PARKE BANCORP, INC.
Form ARS
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PARKE BANCORP, INC.

2010 ANNUAL REPORT TO SHAREHOLDERS

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Parke Bancorp, Inc. (the "Company") may from time to time make written or oral "forward-looking statements" including statements contained in this Annual Report and in other communications by the Company which are made in good faith pursuant to the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, 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 bank subsidiary, Parke 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 rate, market and monetary fluctuations; increased competition from both banks and non-banks; legal and regulatory developments; the impact of our participation in the Treasury's capital purchase plan; technological changes; mergers and acquisitions; changes in consumer spending and saving habits; and the success of Parke Bank at managing these risks.

To Our Shareholders:

We are again proud to report record profits for Parke Bancorp in 2010. Net Income available to common shareholders improved to $6.4 million or a $1.41 per share, a 22% increase over 2009. Although the economic experts declared the end of the "Great Recession", unemployment remains above 9% and real estate values and activity continued to decline. However, an economic recovery, although slow, appears to be underway. We are beginning to see activity at many projects that were dormant over the last couple of years. Agreements of sale are being executed and many businesses are reporting increased revenues. These are positive signs that point to an economic recovery both regionally and nationally. Unfortunately, there remains a substantial amount of pain that we still must work through. Experiencing the severe cash flow crunch over the last three years, many real estate developments, both residential and commercial, are finding it very difficult to remain solvent. Our non-performing loans increased 3.6% to $27.4 million, $1.9 million over December 31, 2009. We have had some success in disposing of troubled assets since the beginning of 2010, but unfortunately, new loan challenges continue to affect our non-performing loan totals and our 30 to 89 day past due loans. OREO (Other Real Estate Owned) also increased to $16.7 million as of December 31, 2010. The legal process to resolve troubled loans has worsened in the region. There is currently a moratorium on sheriff sales in Philadelphia and a foreclosure, residential and commercial, in New Jersey now averages 849 days. This further exacerbates the efforts of the real estate industry to recover. These troubled properties have to move through the system in order to accelerate the recovery of the real estate industry. We continue to be very aggressive in resolving our non-performing loans and our OREO properties, while maintaining a conservative financial position by increasing our loan loss reserve to 2.36% of total loans.

Total assets increased to $756.9 million from $654.2 million at December 31, 2009, an increase of $102.7 million or 15.7%. This growth was driven by our aggressive marketing plan for retail deposits. Total deposits grew by $84.4 million, a 16.2% increase from December 31, 2009 to $604.7 million. The opening of our new branch in Galloway Township contributed to our retail deposit growth. In less than one year, this branch has generated over $30 million in deposits. Our Northfield branch continues to be our strongest retail branch and is approaching $200 million in deposits. The main office, our Philadelphia office and our Washington Township "Kennedy" (located next to Kennedy hospital) branch also contributed to our strong deposit growth. Unfortunately, our Kennedy branch was destroyed by fire in January 2011. Most importantly no one was injured thanks to the immediate response from the fire and police departments. Everyone is working very hard to get the branch rebuilt and open for business as soon as possible.

The current economy makes it very difficult for businesses to grow and expand their market base. This has had a ripple effect on the availability of quality loans. Depressed real estate values make it very difficult for companies and individuals to utilize their real estate holdings to finance expansion and growth. However, we did increase our loan portfolio to $626.7 million, an increase of $23.3 million. Last year we reported opening a SBA lending subsidiary, 44 Business Capital. Since opening in August of

2009, this company has closed over $40 million of SBA 7A loans. We are fortunate to have some of the best SBA lenders and servicing administrators in the industry leading this company. The government's stimulus program that increased government guarantees to 90% and eliminated borrower fees provided a substantial increase in SBA lending. Although this government incentive has expired, the company continues to grow and generate profits for Parke Bancorp. We have carefully identified expansion plans for 44 Business Capital to increase our market share and lending footprint.

Increased banking regulatory pressure continues to slow down the banking industry recovery. Increased insurance assessment fees and capital requirements, combined with a dramatic increase in reporting requirements has added substantial expenses to a bank's operating costs while reducing a bank's ability to increase lending. We have been proactive in adding to our senior management team, which will focus on the increased reporting and regulatory requirements.

2011 will continue to be very challenging for our communities, the economy and the banking industry, but there are clear signs that a recovery is under way. There will be additional troubled projects and challenging loans, however, we now see businesses starting to recover, projects beginning to sell and a renewed positive commitment in consumer spending. These factors will lead the country and our communities back to economic growth and prosperity. Parke Bancorp is positioned to overcome the remaining economic and real estate industries hurdles and take advantage of market opportunities. The success of our new branch and SBA subsidiary, combined with continued critical controls on our expenses supports a bright future for our bank. As always, we continue to appreciate the loyalty of our customers and the commitment of our shareholders. We will continue to work diligently to provide the best products and services to our customers, while enhancing shareholder value.

/s/ C.R. "Chuck" Pennoni

C.R. "Chuck" Pennoni
Chairman

/s/ Vito S. Pantilione

Vito S. Pantilione
President and Chief
Executive Officer

Selected Financial Data

	At or for the Year Ended December, 31				
	2010	2009	2008	2007	2006
Balance Sheet Data: (in thousands)					
Assets	$ 756,853	$ 654,198	$ 601,952	$ 460,795	$ 359,997
Loans Net	$ 611,950	$ 590,997	$ 539,883	$ 402,683	$ 306,044
Securities Available for Sale	$ 27,730	$ 29,420	$ 31,930	$ 29,782	$ 24,530
Securities Held to Maturity	$ 1,999	$ 2,509	$ 2,482	$ 2,456	$ 2,431
Cash and Cash Equivalents	$ 57,628	$ 4,154	$ 7,270	$ 9,178	$ 11,261
Deposits	$ 604,722	$ 520,313	$ 495,327	$ 379,480	$ 289,929
Borrowings	$ 75,616	$ 67,831	$ 61,943	$ 40,322	$ 34,851
Equity	$ 70,732	$ 61,973	$ 40,301	$ 36,417	$ 30,709
Operational Data: (in thousands)					
Interest Income	$ 41,636	$ 40,395	$ 36,909	$ 33,186	$ 25,476
Interest Expense	11,350	15,734	19,291	17,595	12,023
Net Interest Income	30,286	24,661	17,618	15,591	13,453
Provision for Loan Losses	9,001	5,300	2,063	1,161	940
Net Interest Income after Provision for Loan Losses	21,285	19,361	15,555	14,430	12,513
Noninterest Income (Loss)	2,757	(540)	(1,251)	1,491	857
Noninterest Expense	11,650	8,757	7,209	6,325	5,827
Income Before Income Tax Expense	12,392	10,064	7,095	9,596	7,543
Income Tax Expense	4,895	3,964	2,848	3,744	2,919
Net income attributable to Company and noncontrolling (minority) interest	7,497	6,100	4,247	5,852	4,624
Net income attributable to noncontrolling (minority) interest	(157)	—	—	—	—
Preferred Stock Dividend and Discount Accretion	988	899	—	—	—
Net Income Available to Common Shareholders	$ 6,352	$ 5,201	$ 4,247	$ 5,852	$ 4,624
Per Share Data:					
Basic Earnings per Common Share	$ 1.43	$ 1.17	$ 1.03	$ 1.46	$ 1.18
Diluted Earnings per Common Share	$ 1.41	$ 1.17	$ 0.95	$ 1.29	$ 1.00
	$ 12.25	$ 10.30	$ 9.14	$ 9.00	$ 7.65

Book Value per Common Share					
Cash Dividends Declared per Share	$ —	$ —	$ —	$ —	$ 0.18
Performance Ratios:					
Return on Average Assets	1.05%	0.94%	0.79%	1.41%	1.41%
Return on Average Common Equity	12.19%	11.82%	11.03%	17.17%	15.68%
Net Interest Margin	4.60%	3.97%	3.36%	3.88%	4.25%
Efficiency Ratio	33.26%	33.88%	36.80%	38.70%	40.70%
Capital Ratios:					
Equity to Assets	9.35%	9.47%	6.70%	7.91%	8.54%
Dividend Payout Ratio	0.00%	0.00%	0.00%	0.00%	12.20%
Tier 1 Risk-based Capital1	12.93%	13.02%	9.89%	11.10%	13.30%
Total Risk-based Capital1	14.19%	14.27%	11.14%	12.40%	14.50%
Asset Quality Ratios:					
Non-Performing Loans/Total Loans	4.38%	4.22%	1.50%	0.20%	0.34%
Allowance for Loan Losses/Total Loans	2.36%	2.06%	1.42%	1.40%	1.45%
Allowance for Loan Losses/ Non-Performing Loans	53.89%	48.74%	94.61%	709.10%	571.90%

1 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); technological changes; changes in consumer spending and saving habits; and the success of the Bank at managing the risks resulting from these factors. The Company cautions that the listed factors are not exclusive.

Overview

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

Results of Operation. The Company recorded net income available to common shareholders of $6.4 million or $1.41 per diluted share and $5.2 million, or $1.17 per diluted share for 2010 and 2009, respectively. Pre-tax earnings amounted to $12.4 million for 2010 and $10.1 million for 2009.

Total assets of $756.9 million at December 31, 2010 represented an increase of $102.7 million, or 15.7% from December 31, 2009. Total loans amounted to $626.7 million at year end 2010 for an increase of $23.3 million, or 3.9% from December 31, 2009. Deposits grew by $84.4 million, an increase of 16.2%. The Company continues to expand its balance sheet primarily through the generation of loan growth

through its effective business development of new and existing business relationships. Total capital at December 31, 2010 amounted to $70.7 million and increased $8.8 million, or 14.1%, during the past year.

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

Comparative Average Balances, Yields and Rates. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. Interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is net interest income divided by average earning assets. All average balances are daily average balances. 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,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(amounts in thousands except Yield Cost data)					
Assets						
Loans	$622,716	$39,934	6.41 %	$587,047	$38,482	6.56 %
Investment securities	35,565	1,702	4.79 %	34,384	1,912	5.56 %
Federal funds sold and cash equivalents	87	—	0.00 %	188	1	0.53 %
Total interest-earning assets	658,368	$41,636	6.32 %	621,619	$40,395	6.50 %
Non-interest earning assets	57,747			33,657		
Allowance for loan losses	(14,250)			(9,616)		
Total assets	$701,865			$645,660		
Liabilities and Equity						
Interest bearing deposits						
NOWs	$12,936	154	1.19 %	$10,945	154	1.41 %
Money markets	89,866	1,045	1.16 %	70,533	1,033	1.46 %
Savings	150,008	2,190	1.46 %	104,586	2,205	2.11 %
Time deposits	203,238	4,027	1.98 %	181,866	5,711	3.14 %
Brokered certificates of deposit	86,235	2,184	2.53 %	136,168	4,582	3.36 %
Total interest-bearing deposits	542,283	9,600	1.77 %	504,098	13,685	2.71 %
Borrowings	66,044	1,750	2.65 %	58,351	2,049	3.51 %
Total interest-bearing liabilities	608,327	$11,350	1.87 %	562,449	$15,734	2.80 %
Non-interest bearing deposits	20,040			20,068		
Other liabilities	5,822			4,149		
Total liabilities	634,189			586,666		
Equity	67,676			58,994		
Total liabilities and equity	$701,865			$645,660		
Net interest income		$30,286			$24,661	
Interest rate spread			4.45 %			3.70 %
Net interest margin			4.60 %			3.97 %

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 old 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,					
	2010 vs. 2009			2009 vs. 2008		
	Variance due to change in			Variance due to change in		
	Average Volume	Average Rate	Net Increase/ (Decrease)	Average Volume	Average Rate	Net Increase/ (Decrease)
Interest Income:						
Loans (net of deferred costs/fees)	$ 2,336	$ (884)	$ 1,452	$ 7,585	$ (3,568)	$ 4,017
Investment securities	67	(277)	(210)	(284)	(54)	(338)
Federal funds sold	(1)	—	(1)	(114)	(79)	(193)
Total interest income	2,402	(1,161)	1,241	7,187	(3,701)	3,486
Interest Expense:						
Deposits	844	(4,929)	(4,085)	2,903	(6,177)	(3,274)
Borrowed funds	236	(535)	(299)	136	(419)	(283)
Total interest expense	1,080	(5,464)	(4,384)	3,039	(6,596)	(3,557)
Net interest income	$ 1,322	$ 4,303	$ 5,625	$ 4,148	$ 2,895	$ 7,043

Critical Accounting Policies and Estimates

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

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

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

Operating Results for the Years Ended December 31, 2010 and 2009

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

Net interest income increased $5.6 million, or 22.8%, to $30.3 million for 2010, from $24.7 million for 2009. We experienced an increase in our interest rate spread of 75 basis points, to 4.45% for 2010, from 3.70% for last year. Our net interest margin increased 63 basis points, to 4.60% for 2010, from 3.97% for last year. Our ability to lower our cost of deposits, a change in deposit mix to lower cost core deposits and our practice of setting floors on commercial and real estate loans has allowed for this growth in net interest rate margin.

Interest income increased $1.2 million, or 3.1%, to $41.6 million for 2010, from $40.4 million for 2009. The increase is attributable to higher loan volumes, offset somewhat by a lower yield on loans. Average loans for the year were $622.7 million compared to $587.0 million for last year, while average loan yields were 6.41% for 2010 compared to 6.56% for 2009.

Interest expense decreased $4.4 million, or 27.9%, to $11.3 million for 2010, from $15.7 million for 2009. The decrease is primarily attributable to an increase of core deposits and a decline in the cost of funds. The average rate paid on deposits for 2010 was 1.77% compared to 2.71% for last year. The Bank has been able to re-price deposits due to the current, historically low, rate environment while still maintaining strong deposit growth.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, the levels of delinquent loans and current local and national industry and economic conditions. The amount of the allowance is based on estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses and make provisions for loan losses on a monthly basis.

At December 31, 2010, the Company's allowance for loans losses increased to $14.8 million from $12.4 million at December 31, 2009, an increase of $2.4 million or 19.2%. The allowance for loan loss ratio increased to 2.36% of gross loans at December 31, 2010, from 2.06% of gross loans at December 31, 2009. The allowance for loan losses to non-performing loans coverage ratio increased to 53.9% at December 31, 2010, from 48.7% at December 31, 2009.

We recorded a provision for loan losses of $9.0 million for 2010 compared to $5.3 million for 2009. The increase in the provision for losses over the prior year correlates to the increase in credit deterioration within the loan portfolio and management's analysis of non-performing loans and credit risk inherent in the portfolio.

Noninterest Income. Noninterest income is principally derived from fee income from loan services, service fees on deposits, BOLI (Bank-Owned Life Insurance) income and gains on the sale of loans. Noninterest income totaled $2.8 million in 2010 versus a loss of $540,000 in 2009. The loss in 2009 resulted from the Company recognizing an other-than-temporary impairment charge to non-interest income on investment securities totaling $1.7 million.

The Company recognized $1.8 million in gains from the sale of the guaranteed portion of SBA loans in 2010, compared to a gain of $313,000 in 2009. The increase is attributable to our SBA subsidiary being formed in the 4th quarter of 2009.

Loan fees of $301 thousand in 2010 increased from $241 thousand in 2009. Loan fees consist of "exit fees" that are charged on construction loans if the builder sells the property prior to the completion of the construction project. Exit fees are intended to discourage construction borrowers from starting projects and "flipping out" of the project or selling before it is completed. These loan fees are variable in nature and are dependent upon the borrowers' course of action.

BOLI income of $178 thousand in 2010 decreased from $180 thousand in 2009.

Service fees on deposit accounts increased to $252,000 in 2010 from $187,000 in 2009. The increase was attributable to strong growth in retail deposits and an increase in the fee assessed to account holders with non-sufficient funds.

Other miscellaneous fee income, which includes ATM fees, debit card fees, early CD withdrawal penalties, rental income and other miscellaneous income, amounted to $329 thousand in 2010 and $249 thousand in 2009. The majority of the increase is attributable to packaging fee income generated from our SBA joint venture.

Noninterest Expense. Noninterest expense for 2010 was $11.7 million, an increase of $2.9 million or 33.0% above the level of $8.8 million in 2009.

Compensation and benefits expense for 2010 was $5.3 million, an increase of $1.1 million over last year. The increase is attributable to routine salary increases, higher benefits expense and increased staff as a result of the formation of the SBA joint venture and the opening of a new full-service branch.

Professional services in 2010 amounted to $1.2 million, compared to $862 thousand in 2009. The increase was primarily the result of increased legal cost related to loan matters.

OREO expenses increased to $622,000 in 2010, from $126,000 in 2009. The increase is a related to the carrying costs including property taxes, insurance and maintenance associated with a higher level of real estate properties.

Occupancy and equipment expense was $937 thousand for 2010, an increase of $89 over 2009. The increase is a result of opening a new full-service branch and the full year of operations of the SBA joint venture.

Other operating expense increased to $2.5 million in 2010, from $1.7 million in 2009. The majority of the increase is related to a $618,000 charge related to the funding of a letter of credit due to a borrower's nonperformance.

Income Taxes. Income tax expense amounted to $4.9 million for 2010, compared to $4.0 million for 2009, resulting in effective tax rates of 39.5% and 39.4% for the respective years.

Financial Condition at December 31, 2010 and December 31, 2009

At December 31, 2010, the Company's total assets increased to $756.9 million from $654.2 million at December 31, 2009, an increase of $102.7 million or 15.7%.

Cash and cash equivalents increased $53.5 million to $57.6 million at December 31, 2010 from $4.1 million at December 31, 2009. The increase is due to an effective deposit promotion and the opening of a full-service branch in Galloway Township, NJ in the second quarter of 2010. The cash will be utilized to fund future loan growth and pay off maturing brokered CDs.

Total investment securities decreased to $29.7 million at December 31, 2010 ($27.7 million classified as available for sale or 93.3%) from $31.9 million at December 31, 2009, a decrease of $2.2 million or 6.9%. The Company received $11.6 million in cash flow from maturities and principal payments, offset by purchases of $5.8 million. In addition, the fair value of the available-for sale portfolio increased by $3.6 million, primarily related to the collateralized debt obligation ("CDO") portfolio, which reflected lower levels of unrealized losses.

Management evaluates the portfolio for other-than-temporary impairment ("OTTI") on a quarterly basis. Factors considered in the analysis include, but are not limited to, whether an adverse change in cash flows has occurred, the length of time and the extent to which the fair value has been less than cost, whether the Company intends to sell, or will more likely than not be required to sell the investment before recovery of its amortized cost basis, which may be maturity, credit rating downgrades, the percentage of performing collateral that would need to default or defer to cause a break in yield or a temporary interest shortfall, and management's assessment of the financial condition of the underlying issuers. For the year ended December 31, 2010, the Company recognized additional credit related OTTI charges (pre-tax) of $124,000 on an existing other-than-temporarily impaired private-label collateralized mortgage obligation ("CMO").

Total loans increased to $626.7 million at December 31, 2010 from $603.4 million at December 31, 2009, an increase of $23.3 million or 3.9%, consistent with management's plan for loan growth. In addition, there were $12.9 million of loans held for sale. These loans, the government guaranteed portion of originated SBA loans, were sold during the fourth quarter of 2010, but did not qualify for a sales treatment due to a 90 day warranty period in the sales agreement. The cash received from the sale was recorded as a secured borrowing. The sale of these loans will be recognized in the first quarter of 2011.

OREO at December 31, 2010 was $16.7 million, compared to none at December 31, 2009. The real estate owned consisted of 12 properties, the largest being a condominium development at $7.9 million. This property was sold in 2010 but does not qualify for a sales treatment under Generally Accepted Accounting Principles (GAAP) because of continuing involvement by the Company in the form of financing.

Other assets increased to $13.4 million at December 31, 2010 from $13.2 million at December 31, 2009, an increase of $266,000 or 2.0%.

At December 31, 2010, the Bank's total deposits increased to $604.7 million from $520.3 million at December 31, 2009, an increase of $84.4 million or 16.2%. Non-interest bearing deposits increased $1.7 million, or 7.8%, to $23.2 million at December 31, 2010 from $21.5 million at December 31, 2009. NOW

and money market accounts increased $13.4 million, or 14.1%, to $108.7 million at December 31, 2010 from $95.3 million at December 31, 2009. Savings accounts increased $25.0 million, or 17.7%, to $166.7 million at December 31, 2010 from $141.7 million at December 31, 2009. Retail certificate of deposits increased $70.2 million, or 43.3%, to $236.0 million at December 31, 2010 from $165.8 million at December 31, 2009. This growth, generated through a successful marketing campaign and a cross selling program to increase core deposits and the opening of the Galloway NJ branch, has allowed us to reduce brokered deposits, which decreased $26.0 million, or 27.0%, to $70.1 million at December 31, 2010 from $96.1 million at December 31, 2009.

Borrowings increased $7.8 million, or 11.5%, to $75.6 million at December 31, 2010 from $67.8 million at December 31, 2009. The increase was due to the cash received from the sale of $11.5 million of SBA loans in the fourth quarter that was recorded as a secured borrowing due to the 90 day warranty period in the sales agreement. This was offset by a $3.7 million reduction in borrowings from the Federal Home Loan Bank due to retail deposit growth.

At December 31, 2010, total equity increased to $70.7 million from $62.0 million at December 31, 2009, an increase of $8.7 million or 14.1%. A $2.0 million favorable change in comprehensive income related to the investment portfolio, and net income represented the majority of the increase.

Asset Quality

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

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

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

The Company maintains interest reserves for the purpose of making periodic and timely interest payments for borrowers that qualify. Management on a monthly basis reviews loans with interest reserves to assess current and projected performance.

Delinquent loans increased $10.5 million to $43.3 million or 6.9% of total loans at December 31, 2010 from $32.8 million or 5.4% of total loans at December 30, 2009. Delinquent loan balances by number of days delinquent were: 31 to 89 days --- $15.8 and 90 days and greater --- $27.5 million. Loans 90 days and more past due are no longer accruing interest.

At December 31, 2010, the Company had $27.5 million in non-performing loans or 4.4% of total loans, an increase from $25.5 million or 4.2% of total loans at December 31, 2009. The three largest relationships in non-performing loans are a $6.1 million residential loan, a $3.2 million residential construction loan, and a $2.4 million residential construction loan.

At December 31, 2010, the Company had $44.2 million in non-performing assets, which includes $27.5 million of non-performing loans and $16.7 of OREO, or 5.8% of total assets, an increase from $25.5 million or 3.9% of total assets at December 31, 2009.

The provision for loan losses is a charge to earnings in the current year to maintain the allowance at a level management has determined to be adequate based upon the factors noted above. The provision for loan losses amounted to $9.0 million for 2010, compared to $5.3 million for 2009. Net loan charge-offs/recoveries consisted of net charge-offs in the amount of $6.6 million in 2010 and net charge-offs of $673,000 in 2009.

At December 31 2010, the Company’s allowance for loans losses increased to $14.8 million from $12.4 million at December 31, 2009, an increase of $2.4 million or 19.2%. The allowance for loan loss ratio increased to 2.36% of gross loans at December 31, 2010, from 2.06% of gross loans at December 31, 2009. The allowance for loan losses to non-performing loans coverage ratio increased to 53.9% at December 31, 2010, from 48.7% at December 31, 2009.

We believe we have appropriately established adequate loss reserves on problem loans that we have identified and to cover credit risks that are inherent in the portfolio as of December 31, 2010. However, we believe that non-performing and delinquent loans will continue to increase as the current recession persists. We are aggressively managing all loan relationships. Credit monitoring and tracking systems have been instituted. Updated appraisals are being obtained, where appropriate, to ensure that collateral values are sufficient to cover outstanding loan balances. Cash flow dependent commercial real estate properties are being visited to inspect current tenant lease status. Where necessary, we will apply our loan work-out experience to protect our collateral position and actively negotiate with borrowers to resolve these non-performing loans.

Income Taxes

The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is

recognized in income in the period that includes the enactment date. Valuation reserves are established against certain deferred tax assets when it is more likely than not that the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

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

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

Interest Rate Sensitivity and Liquidity

Interest rate sensitivity is an important factor in the management of the composition and maturity configurations of earning assets and funding sources. The primary objective of asset/liability management is to ensure the steady growth of our primary earnings component, net interest income. Net interest income can fluctuate with significant interest rate movements. To lessen the impact of interest rate movements, management endeavors to structure the balance sheet so that re-pricing opportunities exist for both assets and liabilities in roughly equivalent amounts at approximately the same time intervals. Imbalances in these re-pricing 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, 2010 is presented in the table below. 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 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, 2010, our interest sensitive liabilities exceeded interest sensitive assets within a one year period by $145.9 million, or 20.6%, of total assets.

	As of December 31, 2010					
	3 Months or Less	Over 3 Months Through 12 Months	Over 1 Year Through 2 Years	Over 3 Years Through 5 Years	Over 5 Years Through 10 Years	Total
Interest-earning assets:						
Loans	$ 214,057	$ 40,451	$ 96,049	$ 247,846	$ 28,336	$ 626,739
Investment securities	6,535	2,094	3,876	7,977	10,068	30,550
Federal funds sold and cash equivalents	56,161	—	—	—	—	56,161
Total interest-earning assets	$ 276,753	$ 42,545	$ 99,925	$ 255,823	$ 38,404	$ 713,450
Interest-bearing liabilities::						
Regular savings deposits	$ 87,540	$ 12,506	$ 16,674	$ 33,348	$ 16,674	$ 166,742
NOW and money market deposits	18,824	23,153	30,871	33,355	2,484	108,687
Retail time deposits	109,509	92,976	28,938	4,533	—	235,956
Brokered time deposits	26,316	42,854	849	150	---	70,169
Borrowed funds	15,991	35,516	160	10,546	13,403	75,616
Total interest-bearing liabilities	$ 258,180	$ 207,005	$ 77,492	$ 81,932	$ 32,561	$ 657,170
Interest rate sensitive gap	$ 18,573	$ (164,460)	$ 22,433	$ 173,891	$ 5,843	$ 56,280
Cumulative interest rate gap	$ 18,573	$ (145,887)	$ (123,454)	$ 50,437	$ 56,280	
Ratio of rate-sensitive assets to rate-sensitive liabilities	107.19%	20.55%	128.95%	312.24%	117.94%	108.56%

Liquidity describes our ability to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased

repayment and income from earning assets. Our loan to deposit ratio was 103.6% and 116.2% at December 31, 2010 and December 31, 2009 respectively. Funds received from new and existing depositors provided a large source of liquidity during 2010 and 2009. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support loan growth. The Bank also seeks to augment such deposits with longer term and higher yielding certificates of deposit.

Brokered deposits are a more volatile source of funding than core deposits and do not increase the deposit franchise of the Bank. In a rising rate environment, the Bank may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with the Bank, they may need to be replaced with borrowings which could increase the Bank's cost of funds and negatively impact its interest rate spread, financial condition and results of operation. To mitigate the potential negative impact associated with brokered deposits, the Bank joined Promontory Inter financial Network to secure an additional alternative funding source. Promontory provides the Bank an additional source of external funds through their weekly CDARS® settlement process. The rates are comparable to brokered deposits and can be obtained within a shorter period time than brokered deposits. The Bank's CDARS deposits included within the brokered deposit total amounted to $18.8 million and $5.9 million at December 31, 2010 and December 31, 2009, respectively. To the extent that retail deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short term funds market. Longer term funding requirements can be obtained through advances from the Federal Home Loan Bank ("FHLB"). As of December 31, 2010, the Bank maintained unused lines of credit with the FHLB totaling $83.1 million. The Bank established lines of credit with other financial institutions totaling $11.0 million. These lines were not utilized at December 31, 2010.

As of December 31, 2010, the Bank's investment securities portfolio included $15.9 million of mortgage backed securities that provide significant cash flow each month. The majority of the investment portfolio is classified as available for sale, is readily marketable, and is available to meet liquidity needs. The Bank's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and provide an additional source of liquidity. Presently the residential mortgage loan portfolio and certain qualifying commercial real estate loans are pledged under a blanket lien to the FHLB as collateral. Management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

Off-Balance Sheet Arrangements

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2010

and 2009, commitments to extend credit amounted to approximately $73.7 million and $59.6 million, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2010 and 2009, standby letters of credit with customers were $5.9 million and $8.6 million, respectively.

Loan commitments and standby letters of credit are issued in the ordinary course of business to meet customer needs. Commitments to fund fixed-rate loans were immaterial at December 31, 2010. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

The following table sets forth information regarding the Bank's contractual obligations and commitments as of December 31, 2010.

	Payments Due by Period Amounts in thousands				
	Less than 1 year	1-3 Years	4-5 years	More than 5 years	Total
Retail time deposits	$ 202,485	$ 30,350	$ 3,121	$ —	$ 235,956
Brokered time deposits	69,170	999	—	—	70,169
Borrowed funds	51,507	9,847	859	13,403	75,616
Operating lease obligations	129	375	82	121	707
Total contractual obligations	$ 323,291	$ 41,571	$ 4,062	$ 13,524	$ 382,448

	Amount of Commitments Expiring by Period Amounts in thousands				
	Less than 1 year	1-3 Years	4-5 years	More than 5 years	Total
Loan Commitments	$ 20,259	$ —	$ —	$ —	$ 20,259
Lines of Credit	29,956	6,220	1,693	$ 15,602	53,471
Total Commitments	$ 50,215	$ 6,220	$ 1,693	$ 15,602	$ 73,730

Impact of Inflation and Changing Prices

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

MARKET PRICES AND DIVIDENDS

General

The Company's common stock is listed on the Nasdaq Capital Market under the trading symbol of "PKBK". The following table reflects high and low sales prices as reported on www.nasdaq.com during each quarter of the last two fiscal years. Prices reflect a 10% stock dividend paid in April 2010.

2010	High		Low	
1st Quarter	$	8.64	$	7.05
2nd Quarter	$	11.93	$	8.11
3rd Quarter	$	9.50		