PARKE BANCORP, INC.
Form 10-Q
May 10, 2018

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

FORM 10-Q

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

For the quarterly period ended: March 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)	(IRS Employer Identification No.)
601 Delsea Drive, Washington Township, New Jersey	08080
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Yes [X] No [ ]

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 [X]   Non-accelerated filer [ ]   Smaller reporting company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying 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 in Rule 12b-2 of the Exchange Act).

Yes [ ]   No [X]

As of May 10, 2018, there were outstanding 8,024,402 shares of the registrant's common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)
(in thousands except share and per share data)

	March 31, 2018	December 31, 2017
Assets		
Cash and due from financial institutions	$5,432	$14,452
Federal funds sold and cash equivalents	41,273	27,661
Total cash and cash equivalents	46,705	42,113
Investment securities available for sale, at fair value	35,905	37,991
Investment securities held to maturity (fair value of $1,252 at March 31, 2018 and $2,468 at December 31, 2017)	1,074	2,268
Total investment securities	36,979	40,259
Loans held for sale	1,703	1,541
Loans, net of unearned income	1,041,940	1,011,717
Less: Allowance for loan losses	(17,081)	(16,533)
Net loans	1,024,859	995,184
Accrued interest receivable	4,139	4,025
Premises and equipment, net	7,008	7,025
Other real estate owned (OREO)	6,838	7,248
Restricted stock, at cost	5,722	6,172
Bank owned life insurance (BOLI)	25,346	25,196
Deferred tax asset	6,577	6,420
Other assets	1,113	2,269
Total Assets	$1,166,989	$1,137,452
Liabilities and Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	$125,571	$124,356
Interest-bearing deposits	776,633	742,027
Total deposits	902,204	866,383
FHLBNY borrowings	104,650	114,650
Subordinated debentures	13,403	13,403
Accrued interest payable	731	719
Other liabilities	7,090	7,517
Total liabilities	1,028,078	1,002,672
Equity		
Preferred stock, 1,000,000 shares authorized, $1,000 liquidation value Series B - non-cumulative convertible; 15,946 shares outstanding March 31, 2018 and 15,971 shares outstanding December 31, 2017	15,946	15,971
Common stock, $0.10 par value; authorized 15,000,000 shares; Issued: 8,308,924 shares at March 31, 2018 and 8,301,497 at December 31, 2017	831	830
Additional paid-in capital	82,029	81,940
Retained earnings	43,743	39,184

Accumulated other comprehensive loss	(623)	(130)
Treasury stock, 284,522 shares at March 31, 2018 and 284,522 shares at December 31, 2017, at cost	(3,015)	(3,015)
Total shareholders' equity	138,911	134,780
Total liabilities and equity	$ 1,166,989	$ 1,137,452

See accompanying notes to consolidated financial statements

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

	For the three months ended March 31,	
	2018	2017
	(in thousands except share data)	
Interest income:		
Interest and fees on loans	$13,013	$10,651
Interest and dividends on investments	349	374
Interest on federal funds sold and cash equivalents	143	72
Total interest income	13,505	11,097
Interest expense:		
Interest on deposits	1,953	1,466
Interest on borrowings	531	375
Total interest expense	2,484	1,841
Net interest income	11,021	9,256
Provision for loan losses	400	500
Net interest income after provision for loan losses	10,621	8,756
Noninterest income:		
Gain on sale of SBA loans	178	—
Loan fees	151	66
Gain on Bank Owned Life Insurance	150	160
Service fees on deposit accounts	286	88
Loss on sale and write-down of real estate owned	—	(6)
Other	104	87
Total noninterest income	869	395
Noninterest expense:		
Compensation and benefits	1,954	1,901
Professional services	374	365
Occupancy and equipment	421	343
Data processing	197	181
FDIC insurance	77	70
OREO expense	169	157
Other operating expense	703	672
Total noninterest expense	3,895	3,689
Income before income tax expense	7,595	5,462
Income tax expense	1,835	2,004
Net income attributable to Company and noncontrolling interest	5,760	3,458
Net income (loss) attributable to noncontrolling interest	—	1
Net income attributable to Company	5,760	3,459
Preferred stock dividend and discount accretion	239	299
Net income available to common shareholders	$5,521	$3,160
Earnings per common share:		
Basic	$0.69	$0.42
Diluted	$0.58	$0.35

Weighted average shares outstanding:		
Basic	8,020,232	7,564,607
Diluted	9,916,498	9,901,919

All share and per share information has been adjusted for the 10% stock dividend paid May 19, 2017.
See accompanying notes to consolidated financial statements

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

	For the three months ended March 31,	
	2018	2017
	(in thousands)	
Net income	$5,760	$3,459
Unrealized gains on securities:		
Non-credit related unrealized gains on securities with OTTI	—	10
Unrealized (losses) gains on securities without OTTI	(650)	67
Tax impact	157	(31)
Total unrealized (losses) gains on securities	(493)	46
Total comprehensive income	$5,267	$3,505

See accompanying notes to consolidated financial statements

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

	Preferred Stock $1,000 par	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Shareholders Equity	Minority Interest	Total Equity
	(in thousands except share data)									
Balance, December 31, 2016	$20,000	7,147,952	$715	$62,300	$47,483	$(349)	$(3,015)	$127,134	$(44)	$127,090
Common stock options exercised		24,033		163				163		163
Preferred stock options exercised	(97)	1,001	1	7				(89)		(89)
Net income					3,459			3,459	(1)	3,458
Changes in other comprehensive income						46		46		46
Stock compensation				18				18		18
Dividend on preferred stock					(299)			(299)		(299)
Dividend on common stock					(688)			(688)		(688)
Balance, March 31, 2017	$19,903	7,172,986	$716	$62,488	$49,955	$(303)	$(3,015)	$129,744	$(45)	$129,699
Balance, December 31, 2017	$15,971	8,301,497	$830	$81,940	$39,184	$(130)	$(3,015)	$134,780		$134,780
Common stock options exercised		4,586	1	46				47		$47
Preferred stock shares conversion	(25)	2,841		25				—		$—
Net income					5,760			5,760		$5,760
Other comprehensive income						(493)		(493)		$(493)
Stock compensation				18				18		$18
Dividend on preferred stock					(239)			(239)		$(239)
Dividend on common stock					(962)			(962)		$(962)

($0.12 per share)										
Balance, March 31, 2018	$15,946	8,308,924	$ 831	$ 82,029	$43,743	$ (623)	$(3,015)	$138,911	$—	$138,911

All share information has been adjusted for the 10% stock dividend paid May 19, 2017.

See accompanying notes to consolidated financial statements

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

	For the Three Months Ended March 31,	
	2018	2017
	(amounts in thousands)	
Cash Flows from Operating Activities:		
Net income	$5,760	$3,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91	69
Provision for loan losses	400	500
Gain on bank owned life insurance	(150)	(160)
Gain on sale of SBA loans	(178)	—
SBA loans originated for sale	(2,548)	(1,542)
Proceeds from sale of SBA loans originated for sale	2,564	—
Loss on sale & write down of OREO	—	6
Net accretion of purchase premiums and discounts on securities	13	17
Deferred income tax benefit	—	307
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable and other assets	1,042	1,058
Decrease in accrued interest payable and other accrued liabilities	(415)	(758)
Net cash provided by operating activities	6,579	2,955
Cash Flows from Investing Activities:		
Redemptions of restricted stock	450	—
Proceeds from maturities and principal payments on mortgage-backed securities	1,412	1,597
Donated OREO property	—	(30)
Advances on OREO	(79)	(103)
Proceeds from sale and call of securities available for sale	1,205	—
Proceeds from sale of OREO	779	885
Net increase in loans	(30,365)	(33,800)
Purchases of bank premises and equipment	(74)	(48)
Net cash used in investing activities	(26,672)	(31,499)
Cash Flows from Financing Activities:		
Payment of dividend on common & preferred stock	(1,201)	(987)
Proceeds from exercise of stock options	47	171
Stock compensation	18	18
Net decrease in FHLBNY and short-term borrowings	(10,000)	—
Net increase (decrease) in noninterest-bearing deposits	1,215	(30,695)
Net increase in interest-bearing deposits	34,606	29,047
Net cash provided by (used in) financing activities	24,685	(2,446)
Net increase (decrease) in cash and cash equivalents	4,592	(30,990)
Cash and Cash Equivalents, January 1,	42,113	70,720
Cash and Cash Equivalents, March 31,	$46,705	$39,730
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		

Interest on deposits and borrowed funds	$2,472	$1,875
Income taxes	$—	$2,004
Supplemental Schedule of Noncash Activities:		
Real estate acquired in settlement of loans	$290	$59
Dividends accrued during the period	$1,201	$985

See accompanying notes to consolidated financial statements

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Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

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

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

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

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

In December of 2013, the Company completed a private placement of newly designated 6.00% 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 113.679 shares of Common Stock.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary the Bank. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the requirements for consolidation under applicable accounting guidance. All significant inter-company balances and transactions have been eliminated.

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The accompanying interim financial statements for the three months ended March 31, 2018 and 2017 are unaudited. The balance sheet as of December 31, 2017, was derived from the audited financial statements. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair statement of the results for such interim periods. Results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results for the full year. Certain reclassifications have been made to prior period amounts to conform to the current year presentation, with no impact on current earnings or shareholders’ equity.

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

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 is in the process of evaluating this ASU and doesn't expect that the adoption of this standard will have any material impact on the company's consolidated financial statements.

During August 2016, the FASB issued ASU 2016-15, which is new guidance related to the Statement of Cash Flows. 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 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. ASU 2016-13 (Topic 326), 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. 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 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 take effect beginning January 1, 2019. The Company is working on gathering all key lease data elements to meet the requirements of the new guidance. The resulting change from this ASU should not have a major impact on the Company's financial statements.

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. Implementation of this guidance did not have a material impact on the Company’s consolidated financial statements.

NOTE 3. INVESTMENT SECURITIES

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

As of March 31, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in AOCI	Fair value
	(amounts in thousands)				
Available for sale:					
Corporate debt obligations	$1,000	$ 27	$ —	$ —	$1,027
Residential mortgage-backed securities	35,680	23	909	—	34,794
Collateralized mortgage obligations	82	2	—	—	84
Total available for sale	$36,762	$ 52	$ 909	$ —	$35,905
Held to maturity:					
States and political subdivisions	$1,074	$ 178	$ —	$ —	$1,252

As of December 31, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in AOCI	Fair value
	(amounts 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	$38,198	$ 229	$ 436	$ —	$37,991
Held to maturity:					
States and political subdivisions	$2,268	$ 200	$ —	$ —	$2,468

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

	Amortized Cost	Fair Value
	(amounts in thousands)	
Available for sale:		
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	500	500
Due after ten years	500	527
Residential mortgage-backed securities and collateralized mortgage obligations	35,762	34,878
Total available for sale	$36,762	$35,905
Held to maturity:		
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	1,074	1,252
Due after ten years	—	—
Total held to maturity	$1,074	$1,252

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

For the quarter ended March 31, 2018, the Bank used a line 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 with unrealized losses that are not deemed to be other than temporarily impaired (“OTTI”), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2018 and December 31, 2017:

As of March 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
	(amounts in thousands)					
Available for sale:						
Residential mortgage-backed securities	$11,575	$ 247	$14,186	$ 662	$25,761	$ 909
Total available for sale	$11,575	$ 247	$14,186	$ 662	$25,761	$ 909

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
	(amounts in thousands)					
Available for sale:						
Residential mortgage-backed securities	$2,729	$ 16	$15,117	$ 420	$17,846	$ 436

Total available for sale	$2,729	$ 16	$15,117	$ 420	$17,846	$ 436

The unrealized losses on the Company's investment in residential mortgage-backed securities relate to 12 securities at March 31, 2018 versus 10 securities at December 31, 2017. The losses were caused by movement in interest rates. The 12 securities were issued or guaranteed by government and government sponsored entities. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investment in these securities to be OTTI at March 31, 2018.

Other Than Temporarily Impaired Debt Securities

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

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

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

The Company did not sell any securities during the three months ended March 31, 2018.

NOTE 4. LOANS

The portfolio of loans outstanding consists of the following:

	March 31, 2018			December 31, 2017		
	Amount	Percentage of Total Loans		Amount	Percentage of Total Loans	
	(amounts in thousands)					
Commercial and Industrial	$30,200	2.9	%	$38,972	4.0	%
Real Estate Construction:						
Residential	31,190	3.0		28,486	2.8	
Commercial	71,166	6.8		67,139	6.6	
Real Estate Mortgage:						
Commercial – Owner Occupied	127,778	12.3		126,250	12.5	
Commercial – Non-owner Occupied	273,289	26.2		270,472	26.7	
Residential – 1 to 4 Family	442,805	42.5		416,317	41.1	

Residential – Multifamily	49,612	4.8		47,832	4.7	
Consumer	15,900	1.5		16,249	1.6	
Total Loans	$1,041,940	100.0	%	$1,011,717	100.0	%

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

Commercial and Industrial Loans: The Company 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 Company’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 Company’s market area.

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

Commercial Real Estate: Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. Commercial real estate loans may be riskier than loans for one-to-four family residences and are typically larger in dollar size. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The repayment of these loans is generally dependent on the successful operation and management of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location within our market area. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also monitors economic conditions and trends affecting the market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Residential Mortgage: The Company originates adjustable and fixed-rate residential mortgage loans. Such mortgage loans are generally originated under terms, conditions and documentation acceptable to the secondary mortgage market. Repayment is typically dependent upon the borrower’s financial stability which is more likely to be adversely affected by job loss, illness, or personal bankruptcy. Although the Company has placed all of these loans into its portfolio, a substantial majority of such loans can be sold in the secondary market or pledged for potential borrowings.

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

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

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

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

March 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
	(amounts in thousands)					
Commercial and Industrial	$—	$ —	$ 16	$16	$30,184	$30,200
Real Estate Construction:						
Residential	—	—	—	—	31,190	31,190
Commercial	—	—	1,392	1,392	69,774	71,166
Real Estate Mortgage:						
Commercial – Owner Occupied	—	—	152	152	127,626	127,778
Commercial – Non-owner Occupied	—	—	326	326	272,963	273,289
Residential – 1 to 4 Family	463	62	2,285	2,810	439,995	442,805
Residential – Multifamily	—	—	—	—	49,612	49,612
Consumer	—	—	—	—	15,900	15,900
Total Loans	$463	$ 62	$ 4,171	$4,696	$1,037,244	$1,041,940

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
	(amounts in thousands)					
Commercial and Industrial	$—	$—	$ 17	$17	$38,955	$38,972
Real Estate Construction:						
Residential	—	—	—	—	28,486	28,486
Commercial	—	—	1,392	1,392	65,747	67,139
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

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

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

Impaired loans at March 31, 2018 and December 31, 2017 are set forth in the following tables:

March 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	$—	$—	$ —
Real Estate Construction:			
Residential	—	—	—
Commercial	1,366	5,855	—
Real Estate Mortgage:			
Commercial – Owner Occupied	152	152	—
Commercial – Non-owner Occupied	277	277	—
Residential – 1 to 4 Family	2,285	2,326	—
Residential – Multifamily	—	—	—
Consumer	—	—	—
	4,080	8,610	—
With an allowance recorded:			
Commercial and Industrial	16	20	16
Real Estate Construction:			
Residential	—	—	—
Commercial	4,531	4,629	132
Real Estate Mortgage:			
Commercial – Owner Occupied	3,547	3,577	55
Commercial – Non-owner Occupied	11,727	11,727	248
Residential – 1 to 4 Family	904	905	15
Residential – Multifamily	—	—	—
Consumer	—	—	—
	20,725	20,858	466
Total:			
Commercial and Industrial	16	20	16
Real Estate Construction:			
Residential	—	—	—
Commercial	5,897	10,484	132
Real Estate Mortgage:			
Commercial – Owner Occupied	3,699	3,729	55
Commercial – Non-owner Occupied	12,004	12,004	248
Residential – 1 to 4 Family	3,189	3,231	15
Residential – Multifamily	—	—	—
Consumer	—	—	—
	$24,805	$29,468	$ 466

December 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(amounts in thousands)		
With no related allowance recorded:			
Commercial and Industrial	$17	$21	$ —
Real Estate Construction:			
Residential	—	—	—
Commercial	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	—	—	—
Real Estate Construction:			
Residential	—	—	—
Commercial	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	—
Real Estate Construction:			
Residential	—	—	—
Commercial	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 three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(amounts in thousands)			
Commercial and Industrial	$21	$ —	$23	$ —
Real Estate Construction:				
Residential	—	—	—	—
Commercial	10,512	48	8,188	57
Real Estate Mortgage:				
Commercial – Owner Occupied	3,774	48	4,081	57
Commercial – Non-owner Occupied	12,081	148	18,978	173
Residential – 1 to 4 Family	3,241	14	4,021	19
Residential – Multifamily	—	—	287	—
Consumer	—	—	90	1
Total	$29,629	$ 258	$35,668	$ 307

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

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

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

We also review the financial performance of the borrower over the past year to be reasonably assured of repayment and performance according to the modified terms. This review consists of an analysis of the borrower's historical results; the borrower's projected results over the next four quarters; and current financial information of the borrower and any guarantors. The projected repayment source needs to be reliable, verifiable, quantifiable and sustainable. In addition, all TDRs are reviewed quarterly to determine the amount of any impairment. At the time of restructuring, the amount of the loan principal for which we are not reasonably assured of repayment is charged-off, but not forgiven.

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

Performing TDRs (not reported as non-accrual loans) totaled $20.6 million and $20.9 million with related allowances of $382,000 and $385,000 as of March 31, 2018 and December 31, 2017, respectively. Nonperforming TDRs were $277,000 at March 31, 2018 and December 31, 2017, with no related allowances as of March 31, 2018 and December 31, 2017. All TDRs, performing and nonperforming, are classified as impaired loans and are included in the impaired loan disclosures above. There were no new loans modified as a TDR during the three-month periods ended March 31, 2018 and 2017. Also, there were no loans that were modified and deemed a TDR that subsequently defaulted during the three-month periods ended March 31, 2018 and 2017.

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

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

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

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

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

At March 31, 2018	Pass	OAEM	Substandard	Doubtful	Total
	(amounts in thousands)				
Commercial and Industrial	$30,109	$91	$ —	$ —	$30,200
Real Estate Construction:					
Residential	26,069	5,121	—	—	31,190
Commercial	63,108	—	8,058	—	71,166
Real Estate Mortgage:					
Commercial – Owner Occupied	125,097	2,529	152	—	127,778

Commercial – Non-owner Occupied	272,824	—	465	—	273,289
Residential – 1 to 4 Family	439,837	550	2,418	—	442,805
Residential – Multifamily	49,612	—	—	—	49,612
Consumer	15,883	17	—	—	15,900
Total	$1,022,539	$8,308	$ 11,093	$ —	$1,041,940

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At December 31, 2017	Pass	OAEM	Substandard	Doubtful	Total
	(amounts in thousands)				
Commercial and Industrial	$38,875	$97	$ —	$ —	$38,972
Real Estate Construction:					
Residential	23,430	5,056	—	—	28,486
Commercial	58,921	—	8,218	—	67,139
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

NOTE 5. ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

An analysis of the allowance for loan losses for the three-month periods ended March 31, 2018 and 2017 is as follows:

Allowance for Loan Losses:	For the three months ended March 31, 2018				
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credits)	Ending Balance
	(amounts in thousands)				
Commercial and Industrial	$684	$ —	$ 20	$ (149)	$555
Real Estate Construction:					
Residential	399	—	—	38	437
Commercial	1,669	—	—	121	1,790
Real Estate Mortgage:					
Commercial – Owner Occupied	2,017	—	136	(162)	1,991
Commercial – Non-owner Occupied	4,630	—	5	146	4,781
Residential – 1 to 4 Family	6,277	—	4	363	6,644
Residential – Multifamily	627	—	—	21	648
Consumer	230	(17)	—	22	235
Total	$16,533	$ (17)	$ 165	$ 400	$17,081

Allowance for Loan Losses:	For the three months ended March 31, 2017				
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credits)	Ending Balance
	(amounts in thousands)				
Commercial and Industrial	$1,188	$ (134)	$ 35	$ 76	$1,165
Real Estate Construction:					
Residential	268	—	—	(39)	229
Commercial	2,496	—	—	(556)	1,940
Real Estate Mortgage:					
Commercial – Owner Occupied	2,082	(430)	—	217	1,869
Commercial – Non-owner Occupied	3,889	—	40	311	4,240
Residential – 1 to 4 Family	4,916	(118)	2	336	5,136
Residential – Multifamily	505	—	—	157	662
Consumer	236	—	—	(2)	234
Total	$15,580	$ (682)	$ 77	$ 500	$15,475

Allowance for Loan Losses, at March 31, 2018	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	$16	$ 539	$555
Real Estate Construction:			
Residential	—	437	437
Commercial	132	1,658	1,790
Real Estate Mortgage:			
Commercial – Owner Occupied	55	1,936	1,991
Commercial – Non-owner Occupied	248	4,533	4,781
Residential – 1 to 4 Family	15	6,629	6,644
Residential – Multifamily	—	648	648
Consumer	—	235	235
Total	$466	$ 16,615	$17,081

Allowance for Loan Losses, at December 31, 2017	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	$—	$ 684	$684
Real Estate Construction:			
Residential	—	399	399
Commercial	135	1,534	1,669
Real Estate Mortgage:			
Commercial – Owner Occupied	58	1,959	2,017
Commercial – Non-owner Occupied	250	4,380	4,630
Residential – 1 to 4 Family	15	6,262	6,277
Residential – Multifamily	—	627	627
Consumer	—	230	230
Total	$458	$ 16,075	$16,533

Loans, at March 31, 2018:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	$16	$30,184	$30,200
Real Estate Construction:			
Residential	—	31,190	31,190
Commercial	5,897	65,269	71,166
Real Estate Mortgage:			
Commercial – Owner Occupied	3,699	124,079	127,778
Commercial – Non-owner Occupied	12,004	261,285	273,289
Residential – 1 to 4 Family	3,189	439,616	442,805
Residential – Multifamily	—	49,612	49,612
Consumer	—	15,900	15,900

Total	$24,805	$1,017,135	$1,041,940

Loans, at December 31, 2017:	Individually evaluated for impairment	Collectively evaluated for impairment	Total
	(amounts in thousands)		
Commercial and Industrial	$17	$ 38,955	$38,972
Real Estate Construction:			
Residential	—	28,486	28,486
Commercial	5,952	61,187	67,139
Real Estate Mortgage:			
Commercial – Owner Occupied	3,790	122,460	126,250
Commercial – Non-owner Occupied	12,401	258,071	270,472
Residential – 1 to 4 Family	3,211	413,106	416,317
Residential – Multifamily	—	47,832	47,832
Consumer	81	16,168	16,249
Total	$25,452	$ 986,265	$1,011,717

NOTE 6. 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 for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes that, as of March 31, 2018 and December 31, 2017, that the Company and Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, under capitalized, significantly under capitalized, and critically under capitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If under capitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of March 31, 2018 and December 31, 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, Tier 1 common equity, and Tier 1 leverage ratios as set forth in the following tables:

Regulatory Restrictions

As of March 31, 2018	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes With Capital Conservation Buffer*		To be Well Capitalized Under Prompt Corrective Action Provisions	
(amounts in thousands except ratios)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company:								
Total risk-based capital	$167,788	17.21%	$77,979	8.00%	$96,255	9.875%	$97,474	10.00%
Tier 1 risk-based capital	155,548	15.96%	58,484	6.00%	76,760	7.875%	77,979	8.00 %
Tier 1 leverage	155,548	13.52%	46,017	4.00%	53,207	4.625%	57,521	5.00 %
Tier 1 common equity	126,602	12.99%	43,863	4.50%	62,139	6.375%	63,358	6.50 %
Parke Bank:								
Total risk-based capital	$164,239	16.96%	$77,468	8.00%	$95,625	9.875%	$96,835	10.00%
Tier 1 risk-based capital	152,074	15.70%	58,101	6.00%	76,258	7.875%	77,468	8.00 %
Tier 1 leverage	152,074	13.22%	46,017	4.00%	53,207	4.625%	57,521	5.00 %
Tier 1 common equity	152,074	15.70%	43,576	4.50%	61,732	6.375%	62,943	6.50 %

As of December 31, 2017	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes With Capital Conservation Buffer*		To be Well Capitalized Under Prompt Corrective Action Provisions	
(amounts in thousands except ratios)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company:								
Total risk-based capital	$162,837	17.17%	$75,859	8.00%	$87,711	9.25%	$94,823	10.00%
Tier 1 risk-based capital	150,926	15.92%	56,894	6.00%	68,747	7.25%	75,859	8.00 %
Tier 1 leverage	150,926	14.31%	42,178	4.00%	42,178	4.00%	52,722	5.00 %
Tier 1 common equity	121,955	12.86%	42,670	4.50%	54,523	5.75%	61,635	6.50 %
Parke Bank:								
Total risk-based capital	$159,435	16.81%	$75,861	8.00%	$87,714	9.25%	$94,826	10.00%
Tier 1 risk-based capital	147,524	15.56%	56,896	6.00%	68,749	7.25%	75,861	8.00 %
Tier 1 leverage	147,524	13.99%	42,175	4.00%	42,175	4.00%	52,719	5.00 %
Tier 1 common equity	147,524	15.56%	42,672	4.50%	54,525	5.75%	61,637	6.50 %

*The minimums under Basel III increase by .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 7. COMMITMENTS AND CONTINGENCIES

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. On March 1, 2018 the Bank entered into an agreement with the Federal Home Loan Bank of New York, for a Municipal Line of Credit ("MLOC"), of $40.0 million. The MLOC will be used to pledge against public deposits and expires on March 1, 2019.

NOTE 8. OTHER COMPREHENSIVE LOSS

The Company's accumulated other comprehensive loss consisted of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(amounts in thousands)	
Securities:		
Unrealized losses on securities without OTTI	$(856)	$ (207)
Tax impact	233	77
Other comprehensive loss	$(623)	$ (130)

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NOTE 9. FAIR VALUE

Fair Value Measurements

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

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

Level 1 Input:

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

Level 2 Inputs:

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

Level 3 Inputs:

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

Fair Value on a Recurring Basis:

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

Investment Securities Available for Sale:

Where quoted prices are available in an active market, securities are classified in Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, 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. Securities in Level 2 include mortgage-backed securities, corporate debt obligations, collateralized mortgage-backed securities.

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

Financial Assets	Level 1	Level 2	Level 3	Total
	(amounts in thousands)			
Securities Available for Sale				
As of March 31, 2018				
Corporate debt obligations	$—	$1,027	$ —	$1,027
Residential mortgage-backed securities	—	34,794	—	34,794
Collateralized mortgage-backed securities	—	84	—	84
Collateralized debt obligations	—	—	—	—
Total	$—	$35,905	$ —	$35,905
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
Collateralized debt obligations	—	—	—	—
Total	$—	$37,991	$ —	$37,991

For the three months ended March 31, 2018, there were no transfers between the levels within the fair value hierarchy.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows for the three months ended March 31, 2018

	Securities Available for Sale	
	March 31, 2018	March 31, 2017
	(amounts in thousands)	
Beginning balance at January 1,	$ —	$ 437
Total net losses included in:		
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
	(amounts in thousands)			
As of March 31, 2018				
Collateral-dependent impaired loans	$—	$—	$8,676	$8,676
OREO	—	—	6,838	6,838
As of December 31, 2017				
Collateral-dependent impaired loans	$—	$—	$9,093	$9,093
OREO	—	—	7,248	7,248

Collateral-dependent impaired loans, which are measured in accordance with FASB ASC Topic 310 “Receivables”, for impairment, had a carrying amount of $8.7 million and $9.1 million at March 31, 2018 and December 31, 2017 respectively, with a valuation allowance of $466,000 and $458,000 at March 31, 2018 and December 31, 2017, respectively. The valuation allowance for collateral-dependent impaired loans is included in the allowance for loan losses on the balance sheet. All collateral-dependent impaired loans have an independent third-party full appraisal to determine the NRV based on the fair value of the underlying collateral, less cost to sell (a range of 5% to 10%) and other costs, such as unpaid real estate taxes, that have been identified, or the present value of discounted cash flows in the case of certain impaired loans that are not collateral dependent. The appraisal will be based on an "as-is" valuation and will follow a reasonable valuation method that addresses the direct sales comparison, income, and cost approaches to market value, reconciles those approaches, and explains the elimination of each approach not used. Appraisals are updated every 12 months or sooner if we have identified possible further deterioration in value.

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

Fair Value of Financial Instruments

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

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

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

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

	Level in Fair Value Hierarchy	March 31, 2018		December 31, 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		(amounts in thousands)			
Financial Assets:					
Cash and cash equivalents	Level 1	$46,705	$46,705	$42,113	$42,113
Investment securities AFS	(1)	35,905	35,905	37,991	37,991
Investment securities HTM	Level 2	1,074	1,252	2,268	2,468
Restricted stock	Level 2	5,722	5,722	6,172	6,172
Loans held for sale	Level 2	1,703	1,703	1,541	1,541
Loans, net	(2)	1,024,859	1,025,641	995,184	1,001,655
Accrued interest receivable	Level 2	4,139	4,139	4,025	4,025
Financial Liabilities:					
Demand and savings deposits	Level 2	$524,349	$524,349	$498,522	$498,522
Time deposits	Level 2	377,855	378,593	367,861	368,863
Borrowings	Level 2	118,053	117,698	128,053	127,552
Accrued interest payable	Level 2	731	731	719	719

(1) See the recurring fair value table above.
(2) For non-impaired loans, Level 2; for impaired loans, Level 3.

NOTE 10. EARNINGS PER SHARE (“EPS”)

The following tables set forth the calculation of basic and diluted EPS for the three-month periods ended March 31, 2018 and 2017.

	For the three months ended March 31,	
	2018	2017
Basic earnings per common share		
Net income available to common shareholders	$5,521	$ 3,160
Average common shares outstanding	8,020,232	7,564,607
Basic earnings per common share	$0.69	$ 0.42
Diluted earnings per common share		
Net income available to common shareholders	$5,521	$ 3,160
Dividend on Series B Preferred Stock	239	299
Average common shares outstanding	8,020,232	7,564,607
Dilutive potential common shares	1,896,266	2,337,312
Total diluted average common shares outstanding	9,916,498	9,901,919
Diluted earnings per common share	$0.58	$ 0.35

All share and per share information has been adjusted for the 10% stock dividend paid May 19, 2017.

On March 20, 2018, the Company declared a quarterly cash dividend of $0.12 per share to common shareholders of record as of April 13, 2018 and payable on April 27, 2018.

NOTE 11. SUBSEQUENT EVENTS

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

On April, 17, 2018, the Company declared a 10% common stock dividend. The stock dividend is payable on May 18, 2018, to stockholders of record as of May 4, 2018.

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

Forward-Looking Statements

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

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

General

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

Comparison of Financial Condition at March 31, 2018 and December 31, 2017

At March 31, 2018, the Company’s total assets increased to $1.17 billion, an increase of $29.5 million or 2.6%, from December 31, 2017.

Cash and cash equivalents increased $4.6 million to $46.7 million at March 31, 2018 from $42.1 million at December 31, 2017, a increase of 10.9%. The increase was primarily due to the increase in deposits.

Total investment securities decreased to $37.0 million at March 31, 2018, from $40.3 million at December 31, 2017, a decrease of $3.3 million or 8.1%. The decrease was due to the normal pay downs of mortgage-backed securities and the call of one of the Bank's municipal securities of $1.2 million.

Total loans increased to $1.04 billion at March 31, 2018 from $1.01 billion at December 31, 2017, an increase of $30.2 million or 3.0%. The increase during the three-month period is primarily attributable to an increase in residential 1 - 4 family mortgage loans.

Delinquent loans totaled $4.7 million, or 0.5% of total loans at March 31, 2018, a decrease of $282,000 from December 31, 2017. At March 31, 2018, loans 30 to 89 days delinquent totaled $525,000, an increase of $81,000 from December 31, 2017. Loans delinquent 90 days or more and not accruing interest totaled $4.2 million at March 31, 2018, a decrease of $363,000 from December 31, 2017.

At March 31, 2018, the Company had $4.2 million in non-accrual loans, or 0.4% of total loans, a decrease from $4.5 million, or 0.4% of total loans, at December 31, 2017. The three largest nonperforming loan relationships as of March 31, 2018 are a $1.4 million land development loan, a $497,000 residential term loan, and a $565,000 residential term loan.

The composition of non-accrual loans as of March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018	December 31, 2017
	(amounts in thousands except ratios)	
Commercial and Industrial	$16	$ 17
Real Estate Construction:		
Commercial	1,392	1,392
Real Estate Mortgage:		
Commercial – Owner Occupied	152	155
Commercial – Non-owner Occupied	326	597
Residential – 1 to 4 Family	2,285	2,292
Residential – Multifamily	—	—
Consumer	—	81
Total	$4,171	$ 4,534
Nonperforming loans to total loans	0.4 %	0.4 %

At March 31, 2018, the allowance for loan losses was $17.1 million, as compared to $16.5 million at December 31, 2017. The ratio of allowance for loan losses to total loans was 1.6% at March 31, 2018 and December 31, 2017. The ratio of allowance for loan losses to non-performing assets increased to 155.2% at March 31, 2018, compared to 140.3% at December 31, 2017. During the three-month period ended March 31, 2018, the Company charged off $17,000 in loans, and recovered $165,000, compared to $682,000 charged off in the three months ended March 31, 2017, and $77,000 in recoveries. Specific allowances for loan losses have been established in the amount of $466,000 on impaired loans totaling $24.8 million at March 31, 2018, as compared to $458,000 on impaired loans totaling $25.5 million at December 31, 2017. We have provided for all losses that we believe are both probable and reasonably estimable at March 31, 2018 and December 31, 2017. There can be no assurance, however, that further additions to the allowance will not be required in future periods.

OREO at March 31, 2018 was $6.8 million, compared to $7.2 million at December 31, 2017 with the largest property being a condominium development valued at $2.5 million.

An analysis of OREO activity is as follows:

	For the three months ended March 31,	
	2018	2017
	(amounts in thousands)	
Balance at beginning of period	$7,248	$10,528
Real estate acquired in settlement of loans	290	59
Sales of real estate	(779)	(885)
Gain on sale of real estate	—	51
Write-down of real estate carrying values	—	(57)
Donated property	—	—

Capitalized improvements to real estate	79	133
Balance at end of period	$6,838	$9,829

At March 31, 2018, the Bank’s total deposits increased to $902.2 million from $866.4 million at December 31, 2017, an increase of $35.8 million, or 4.1%. During the three-month period ended March 31, 2018, the Bank had several successful CD promotions. In addition, the two new branches, in Collingswood and Philadelphia's Chinatown, have been effective in increasing our core deposits.

Total borrowings decreased $10.0 million to $104.7 million on March 31, 2018 from $114.7 million at December 31, 2017.

Total shareholders' equity increased to $138.9 million at March 31, 2018 from $134.8 million at December 31, 2017, an increase of $4.1 million or 3.1%, due to the retention of earnings from the period.

Comparison of Operating Results for the Three Months Ended March 31, 2018 and 2017

General: Net income available to common shareholders for the three months ended March 31, 2018, was $5.5 million and for the three months ended March 31, 2017, was $3.2 million.

Interest Income: Interest income increased by $2.4 million, or 21.7%, to $13.5 million for the three months ended March 31, 2018, from $11.1 million for the three months ended March 31, 2017. The increase was attributable to the combined effects of an increase in the average outstanding loan balances and an 18-basis point increase in average loan interest rates. Average loans for the three-month period ended March 31, 2018, were $1.02 billion compared to $869.5 million for the same period last year. The average yield on loans was 5.15% for the three months ended March 31, 2018, compared to 4.97% for the same period in 2017. Overall, average interest-earning assets increased by $156.8 million and the average yield rose by 21 basis points period over period.

Interest Expense: Interest expense increased $643,000 to $2.5 million for the three months ended March 31, 2018, from $1.8 million for the three months ended March 31, 2017. The increase was primarily attributable to an increase in average interest bearing deposits and an increase in the average rates paid on deposits and borrowings. The average rate paid on liabilities for the three-month period ended March 31, 2018 was 1.16%, compared to 0.93% for the same period last year. Average interest bearing deposits for the three-month period ended March 31, 2018 were $750.4 million compared to $709.2 million for the same period last year.

Net Interest Income: Net interest income increased $1.8 million to $11.0 million for the three months ended March 31, 2018, as compared to $9.3 million for the same period last year. We experienced a larger increase in average loans outstanding than we did in our average deposits and borrowing outstanding, resulting in an increase in net interest income. Our net interest rate spread was 3.78% for the three months ended March 31, 2018, as compared to 3.80% for the same period last year. Our net interest margin increased 9 basis points to 4.03% for the three months ended March 31, 2018, from 3.94% for the same period last year.

Provision for Loan Losses: We recorded a provision for loan losses of $400,000 for the three months ended March 31, 2018, compared to $500,000 for the same period last year. The $100,000 decrease was due primarily to higher loan quality.

Non-interest Income: Non-interest income was $869,000 for the three months ended March 31, 2018, compared to $395,000 for the same period last year. The increase was primarily attributable to a $178,000 gain on sale of SBA loans and an increase in service fees on deposit accounts.

Non-interest Expense: Non-interest expense increased $206,000 to $3.9 million for the three months ended March 31, 2018, from $3.7 million for the three months ended March 31, 2017. Contributing to the increase were a $78,000 increase in occupancy expense, a $53,000 increase in compensation and benefits and a $16,000 increase in data processing expense.

Income Taxes: The Company recorded income tax expense of $1.8 million on income before taxes of $7.6 million for the three months ended March 31, 2018, resulting in an effective tax rate of 24.2%, compared to income tax expense of $2.0 million on income before taxes of $5.5 million for the same period of 2017, resulting in an effective tax rate of 36.7%. Income tax expense decreased by $169,000 primarily due to the Tax Cuts and Jobs Act enacted in December of 2017.

The following table sets forth the average balance sheet for the Company for the three months ended March 31, 2018 and 2017.

	For the Three Months Ended March 31,					
	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(amounts in thousands, except percentages)					
Assets						
Loans	$1,023,851	$13,013	5.15%	$869,505	$10,651	4.97%
Investment securities	44,467	349	3.18%	51,022	374	2.97%
Federal funds sold and cash equivalents	40,646	143	1.43%	31,590	72	0.92%
Total interest-earning assets	1,108,964	$13,505	4.94%	952,117	$11,097	4.73%
Other assets	58,054			60,714		
Allowance for loan losses	(16,861)			(15,793)		
Total assets	$1,150,157			$997,038		
Liabilities and Shareholders’ Equity						
Interest bearing deposits:						
NOWs	$53,912	$60	0.45%	$38,911	$53	0.55%
Money markets	152,192	431	1.15%	130,146	187	0.58%
Savings	172,088	226	0.53%	182,110	238	0.53%
Time deposits	281,645	872	1.26%	292,027	837	1.16%
Brokered certificates of deposit	90,558	364	1.63%	65,966	151	0.93%
Total interest-bearing deposits	750,395	1,953	1.06%	709,160	1,466	0.84%
Borrowings	118,775	531	1.81%	93,053	375	1.63%
Total interest-bearing liabilities	869,170	2,484	1.16%	802,213	1,841	0.93%
Non-interest bearing deposits	136,405			59,535		
Other liabilities	6,977			6,048		
Total non-interest bearing liabilities	143,382			65,583		
Shareholders’ equity	137,605			129,242		
Total liabilities and shareholders’ equity	$1,150,157			$997,038		
Net interest income		$11,021			$9,256	
Interest rate spread			3.78%			3.80%
Net interest margin			4.03%			3.94%

Critical Accounting Policies

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

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

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

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

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

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

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

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

Liquidity: Liquidity describes the ability of the Company to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from interest-earning assets. The loan to deposit ratio was 115.5% and 116.8% at March 31, 2018 and December 31, 2017, respectively. Funds received from new and existing depositors provided a large source of liquidity for the three-month period ended March 31, 2018. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support loan growth. The Company also seeks to augment such deposits with longer term and higher yielding certificates of deposit. To the extent that retail deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds market. Longer term funding can be obtained through advances from the FHLB. As of March 31, 2018, the Company maintained lines of credit with the FHLB of $247.3 million, of which $104.7 million was outstanding at March 31, 2018.

As of March 31, 2018, the Company's investment securities portfolio included $34.8 million of residential mortgage-backed securities that provide cash flow each month. The majority of the investment portfolio is classified as available for sale, is marketable, and is available to meet liquidity needs. The Company's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and accordingly could be sold in the secondary mortgage market if needed as an additional source of liquidity. The Company's management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

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

We actively review our capital strategies in light of current and anticipated business risks, future growth opportunities, industry standards, and compliance with regulatory requirements. The assessment of overall capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings stability, competitive forces, economic conditions, and strength of management. At March 31, 2018, the capital ratios of Parke Bank exceed the “well capitalized” thresholds under the current capital requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative Aspects of Market Risk

Interest rate risk is defined as the exposure of current and future earnings and capital that arises from adverse movements in interest rates. Depending on a bank’s asset/liability structure, either rising or declining interest rates can negatively affect the institution’s financial condition and results of operations. For example, a bank with predominantly long-term fixed-rate assets, and short-term liabilities could have an adverse earnings exposure to a rising rate environment. Conversely, a short-term or variable-rate asset base funded by longer-term liabilities could be negatively affected by falling rates. This is referred to as re-pricing or maturity mismatch risk.

Interest rate risk also arises from changes in the slope of the yield curve (yield curve risk); from imperfect correlations in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics (basis risk); and from interest rate related options imbedded in the Bank’s assets and liabilities (option risk).

Our goal is to manage our interest rate risk by determining whether a given movement in interest rates affects our net income and the market value of our portfolio equity in a positive or negative way, and to execute strategies to maintain interest rate risk within established limits.

Quantitative Aspects of Market Risk

We view interest rate risk from two different perspectives. The traditional accounting perspective, which defines and measures interest rate risk as the change in net interest income and earnings caused by a change in interest rates, provides the best view of short-term interest rate risk exposure. We also view interest rate risk from an economic perspective, which defines and measures interest rate risk as the change in the market value of portfolio equity caused by changes in the values of assets and liabilities, which have been caused by changes in interest rates. The market value of portfolio equity, also referred to as the economic value of equity, is defined as the present value of future cash flows from existing assets, minus the present value of future cash flows from existing liabilities.

These two perspectives give rise to income simulation and economic value simulation, each of which presents a unique picture of our risk from any movement in interest rates. Income simulation identifies the timing and magnitude of changes in income resulting from changes in prevailing interest rates over a short-term time horizon (usually one year). Economic value simulation captures more information and reflects the entire asset and liability maturity spectrum. Economic value simulation reflects the interest rate sensitivity of assets and liabilities in a more comprehensive fashion, reflecting all future time periods. It can identify the quantity of interest rate risk as a function of the changes in the economic values of assets and liabilities, and the equity of the Company. Both types of simulation assist in identifying, measuring, monitoring and controlling interest rate risk and are employed by management to ensure that variations in interest rate risk exposure will be maintained within policy guidelines.

The Bank's Asset/Liability Management Committee produces reports on a quarterly basis, which compare current baseline positions (no interest rate change) showing forecasted net income, the economic value of equity and the duration of individual asset and liability classes, and of equity. Duration is defined as the weighted average time to the receipt of the present value of future cash flows. These baseline forecasts are subjected to a series of interest rate changes in order to demonstrate or model the specific impact of the interest rate scenario tested on income, equity and duration. The model, which incorporates all asset and liability rate information, simulates the effect of various interest rate movements on income and equity value. The reports identify and measure the interest rate risk exposure present in our current asset/liability structure.

The table below sets forth an approximation of our interest rate risk exposure. The simulation uses projected re-pricing of assets and liabilities at March 31, 2018. The primary interest rate exposure measurement applied to the entire balance sheet is the effect on net interest income and earnings of a gradual change in market interest rates of plus or minus 200 basis points over a one-year time horizon, and the effect on economic value of equity of a gradual change in market rates of plus or minus 200 basis points for all projected future cash flows. Various assumptions are made regarding the prepayment speed and optionality of loans, investments and deposits, which are based on analysis, market information and in-house studies. The assumptions regarding optionality, such as prepayments of loans and the effective maturity of non-maturity deposit products are documented periodically through evaluation under varying interest rate scenarios.

Because the prospective effects of hypothetical interest rate changes are based on a number of assumptions, these computations should not be relied upon as indicative of actual results. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security, collateralized mortgage obligation and loan repayment activity. Further the computation does not reflect any actions that management may undertake in response to changes in interest rates. Management periodically reviews its rate assumptions based on existing and projected economic conditions.

As of March 31, 2018:

Basis point change in rates (Dollars in thousands)	-200		Base Forecast	+200	
Net Interest Income at Risk:					
Net Interest Income	$47,695		$ 45,850	$44,975	
% change	4.02	%		-1.91	%
Economic Value at Risk:					
Equity	$198,762		$ 165,856	$144,209	
% change	19.84	%		-13.05	%

As of March 31, 2018, based on the scenarios above, net interest income at risk would be negatively affected in a one-year time horizon in a rising rate environment and positively affected over a one-year time horizon in a declining rate environment. Economic value at risk would be positively affected over a one-year time horizon in a declining rate environment and negatively affected in a rising rate environment.

The current historically low interest rate environment reduces the reliability of the measurement of a 200-basis point decline in interest rates, as such a decline would result in negative interest rates. We have established an interest rate floor of zero percent for purposes of measuring interest rate risk. Such a floor in our income simulation results in a reduction in our net interest margin as more of our liabilities than our assets are impacted by the zero percent floor. In addition, economic value of equity is also reduced in a declining rate environment due to the negative impact to deposit premium values.

Overall, our March 31, 2018 results indicate that we are adequately positioned with limited net interest income and economic value at risk and that all interest rate risk results continue to be within our policy guidelines.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. The Parke Parties have filed a motion to dismiss all of the claims asserted against the Parke Parties on the grounds that, among other things, the claims asserted were addressed in prior litigation between the parties, including foreclosure actions, resolved in favor of the Parke Parties.

ITEM 1A. RISK FACTORS

There were no material changes since December 31, 2017 to the risk factors relevant to the Company’s operations that were identified in Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

There were no securities purchased during the three months ended March 31, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of CEO required by Rule 13a-14(a).
31.2	Certification of CFO required by Rule 13a-14(a).
32	Certification required by 18 U.S.C. §1350.
101.INS	XBRL Instance Document *
101.SCH	XBRL Schema Document *
101.CAL	XBRL Calculation Linkbase Document *
101.LAB	XBRL Labels Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *
101.DEF	XBRL Definition Linkbase Document *

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

SIGNATURES

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

		PARKE BANCORP, INC.
Date:	May 10, 2018	/s/ Vito S. Pantilione Vito S. Pantilione President and Chief Executive Officer (Principal Executive Officer)
Date:	May 10, 2018	/s/ John F. Hawkins John F. Hawkins Senior Vice President and Chief Financial Officer (Principal Accounting Officer)