PARKE BANCORP, INC.
Form 10-Q
August 14, 2008

**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: June 30, 2008

o **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<br>incorporation or organization) | (I.R.S. 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 o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yeso No x

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 12, 2008, there were issued and outstanding 3,761,364 shares of the registrant’s common stock.

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**PARKE BANCORP, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2008**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Parke Bancorp, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**(Unaudited)**

| **Assets** | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Amounts in thousands, except share data) | |
| Cash and due from banks | $ 4,005 | $ 4,624 |
| Federal funds sold and cash equivalents | 7,662 | 4,554 |
| **Total cash and cash equivalents** | 11,667 | 9,178 |
| Investment securities available for sale, at fair value | 35,957 | 29,782 |
| Investment securities held to maturity, at amortized cost (fair value 2008 - $2,396; 2007 - $2,410) | 2,468 | 2,456 |
| **Total investment securities** | 38,425 | 32,238 |
| Restricted stock, at cost | 2,226 | 1,473 |
| Loans | 466,358 | 408,389 |
| Less: allowance for loan losses | (6,638) | (5,706) |
| **Total net loans** | 459,720 | 402,683 |
| Bank owned life insurance | 4,910 | 4,815 |
| Bank premises and equipment, net | 3,114 | 3,217 |
| Accrued interest receivable | 2,713 | 2,633 |
| Other assets | 5,721 | 4,558 |
| **Total assets** | $ 528,496 | $ 460,795 |

See Notes to Consolidated Financial Statements

(Continued)

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**Parke Bancorp, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**(Unaudited)**

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Amounts in thousands, except share data) | |
| **Liabilities and Shareholders' Equity** | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing demand | $ 20,666 | $ 17,869 |
| Interest-bearing | 411,525 | 361,611 |
| **Total deposits** | 432,191 | 379,480 |
| Federal Home Loan Bank borrowings | 30,605 | 21,919 |
| Other borrowed funds | 10,000 | 5,000 |
| Subordinated debentures | 13,403 | 13,403 |
| Accrued interest payable | 1,808 | 1,991 |
| Other accrued liabilities | 2,456 | 2,585 |
| **Total liabilities** | 490,463 | 424,378 |
| Commitments and Contingencies (Note 1) | | |
| Shareholders' Equity | | |
| Preferred stock, | | |
| 1,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, | | |
| $.10 par value, 10,000,000 shares authorized; 3,882,642 and 3,307,569 shares issued at June 30, 2008 and December 31, 2007, respectively | 387 | 331 |
| Additional paid-in capital | 34,425 | 26,798 |
| Retained earnings | 6,922 | 11,897 |
| Treasury stock (126,570 shares in at June 30, 2008 and 110,061 shares at December 31, 2007), at cost | (1,819 ) | (1,819 ) |
| Accumulated other comprehensive loss | (1,882 ) | (790 ) |
| **Total shareholders' equity** | 38,033 | 36,417 |
| **Total liabilities and shareholders' equity** | $ 528,496 | $ 460,795 |

See Notes to Consolidated Financial Statements.

**Parke Bancorp, Inc. and Subsidiaries**

**Consolidated Statements of Income**

**(Unaudited)**

| | For the six months ended June 30, | | For the three months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Amounts in thousands, except share data) | | (Amounts in thousands, except share data) | |
| Interest and Dividend Income | | | | |
| Interest and fees on loans | $ 16,527 | $ 14,657 | $ 8,303 | $ 7,715 |
| Interest and dividends on securities | 1,135 | 788 | 579 | 402 |
| Interest on federal funds sold and cash equivalents | 175 | 132 | 67 | 41 |
| **Total interest and dividend income** | 17,837 | 15,577 | 8,949 | 8,158 |
| Interest Expense | | | | |
| Interest on deposits | 8,719 | 7,253 | 4,297 | 3,895 |
| Interest on borrowings | 1,063 | 991 | 528 | 469 |
| **Total interest expense** | 9,782 | 8,244 | 4,825 | 4,364 |
| Net interest income | 8,055 | 7,333 | 4,124 | 3,794 |
| Provision for Loan Losses | 924 | 710 | 564 | 210 |
| Net interest income after provision for loan losses | 7,131 | 6,623 | 3,560 | 3,584 |
| Noninterest Income | | | | |
| Loan fees | 246 | 103 | 75 | 52 |
| Gain on sale of other real estate owned | — | — | — | — |
| Bank owned life insurance income | 94 | 90 | 47 | 46 |
| Service charges on deposit accounts | 89 | 77 | 35 | 41 |
| Net (loss) on the sale of securities | — | (15) | — | (15) |
| Other than temporary decline in value of investments | (488) | — | (488) | — |
| Gain on sale of other real estate owned | — | 205 | — | 205 |
| Other miscellaneous fee income | 50 | 410 | 38 | 15 |
| **Total noninterest income** | (9) | 870 | (293) | 344 |
| Noninterest Expense | | | | |
| Compensation and benefits | 1,733 | 1,486 | 861 | 700 |
| Professional services | 409 | 300 | 237 | 186 |
| Occupancy and equipment | 362 | 372 | 189 | 182 |
| Directors fees | 150 | 107 | 71 | 56 |
| Data processing | 140 | 194 | 69 | 98 |
| Marketing and business development | 113 | 141 | 57 | 74 |
| FDIC insurance | 113 | 17 | 58 | 9 |
| Loss on write down of foreclosed asset | 75 | — | — | — |
| Other operating expenses | 344 | 336 | 173 | 169 |
| **Total noninterest expense** | 3,439 | 2,953 | 1,715 | 1,474 |

| | | | | |
|---|---|---|---|---|
| Income Before Income Tax Expense | 3,683 | 4,540 | 1,552 | 2,454 |
| Income Tax Expense | 1,383 | 1,781 | 551 | 972 |
| **Net income** | $ 2,300 | $ 2,759 | $ 1,001 | $ 1,482 |
| Net Income Per Common Share: | | | | |
| Basic | $ 0.62 | $ 0.76 | $ 0.27 | $ 0.41 |
| Diluted | $ 0.55 | $ 0.67 | $ 0.24 | $ 0.36 |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 3,718,193 | 3,624,110 | 3,736,418 | 3,638,513 |
| Diluted | 4,148,980 | 4,141,889 | 4,163,040 | 4,159,768 |

See Notes to Consolidated Financial Statements

**Parke Bancorp, Inc. and Subsidiaries**
**Consolidated Statements of Shareholders' Equity**
**For the Six Months Ended June 30, 2008 and 2007**
(Unaudited)

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | (Amounts in thousands) | | | | | |
| Balance, December 31, 2006 | $ 288 | $ 21,153 | $ 10,848 | $ (420) | $ (1,160) | $ 30,709 |
| Stock options and warrants exercised | 6 | 441 | — | — | — | 447 |
| Stock compensation | — | 16 | — | — | — | 16 |
| 10% common stock dividend | 29 | 4,769 | (4,798) | — | — | — |
| Cash dividends-cash in lieu of stock dividend | | | (4) | | | (4) |
| Treasury stock purchased (7,800 shares) | — | — | — | — | (129) | (129) |
| Comprehensive income | | | | | | |
| Net income | — | — | 2,759 | — | — | 2,759 |
| Change in net unrealized loss on securities available for sale, net of tax | — | — | — | (173) | — | (173) |
| Pension liability adjustments, net of tax | — | — | — | 10 | — | 10 |
| Total comprehensive income | | | | | | 2,596 |
| Balance, June 30, 2007 | $ 323 | $ 26,379 | $ 8,805 | $ (583) | $ (1,289) | $ 33,635 |
| | | | | | | |
| Balance, December 31, 2007 | $ 331 | $ 26,798 | $ 11,897 | $ (790) | $ (1,819) | $ 36,417 |
| Stock options and warrants exercised | 8 | 388 | — | — | — | 396 |
| Stock compensation | — | 16 | — | — | — | 16 |
| 15% common stock dividend | 48 | 7,223 | (7,271) | — | — | — |
| Cash dividends-cash in lieu of stock dividend | | | (4) | | | (4) |
| Comprehensive income | | | | | | |
| Net income | — | — | 2,300 | — | — | 2,300 |
| Change in net unrealized loss on securities available for sale, net of tax | — | — | — | (1,107) | — | (1,107) |
| Pension liability adjustments, net of tax | — | — | — | 15 | — | 15 |
| Total comprehensive income | | | | | | 1,208 |
| Balance, June 30, 2008 | $ 387 | $ 34,425 | $ 6,922 | $ (1,882) | $ (1,819) | $ 38,033 |

See Notes to Consolidated Financial Statements.

**Parke Bancorp, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

| | For the six months ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| | (Amounts in thousands) | |
| Cash Flows from Operating Activities | | |
| Net income | $ 2,300 | $ 2,759 |
| Adjustments to reconcile net income to | | |
| net cash provided by operating activities: | | |
| Depreciation and amortization | 152 | 154 |
| Provision for loan losses | 924 | 710 |
| Stock compensation | 16 | 16 |
| Bank owned life insurance | (94) | (90) |
| Supplemental executive retirement plan | 163 | 130 |
| Loss on write down of foreclosed asset | 75 | — |
| Other than temporary decline in value of investments | 488 | — |
| Realized losses on sales of securities | — | 15 |
| Net accretion of purchase premiums and discounts on securities | (56) | (25) |
| Deferred income tax benefit | — | — |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accrued interest receivable and other assets | (566) | 438 |
| Decrease in accrued interest payable and other accrued liabilities | (475) | (801) |
| **Net cash provided by operating activities** | 2,927 | 3,306 |
| | | |
| Cash Flows from Investing Activities | | |
| Purchases of investment securities held to maturity | — | — |
| Purchases of investment securities available for sale | (12,425) | (7,288) |
| Purchases of restricted stock | (753) | (264) |
| Proceeds from sales of investment securities available for sale | — | 985 |
| Proceeds from maturities of investment securities available for sale | 2,500 | 2,050 |
| Principal payments on mortgage-backed securities | 1,461 | 695 |
| Investment in trust preferred stock | — | — |
| Proceeds from sale of other real estate owned | — | — |
| Net increase in loans | (57,961) | (61,800) |
| Purchases of bank premises and equipment | (49) | (8) |
| **Net cash used in investing activities** | (67,227) | (65,630) |
| | | |
| Cash Flows from Financing Activities | | |
| Proceeds from exercise of stock options and warrants | 396 | 447 |
| Purchase of treasury stock | — | (129) |
| Cash dividends paid | (4) | (4) |
| Net increase in Federal Home Loan Bank short term borrowings | 5,000 | 6,150 |
| Proceeds from Federal Home Loan Bank advances | 10,000 | 4,500 |
| Payments of Federal Home Loan Bank advances | (1,314) | (6,960) |
| Net (decrease) increase in other short term borrowings | — | — |

| | | |
|---|---|---|
| Proceeds from other long term borrowings | — | |
| Proceeds from issuance of subordinated debentures | — | 3,000 |
| Net increase in noninterest-bearing deposits | 2,796 | 1,842 |
| Net increase in interest-bearing deposits | 49,915 | 50,075 |
| **Net cash provided by financing activities** | 66,789 | 58,921 |
| | | |
| **Increase (decrease) in cash and cash equivalents** | 2,489 | (3,403 ) |
| | | |
| Cash and Cash Equivalents, January 1, | 9,178 | 11,261 |
| | | |
| Cash and Cash Equivalents, June 30, | $ 11,667 | $ 7,858 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for: | | |
| Interest on deposits and borrowed funds | $ 9,964 | $ 8,042 |
| Income taxes | $ 2,277 | $ 2,311 |

See Notes to Consolidated Financial Statements.

**NOTE 1. GENERAL**

**Business**

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

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

**Financial Statements**

The accompanying financial statements as of June 30, 2008 and for the three and six month periods ended June 30, 2008 and 2007 included herein have not been audited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted; therefore, these financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC. The accompanying financial statements reflect all adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature. The results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or any other periods.

**Basis of Financial Statement Presentation**

The financial statements include the accounts of Parke Bancorp, Inc. and its wholly owned subsidiaries, Parke Bank, Parke Capital Markets and Farm Folly, LLC. 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 consolidation requirements. All significant inter-company balances and transactions have been eliminated. Such statements have been prepared in accordance with GAAP and general practice within the banking industry.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

**Investments**

The Company has identified investment securities that will be held for indefinite periods of time, including securities that will be used as a part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as "available-for-sale" and are carried at fair value, with temporary unrealized gains or losses reported as a separate component of accumulated other comprehensive income (losses), net of the related income tax effect. Declines in the fair value of the individual available-for-sale securities below their cost that are other than temporary have resulted in write downs of the individual securities to their fair value and are included in non-interest income in the consolidated statements of operations. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that the Company would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company owns $1 million combined par value of preferred stock issued by the government sponsored enterprises (GSEs) known as Fannie Mae and Freddie Mac. Due to the Congressional approval of the Housing and Economic Recovery Act of 2008, a downgrade in Fannie and Freddie's preferred stock credit ratings and the extent of the GSEs recently reported second quarter losses; the Company prudently recorded $488,000 in other-than-temporary impairment charges as of June 30, 2008. The net unrealized loss that existed as of June 30, 2008 in the available-for-sale investment portfolio is the result of market changes in interest rates since the securities were purchased. This factor, coupled with the fact the Company has both the intent and ability to hold securities for a period of time sufficient to allow for any anticipated recovery in fair value or maturity, substantiates the Company's belief that the unrealized losses in the available-for-sale portfolio are temporary. The Company continuously monitors the investment portfolio to determine the impact of changing economic conditions. Should the Company determine that an impairment becomes other-than-temporary, the carrying value of the investment will be reduced and the unrealized loss will be recorded in the statement of income. (See Note 9 "Fair Value Measurement").

**Commitments**

In the general course of business, there are various outstanding commitments to extend credit, such as letters of credit and un-advanced loan commitments, which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these commitments.

**Contingencies**

The Company is from time to time a party to routine litigation in the normal course of its business. Management does not believe that the resolution of this litigation will have a material adverse effect on the financial condition or results of operations of the Company. However, the ultimate outcome of any such litigation, as with litigation generally, is inherently uncertain and it is possible that some litigation matters may be resolved adversely to the Company.

**NOTE 2. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing income available to holders of common stock (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period are weighted for the portion of the period that they were

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

outstanding. The weighted average number of common shares outstanding for the three months ended June 30, 2008 and 2007 was 3,736,418 and 3,638,513 respectively, and for the six months ended June 30, 2008 and 2007 was 3,718,193 and 3,624,110, respectively.

Diluted earnings per share are similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive options and warrants outstanding had been exercised. The assumed conversion of dilutive options and warrants resulted in 426,622 and 521,255 additional shares for the three months ended June 30, 2008 and 2007, respectively, and for the six months ended June 30, 2008 and 2007 was 430,787 and 517,779, respectively.

Both basic and diluted earnings per share calculations give retroactive effect to stock dividends declared, including the most recent 15% stock dividend that was effective April 18, 2008.

**NOTE 3. STOCK COMPENSATION**

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 123 *Share-Based Payment* (Revised 2004) ("SFAS 123R") utilizing the modified prospective approach. Under the modified prospective transition method, the Company is required to recognize compensation cost for 1) all share-based payments granted prior to, but not vested as of, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) for all share-based payments granted on or after January 1, 2006 based on the grant date fair value estimated in accordance with SFAS 123R. In accordance with the modified prospective method, the Company has not restated prior period results.

Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards effective January 1, 2006. No options were granted in 2008 or 2007.

As of June 30, 2008 and December 31, 2007, there were 11,385 unvested options after adjusting for the stock dividend in April 2008. Compensation cost related to share-based payments amounted to $16,526 during the first six months of 2008, which was related to options issued in 2006. As of June 30, 2008, there was approximately $45,000 of total unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted average period of 1.25 years.

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 4. LOANS**

The portfolio of the loans outstanding consists of:

| | June 30, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage of Gross Loans | | Amount | Percentage of Gross Loans | |
| | (Amounts in thousands, except percentages) | | | | | |
| Commercial | $ 15,651 | 3.3 | % | $ 14,899 | 3.7 | % |
| Real estate construction | | | | | | |
| Residential | 3,102 | 0.7 | | 2,091 | 0.5 | |
| Commercial | 116,861 | 25.1 | | 106,320 | 26.0 | |
| Real estate mortgage | | | | | | |
| Residential | 25,295 | 5.4 | | 24,488 | 6.0 | |
| Commercial | 285,192 | 61.2 | | 242,668 | 59.4 | |
| Consumer | 20,257 | 4.3 | | 17,923 | 4.4 | |
| Total Loans | $ 466,358 | 100.0 | % | $ 408,389 | 100.0 | % |

At June 30, 2008, the $116.9 million reported for commercial real estate construction included $79.9 million in outstandings to commercial borrowers for the purpose of building one-to-four family houses. At December 31, 2007, the $106.3 million reported for commercial real estate construction included $76.6 million in outstandings to commercial borrowers for the purpose of building one-to-four family houses.

**NOTE 5. REGULATORY RESTRICTIONS**

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

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

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

| | | | | Regulatory Guidelines | | | | |
|---|---|---|---|---|---|---|---|---|
| | Actual | | | Minimum Adequacy | | | To Be Well-Capitalized | |
| **Parke Bancorp, Inc.** | Amount | Ratio | | Amount | Ratio | | Amount | Ratio |
| As of June 30, 2008<br>(Amounts in thousands) | | | | | | | | |
| Total Risk Based Capital<br>(to Risk Weighted Assets) | $ 59,693 | 11.7 | % | $ 40,806 | 8 | % | N/A | N/A |
| Tier I Capital<br>(to Risk Weighted Assets) | $ 53,319 | 10.5 | % | $ 20,403 | 4 | % | N/A | N/A |
| Tier I Capital<br>(to Average Assets) | $ 53,319 | 10.2 | % | $ 20,982 | 4 | % | N/A | N/A |

| | | | | Regulatory Guidelines | | | | |
|---|---|---|---|---|---|---|---|---|
| | Actual | | | Minimum Adequacy | | | To Be Well-Capitalized | |
| **Parke Bancorp, Inc.** | Amount | Ratio | | Amount | Ratio | | Amount | Ratio |
| As of December 31, 2007<br>(Amounts in thousands) | | | | | | | | |
| Total Risk Based Capital<br>(to Risk Weighted Assets) | $ 55,198 | 12.3 | % | $ 35,916 | 8 | % | N/A | N/A |
| Tier I Capital<br>(to Risk Weighted Assets) | $ 49,590 | 11.1 | % | $ 17,958 | 4 | % | N/A | N/A |
| Tier I Capital<br>(to Average Assets) | $ 49,590 | 11.1 | % | $ 17,872 | 4 | % | N/A | N/A |

| Parke Bank | Actual Amount | Ratio | Regulatory Guidelines Minimum Adequacy Amount | Ratio | To Be Well-Capitalized Amount | Ratio |
|---|---|---|---|---|---|---|
| As of June 30, 2008<br>(Amounts in thousands) | | | | | | |
| Total Risk Based Capital (to Risk Weighted Assets) | $ 58,983 | 11.6 % | $ 40,775 | 8 % | $ 50,969 | 10% |
| Tier I Capital (to Risk Weighted Assets) | $ 52,609 | 10.3 % | $ 20,388 | 4 % | $ 30,581 | 6% |
| Tier I Capital (to Average Assets) | $ 52,609 | 10.0 % | $ 20,967 | 4 % | $ 26,208 | 5% |

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

| **Parke Bank** | Actual Amount | Ratio | | Regulatory Guidelines Minimum Adequacy Amount | Ratio | | To Be Well-Capitalized Amount | Ratio |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2007 (Amounts in thousands) | | | | | | | | |
| Total Risk Based Capital (to Risk Weighted Assets) | $ 55,583 | 12.4 | % | $ 35,885 | 8 | % | $ 44,856 | 10% |
| Tier I Capital (to Risk Weighted Assets) | $ 49,975 | 11.1 | % | $ 17,942 | 4 | % | $ 26,913 | 6% |
| Tier I Capital (to Average Assets) | $ 49,975 | 11.2 | % | $ 17,867 | 4 | % | $ 22,334 | 5% |

Management believes, as of June 30, 2008 and December 31, 2007, that the Company and the Bank met all capital adequacy requirements to which they are subject.

**NOTE 6. SUBORDINATED DEBENTURES**

On June 21, 2007, Parke Capital Trust III, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued $3.0 million of variable rate capital trust pass-through securities to investors. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.50% and was 4.28% at June 30, 2008. Parke Capital Trust III purchased $3.1 million of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after June 15, 2012, at par or earlier if the deduction of related interest for federal income taxes is prohibited, classification as Tier 1 Capital is no longer allowed, or certain other contingencies arise. The capital securities must be redeemed upon final maturity of the subordinated debentures on September 15, 2037. Proceeds of approximately $3.0 million were retained at the Company for future use.

**NOTE 7. INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* (“FIN 48”), on January 1, 2007. The Company files United States (US) federal income tax returns and state tax returns in New Jersey. Based upon the statute of limitations, the Company is no longer subject to US federal and state examinations by tax authorities for years before 2003. Based on the review of the tax returns filed for the years 2003 through 2006 and the deferred tax benefits accrued in the 2007 annual financial statements, management determined that all tax positions taken had a probability of greater than 50 percent of being sustained and that 100 percent of the benefits accrued were expected to be realized. Management has a high confidence level in the technical merits of the positions and believes that the deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. As a result of this evaluation, no liability for unrecognized tax benefits has been recorded.

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 8. COMPREHENSIVE INCOME**

The Company's comprehensive income is presented in the following table.

| | For the three months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | (Amounts in thousands) | | | | | |
| Net income | $ | 1,001 | | $ | 1,482 | |
| Unrealized losses on securities (net of tax of $270 and $156) | | (404 | ) | | (235 | ) |
| Minimum pension liability (net of tax) | | 7 | | | 5 | |
| | $ | 604 | | $ | 1,252 | |

| | For the six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | (Amounts in thousands) | | | | | |
| Net income | $ | 2,300 | | $ | 2,759 | |
| Unrealized losses on securities (net of tax of $738 and $115) | | (1,107 | ) | | (173 | ) |
| Minimum pension liability (net of tax) | | 15 | | | 10 | |
| | $ | 1,208 | | $ | 2,596 | |

**NOTE 9. FAIR VALUE MEASUREMENT**

Effective January 1, 2008, the Company adopted SFAS 157 Fair Value Measurement, which provides a framework for measuring fair value under generally accepted accounting principles. SFAS 157 applies to all financial instruments that are being measured and reported on a fair value basis.

The Company also adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, on January 1, 2008. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets on a contract-by-contract basis. SFAS 159 requires that the difference between the carrying value before election of the fair value option and the fair value of these instruments be recorded as an adjustment to beginning retained earnings in the period of adoption. The Company has not elected the fair value option for any existing financial assets or liabilities and consequently did not have any adoption-related adjustments.

**Fair Value Measurement**

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for such asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs applied in the valuation technique. These inputs can be classified as readily observable, market corroborated, or generally unobservable. The Company utilizes techniques that maximize the use of observable inputs whenever available and minimize the use of unobservable inputs. The Company is required to provide the following information according to the fair value hierarchy based upon observable inputs used in valuation techniques. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value will be classified and disclosed as follows:

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

Level 1 Inputs:

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

2) Generally, this includes debt and equity securities and derivative contracts that are traded in an active exchange market (i.e. New York Stock Exchange), as well as certain U.S. Treasury and U.S. Government and agency mortgage-backed securities that are highly liquid and are actively traded in over-the-counter markets.

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."

4) Generally, this includes U.S. Government and agency mortgage-backed securities and preferred stocks, corporate debt securities, derivative contracts and loans held for sale.

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.

3) Generally, this includes trust preferred securities.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Securities Portfolio

The fair value of securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1). When listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or significant management judgment or estimation based upon unobservable inputs due to limited or no market activity of the instrument (Level 3).

**PARKE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

Fair Value on a Recurring Basis

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 | $ — | $ 31,369 | $ 4,588 | $ 35,957 |
| Securities held to maturity | $ — | $ 2,396 | $ — | $ 2,396 |

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

| | **Securities Available for Sale (Amounts in thousands)** |
|---|---|
| Beginning balance at January 1, 2008 | $ 5,735 |
| Total net gains (losses) included in: | |
| Net income | — |
| Other comprehensive loss | (1,147) |
| Purchases, sales, issuances and settlements, net | — |
| Net transfers within Level 3 | — |
| Ending balance June 30, 2008 | $ 4,588 |
| Net unrealized gains (losses) included in net income for the quarter relating to assets held at June 30, 2008 | $ — |

No gains and losses (realized and unrealized) included in earnings above were reported in non-interest income.

**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. Readers should carefully review the risk factors described in other documents the Company files from time to time with the SEC, including quarterly reports on Form 10-Q, Annual Reports on Form 10-K and any current reports on Form 8-K.

**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, earnings from bank owned life insurance (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.

**Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007**

**(unaudited)**

The following discussion compares the results of operations for the three month period ended June 30, 2008 to the results of operations for the three month period ended June 30, 2007. This discussion should be read in conjunction with the accompanying financial statements and related notes as well as the financial information included in the 2007 Annual Report on Form 10-K.

**Results of Operations**

*Net Income.* For the quarter ended June 30, 2008, net income totaled $1.0 million, compared to $1.5 million for the quarter ended June 30, 2007. Diluted earnings per share for the three months ended June 30, 2008 totaled $0.24, compared to $0.36 per share for the same period of 2007. All prior period earnings per share information have been adjusted for the 15% stock dividend paid in the second quarter of 2008. The reduction in net income for the three months ended June 30, 2008 was attributable to $488,000 in other-than-temporary impairment charges on Fannie Mae and Freddie Mac preferred stocks, an increase in the provision for loan losses of $354,000, a decline in non-interest income of $149,000 and an increase in non-interest expense of $241,000, which were partially offset by an increase in net interest income of $330,000.

*Net Interest Income.* Our primary source of earnings is net interest income, which is the difference between income earned on interest-earning assets, such as loans and investment securities, and interest expense incurred on interest-bearing sources of funds, such as deposits and borrowings. The level of net interest income is determined primarily by the average balances (“volume”) and the rate spreads between the interest-earning assets and our funding sources.

Net interest income for the three months ended June 30, 2008 totaled $4.1 million, an increase of 8.7% over $3.8 million for the three months ended June 30, 2007. The increase is attributable primarily to growth in the commercial real estate loan portfolio, which was partially offset by a decline in the net interest margin. Interest income of $8.9 million increased $791,000, or 9.7%, from the comparable quarter of 2007 due to an increase in average interest-earning assets of $113.6 million, or 28.7%, that was partially offset by a decline in the yield on average interest-earning assets. The average yield on earning assets fell 120 basis points to 7.07% for the second quarter of 2008 from 8.27% for the second quarter of 2007.

For the quarter ended June 30, 2008, interest expense of $4.8 million increased by $461,000, or 10.6%, from $4.4 million for the quarter ended June 30, 2007. In order to fund the Company’s asset growth, average interest-bearing liabilities grew $106.0 million, or 30%, in the second quarter of 2008 to $459.0 million from $353.0 million for the comparable 2007 period. The average rate paid on interest-bearing liabilities dropped 73 basis points to 4.23% for the three months ended June 30, 2008 from 4.96% for the same period of 2007.

The net interest margin of 3.26% for the second quarter of 2008 declined from 3.84% for the quarter ended June 30, 2007 due mainly to the previously noted 120 basis point decline in the yield on interest-earning assets, which was mainly related to prime-based commercial loans. This was partially offset by the 73 basis point decline in the average rate paid on interest-bearing liabilities. The Federal Reserve has reduced the fed funds rate by 325 basis points during the past nine months which has generally reduced the yields on the Company’s prime-based commercial loans by a corresponding amount. The prime-based commercial loans represent slightly more than one-half of the commercial loan portfolio. However the interest rates paid for deposits, both retail and brokered certificates of

deposit, have declined at a much slower pace due to competitive pricing by other financial institutions, resulting in a lower net interest margin.

*Provision for Loan Losses*. The provision for loan losses amounted to $564,000 for the second quarter of 2008 as compared to $210,000 for the same quarter in 2007. The increase in the provision for the 2008 period was primarily due to the 25.2% increase in loan balances during the twelve months ended June 30, 2008.

*Non-interest Income*. Non-interest income for the quarter ended June 30, 2008 was a loss of $293,000 compared to $344,000 in income from the comparable quarter of 2007. The $637,000 decrease was mainly attributable to $488,000 in other-than-temporary impairment charges on Fannie Mae and Freddie Mac preferred stocks in the second quarter of 2008 and a pre-tax gain of $205,000 on the sale of a repossessed property in the second quarter of 2007. There was no gain on the sale of repossessed property in the 2008 second quarter and no other-than-temporary impairment charge in the 2007 second quarter.

*Non-interest Expense*. For the three months ended June 30, 2008, non-interest expenses increased $241,000, or 16.4%, to $1.7 million, compared to $1.5 million for the same period of 2007. The higher expense level was associated with increased staffing costs of $161,000 related to annual merit raises, staff additions, higher cost fringe benefits and a new loan production office in Havertown, Pennsylvania; increased professional services of $51,000 due primarily to higher legal expenses for lending matters; and increased FDIC insurance expense of $49,000 related to higher assessment rates for member banks that began in July 2007. Offsetting this increase were modest declines in data processing and marketing.

*Income Taxes*. The Company recorded income tax expense of $551,000, on income before taxes of $1.6 million for the three months ended June 30, 2008, resulting in an effective tax rate of 35.5%, compared to income tax expense of $972,000 on income before taxes of $2.5 million for the same period of 2007, resulting in an effective tax rate of 39.6%. The 2008 effective tax rate was affected by a $75,000 overaccrual from a prior tax period.

Interest Yield Table

For the three months ended

| | June 30, 2008 | | | June 30, 2007 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield/ Cost | Average Balance | Interest | Yield/ Cost |
| | (Amounts in thousands, except percentages) | | | | | |
| Assets | | | | | | |
| Loans [1] | | | | | | |
| Consumer | $ 19,860 | $ 286 | 5.80 % | $ 9,231 | $ 173 | 7.51 % |
| Commercial | 409,322 | 7,565 | 7.43 | 330,349 | 7,124 | 8.65 |
| Mortgage | 27,049 | 452 | 6.72 | 23,346 | 418 | 7.19 |
| Total loans | 456,231 | 8,303 | 7.32 | 362,926 | 7,715 | 8.53 |
| Investment securities | 40,555 | 579 | 5.74 | 29,916 | 402 | 5.39 |
| Federal funds sold and money markets | 12,616 | 67 | 2.14 | 2,971 | 41 | 5.51 |
| Total interest—earning assets | 509,402 | $ 8,949 | 7.07 | 395,813 | $ 8,158 | 8.27 |
| Allowance for loan loss | (6,308) | | | (5,053) | | |
| Other assets | 19,429 | | | 18,623 | | |
| Total assets | $ 522,523 | | | $ 409,383 | | |
| Liabilities and Shareholders' Equity | | | | | | |
| NOWs | $ 14,076 | $ 87 | 2.49 % | $ 7,878 | $ 30 | 1.54 % |
| Money markets | 36,988 | 310 | 3.37 | 24,806 | 280 | 4.53 |
| Savings | 40,391 | 329 | 3.27 | 25,526 | 236 | 3.71 |
| Time deposits | 174,710 | 1,902 | 4.38 | 161,220 | 2,064 | 5.14 |
| Brokered certificates of deposit | 144,384 | 1,669 | 4.65 | 99,326 | 1,285 | 5.19 |
| Total interest—bearing deposits | 410,549 | 4,297 | 4.21 | 318,756 | 3,895 | 4.90 |
| Borrowings | 48,477 | 528 | 4.38 | 34,256 | 469 | 5.50 |
| Total interest—bearing liabilities | 459,026 | $ 4,825 | 4.23 | 353,012 | $ 4,364 | 4.96 |
| Non—interest bearing demand deposits | 21,379 | | | 19,131 | | |
| Other liabilities | 4,210 | | | 3,864 | | |
| Shareholder's equity | 37,908 | | | 33,376 | | |
| Total liabilities and shareholders' equity | $ 522,523 | | | $ 409,383 | | |
| Net interest income | | $ 4,124 | | | $ 3,794 | |
| Interest rate spread [2] | | | 2.84 % | | | 3.31 % |
| Net interest margin [3] | | | 3.26 % | | | 3.84 % |

[1] Non-accrual loans are included in the average balance. Income includes SFAS No. 91 loan fees.
[2] Interest rate spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities.
[3] Net interest margin is the ratio of net interest income to average total interest-earning assets.

**Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

**(unaudited)**

The following discussion compares the results of operations for the six months ended June 30, 2008 to the results of operations for the six months ended June 30, 2007. This discussion should be read in conjunction with the accompanying financial statements and related notes as well as the financial information included in the 2007 Annual Report on Form 10-K.

**Results of Operations**

*Net Income.* For the six months ended June 30, 2008, net income totaled $2.3 million, compared to $2.8 million for the six months ended June 30, 2007. Diluted earnings per share for the first six months of 2008 totaled $0.55, compared to $0.67 per share for the comparable period of 2007. All prior period earnings per share information have been adjusted for the 15% stock dividend paid in the second quarter of 2008. The decline in net income for the first six months of 2008 was attributable primarily to $488,000 in other-than-temporary impairment charges on Fannie Mae and Freddie Mac preferred stocks, a decrease in non-interest income of $391,000, an increase in provision for loan losses of $214,000, and an increase in non-interest expense of $486,000, which were partially offset by an increase in net interest income of $722,000.

*Net Interest Income.* Net interest income for the first six months of 2008 totaled $8.1 million, an increase of $722,000, or 9.8%, above $7.3 million for the six months ended June 30, 2007. The increase is attributable primarily to growth in the commercial loan portfolio, which was partially offset by a decline in the net interest margin. Interest income of $17.8 million increased $2.2 million, or 14.5%, from the comparable period of 2007 due to an increase in average interest-earning assets of $110.9 million, or 29.1%, that was partially offset by a decline in the yield on average interest-earning assets. Average loans outstanding of $440.2 million for the six months ended June 30, 2008 grew $92.9 million, or 26.8%, from the comparable period of 2007. The average yield on earning assets fell 94 basis points to 7.29% for the first six months of 2008 from 8.23% for the first six months of 2007.

Interest expense increased $1.6 million, or 18.7%, from $8.2 million for the six months ended June 30, 2007 to $9.8 million for the six months ended June 30, 2008. For the first half of 2008, average interest-bearing liabilities were $443.4 million, an increase of $103.7 million, or 30.5%, from $339.7 million for the comparable period in 2007. For the six months ended June 30, 2008, average interest-bearing deposits and average borrowings increased $94.1 million and $9.6 million, respectively, from the comparable period of 2007. The average rate paid on interest-bearing liabilities decreased to 4.44% for the period ended June 30, 2008 from 4.89% for the comparable period of 2007.

The net interest margin for the six month period ended June 30, 2008 was 3.29%, which was down from 3.88% for the comparable period of 2007 due mainly to the previously noted 94 basis point decline in the yield on interest-earning assets, which was mainly related to prime-based commercial loans. This was partially offset by the 45 basis point decline in the average rate paid on interest-bearing liabilities. The Federal Reserve has reduced the fed funds rate by 325 basis points during the past nine months which has generally reduced the yields on the Company's prime-based commercial loans by a corresponding amount. The prime-based commercial loans represent slightly more than one-half of the commercial loan portfolio. However the interest rates paid for deposits, both retail and brokered certificates of deposit, have declined at a much slower pace due to competitive pricing by other financial institutions, resulting in a lower net interest margin.

*Provision for Loan Losses.* The provision for loan losses was $924,000 for the six months ended June 30, 2008, compared to $710,000 for the same period in 2007. The increase in the provision for the 2008 period was primarily due to the 25.2% increase in loan balances during the twelve months ended June 30, 2008.

*Non-interest Income*. Non-interest income was a loss of $9,000 for the six months ended June 30, 2008 compared to $870,000 in income for the comparable period of 2007. The $879,000 decline was principally due to the other-than-temporary impairment charge on investment securities of $488,000 in the second quarter of 2008, the gain on the sale of repossessed property in the second quarter of 2007 ($205,000) and the insurance reimbursements ($377,000) that occurred in the first quarter of 2007 which were partially offset by the higher level of loan exit fees ($143,000) in 2008.

*Non-interest Expense*. For the six months ended June 30, 2008, non-interest expense of $3.4 million increased by $486,000, or 16.5% compared to $3.0 million for the same period of 2007. The higher expense level was associated with increased staffing costs of $247,000 related to annual merit raises, staff additions, higher cost fringe benefits and a new loan production office in Havertown, Pennsylvania; increased professional services of $109,000 due primarily to higher legal expenses for lending matters; increased FDIC insurance expense of $96,000 related to higher assessment rates for member banks that began in July 2007; and a loss on the write-down of a foreclosed asset of 75,000. Offsetting this increase were modest declines in occupancy, data processing and marketing.

*Income Taxes*. The Company recorded income tax expense of $1.4 million on income before taxes of $3.7 million for the six months ended June 30, 2008, resulting in an effective tax rate of 37.6%, compared to income tax expense of $1.8 million on income before taxes of $4.5 million for the comparable period of 2007, resulting in an effective tax rate of 39.2%. The 2008 effective tax rate was affected by a $75,000 overaccrual for a prior tax period.

Interest Yield Table
For the six months ended

| | June 30, 2008 | | | June 30, 2007 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield/ Cost | Average Balance | Interest | Yield/ Cost |
| | (Amounts in thousands, except percentages) | | | | | |
| Assets | | | | | | |
| Loans [1] | | | | | | |
| Consumer | $ 18,992 | $ 583 | 6.17 % | $ 8,496 | $ 320 | 7.59 % |
| Commercial | 394,129 | 15,039 | 7.67 | 315,866 | 13,540 | 8.64 |
| Mortgage | 27,043 | 905 | 6.73 | 22,884 | 797 | 7.03 |
| Total loans | 440,164 | 16,527 | 7.55 | 347,246 | 14,657 | 8.51 |
| Investment securities | 38,862 | 1,135 | 5.87 | 29,249 | 788 | 5.44 |
| Federal funds sold and money markets | 13,307 | 175 | 2.65 | 4,970 | 132 | 5.36 |
| Total interest—earning assets | 492,333 | $ 17,837 | 7.29 | 381,465 | $ 15,577 | 8.23 |
| Allowance for loan loss | (6,089 ) | | | (4,824 ) | | |
| Other assets | 19,215 | | | 18,472 | | |
| Total assets | $ 505,459 | | | $ 395,113 | | |
| Liabilities and Shareholders' Equity | | | | | | |
| NOWs | $ 13,778 | $ 181 | 2.64 % | $ 8,655 | $ 67 | 1.57 % |
| Money markets | 34,585 | 608 | 3.53 | 22,899 | 491 | 4.33 |
| Savings | 36,194 | 614 | 3.41 | 25,913 | 476 | 3.71 |
| Time deposits | 170,798 | 3,923 | 4.62 | 148,555 | 3,737 | 5.07 |
| Brokered certificates of deposit | 142,177 | 3,393 | 4.80 | 97,366 | 2,482 | 5.14 |
| Total interest—bearing deposits | 397,532 | 8,719 | 4.41 | 303,388 | 7,253 | 4.82 |
| Borrowings | 45,947 | 1,063 | 4.65 | 36,370 | 991 | 5.49 |
| Total interest—bearing liabilities | 443,479 | $ 9,782 | 4.44 | 339,758 | $ 8,244 | 4.89 |
| Non—interest bearing demand deposits | 20,209 | | | 18,965 | | |
| Other liabilities | 4,039 | | | 3,771 | | |
| Shareholder's equity | 37,732 | | | 32,619 | | |
| Total liabilities and shareholders' equity | $ 505,459 | | | $ 395,113 | | |
| Net interest income | | $ 8,055 | | | $ 7,333 | |
| Interest rate spread [2] | | | 2.85 % | | | 3.34 % |
| Net interest margin [3] | | | 3.29 % | | | 3.88 % |

[1] Non-accrual loans are included in the average balance. Income includes SFAS No. 91 loan fees.
[2] Interest rate spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities.

[3] Net interest margin is the ratio of net interest income to average total interest-earning assets.

**Financial Condition**

**At June 30, 2008 and December 31, 2007**

**(unaudited)**

The following discussion compares the financial condition at June 30, 2008 to the financial condition at December 31, 2007. This discussion should be read in conjunction with the accompanying financial statements and related notes as well as statistical information included in the 2007 Annual Report on Form 10-K.

Total assets at June 30, 2008 amounted to $528.5 million, compared to $460.8 million at December 31, 2007, resulting in an increase of $67.7 million, or 14.7%. This increase was driven primarily by loan growth as the Company continued to expand its loan portfolio through development of new and existing business relationships.

Investment securities amounted to $38.4 million at June 30, 2008 versus $32.2 million at December 31, 2007. The Company owns $1 million combined par value of the government sponsored enterprises (GSEs) Fannie Mae's and Freddie Mac's preferred stock. Due to the Congressional approval of the Housing and Economic Recovery Act of 2008, a downgrade in Fannie and Freddie's preferred stock credit ratings and the extent of the GSEs recently reported second quarter losses; the Company prudently recorded $488,000 in other-than-temporary impairment charges as of June 30, 2008. The net unrealized loss that existed as of June 30, 2008 in the available-for-sale investment portfolio is the result of market changes in interest rates since the securities were purchased. This factor, coupled with the fact the Company has both the intent and ability to hold securities for a period of time sufficient to allow for any anticipated recovery in fair value or maturity, substantiates the Company's belief that the unrealized losses in the available-for-sale portfolio are temporary. The Company continuously monitors the investment portfolio to determine the impact of changing economic conditions. Should the Company determine that an impairment becomes other-than-temporary, the carrying value of the investment will be reduced and the unrealized loss will be recorded in the statement of income.

Total loans at June 30, 2008 were $466.4 million, which represented an increase of $58.0 million, or 14.2% above the level of $408.4 million at December 31, 2007. Growth occurred in all loan types but was concentrated in the commercial real estate loan portfolio due to continued strong business development.

The allowance for loan losses amounted to $6.6 million at June 30, 2008 compared to $5.7 million at December 31, 2007. The ratio of the allowance for loan losses to total loans increased from 1.40% at December 31, 2007 to 1.42% at June 30, 2008. The Company's management has taken non-performing loans and other loans of concern into consideration in establishing the allowance for loan losses. The Company continues to monitor its allowance for loan losses and will make future additions or reductions in light of the level of loans in its portfolio and as economic conditions dictate. The current level of the allowance for loan losses is a result of the Company's management assessment of the risks within the portfolio based upon the information revealed in credit reporting processes. The Company utilizes a risk-rating system on all commercial, business, agricultural, construction, consumer, multi-family, residential and commercial real estate loans, including purchased loans. This risk assessment takes into account the composition of the loan portfolio and historical loss experience for each major loan category. In addition qualitative adjustments are made for levels and trends in delinquencies, non-accruals and impaired loans; trends in volume; effects, if any, for changes in the Company's credit policy; experience and depth of the lending staff; any national and local economic trends and conditions; and concentrations of credit within the total portfolio.

The following table sets forth the allocation of the Bank's allowance for loan losses by loan category at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses that may occur within the loan category as the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

| | June 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Amount | Percentage of Gross Loans | Amount | Percentage of Gross Loans |
| | (Amounts in thousands, except percentages) | | | |
| Commercial | $ 223 | 3.4 % | $ 209 | 3.7 % |
| Real estate construction | | | | |
| Residential | 44 | 0.7 | 22 | 0.5 |
| Commercial | 1,663 | 25.1 | 1,489 | 26.0 |
| Real estate mortgage | | | | |
| Residential | 360 | 5.4 | 257 | 6.0 |
| Commercial | 4,059 | 61.2 | 3,568 | 59.4 |
| Consumer | 288 | 4.3 | 161 | 4.4 |
| Total Loans | $ 6,638 | 100.0 % | $ 5,706 | 100.0 % |

Although the Company's management believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in adjustments to the allowance, which could significantly impact the Company's financial results, if circumstances differ substantially from the assumptions used in making the final determinations. Future additions to the Company's allowances may result from periodic loan, property and collateral reviews coupled with negative trends in the factors noted above and therefore cannot always be accurately predicted in advance.

Non-performing loans, expressed as a percentage of total loans, amounted to 0.36% at June 30, 2008 versus 0.20% at December 31, 2007. At June 30, 2008, the Company had $1.7 million in non-accruing loans, which increased from $805,000 at December 31, 2007. On June 30, 2008, the Bank had one loan relationship for $855,000 that went more than 90 days past due. Consequently, that relationship was placed on non-accrual.

Total deposits amounted to $432.2 million at June 30, 2008 and increased by $52.7 million, or 13.9%, from $379.5 million at December 31, 2007. While deposit balances were up in all categories, time deposits accounted for a majority of the increase in total deposits.

Borrowings, which included Federal Home Loan Bank (FHLB) advances, repurchase agreements and subordinated debentures amounted to $54.0 million at June 30, 2008, an increase of $13.7 million from $40.3 million at December 31, 2007. The Bank increased its favorably priced FHLB advances.

Shareholders' equity was $38.0 million at June 30, 2008 and $36.4 million at December 31, 2007. Net income of $2.3 million coupled with additional capital from the exercise of warrants was partially offset by accumulated other comprehensive loss of $1.1 million principally associated with mark to market losses in investment securities available-for-sale. During the first two quarters of 2008, mark to market losses in the available-for-sale investment portfolio accounted for this loss ($1.8 million pre-tax), which occurred primarily in trust preferred securities within the corporate bond portfolio and in the collateralized mortgage-backed security portfolio. The decline in the value of the trust preferred and the collateralized mortgage-backed securities over the past two quarters is primarily driven by liquidity issues as the current market for such

investments has become extremely illiquid.

**Critical Accounting Policy**

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is used on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be related to the allowance for loan losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-offs trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to increased rate movements. Qualitative factors include the general economic environment in the Company's market area. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Management may report a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Managements Discussion and Analysis, which discusses the allowance for loan losses in this section, entitled "Financial Condition". Although management believes the level of this allowance as of June 30, 2008 was adequate to absorb losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that can not be reasonably predicated at this time.

**Liquidity and Capital Resources**

Liquidity describes our ability to meet the financial obligations that arise out of the ordinary course of business. Liquidity addresses the Company's ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund current and planned expenditures. Liquidity is derived from increased repayment and income from interest-earning assets. The loan to deposit ratio was 107.9% and 107.6% at June 30, 2008 and December 31, 2007, respectively. Funds received from new and existing depositors provided a large source of liquidity for the six-month period ended June 30, 2008. The Company seeks to rely primarily on core deposits from customers to provide stable and cost-effective sources of funding to support local 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 the issuance of trust preferred securities and advances from the FHLB. As of June 30, 2008, the Company maintained lines of credit with the FHLB of $41.4 million, of which $35.6 million was outstanding at June 30, 2008. In July of 2008, the Company pledged additional collateral and increased its lines of credit with the FHLB to $61.4 million.

As of June 30, 2008, the Company's investment securities portfolio included $24.4 million of mortgage-backed securities that provide significant cash flow each month. The majority of the investment portfolio is classified as available for sale, is marketable, and is available to meet liquidity needs. The Company's residential real estate portfolio includes loans, which are underwritten to secondary market criteria, and accordingly could be sold in the secondary mortgage market if needed as an additional source of liquidity. The Company's management is not aware of any known trends, demands, commitments or uncertainties that are reasonably likely to result in material changes in liquidity.

**Capital**

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

Tier I leverage ratio standards, which measure the ratio of Tier I capital to total assets.



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At June 30, 2008, the Company’s management believes that the Company and the Bank are “well-capitalized” and in compliance with all applicable regulatory requirements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable as the Company is a smaller reporting company.

**ITEM 4T. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

**Internal Controls**

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

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On November 4, 2004, Stephen P. Magenta and other parties filed an action captioned Stephen P. Magenta, et. al. v. General Insulation Services, Inc., et. al. in the Superior Court of New Jersey Law Division, Gloucester County, related to the alleged embezzlement of over $1 million by an employee of one of our customers of funds maintained in accounts at the Bank. All but one of the claims against

the Bank have been dismissed. The Bank believes that the action is without merit and intends to vigorously defend against it. In addition, the Bank believes that this action is covered by its insurance.

Other than the foregoing, at June 30, 2008, the Company was not a party to any material legal proceedings.

**ITEM 1A. RISK FACTORS**

Not applicable as the Company is a smaller reporting company.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 31 | Certifications required by Rule 13a-14(a). |
| 32 | Certification required by 18 U.S.C. §1350. |

**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.**

| | |
|---|---|
| | /s/ Vito S. Pantilione |
| Date: August 14, 2008 | Vito S. Pantilione<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| | /s/ F. Steven Meddick |
| Date: August 14, 2008 | F. Steven Meddick<br>Executive Vice President and<br>Chief Financial Officer<br>(Principal Accounting Officer) |