PARKE BANCORP, INC.
Form ARS
March 22, 2013

PARKE BANCORP, INC.

2012 ANNUAL REPORT TO SHAREHOLDERS

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To Our Shareholders:

2012 has been another very challenging year for the business community and the banking industry both nationally and regionally. However, Parke Bancorp, Inc. has again generated near record earnings, with $6.3 million, or $1.17 per diluted share, in net income, an increase of 0.5% over 2011. We are again proud of this accomplishment as this is our 12th consecutive year of strong earnings, especially when considering the continued weak real estate market, which is responsible for many non-performing loans in the banking industry and at Parke Bank. Non-performing loans have a negative impact on the Bank's earnings, through charge offs, increased expenses, legal and carrying costs, combined with the loss of interest income from that asset. Borrowers continue to have use of their property while the bank has to protect its collateral by paying real estate taxes, insurance and maintenance. We are making positive progress in disposing of our non-performing loans by taking an aggressive approach to troubled asset disposition. Although in some cases this has been seriously delayed by the length of time it takes to work through the foreclosure process in New Jersey. By taking an aggressive approach to troubled asset disposition, our losses have been minimized, and in some instances, recoveries have been made.

Growth has been very difficult in 2012, with our total assets decreasing 2.6% to $770.5 million as of December 31, 2012. Competition has been fierce, with the big banks starting to aggressively compete in the small loan marketplace, combined with many small businesses deleveraging their balance sheets and avoiding increased debt. The extremely low interest rate environment has increased pressure to modify existing loans to a lower interest rate, which also adds pressure to our net interest margin. However, management and our lending staff have remained diligent, maintaining a net interest margin in excess of 4%, keeping Parke Bank as one of the leaders in our peer group in this category. Persistent low interest rates will increase the pressure on the banking industry's net interest margin, which will negatively impact Bank earnings. There is no relief for increased interest rates on the near term horizon, which makes it much more important to maintain very tight controls of expenses and to generate earnings through alternative avenues.

Although our Bank's cost efficiency rate has increased to 43%, we are still one of the leaders in our peer group in controlling our Bank's expenses. The primary reason for the higher ratio is the dramatic increase in regulatory requirements. New regulations in the Dodd-Frank Act brought increases to a community bank's operating costs which makes it more difficult to provide our customers with prompt quality service. Banking requirements like stress testing and Enterprise Risk Management (ERM) are the new buzz terms in community banking. Although initially reported as requirements for only the biggest banks, it is now an important requirement for community banks, which costs tens of thousands of dollars. We have implemented stress testing of our loan portfolio and implemented an ERM program. Parke Bank has always maintained tight controls over expenses and in this rising cost environment, it is even more important in supporting our strong earnings.

There continues to be signs that the economy, and specifically the real estate market, has bottomed out and that specific markets have seen an improvement in real estate sales and values. A specific example is a construction project of 28 townhomes that we were fortunate enough to finance for one of our quality borrowers that in only three months is sold out. We are hopeful that this trend continues and becomes more wide spread. The residential rental market has remained strong, especially in the Philadelphia area. Several previously planned condominium projects have been converted to rental projects and have enjoyed a level of success. These are all positive signs that the economy and the real estate market have a heartbeat and may be coming back to life. Although modest when compared to our past growth rates, our Bank's loan portfolio grew close to 1% in 2012 to $630 million, a strong accomplishment in a difficult lending environment.

Our SBA Company, 44 Business Capital, continues to be the top SBA lender in the Delaware Valley area for the second year in a row. Thanks to an extremely talented and committed staff, this company continues to be a leader in SBA lending. We carefully expanded into the Florida market two years ago and we are now in the top 25 SBA lenders in that market. We continue to carefully analyze potential new markets for expansion. As always, any expansion is balanced with careful credit policies, underwriting, quality staff and servicing of our loan portfolio.

We will continue to focus on maintaining our Bank's financial strength in 2013. This will be accomplished on multiple fronts; continued strong earnings that will strengthen our capital position, which is already twice the amount required for Tier 1 capital of a well capitalized bank, careful control of our Bank's expenses and a clear focus on reducing our non-performing and classified loans, while complying with all regulatory requirements. Our Board of Directors, management and staff is committed to continuing to work very hard to support a strong return for our investors, which was close to 10% in 2012. We appreciate our shareholders' commitment and loyalty; it is something that we don't take for granted.

C.R. "Chuck" Pennoni	Vito S. Pantilione
Chairman	President and Chief Executive Officer

Selected Financial Data

	At or for the Year Ended December, 31				
	2012	2011	2010	2009	2008
Balance Sheet Data: (in thousands)					
Assets	$770,477	$790,738	$756,853	$654,198	$601,952
Loans, Net	$610,776	$605,794	$611,950	$590,997	$539,883
Securities Available for Sale	$19,340	$22,517	$27,730	$29,420	$31,930
Securities Held to Maturity	$2,066	$2,032	$1,999	$2,509	$2,482
Cash and Cash Equivalents	$76,866	$110,228	$57,628	$4,154	$7,270
OREO	$26,057	$19,410	$16,701	$—	$859
Deposits	$637,207	$634,855	$604,722	$520,313	$495,327
Borrowings	$43,851	$74,010	$75,616	$67,831	$61,943
Equity	$83,543	$77,273	$70,732	$61,973	$40,301
Operational Data: (in thousands)					
Interest Income	$37,746	$41,309	$41,684	$40,395	$36,909
Interest Expense	7,424	9,231	11,350	15,734	19,291
Net Interest Income	30,322	32,078	30,334	24,661	17,618
Provision for Loan Losses	7,300	10,450	9,001	5,300	2,063
Net Interest Income after Provision for Loan Losses	23,022	21,628	21,333	19,361	15,555
Noninterest Income (Loss)	4,368	4,725	2,709	(540)	(1,251)
Noninterest Expense	15,079	12,625	11,650	8,757	7,209
Income Before Income Tax Expense	12,311	13,728	12,392	10,064	7,095
Income Tax Expense	4,242	5,524	4,895	3,964	2,848
Net Income Attributable to Company and Noncontrolling Interest	8,069	8,204	7,497	6,100	4,247
Net Income Attributable to Noncontrolling Interest	(756)	(932)	(157)	—	—
Preferred Stock Dividend and Discount Accretion	1,012	1,000	988	899	—
Net Income Available to Common Shareholders	$6,301	$6,272	$6,352	$5,201	$4,247
Per Share Data: 1					
Basic Earnings per Common Share	$1.17	$1.17	$1.19	$0.97	$0.85
Diluted Earnings per Common Share	$1.17	$1.15	$1.15	$0.97	$0.79