PARKE BANCORP, INC.
Form 10-K
March 18, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2015 or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission File No. 000-51338
PARKE BANCORP, INC.
(Exact name of Registrant as specified in its Charter)

New Jersey	65-1241959	
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)	
601 Delsea Drive, Washington Township, New Jersey		08080
(Address of Principal Executive Offices)		(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	The Nasdaq Stock Market LLC

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

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

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

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 ý NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller 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 ý

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Capital Market on June 30, 2015, was approximately $56.7 million.

As of March 18, 2016 there were issued and outstanding 6,221,256 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders for the Fiscal Year Ended December 31, 2015 (Parts II and IV)
2. Portions of the Proxy Statement for the 2016 Annual Meeting of Shareholders. (Parts II and III)

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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Forward-Looking Statements

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

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company’s control). The following factors, among others, could cause the Company’s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company’s wholly-owned subsidiary, Parke Bank (the “Bank”), conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Bank and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors’ products and services; the impact of changes in financial services’ laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; changes in consumer spending and saving habits; and the success of the Company at managing the risks resulting from these factors.

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

PART I

Item 1. Business

General

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 the Bank. The Company commenced operations on June 1, 2005, upon completion of the reorganization of the Bank into the holding company form of organization following approval of the reorganization by shareholders of the Bank at its 2005 Annual Meeting of Shareholders. The Company’s business and operations primarily consist of its ownership of 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”). The Company and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through offices in Northfield, Galloway Township and Washington Township, New Jersey, and in Philadelphia, Pennsylvania. The Bank is a full service bank, with an emphasis on providing personal and business financial services to individuals and small to mid-sized businesses in Gloucester, Atlantic and Cape May Counties in New Jersey and the Philadelphia area in Pennsylvania. At December 31, 2015, the Company had assets of $885.1 million, loans net of unearned income of $758.5 million, deposits of $665.2 million and equity of $112.0 million.

The Bank focuses its commercial loan originations on small and mid-sized businesses (generally up to $25 million in annual sales). Commercial loan products include residential and commercial real estate construction loans; working capital loans and lines of credit; demand, term and time loans; and equipment, inventory and accounts receivable financing. Residential construction loans in tract development are also included in the commercial loan category. The Bank also offers a range of deposit products to its commercial customers. Commercial customers also have the ability to use overnight depository, ACH, wire transfer services and merchant capture electronic check processing services.

The Bank's retail banking activities emphasize consumer deposit and checking accounts. An extensive range of these services is offered by the Bank to meet the varied needs of its customers in all age groups. In addition to traditional products and services, the Bank offers contemporary products and services, such as debit cards, Internet banking and online bill payment. Retail lending activities by the Bank include residential mortgage loans, home equity lines of credit, fixed rate second mortgages, new and used auto loans and overdraft protection.

Market Area

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

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

Competition

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

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

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

Lending Activities

Composition of Loan Portfolio. Set forth below is selected data relating to the composition of the Bank's loan portfolio by type of loan at the dates indicated.[(1)] As of December 31, 2015 no one industry sector concentration exceeded 10% of total loans. Refer to pages 4 through 6 for descriptions of the loan categories presented.

	At December 31,									
	2015		2014		2013		2012		2011	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Amounts in thousands, except percentages)									
Commercial and Industrial	$27,140	3.6 %	$30,092	4.2 %	$23,001	3.5 %	$21,925	3.5 %	$24,136	3.9 %
Real Estate Construction:										
Residential	7,750	1.0	5,859	0.8	7,389	1.1	7,331	1.2	21,287	3.4
Commercial	45,245	6.0	47,921	6.7	43,749	6.7	41,875	6.6	50,361	8.1
Real Estate Mortgage:										
Commercial - Owner Occupied	172,040	22.7	176,649	24.8	170,122	26.0	157,616	25.0	147,449	23.6
Commercial - Non-Owner Occupied	256,471	33.8	237,918	33.4	220,364	33.7	221,731	35.2	204,216	32.6

Residential - 1 to 4 Family	213,266	28.1	171,894	24.1	148,160	22.6	140,164	22.3	138,768	22.2
Residential - Multifamily	18,113	2.4	25,173	3.5	24,103	3.7	21,181	3.4	20,126	3.2
Consumer	18,476	2.4	17,555	2.5	17,653	2.7	17,889	2.8	18,774	3.0
Total Loans	$758,501	100.0 %	$713,061	100.00 %	$654,541	100.0 %	$629,712	100.00 %	$625,117	100.00 %

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

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Loan Maturity. The following table sets forth the contractual maturity of certain loan categories at December 31, 2015.

	Due within one year	Due after one through five years	Due after five years	Total
	(Amounts in thousands)			
Commercial and Industrial	$9,832	$9,016	$8,292	$27,140
Real Estate Construction:				
Residential	1,636	4,616	1,498	7,750
Commercial	9,391	25,036	10,818	45,245
Real Estate Mortgage:				
Commercial - Owner Occupied	4,836	30,602	136,602	172,040
Commercial - Non-Owner Occupied	11,166	47,293	198,012	256,471
Residential - 1 to 4 Family	10,921	13,101	189,244	213,266
Residential – Multifamily	—	2,051	16,062	18,113
Consumer	1,502	859	16,115	18,476
Total Loans	$49,284	$132,574	$576,643	$758,501

The following table sets forth the dollar amount of loans in certain loan categories due one year or more after December 31, 2015, which have predetermined interest rates and which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
	(Amounts in thousands)		
Commercial and Industrial	$4,418	$12,890	$17,308
Real Estate Construction:			
Residential	344	5,770	6,114
Commercial	4,843	31,011	35,854
Real Estate Mortgage:			
Commercial - Owner Occupied	10,702	156,502	167,204
Commercial - Non-Owner Occupied	31,447	213,858	245,305
Residential - 1 to 4 Family	86,793	115,552	202,345
Residential - Multifamily	1,403	16,710	18,113
Consumer	16,055	919	16,974
Total Loans	$156,005	$553,212	$709,217

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

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

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

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

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

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

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

Construction financing is labor intensive for the Bank, requiring employees of the Bank to expend substantial time and resources in monitoring and servicing each construction loan to completion. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and development, the accuracy of projections, such as the sales of homes or the future leasing of commercial space, and the accuracy of the estimated cost (including interest) of construction. Substantial deviations can occur in such projections. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. Also, a construction loan that is in default can cause problems for the Bank such as designating replacement builders for a project, considering alternate uses for the project and site and handling any structural and environmental issues that might arise.

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

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

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

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

Consumer Loans. The Bank offers a variety of consumer loans. These loans are typically secured by residential real estate or personal property, including automobiles. Home equity loans (closed-end and lines of credit) are typically made up to 80% of the appraised or assessed value of the property securing the loan in each case, less the amount of any existing prior liens on the property, and generally have maximum terms of ten years, although the Bank does offer a 90% loan to value product if certain conditions related to the borrower and property are satisfied. The interest rates on second mortgages are generally fixed, while interest rates on home equity lines of credit are variable.

Loans to One Borrower. Federal regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus. At December 31, 2015, the Bank's loan to one borrower limit was approximately $21.1 million and the Bank had no borrowers with loan balances in excess of this amount. At December 31, 2015, the Bank's largest loan to one borrower was a loan for commercial real estate, with a balance of $20.4 million that was secured by the real estate. At December 31, 2015, this loan was current and performing in accordance with the terms of the loan agreement.

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

Non-Performing and Problem Assets

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above. Total impaired loans, which include non-accrual loans and performing TDRs, were $42.2 million, $61.5 million, $68.9 million, $87.6 million and $97.2 million at December 31 2015, 2014, 2013, 2012, and 2011, respectively. Included in impaired loans at December 31, 2015, 2014, 2013, 2012 and 2011 were $32.2 million, $42.2 million, $51.0 million, $67.1 million and $66.9 million of loans classified as troubled debt restructurings as defined within accounting guidance and regulatory literature.

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

	At December 31,				
	2015	2014	2013	2012	2011
	(Amounts in thousands, except percentages)				
Loans accounted for on a non-accrual basis:					
Commercial and Industrial	$740	$61	$122	$248	$—
Real Estate Construction:					
Residential	—	238	967	799	5,265
Commercial	5,204	10,773	9,908	12,958	7,703
Real Estate Mortgage:					
Commercial - Owner Occupied	358	735	976	1,218	4,797
Commercial - Non-Owner Occupied	4,002	8,624	10,853	19,228	18,132
Residential - 1 to 4 Family	3,255	6,367	12,914	10,072	7,691
Residential – Multifamily	—	—	99	2,838	597
Consumer	—	94	115	188	274
Total non-accrual loans	13,559	26,892	35,954	47,549	44,459
Accruing loans delinquent 90 days or more:					
Commercial and Industrial	—	—	—	—	—
Real Estate Construction:					
Residential	—	—	—	—	—

Commercial	—	—	—	—	—
Real Estate Mortgage:					
Commercial - Owner Occupied	—	—	—	—	—
Commercial - Non-Owner Occupied	—	—	—	—	—
Residential - 1 to 4 Family	—	—	—	—	—
Residential – Multifamily	—	—	—	—	—
Consumer	—	—	—	—	—
Total	—	—	—	—	—
Total non-performing loans	$13,559	$26,892	$35,954	$47,549	$44,459
Total non-performing loans as a percentage of loans	1.8 %	3.8 %	5.5 %	7.6 %	7.1 %

As of December 31, 2015, there were $5.5 million in loans which were not on non-accrual status, a TDR or otherwise but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-performing in the future.

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

Loans are generally placed on non-accrual status when either principal or interest is 90 days or more past due. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Such interest, when ultimately collected, is applied either to the outstanding principal or recorded as interest income, depending on management's assessment of ultimate collectibility of principal and interest. At December 31, 2015, the Bank had $13.6 million of loans that were on a non-accrual basis. Gross interest income of $2.4 million would have been recorded during the year ended December 31, 2015 if these loans had been performing in accordance with their terms. Interest income of $1.5 million was recognized on these loans during the year ended December 31, 2015.

Classified Assets. Federal Regulations provide for a classification system for problem assets of insured institutions. Under this classification system, problem assets of insured institutions are classified as substandard, doubtful or loss. An asset is considered "substandard" if it involves more than an acceptable level of risk due to a deteriorating financial condition, unfavorable history of the borrower, inadequate payment capacity, insufficient security or other negative factors within the industry, market or management. Substandard loans have clearly defined weaknesses that can jeopardize the timely payments of the loan.

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

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

When an insured institution classifies problem assets as either "substandard" or "doubtful," it may establish specific allowances for loan losses in an amount deemed prudent by management. When an insured institution classifies problem assets as "loss," it is required either to establish an allowance for losses equal to 100% of that portion of the assets so classified or to charge off such amount. All of the Bank's loans rated "substandard" and worse are also on non-accrual and deemed impaired.

At December 31, 2015, the Bank had assets classified as follows:

	Loan Balance (Amounts in thousands)
OAEM	31,303
Substandard	19,065
	$50,368

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate owned is acquired, it is recorded at or its fair value less disposal costs. Management also periodically performs valuations of real estate owned and establishes allowances to reduce book values of the properties to their net realizable values when necessary. Any write-down of real estate owned is charged to operations. Real estate owned at December 31, 2015 was $16.6 million. The real estate owned consisted of 16 properties, the largest being a condominium development located in Absecon, New Jersey at $6.4 million.

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

Management’s judgment as to the level of probable losses on existing loans is based on its internal review of the loan portfolio, including an analysis of the borrower's current financial position; the level and trends in delinquencies, non-accruals and impaired loans; the consideration of national and local economic conditions and trends; concentrations of credit; the impact of any changes in credit policy; the experience and depth of management and the lending staff; and any trends in loan volume and terms.

In determining the collectability of certain loans, management also considers the fair value of any underlying collateral. However, management's determination of the appropriate allowance level, which is based upon the factors outlined above, which are believed to be reasonable, may or may not prove to be valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required.

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

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Balance at beginning of the period	$18,043	$18,560	$18,936	$19,323	$14,789
Charge-offs:					
Commercial and Industrial	(1,554)	(395)	(4)	(66)	(22)
Real Estate Construction:					
Residential	(238)	—	—	(1,326)	(2,390)
Commercial	(2,745)	(16)	—	(310)	(494)
Real Estate Mortgage:					
Commercial - Owner Occupied	—	(476)	(77)	(1,058)	—
Commercial - Non-Owner Occupied	(638)	(50)	(2,641)	(3,848)	(426)
Residential - 1 to 4 Family	(504)	(2,841)	(554)	(1,531)	(2,643)
Residential – Multifamily	—	—	(8)	—	—
Consumer	(1)	(31)	(3)	(38)	—
Total charge-offs:	(5,680)	(3,809)	(3,287)	(8,177)	(5,975)
Recoveries:					
Commercial and Industrial	121	—	—	—	—
Real Estate Construction:					
Residential	—	5	—	490	24
Commercial	—	—	—	—	—
Real Estate Mortgage:					
Commercial - Owner Occupied	66	5	1	—	—
Commercial - Non-Owner Occupied	398	—	—	—	—
Residential - 1 to 4 Family	148	32	210	—	34
Residential - Multifamily	—	—	—	—	—
Consumer	—	—	—	—	1
Total recoveries:	733	42	211	490	59
Net charge-offs	(4,947)	(3,767)	(3,076)	(7,687)	(5,916)
Provision for loan losses	3,040	3,250	2,700	7,300	10,450
Balance at end of period	$16,136	$18,043	$18,560	$18,936	$19,323
Period-end loans outstanding (net of deferred costs/fees)	$758,501	$713,061	$654,541	$629,712	$625,117
Average loans outstanding	$731,032	$669,771	$644,735	$612,342	$630,570
Allowance as a percentage of period end loans	2.13%	2.53%	2.84%	3.01%	3.09%
Net loans charged off as a percentage of average loans outstanding	0.78%	0.57%	0.51%	1.34%	0.95%

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the Bank's allowance for loan losses by loan category at the dates indicated and the related percentage of the loans in the portfolio. 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.

	At December 31, 2015		2014		2013		2012		2011	
	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans
	(Amounts in thousands, except percentages)									
Commercial and Industrial	$952	3.6 %	$1,679	4.2 %	$591	3.5 %	$470	2.5 %	$451	2.3 %
Real Estate Construction:										
Residential	247	1.0	316	0.8	414	1.1	845	4.5	2,613	13.5
Commercial	2,501	6.0	3,015	6.7	948	6.7	1,115	5.9	1,971	10.2
Real Estate Mortgage:										
Commercial - Owner Occupied	3,267	22.7	3,296	24.8	4,735	26.0	4,095	21.6	2,714	14.1
Commercial - Non-Owner Occupied	3,838	33.8	4,962	33.4	7,530	33.7	7,379	39.0	6,742	34.9
Residential - 1 to 4 Family	4,802	28.1	4,156	24.1	3,612	22.6	4,384	23.1	4,190	21.7
Residential - Multifamily	254	2.4	357	3.5	389	3.7	312	1.6	278	1.4
Consumer	275	2.4	262	2.5	341	2.7	336	1.8	148	0.8
Unallocated	—	—	—	—	—	—	—	—	216	1.1
Total Allowance	$16,136	100.0 %	$18,043	100.0 %	$18,560	100.0 %	$18,936	100.0 %	$19,323	100.0 %

Investment Activities

General. The investment policy of the Company is established by senior management and approved by the Board of Directors. It is based on asset and liability management goals and is designed to provide a portfolio of high quality investments that foster interest income within acceptable interest rate risk and liquidity guidelines. In accordance with accounting guidance, the Company classifies the majority of its portfolio of investment securities as “available for sale” with the remainder, which are municipal bonds, as “held to maturity.” At December 31, 2015, the Bank’s investment policy allowed investments in instruments such as: (i) U.S. Treasury obligations, (ii) U.S. government agency or government-sponsored agency obligations, (iii) local municipal obligations, (iv) mortgage-backed securities, (v) certificates of deposit, and (vi) investment grade corporate bonds, trust preferred securities and mutual funds. The Board of Directors may authorize additional investments.

Composition of Investment Securities Portfolio. The following table sets forth the carrying value of the Bank’s investment securities portfolio at the dates indicated. For additional information, see Note 3 of the Notes to the Consolidated Financial Statements. At December 31, 2015, no one issuer of investment securities represented 10% or more of the Company’s stockholders’ equity.

	At December 31, 2015	2014	2013

	(Amounts in thousands)		
Securities Held to Maturity:			
State and political subdivisions	$2,181	$2,141	$2,103
Securities Available for Sale:			
Corporate debt obligations	1,031	522	506
Residential mortgage-backed securities	40,821	26,947	30,450
Collateralized mortgage obligations	253	390	