080 | 69 |
| Real Estate Mortgage: | | | |
| Commercial – Owner Occupied | 2,441 | 2,441 | 36 |
| Commercial – Non-owner Occupied | 11,299 | 11,299 | 192 |
| Residential – 1 to 4 Family | 2,514 | 2,514 | 299 |
| Residential – Multifamily | — | — | — |
| Consumer | — | — | — |
| | \$ 21,857 | \$ 26,353 | \$ 610 |

December 31, 2017

| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|-------------------------------------|------------------------|--------------------------------|----------------------|
| | (Dollars in thousands) | | |
| With no related allowance recorded: | | | |
| Commercial and Industrial | \$ 17 | \$ 21 | \$ — |
| Construction: | 1,365 | 5,856 | — |
| Real Estate Mortgage: | | | |
| Commercial – Owner Occupied | 155 | 155 | — |
| Commercial – Non-owner Occupied | 277 | 277 | — |
| Residential – 1 to 4 Family | 2,292 | 2,354 | — |
| Residential – Multifamily | — | — | — |
| Consumer | 81 | 81 | — |
| | 4,187 | 8,744 | — |
| With an allowance recorded: | | | |
| Commercial and Industrial | — | — | — |
| Construction: | 4,587 | 4,684 | 135 |
| Real Estate Mortgage: | | | |
| Commercial – Owner Occupied | 3,635 | 3,665 | 58 |
| Commercial – Non-owner Occupied | 12,124 | 13,941 | 250 |
| Residential – 1 to 4 Family | 919 | 919 | 15 |
| Residential – Multifamily | — | — | — |
| Consumer | — | — | — |
| | 21,265 | 23,209 | 458 |
| Total: | | | |
| Commercial and Industrial | 17 | 21 | — |
| Construction: | 5,952 | 10,540 | 135 |
| Real Estate Mortgage: | | | |
| Commercial – Owner Occupied | 3,790 | 3,820 | 58 |
| Commercial – Non-owner Occupied | 12,401 | 14,218 | 250 |
| Residential – 1 to 4 Family | 3,211 | 3,273 | 15 |
| Residential – Multifamily | — | — | — |
| Consumer | 81 | 81 | — |
| | \$ 25,452 | \$ 31,953 | \$ 458 |

The following table presents by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2018 and 2017 :

| | Year Ended December 31, | | | |
|---------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | 2018 | | 2017 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | (Dollars in thousands) | | | |
| Commercial and Industrial | \$ 15 | \$ 1 | \$ 1,063 | \$ 1 |
| Commercial | 5,781 | 191 | 10,086 | 202 |
| Real Estate Mortgage: | | | | |
| Commercial – Owner Occupied | 3,372 | 134 | 4,267 | 193 |
| Commercial – Non-owner Occupied | 11,850 | 606 | 15,894 | 632 |
| Residential – 1 to 4 Family | 2,704 | 74 | 4,201 | 92 |
| Residential – Multifamily | — | — | 138 | — |
| Consumer | 16 | — | 97 | 5 |
| Total | \$ 23,738 | \$ 1,006 | \$ 35,746 | \$ 1,125 |

Troubled Debt Restructuring (TDRs)

We did not have any nonperforming TDR loans at December 31, 2018. Non-performing TDRs were \$277,000 at December 31, 2017. We reported performing TDR loans (not reported as non-accrual loans) of \$18.8 million and \$ 20.9 million, respectively, at December 31, 2018 and December 31, 2017 . There were no new loans modified as a TDR and no additional commitments to lend additional funds to debtors whose loans have been modified in TDRs for the year ended December 31, 2018 and the year ended December 31, 2017 , respectively.

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

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

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

TDRs are generally included in nonaccrual loans and may return to performing status after a minimum of six consecutive monthly payments under restructured terms and also meeting other performance indicators. We review the financial performance of the borrower over the past year to be reasonably assured of repayment and performance according to the modified terms. This review consists of an analysis of the borrower's historical results; the borrower's projected results over the next four quarters; and current financial information of the borrower and any guarantors. The projected repayment source needs to be reliable, verifiable, quantifiable and sustainable. At the time of restructuring, the amount of the loan principal for which we are not reasonably assured of repayment is charged-off, but not forgiven.

All TDRs are also reviewed quarterly to determine the amount of any impairment. The nature and extent of impairment of TDRs, including those that have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses. For the TDR loans, we had specific reserves of \$306,000 and \$457,000 in the allowance at December 31, 2018 and December 31, 2017 , respectively. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall allowance for loan losses estimate.

Credit Quality Indicators

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

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

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

An analysis of the credit risk profile by internally assigned grades as of December 31, 2018 and 2017 , is as follows:

| <u>At December 31, 2018</u> | Pass | OAEM | Substandard | Doubtful | Total |
|------------------------------------|------------------------|-----------------|-----------------|-------------|---------------------|
| | (Dollars in thousands) | | | | |
| Commercial and Industrial | \$ 34,626 | \$ — | \$ 14 | \$ — | \$ 34,640 |
| Construction | 127,523 | 4,503 | 7,851 | — | 139,877 |
| Real Estate Mortgage: | | | | | |
| Commercial – Owner Occupied | 135,617 | — | — | — | 135,617 |
| Commercial – Non-owner Occupied | 321,446 | — | 134 | — | 321,580 |
| Residential – 1 to 4 Family | 542,865 | 719 | 1,807 | — | 545,391 |
| Residential – Multifamily | 49,628 | — | — | — | 49,628 |
| Consumer | 14,424 | — | — | — | 14,424 |
| Total | \$ 1,226,129 | \$ 5,222 | \$ 9,806 | \$ — | \$ 1,241,157 |

| <u>At December 31, 2017</u> | Pass | OAEM | Substandard | Doubtful | Total |
|------------------------------------|------------------------|-----------------|------------------|-------------|---------------------|
| | (Dollars in thousands) | | | | |
| Commercial and Industrial | \$ 38,875 | \$ 97 | \$ — | \$ — | \$ 38,972 |
| Real Estate Construction: | | | | | |
| Commercial | 82,351 | 5,056 | 8,218 | — | 95,625 |
| Real Estate Mortgage: | | | | | |
| Commercial – Owner Occupied | 123,491 | 2,604 | 155 | — | 126,250 |
| Commercial – Non-owner Occupied | 269,736 | — | 736 | — | 270,472 |
| Residential – 1 to 4 Family | 413,327 | 560 | 2,430 | — | 416,317 |
| Residential – Multifamily | 47,832 | — | — | — | 47,832 |
| Consumer | 16,168 | — | 81 | — | 16,249 |
| Total | \$ 991,780 | \$ 8,317 | \$ 11,620 | \$ — | \$ 1,011,717 |

Loans to Related Parties: In the normal course of business, the Company has granted loans to its executive officers, directors and their affiliates (related parties). All loans to related parties were made in the ordinary course of business; were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable loans with persons not related to the Bank; and did not involve more than the normal risk of collectability or present other unfavorable features.

An analysis of the activity of such related party loans for 2018 is as follows:

| | 2018 | |
|----------------------------|------------------------|--------|
| | (Dollars in thousands) | |
| Balance, beginning of year | \$ | 12,701 |
| Advances | | 1,001 |
| Less: repayments | | (623) |
| Balance, end of year | \$ | 13,079 |

Pledged Loans: At December 31, 2018 and 2017, approximately \$425.2 million and \$345.5 million, respectively, of unpaid principal balance of loans were pledged to the FHLBNY on borrowings (Note 7). This pledge consists of a blanket lien on residential mortgages and certain qualifying commercial real estate loans.

Concentrations of Credit: Most of the Company's lending activity occurs within the areas of southern New Jersey and southeastern Pennsylvania, as well as other markets. The majority of the Company's loan portfolio consists of real estate loans. No one industry sector exceeds 10% of total loans.

Note 5. OREO

Other real estate owned (OREO) at December 31, 2018 was \$5.1 million, compared to \$7.2 million at December 31, 2017, a decreased of \$2.1 million. The real estate owned at, December 31, 2018, consisted of eight properties, the largest being a condominium development being carried at \$1.5 million. During 2018, the Company disposed of \$2.8 million of OREO, recognizing a gain of \$209,000, compared to \$2.0 million of OREO sold in 2017, recognizing a gain of \$160,000. Also during 2018, the Company wrote down OREO property by \$899,000, compared to \$1.6 million of write-downs in 2017, based on a decline in appraised values. Operating expenses related to OREO, net of related income, for 2018 and 2017, were \$611,000 and \$625,000, respectively.

An analysis of OREO activity for the years ended December 31, 2018 and 2017 is as follows:

| | For the Year Ended December 31, | |
|---|------------------------------------|-----------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Balance at beginning of period | \$ 7,248 | \$ 10,528 |
| Real estate acquired in settlement of loans | 1,622 | 279 |
| Sales of OREO, net | (2,847) | (1,977) |
| Valuation adjustments | (899) | (1,582) |
| Balance at end of period | \$ 5,124 | \$ 7,248 |

Note 6. Deposits

Deposits at December 31, 2018 and 2017 , consisted of the following:

| | 2018 | 2017 |
|--------------------------------------|------------------------|-------------------|
| | (Dollars in thousands) | |
| Demand deposits, noninterest-bearing | \$ 360,329 | \$ 124,356 |
| Checking accounts | 52,721 | 51,629 |
| Money market deposits | 208,335 | 149,311 |
| Savings deposits | 131,127 | 173,226 |
| Time deposits of \$250,000 or more | 59,455 | 51,145 |
| Other time deposits | 279,512 | 233,199 |
| Brokered time deposits | 92,394 | 83,517 |
| Total deposits | <u>\$ 1,183,873</u> | <u>\$ 866,383</u> |

Scheduled maturities of certificates of deposit at December 31, 2018 are as follows:

| Years Ending December 31, | (Dollars in thousands) |
|---------------------------|------------------------|
| 2019 | \$ 367,504 |
| 2020 | 46,666 |
| 2021 | 8,626 |
| 2022 | 5,957 |
| 2023 | 2,593 |
| 2024 | 15 |
| Total | <u>\$ 431,361</u> |

Note 7. Borrowings

An analysis of borrowings at December 31, 2018 and 2017 is as follows:

| | | 2018 | | 2017 | |
|---|---------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | | | Weighted Average Rate | | Weighted Average Rate |
| Maturity Date or Range | | Amount | | Amount | |
| (Dollars in thousands, except rates) | | | | | |
| Borrowed funds: | | | | | |
| Federal Home Loan Bank advances | Less than one year | \$ 68,650 | 2.58% | \$ 86,150 | 1.61% |
| | One to three years | 36,000 | 2.85% | 22,500 | 1.83% |
| | Three to five years | — | —% | 6,000 | 1.85% |
| | Total | <u>\$ 104,650</u> | | <u>\$ 114,650</u> | |
| Subordinated debentures, capital trusts | November 2035 | \$ 5,155 | 4.31% | \$ 5,155 | 3.11% |
| | November 2035 | 5,155 | 4.31% | 5,155 | 3.11% |
| | September 2037 | 3,093 | 4.29% | 3,093 | 2.82% |
| | Total | <u>\$ 13,403</u> | | <u>\$ 13,403</u> | |

At December 31, 2018, the Company had a \$305.7 million line of credit from the FHLB NY, of which \$104.7 million, as detailed above, was outstanding, \$40.0 million was used as letter of credit to secure public deposits, and \$161.1 million was unused.

Subordinated Debentures – Capital Trusts: On August 23, 2005, Parke Capital Trust I, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$5,000,000 of variable rate capital trust pass-through securities to investors. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.66% and was 4.31% at December 31, 2018. Parke Capital Trust I purchased \$5,155,000 of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after November 23, 2010, at par. The capital securities must be redeemed upon final maturity of the subordinated debentures on November 23, 2035. Proceeds of approximately \$4.2 million were contributed to paid-in capital at the Bank. The remaining \$955,000 was retained at the Company for future use.

On August 23, 2005, Parke Capital Trust II, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$5,000,000 of fixed/variable rate capital trust pass-through securities to investors. Currently, the interest rate is variable at 4.31%. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.66% beginning November 23, 2010. Parke Capital Trust II purchased \$5,155,000 of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after November 23, 2010, at par. The capital securities must be redeemed upon final maturity of the subordinated debentures on November 23, 2035. Proceeds of approximately \$4.2 million were contributed to paid-in capital at the Bank. The remaining \$955,000 was retained at the Company for future use.

On June 21, 2007, Parke Capital Trust III, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$3,000,000 of variable rate capital trust pass-through securities to investors. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.50% and was 4.29% at December 31, 2018. Parke Capital Trust III purchased \$3,093,000 of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after December 15, 2012, at par. The capital securities must be redeemed upon final maturity of the subordinated debentures on September 15, 2037. The proceeds were contributed to paid-in capital at the Bank.

Note 8. Company Premises and Equipment

A summary of the cost and accumulated depreciation and amortization of Company premises and equipment as of December 31, 2018 and 2017 is as follows:

| | Estimated Useful lives | 2018 | 2017 |
|---|---------------------------|-----------------|-----------------|
| (Dollars in thousands) | | | |
| Land | | \$ 1,044 | \$ 1,044 |
| Building and improvements | 12 years | 7,191 | 6,948 |
| Furniture and equipment | 5 years | 3,076 | 3,182 |
| Total premises and equipment | | 11,311 | 11,174 |
| Less: accumulated depreciation and amortization | | (4,528) | (4,149) |
| Premises and equipment, net | | <u>\$ 6,783</u> | <u>\$ 7,025</u> |

Depreciation and amortization expense was \$380,000 and \$320,000 in 2018 and 2017 , respectively.

The Company has non-cancelable operating lease agreements related to its Northfield and Philadelphia branch offices. The term of the Northfield lease is for five years and was renewed upon the initial expiration in May 2017 with a one 5-year renewal option. The term of the Philadelphia lease is for ten years and was renewed upon the initial expiration of the lease agreement. The Company entered into a land lease for its branch in Collingswood. The term of the lease is for ninety-nine years , of which eighty-seven years remain. The Company is responsible for its pro-rata share of real estate taxes, and all insurance, utilities, maintenance and repair costs for the benefit of the branch offices. On June 1, 2016, the Company entered into a ten years lease for its Arch Street Branch, located in Philadelphia. The branch opened in December 2016. On August 8, 2017, the Company entered into a two years lease agreement for a commercial Loan office in Monmouth Junction, N.J. At December 31, 2018 , the required future minimum rental payments under these leases and other equipment operating leases are as follows:

| Years Ending December 31, | (Dollars in thousands) |
|------------------------------|------------------------|
| 2019 | \$ 311 |
| 2020 | 309 |
| 2021 | 319 |
| 2022 | 290 |
| 2023 | 250 |
| Thereafter | 26,425 |
| Total minimum lease payments | <u>\$ 27,904</u> |

Rent expense was approximately \$322,000 in 2018 and \$259,000 in 2017 .

Note 9. Income Taxes

Income tax expense for 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|----------------------|------------------------|------------------|
| | (Dollars in thousands) | |
| Current tax expense: | | |
| Federal | \$ 6,593 | \$ 7,126 |
| State | 1,726 | 1,093 |
| | 8,319 | 8,219 |
| Deferred tax expense | 58 | 4,170 |
| Income tax expense | <u>\$ 8,377</u> | <u>\$ 12,389</u> |

The components of the net deferred tax asset at December 31, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|------------------------|-----------------|
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 4,611 | \$ 4,102 |
| Supplemental Executive Retirement Plan ("SERP") | 1,321 | 1,216 |
| OREO writedowns | 1,191 | 1,359 |
| Nonaccrued interest | 296 | 686 |
| Non-qualified stock options | 39 | 26 |
| Write-down on partnership investment | 132 | 120 |
| Unrealized loss | 197 | 50 |
| Accrued bonus | — | 3 |
| | 7,787 | 7,562 |
| Valuation allowance | (132) | (120) |
| Deferred tax liabilities: | | |
| Depreciation | (54) | (173) |
| Partnership income | (28) | (19) |
| Deferred loan costs | (1,062) | (830) |
| Net deferred tax asset | <u>\$ 6,511</u> | <u>\$ 6,420</u> |

A reconciliation of the Company's effective income tax rate with the statutory federal rate for 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|------------------------|------------------|
| | (Dollars in thousands) | |
| At Federal statutory rate | \$ 7,017 | \$ 8,480 |
| Adjustments resulting from: | | |
| State income taxes, net of Federal tax benefit | 1,530 | 852 |
| Non-controlling interest | (45) | 11 |
| Tax exempt income | (12) | (34) |
| BOLI | (129) | (228) |
| Stock compensation | (3) | (18) |
| Nondeductible expenses | — | 3 |
| Tax credit | — | — |
| Increase in valuation reserve | — | — |
| Impact of Federal Tax Reform | — | 3,204 |
| Other | 19 | 119 |
| | <u>\$ 8,377</u> | <u>\$ 12,389</u> |

Management has evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustments to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal or local tax authorities for years before 2015, and by the State of New Jersey for years before 2014. The Company recorded a valuation allowance relating to the write down of a partnership investment. Management has concluded that these capital losses will not be realizable once incurred.

The Company recorded income tax expense of \$8.4 million on income before taxes of \$ 33.4 million on for the year ended December 31, 2018, resulting in an effective tax rate of 25.1%, compared to income tax expense of \$12.4 million on income before taxes of \$24.2 million for the same period of 2017, resulting in an effective tax rate of 51.1%.

Note 10. Retirement Plans

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

The net periodic SERP pension cost was approximately \$685,000 in 2018 and \$872,000 in 2017. The unfunded benefit obligation, which was included in other liabilities, was approximately \$5,521,000 at December 31, 2018 and \$4,901,000 at December 31, 2017.

The benefit obligation at December 31, 2018 and December 31, 2017 was calculated as follows:

| | 2018 | 2017 |
|----------------------------------|------------------------|-----------------|
| | (Dollars in thousands) | |
| Benefit obligation, January 1 | \$ 4,901 | \$ 4,029 |
| Service cost | 417 | 650 |
| Interest cost | 268 | 222 |
| Benefits paid | (65) | — |
| Accrued liability at December 31 | <u>\$ 5,521</u> | <u>\$ 4,901</u> |

The net periodic SERP pension cost for 2018 and 2017 was calculated as follows:

| | 2018 | 2017 |
|---------------|------------------------|---------------|
| | (Dollars in thousands) | |
| Service cost | \$ 417 | \$ 650 |
| Interest cost | 268 | 222 |
| | <u>\$ 685</u> | <u>\$ 872</u> |

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.5% for 2018 and 2017 . Annual benefit payments are estimated at \$286,610 for 2019 , \$605,835 for 2020 , \$605,835 for 2021 , \$605,835 for 2022, \$605,835 for 2023 and \$6,018,904 thereafter.

The Company has a 401(k) Plan covering substantially all employees. Under the Plan, the Company is required to contribute 3% of all qualifying employees' eligible salary to the Plan. The Plan expense in 2018 was \$180,500 and \$164,000 in 2017 .

Note 11. Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can result in regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer is 1.875% and 1.25% for 2018 and 2017, respectively. The Bank made a one-time election to opt-out the net unrealized gain or loss on available for sale securities in computing regulatory capital. At December 31, 2018, the Bank was considered "well capitalized" under the regulatory framework for prompt corrective action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2018 and 2017 the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

To be categorized as well capitalized, the Bank must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following tables.

| As of December 31, 2018 | | For Capital Adequacy Purposes with Capital Conservation Buffer * | | | | | | To be Well Capitalized Under Prompt Corrective Action | |
|---------------------------|--------------------------------------|--|-----------|------------------------------|------------|------------|------------|--|--|
| | | Actual | | For Capital Adequacy Purpose | | Provisions | | | |
| Company | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| | (Dollars in thousands except ratios) | | | | | | | | |
| Total risk-based capital | \$ 182,316 | 16.73% | \$ 87,164 | 8.00% | \$ 107,592 | 9.88% | \$ 108,954 | 10.00% | |
| Tier 1 risk-based capital | \$ 168,629 | 15.48% | \$ 65,373 | 6.00% | \$ 85,802 | 7.88% | \$ 87,164 | 8.00% | |
| Tier 1 leverage | \$ 168,629 | 12.15% | \$ 55,503 | 4.00% | \$ 55,503 | 4.00% | \$ 69,378 | 5.00% | |
| Tier 1 common equity | \$ 153,020 | 14.04% | \$ 49,029 | 4.50% | \$ 69,458 | 6.38% | \$ 70,820 | 6.50% | |
| Parke Bank | | | | | | | | | |
| Total risk-based capital | \$ 181,760 | 16.69% | \$ 87,131 | 8.00% | \$ 107,552 | 9.88% | \$ 108,913 | 10.00% | |
| Tier 1 risk-based capital | \$ 168,078 | 15.43% | \$ 65,348 | 6.00% | \$ 85,769 | 7.88% | \$ 87,131 | 8.00% | |
| Tier 1 leverage | \$ 168,078 | 12.10% | \$ 55,569 | 4.00% | \$ 55,569 | 4.00% | \$ 69,461 | 5.00% | |
| Tier 1 common equity | \$ 166,639 | 15.30% | \$ 49,011 | 4.50% | \$ 69,432 | 6.38% | \$ 70,794 | 6.50% | |

| As of December 31, 2017 | | | | | For Capital Adequacy Purposes with Capital Conservation Buffer * | | To be Well Capitalized Under Prompt Corrective Action Provisions | |
|--------------------------------------|------------|--------|------------------------------|-------|--|--------|--|--------|
| Company | Actual | | For Capital Adequacy Purpose | | | | | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (Dollars in thousands except ratios) | | | | | | | | |
| Total risk-based capital | \$ 162,837 | 17.17% | \$ 75,859 | 8.00% | \$ 87,711 | 9.250% | \$ 94,823 | 10.00% |
| Tier 1 risk-based capital | \$ 150,926 | 15.92% | \$ 56,894 | 6.00% | \$ 68,747 | 7.250% | \$ 75,859 | 8.00% |
| Tier 1 leverage | \$ 150,926 | 14.31% | \$ 42,178 | 4.00% | \$ 42,178 | 4.000% | \$ 52,722 | 5.00% |
| Tier 1 common equity | \$ 121,955 | 12.86% | \$ 42,670 | 4.50% | \$ 54,523 | 5.750% | \$ 61,635 | 6.50% |
| Parke Bank | | | | | | | | |
| Total risk-based capital | \$ 159,435 | 16.81% | \$ 75,861 | 8.00% | \$ 87,714 | 9.250% | \$ 94,826 | 10.00% |
| Tier 1 risk-based capital | \$ 147,524 | 15.56% | \$ 56,896 | 6.00% | \$ 68,749 | 7.250% | \$ 75,861 | 8.00% |
| Tier 1 leverage | \$ 147,524 | 13.99% | \$ 42,175 | 4.00% | \$ 42,175 | 4.000% | \$ 52,719 | 5.00% |
| Tier 1 common equity | \$ 147,524 | 15.56% | \$ 42,672 | 4.50% | \$ 54,525 | 5.750% | \$ 61,637 | 6.50% |

* The new capital rules require banks and covered financial institution holding companies to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The minimums under Basel III increase by 0.625% (the capital conservation buffer) annually until 2019. The fully phased-in minimums are 10.5% (Total risk-based capital), 8.5% (Tier 1 risk-based capital), and 7.0% (Tier 1 common equity).

Note 12. Shareholders' Equity

Common Stock Dividend: The Company paid a quarterly cash dividend each quarter of 2018. The first quarter dividend declared was \$0.12 per share and paid in April 2018. The dividend declared was increased to \$0.14 per share in the second, third and fourth quarters of 2018. The second and third quarter dividend declared were paid in July and October. The fourth quarter dividend was paid in January, 2019. During 2018 the Company paid \$4.7 million in common stock cash dividends.

In May 2018 the Company declared a 10% common stock dividend to shareholders (802,284 shares). All share and per share information have been retroactively adjusted to give effect to this stock dividend for the periods presented.

The timing and amount of future dividends will be within the discretion of the Board of Directors and will depend on the consolidated earnings, financial condition, liquidity, and capital requirements of the Company and its subsidiaries, applicable governmental regulations and policies, and other factors deemed relevant by the Board.

Treasury Stock: The Company, in 2015, announced plans to purchase up to 500,000 shares of its own stock. During 2016, the Company purchased 294 shares at an average cost of \$12.61 per share.

Stock Options: In 2015, the shareholders approved the 2015 Equity Incentive Plan (the "Plan"). The Plan is a "non-qualified" stock option plan. Under the plan, stock options have generally been granted with an exercise price equal to the fair value of the company's common stock on the grant date. All options issued have a 10 -year contractual term and vest over five years.

In January 2016, the Company awarded 145,300 options to its directors and certain officers and employees. In August 2018, the Company awarded 124,000 options to its directors and certain officers and employees. Compensation expense related to options is measured based on the grant-date fair value determined using the Black-Scholes valuation model. The outstanding options at December 31, 2018 have a weighted average exercise price of \$14.36 .

Net compensation expense for the employees and directors' option grants recognized during 2018 and 2017 amounted to \$104,200 and \$72,400 , respectively. The remaining unrecognized compensation expense at December 31, 2018 is \$ \$588,700 .

The following table summarizes stock option activity of employees and directors for the year ended December 31, 2018 .

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|-----------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at January 1, 2018 | 162,392 | \$9.45 | | |
| Granted | 124,000 | \$22.15 | | |
| Exercised | (5,820) | \$9.23 | | |
| Expired/terminated | (4,368) | \$9.42 | | |
| 10% Stock dividend adjustment | 15,380 | \$8.59 | | |
| Outstanding at December 31, 2018: | 291,584 | \$14.36 | 8.2 | \$ 1,674,894 |
| Exercisable at December 31, 2018: | 65,119 | \$8.59 | 7.1 | \$ 650,823 |

Preferred Stock: In December of 2013, the Company completed a private placement of newly designated 6% Non-Cumulative Perpetual Convertible Preferred Stock, Series B, with a liquidation preference of \$1,000 per share. The Company sold 20,000 shares in the placement for gross proceeds of \$20.0 million . Each share of Series B Preferred Stock is convertible, at the option of the holder into approximately 125.05 shares of Common Stock at December 31, 2018. There were 1,224 shares of Series B Preferred Stock outstanding at December 31, 2018. Upon full conversion of the outstanding shares of the Series B Preferred Stock, the Company will issue approximately 153,085 shares of Common Stock assuming that the conversion rate does not change. The conversion rate and the total number of shares to be issued would be adjusted for future stock dividends, stock splits and other corporate actions. The conversion rate was set using a conversion price for the common stock of \$10.64 , which was approximately 20% over the closing price of the Common Stock on October 10, 2013, the day the Series B Preferred Stock was priced.

The Company has recorded dividends on preferred stock in the approximate amount of \$0.4 million and \$1.1 million for the years ended December 31, 2018 and 2017 , respectively. The preferred stock qualifies for and is accounted for as equity securities and is included in the Company's Tier I capital since issued.

Non-controlling interests: The Company has a joint venture with Bridgestone Capital LLC in PDL LLC, a joint venture formed in 2018 to originate short-term alternative real estate loan products. The Company has a 51% ownership interest in the joint venture. For the year ended December 31, 2018, Bridgestone Capital LLC made a \$1.2 million capital contribution to PDL.

Note 13. Other Related Party Transactions

A member of the Board of Directors is a principal of an employee benefits insurance agency that provides all the medical, life and disability insurance coverage for the Company. The cost of these employee benefits for the Company and its employees totaled \$790,500 in 2018 and \$834,000 in 2017 .

Note 14. Commitments and Contingencies

The Company has entered into an employment contract with the President of the Company, which provides for continued payment of certain employment salary and benefits prior to the expiration date of the agreement and in the event of a change in control, as defined. The Company has also entered into Change-in-Control Severance Agreements with certain officers which provide for the payment of severance in certain circumstances following a change in control.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment and income-producing commercial properties. As of December 31, 2018 and 2017, commitments to extend credit amounted to approximately \$150.6 million and \$118.7 million, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2018 and 2017, standby letters of credit with customers were \$19.3 million and \$14.0 million, respectively.

Commitments to fund fixed-rate loans were immaterial at December 31, 2018. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

The Company provides banking services to customers who do business in the medical-use cannabis industry in New Jersey, Pennsylvania, and, to a lesser extent, Maryland and New York. While the growing, processing and sales of medical-use cannabis is legal in all of these jurisdictions, the business currently violates federal law. The Company may be deemed to be aiding and abetting illegal activities through the services that it provides these customers. The strict enforcement of federal laws regarding medical-use cannabis would likely result in the Company's inability to continue to provide banking services to these customers and the Company could have legal action taken against it by the Federal government, including severe penalties. There is an uncertainty of the potential impact to the Company's consolidated financial statements if the Federal government took action against the Company. As of December 31, 2018, the Company has not accrued an amount for the potential impact of any such actions.

At December 31, 2018 and 2017, deposit balances from medical-use cannabis customers were approximately \$253.8 million and \$37.0 million, or 21.4% and 4.3% of total deposits, respectively, with two customers accounting for 65.9% and 28.5% of the total at December 31, 2018 and 2017. At December 31, 2018 and 2017, there was one cannabis-related loan in the amounts of \$970,000 and \$1.0 million, respectively. We recorded approximately \$51,000 and \$50,000 of interest incomes in 2018 and 2017, respectively, related to that loan. The fee income for the year ended December 31, 2018 from the commercial deposit accounts of depositors who do business in the medical-use cannabis industry totaled \$613,000 and is included in service fees on deposit accounts, in the accompanying consolidated statements of income. We did not record deposit fee income from customers in the medical-use cannabis industry during the year ended December 31, 2017.

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal action, which are not reflected in the financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

Note 15. Fair Value

Fair Value Measurements

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

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

Level 1 Input:

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

Level 2 Inputs:

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

Level 3 Inputs:

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

Fair Value on a Recurring Basis:

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

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

Where quoted prices are available in an active market, securities or other assets are classified in Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security or available for sale loans, then fair values are provided by independent third-party valuation services. These valuation services estimate fair values using pricing models and other accepted valuation methodologies, such as quotes for similar securities and observable yield curves and spreads. As part of the Company's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the Company's principal markets. For the AFS loans, the fair value represents the face value of the guaranteed portion

of the SBA loans pending settlement. Securities and loans in Level 2 include mortgage-backed securities, corporate debt obligations, collateralized mortgage-backed securities, and SBA loans available for sale.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017 .

| Financial Assets | Level 1 | | Level 2 | | Level 3 | | Total |
|---|------------------------|---|---------|--------|---------|---|-----------|
| | (Dollars in thousands) | | | | | | |
| Investment securities and loans held for sale | | | | | | | |
| As of December 31, 2018 | | | | | | | |
| Corporate debt obligations | \$ | — | \$ | 500 | \$ | — | \$ 500 |
| Residential mortgage-backed securities | | — | | 30,721 | | — | 30,721 |
| Collateralized mortgage-backed securities | | — | | 57 | | — | 57 |
| Loans held for sale | | | | 419 | | | 419 |
| Total | \$ | — | \$ | 31,697 | \$ | — | \$ 31,697 |
| As of December 31, 2017 | | | | | | | |
| Corporate debt obligations | \$ | — | \$ | 1,033 | \$ | — | \$ 1,033 |
| Residential mortgage-backed securities | | — | | 36,863 | | — | 36,863 |
| Collateralized mortgage-backed securities | | — | | 95 | | — | 95 |
| Loans held for sale | | | | 1,541 | | | 1,541 |
| Total | \$ | — | \$ | 39,532 | \$ | — | \$ 39,532 |

For the year ended December 31, 2018 , there were no transfers between the levels within the fair value hierarchy.

There were no level 3 assets or liabilities held for the year ended at December 31, 2018 . The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows for the year ended December 31, 2017 :

| | | |
|-------------------|--|----------|
| | Investment Securities Available for Sale | |
| | December 31, 2017 | |
| | (Dollars in thousands) | |
| Beginning balance | \$ | 437 |
| Settlements | | (437) |
| Ending balance | \$ | — |

Fair Value on a Non-Recurring Basis:

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

| Financial Assets | Level 1 | | Level 2 | | Level 3 | | Total |
|-------------------------------------|------------------------|---|---------|---|---------|-------|----------|
| | (Dollars in thousands) | | | | | | |
| As of December 31, 2018 | | | | | | | |
| Collateral dependent impaired loans | \$ | — | \$ | — | \$ | 6,921 | \$ 6,921 |
| OREO | \$ | — | \$ | — | \$ | 5,124 | \$ 5,124 |
| As of December 31, 2017 | | | | | | | |
| Collateral dependent impaired loans | \$ | — | \$ | — | \$ | 9,093 | \$ 9,093 |
| OREO | \$ | — | \$ | — | \$ | 7,248 | \$ 7,248 |

All collateral dependent impaired loans have an independent third-party full appraisal to determine the NRV based on the fair value of the underlying collateral, less cost to sell (a range of 5% to 10%) and other costs, such as unpaid real estate taxes, that have been identified. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains

the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

OREO consists of real estate properties which are recorded at fair value. All properties have an independent third-party full appraisal to determine the fair value, less cost to sell (a range of 5% to 10%) and other costs, such as unpaid real estate taxes, that have been identified. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Borrowings: The fair values of FHLBNY borrowings, other borrowed funds and subordinated debt are based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for debts with similar credit rating, terms and remaining maturities.

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

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

The following table summarizes the carrying amounts and fair values for financial instruments at December 31, 2018 and December 31, 2017 :

| December 31, 2018 | Carrying Amount | Fair Value | | | |
|-----------------------------|-----------------|------------------------|------------|------------|---------|
| | | Total | Level 1 | Level 2 | Level 3 |
| | | (Dollars in thousands) | | | |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 154,471 | \$ 154,471 | \$ 154,471 | \$ — | \$ — |
| Investment securities AFS | 31,278 | 31,278 | — | 31,278 | — |
| Investment securities HTM | 1,113 | 1,292 | — | 1,292 | — |
| Restricted stock | 5,858 | 5,858 | — | — | 5,858 |
| Loans held for sale | 419 | 419 | — | 419 | — |
| Loans, net | 1,222,082 | 1,209,223 | — | 1,187,975 | 21,248 |
| Accrued interest receivable | 5,191 | 5,191 | — | 5,191 | — |
| Financial Liabilities: | | | | | |
| Non-time deposits | \$ 752,512 | \$ 752,512 | \$ — | \$ 752,512 | \$ — |
| Time deposits | 431,361 | \$ 433,575 | \$ — | \$ 433,575 | \$ — |
| Borrowings | 118,053 | \$ 118,965 | \$ — | \$ 118,965 | — |
| Accrued interest payable | 1,390 | \$ 1,390 | \$ — | \$ 1,390 | \$ — |

| December 31, 2017 | Carrying Amount | Fair Value | | | |
|-----------------------------|-----------------|------------------------|-----------|------------|---------|
| | | Total | Level 1 | Level 2 | Level 3 |
| | | (Dollars in thousands) | | | |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 42,113 | \$ 42,113 | \$ 42,113 | \$ — | \$ — |
| Investment securities AFS | 37,991 | 37,991 | — | 37,991 | — |
| Investment securities HTM | 2,268 | 2,468 | — | 2,468 | — |
| Restricted stock | 6,172 | 6,172 | — | — | 6,172 |
| Loans held for sale | 1,541 | 1,541 | — | 1,541 | — |
| Loans, net | 995,184 | 1,001,655 | — | 976,660 | 24,995 |
| Accrued interest receivable | 4,025 | 4,025 | — | 4,025 | — |
| Financial Liabilities: | | | | | |
| Non-time deposits | \$ 498,522 | \$ 498,522 | \$ — | \$ 498,522 | \$ — |
| Time deposits | 367,861 | 368,863 | — | 368,863 | — |
| Borrowings | 128,053 | 127,552 | — | 127,552 | — |
| Accrued interest payable | 719 | 719 | — | 719 | — |

Note 16. Parent Company Only Financial Statements

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

Balance Sheets

| | December 31, | |
|--------------------------------|------------------------|-------------------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Assets: | | |
| Cash | \$ 2,049 | \$ 1,578 |
| Investments in subsidiaries | 166,173 | 147,664 |
| Other assets | 3 | 5 |
| Total assets | <u>\$ 168,225</u> | <u>\$ 149,247</u> |
| Liabilities and Equity: | | |
| Subordinated debentures | \$ 13,403 | \$ 13,403 |
| Other liabilities | 1,502 | 1,196 |
| Equity | 153,320 | 134,648 |
| Total liabilities and equity | <u>\$ 168,225</u> | <u>\$ 149,247</u> |

Statements of Income

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Income: | | |
| Dividends from bank subsidiary | 6,600 | 5,200 |
| Total income | <u>6,600</u> | <u>5,200</u> |
| Expense: | | |
| Interest on subordinated debentures | 491 | 399 |
| Salary | 160 | 160 |
| Other expenses | 122 | 118 |
| Total expenses | <u>773</u> | <u>677</u> |
| Net Income | <u>5,827</u> | <u>4,523</u> |
| Equity in undistributed income of subsidiaries | 18,997 | 7,347 |
| Net income | <u>24,824</u> | <u>11,870</u> |
| Preferred stock dividend and discount accretion | (446) | (1,119) |
| Net income available to common shareholders | <u>\$ 24,378</u> | <u>\$ 10,751</u> |

Statements of Cash Flows

| | Years ended December 31, | |
|---|--------------------------|-----------------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Cash Flows from Operating Activities | | |
| Net income | \$ 24,824 | \$ 11,870 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity in undistributed earnings of subsidiaries | (18,997) | (7,347) |
| Changes in | | |
| Increase in other assets | (2) | — |
| Increase in accrued interest payable and other accrued liabilities | (4) | 242 |
| Other | 19 | — |
| Net cash provided by operating activities | 5,840 | 4,765 |
| Cash Flows from Financing Activities | | |
| Proceeds from exercise of stock options | 43 | 87 |
| Payment of dividend on preferred stock and common stock | (5,412) | (4,385) |
| Other, net | — | (206) |
| Net cash used in financing activities | (5,369) | (4,504) |
| Increase (decrease) in cash and cash equivalents | 471 | 261 |
| Cash and Cash Equivalents, January 1, | 1,578 | 1,317 |
| Cash and Cash Equivalents, December 31, | \$ 2,049 | \$ 1,578 |

Note 17. Subsequent Events

Accounting guidance establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, Management has evaluated subsequent events after December 31, 2018 through the date the financial statements were issued and determined that no subsequent events warranted recognition in or disclosure in the these financial statements.

PARKE BANCORP, INC.
PARKE BANK

BOARD OF DIRECTORS

Celestino R. (“Chuck”) Pennoni

Chairman of the Board
Founder and Chairman of
Pennoni Associates

Vito S. Pantilione

President
Chief Executive Officer

Arret F. Dobson

Real Estate Developer

Anthony J. Jannetti

President of Anthony J. Jannetti, Inc.

Jack C. Sheppard, Jr.

Senior Vice President with Arthur J.
Gallagher & Company

Daniel J. Dalton

Vice Chairman of the Board
Retired
Brown & Brown of New Jersey

Fred G. Choate

President of Greater Philadelphia
Venture Capital Corporation

Dr. Edward Infantolino

President of Ocean Internal
Medicine Associates, P.A.

Jeffrey H. Kripitz

Owner of Jeff Kripitz Agency

PARKE BANK
SENIOR EXECUTIVE MANAGEMENT

Vito S. Pantilione

Chief Executive Officer and President

Elizabeth A. Milavsky

Executive Vice President and COO

John F. Hawkins

Senior Vice President and CFO

Paul E. Palmieri

Senior Vice President and Chief Credit Officer

Nicholas J. Pantilione

Senior Vice President

Ralph Gallo

Senior Vice President and Chief Risk Officer

Dolores M. Calvello

Senior Vice President and Portfolio Manager

Linda Kaiser

Vice President and Corporate Secretary

VICE PRESIDENTS

Kathleen Conover

Branch Manager

Denise DiPaola

Business Development Officer

Gil Eubank

Loan Operations

Anthony Lombardo

Controller

Martin Mabe

Commercial Lending

James Meadows

Commercial Lending

William Mohnacs

Commercial Lending

Robert Orsini

IT manager

Lisa Perkins

Operation Coordinator

VICE PRESIDENTS

Liping Yuan

Director of Financial Reporting

Frank Zangari

BSA Compliance

ASSISTANT VICE PRESIDENTS

Jennifer Chen

Renee D’Orazio

Robert Dalton

Patricia Dilks

Annice Fanelli

Roxanne Melfe

Marysharon Mitchell

Justin Rader

Joan Santo

Bart Seaman

Juan Taboada

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Bridget Mynes, Asst. Manager

COLLINGSWOOD, NJ

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Jaime Brooks, Manager

GALLOWAY TOWNSHIP, NJ

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Juan Taboada, Manager

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501 Tilton Road

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Kathleen Conover, Manager

PHILADELPHIA, PA

1610 Spruce Street

(215) 772-1113

Martin Soriano

Loan Officer

James Talarico

Collections

Kristen Tartaglia

Business Development/Branch Manager

Elvira Maxwell, Asst. Manager

1032 Arch Street

(215) 982-1975

Jennifer Chen, Manager

SHAREHOLDER INFORMATION

ADMINISTRATIVE OFFICES

601 Delsea Drive
Washington Township, NJ 08080
(856) 256-2500
www.parkebank.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on
April 16, 2019 at 10:00 a.m. at Terra Nova Restaurant,
590 Delsea Drive, Sewell, New Jersey.

INVESTOR RELATIONS

Copies of the Company's earnings releases and
financial publications, including the annual report on
Form 10-K (without exhibits) filed with the Securities
and Exchange Commission are available without
charge by contacting:

Annice Fanelli, Assistant Vice President
(856) 256-2500 or
investorsrelations@parkebank.com

STOCK TRANSFER AND REGISTRAR

Shareholders wishing to change the name, address or
ownership of stock, to report lost certificates or to
consolidate accounts are asked to contact the Company's
stock registrar and transfer agent directly:

Computershare

Investor Services
P.O. Box 43078
Providence, RI 02940-3078
1-800-942-5909
www.computershare.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

RSM US LLP
518 Township Line Road, Suite 300
Blue Bell, PA 19422

SPECIAL COUNSEL

Jones Walker LLP
1227 25th Street, NW
Suite 200
Washington, DC 20037

Subsidiaries of the Registrant

Parent

Parke Bancorp, Inc.

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (No. 333-128202, No. 333-134249 and No. 333-208051) on Forms S-8 and the Registration Statement (No. 333-146121 and No. 333-157631) on Forms S-3 of Parke Bancorp, Inc. and Subsidiaries of our reports, dated March 15, 2019, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Parke Bancorp, Inc. and Subsidiaries, appearing in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Parke Bancorp, Inc. and Subsidiaries for the year ended December 31, 2018.

/s/ RSM US LLP
Blue Bell, Pennsylvania
March 15, 2019

CERTIFICATION

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

1. I have reviewed this Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2018 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2019

/s/ Vito S. Pantilione

Vito S. Pantilione

President and Chief Executive Officer

CERTIFICATION

I, John F. Hawkins, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Form 10-K of Parke Bancorp, Inc. for the year ended December 31, 2018 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2019

/s/ John F. Hawkins

John F. Hawkins

Senior Vice President and Chief Financial Officer

CERTIFICATION

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2018 (the “Report”) of Parke Bancorp, Inc. (the “Company”) as filed with the Securities and Exchange Commission, we, Vito S. Pantilione, President and Chief Executive Officer, and John F. Hawkins, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Vito S. Pantilione

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

March 15, 2019

/s/ John F. Hawkins

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