# Form 5500

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

## Annual Return/Report of Employee Benefit Plan

This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), and 6058(a) of the Internal Revenue Code (the Code).

▶ **Complete all entries in accordance with the instructions to the Form 5500.**

OMB Nos. 1210-0110
1210-0089

**2010**

**This Form is Open to Public Inspection**

## Part I Annual Report Identification Information

For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

**A** This return/report is for:
- [ ] a multiemployer plan;
- [ ] a multiple-employer plan; or
- [X] a single-employer plan;
- [ ] a DFE (specify) ____

**B** This return/report is:
- [ ] the first return/report;
- [ ] the final return/report;
- [ ] an amended return/report;
- [ ] a short plan year return/report (less than 12 months).

**C** If the plan is a collectively-bargained plan, check here. . . . . ▶ [ ]

**D** Check box if filing under:
- [X] Form 5558;
- [ ] automatic extension;
- [ ] the DFVC program;
- [ ] special extension (enter description)

## Part II Basic Plan Information—enter all requested information

**1a** Name of plan
PARKWAY BANCORP, INC. 401(K) PLAN

**1b** Three-digit plan number (PN) ▶ 002

**1c** Effective date of plan 12/11/1987

**2a** Plan sponsor's name and address (employer, if for a single-employer plan)
(Address should include room or suite no.)
PARKWAY BANCORP, INC.

4800 N. HARLEM AVENUE
HARWOOD HEIGHTS, IL 60706

**2b** Employer Identification Number (EIN)
36-2694975

**2c** Sponsor's telephone number
708-867-2694

**2d** Business code (see instructions)
522110

**Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.**

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

| | | | |
|---|---|---|---|
| **SIGN HERE** | Filed with authorized/valid electronic signature. | 10/17/2011 | DEE KRATZ |
| | **Signature of plan administrator** | Date | Enter name of individual signing as plan administrator |
| **SIGN HERE** | | | |
| | **Signature of employer/plan sponsor** | Date | Enter name of individual signing as employer or plan sponsor |
| **SIGN HERE** | | | |
| | **Signature of DFE** | Date | Enter name of individual signing as DFE |

**3a** Plan administrator's name and address (if same as plan sponsor, enter "Same")
PARKWAY BANCORP, INC.

4800 N. HARLEM AVENUE
HARWOOD HEIGHTS, IL 60706

**3b** Administrator's EIN
36-2694975

**3c** Administrator's telephone number
708-867-2694

**4** If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report:

**a** Sponsor's name

**4b** EIN

**4c** PN

| | | | |
|---|---|---|---|
| **5** | Total number of participants at the beginning of the plan year | **5** | 353 |
| **6** | Number of participants as of the end of the plan year (welfare plans complete only lines **6a, 6b, 6c,** and **6d**). | | |
| **a** | Active participants | **6a** | 255 |
| **b** | Retired or separated participants receiving benefits | **6b** | 0 |
| **c** | Other retired or separated participants entitled to future benefits | **6c** | 58 |
| **d** | Subtotal. Add lines **6a**, **6b**, and **6c** | **6d** | 313 |
| **e** | Deceased participants whose beneficiaries are receiving or are entitled to receive benefits | **6e** | 0 |
| **f** | Total. Add lines **6d** and **6e** | **6f** | 313 |
| **g** | Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item) | **6g** | 246 |
| **h** | Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested | **6h** | 0 |
| **7** | Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item) | **7** | |

**8a** If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristic Codes in the instructions:
2E 2F 2H 2J 2R 2T 3I

**b** If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristic Codes in the instructions:

**9a** Plan funding arrangement (check all that apply)

| | | |
|---|---|---|
| **(1)** | | Insurance |
| **(2)** | | Code section 412(e)(3) insurance contracts |
| **(3)** | X | Trust |
| **(4)** | | General assets of the sponsor |

**9b** Plan benefit arrangement (check all that apply)

| | | |
|---|---|---|
| **(1)** | | Insurance |
| **(2)** | | Code section 412(e)(3) insurance contracts |
| **(3)** | X | Trust |
| **(4)** | | General assets of the sponsor |

**10** Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

**a Pension Schedules**

| | | |
|---|---|---|
| **(1)** | X | **R** (Retirement Plan Information) |
| **(2)** | | **MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary |
| **(3)** | | **SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary |

**b General Schedules**

| | | | |
|---|---|---|---|
| **(1)** | X | | **H** (Financial Information) |
| **(2)** | | | **I** (Financial Information – Small Plan) |
| **(3)** | | ___ | **A** (Insurance Information) |
| **(4)** | X | | **C** (Service Provider Information) |
| **(5)** | | | **D** (DFE/Participating Plan Information) |
| **(6)** | | | **G** (Financial Transaction Schedules) |

| SCHEDULE C (Form 5500) | Service Provider Information | OMB No. 1210-0110 |
|---|---|---|
| Department of the Treasury<br>Internal Revenue Service<br>Department of Labor<br>Employee Benefits Security Administration<br>Pension Benefit Guaranty Corporation | This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA).<br>▶ **File as an attachment to Form 5500.** | **2010**<br>**This Form is Open to Public Inspection.** |

For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

**A** Name of plan
PARKWAY BANCORP, INC. 401(K) PLAN

**B** Three-digit plan number (PN) ▶ 002

**C** Plan sponsor's name as shown on line 2a of Form 5500
PARKWAY BANCORP, INC.

**D** Employer Identification Number (EIN)
36-2694975

## Part I Service Provider Information (see instructions)

You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, $5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

### 1 Information on Persons Receiving Only Eligible Indirect Compensation

**a** Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions).. . . . . [X] Yes [ ] No

**b** If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

**(b)** Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

RAYMOND JAMES & ASSOC
880 CARILLION PARKWAY
ST. PETERSBURG, FL 33716

**(b)** Enter name and EIN or address of person who provided you disclosure on eligible indirect compensation

TD AMERITRADE
PO BOX 2226
OMAHA, NE 68103

**(b)** Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

THE MERIDIAN BUSINESS GROUP
7612 W. NORTH AVE.
ELMWOOD, IL 60707

**(b)** Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

SCOTTRADE
2575 E. CAMELBACK RD
#150
PHOENIX, AZ 85016

**(b)** Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

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**2. Information on Other Service Providers Receiving Direct or Indirect Compensation.** Except for those persons for whom you answered "yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, $5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

**(a)** Enter name and EIN or address (see instructions)

RSM MCGLADREY

41-1944416

| (b) Service Code(s) | (c) Relationship to employer, employee organization, or person known to be a party-in-interest | (d) Enter direct compensation paid by the plan. If none, enter -0-. | (e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor) | (f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures? | (g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-. | (h) Did the service provider give you a formula instead of an amount or estimated amount? |
|---|---|---|---|---|---|---|
| 13 37 38 50 64 65 | NONE | 36442 | Yes [ ] No [X] | Yes [ ] No [ ] | | Yes [ ] No [ ] |

**(a)** Enter name and EIN or address (see instructions)

WILMINGTON TRUST COMPANY

51-0099033

| (b) Service Code(s) | (c) Relationship to employer, employee organization, or person known to be a party-in-interest | (d) Enter direct compensation paid by the plan. If none, enter -0-. | (e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor) | (f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures? | (g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-. | (h) Did the service provider give you a formula instead of an amount or estimated amount? |
|---|---|---|---|---|---|---|
| 21 | NONE | 8329 | Yes [X] No [ ] | Yes [ ] No [X] | 0 | Yes [ ] No [X] |

**(a)** Enter name and EIN or address (see instructions)

| (b) Service Code(s) | (c) Relationship to employer, employee organization, or person known to be a party-in-interest | (d) Enter direct compensation paid by the plan. If none, enter -0-. | (e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor) | (f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures? | (g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-. | (h) Did the service provider give you a formula instead of an amount or estimated amount? |
|---|---|---|---|---|---|---|
| | | | Yes [ ] No [ ] | Yes [ ] No [ ] | | Yes [ ] No [ ] |

**(a)** Enter name and EIN or address (see instructions)

| **(b)** Service Code(s) | **(c)** Relationship to employer, employee organization, or person known to be a party-in-interest | **(d)** Enter direct compensation paid by the plan. If none, enter -0-. | **(e)** Did service provider receive indirect compensation? (sources other than plan or plan sponsor) | **(f)** Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures? | **(g)** Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-. | **(h)** Did the service provider give you a formula instead of an amount or estimated amount? |
|---|---|---|---|---|---|---|
| | | | Yes ☐ No ☐ | Yes ☐ No ☐ | | Yes ☐ No ☐ |

**(a)** Enter name and EIN or address (see instructions)

| **(b)** Service Code(s) | **(c)** Relationship to employer, employee organization, or person known to be a party-in-interest | **(d)** Enter direct compensation paid by the plan. If none, enter -0-. | **(e)** Did service provider receive indirect compensation? (sources other than plan or plan sponsor) | **(f)** Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures? | **(g)** Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-. | **(h)** Did the service provider give you a formula instead of an amount or estimated amount? |
|---|---|---|---|---|---|---|
| | | | Yes ☐ No ☐ | Yes ☐ No ☐ | | Yes ☐ No ☐ |

**(a)** Enter name and EIN or address (see instructions)

| **(b)** Service Code(s) | **(c)** Relationship to employer, employee organization, or person known to be a party-in-interest | **(d)** Enter direct compensation paid by the plan. If none, enter -0-. | **(e)** Did service provider receive indirect compensation? (sources other than plan or plan sponsor) | **(f)** Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures? | **(g)** Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-. | **(h)** Did the service provider give you a formula instead of an amount or estimated amount? |
|---|---|---|---|---|---|---|
| | | | Yes ☐ No ☐ | Yes ☐ No ☐ | | Yes ☐ No ☐ |

## Part I Service Provider Information (continued)

**3** If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received $1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

| **(a)** Enter service provider name as it appears on line 2 | **(b)** Service Codes (see instructions) | **(c)** Enter amount of indirect compensation |
|---|---|---|
| | | |
| **(d)** Enter name and EIN (address) of source of indirect compensation | **(e)** Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation. | |
| | | |

| **(a)** Enter service provider name as it appears on line 2 | **(b)** Service Codes (see instructions) | **(c)** Enter amount of indirect compensation |
|---|---|---|
| | | |
| **(d)** Enter name and EIN (address) of source of indirect compensation | **(e)** Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation. | |
| | | |

| **(a)** Enter service provider name as it appears on line 2 | **(b)** Service Codes (see instructions) | **(c)** Enter amount of indirect compensation |
|---|---|---|
| | | |
| **(d)** Enter name and EIN (address) of source of indirect compensation | **(e)** Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation. | |
| | | |

## Part II Service Providers Who Fail or Refuse to Provide Information

**4** Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

| **(a)** Enter name and EIN or address of service provider (see instructions) | **(b)** Nature of Service Code(s) | **(c)** Describe the information that the service provider failed or refused to provide |
|---|---|---|
| | | |

| **(a)** Enter name and EIN or address of service provider (see instructions) | **(b)** Nature of Service Code(s) | **(c)** Describe the information that the service provider failed or refused to provide |
|---|---|---|
| | | |

| **(a)** Enter name and EIN or address of service provider (see instructions) | **(b)** Nature of Service Code(s) | **(c)** Describe the information that the service provider failed or refused to provide |
|---|---|---|
| | | |

| **(a)** Enter name and EIN or address of service provider (see instructions) | **(b)** Nature of Service Code(s) | **(c)** Describe the information that the service provider failed or refused to provide |
|---|---|---|
| | | |

| **(a)** Enter name and EIN or address of service provider (see instructions) | **(b)** Nature of Service Code(s) | **(c)** Describe the information that the service provider failed or refused to provide |
|---|---|---|
| | | |

| **(a)** Enter name and EIN or address of service provider (see instructions) | **(b)** Nature of Service Code(s) | **(c)** Describe the information that the service provider failed or refused to provide |
|---|---|---|
| | | |

**Part III** **Termination Information on Accountants and Enrolled Actuaries (see instructions)**
(complete as many entries as needed)

| | | |
|---|---|---|
| **a** | Name: | **b** EIN: |
| **c** | Position: | |
| **d** | Address: | **e** Telephone: |

Explanation:

| | | |
|---|---|---|
| **a** | Name: | **b** EIN: |
| **c** | Position: | |
| **d** | Address: | **e** Telephone: |

Explanation:

| | | |
|---|---|---|
| **a** | Name: | **b** EIN: |
| **c** | Position: | |
| **d** | Address: | **e** Telephone: |

Explanation:

| | | |
|---|---|---|
| **a** | Name: | **b** EIN; |
| **c** | Position: | |
| **d** | Address: | **e** Telephone: |

Explanation:

| | | |
|---|---|---|
| **a** | Name: | **b** EIN; |
| **c** | Position: | |
| **d** | Address: | **e** Telephone: |

Explanation:

# SCHEDULE H (Form 5500)

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

## Financial Information

This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code).

▶ **File as an attachment to Form 5500.**

OMB No. 1210-0110

**2010**

**This Form is Open to Public Inspection**

For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

**A** Name of plan
PARKWAY BANCORP, INC. 401(K) PLAN

**B** Three-digit plan number (PN) ▶ 002

**C** Plan sponsor's name as shown on line 2a of Form 5500
PARKWAY BANCORP, INC.

**D** Employer Identification Number (EIN)
36-2694975

## Part I Asset and Liability Statement

**1** Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

| Assets | | (a) Beginning of Year | (b) End of Year |
|---|---|---|---|
| **a** Total noninterest-bearing cash | 1a | | |
| **b** Receivables (less allowance for doubtful accounts): | | | |
| **(1)** Employer contributions | 1b(1) | | |
| **(2)** Participant contributions | 1b(2) | | |
| **(3)** Other | 1b(3) | | |
| **c** General investments: | | | |
| **(1)** Interest-bearing cash (include money market accounts & certificates of deposit) | 1c(1) | 1948611 | 1896484 |
| **(2)** U.S. Government securities | 1c(2) | | |
| **(3)** Corporate debt instruments (other than employer securities): | | | |
| **(A)** Preferred | 1c(3)(A) | | |
| **(B)** All other | 1c(3)(B) | | |
| **(4)** Corporate stocks (other than employer securities): | | | |
| **(A)** Preferred | 1c(4)(A) | | |
| **(B)** Common | 1c(4)(B) | | |
| **(5)** Partnership/joint venture interests | 1c(5) | | |
| **(6)** Real estate (other than employer real property) | 1c(6) | | |
| **(7)** Loans (other than to participants) | 1c(7) | | |
| **(8)** Participant loans | 1c(8) | 551354 | 508936 |
| **(9)** Value of interest in common/collective trusts | 1c(9) | | |
| **(10)** Value of interest in pooled separate accounts | 1c(10) | | |
| **(11)** Value of interest in master trust investment accounts | 1c(11) | | |
| **(12)** Value of interest in 103-12 investment entities | 1c(12) | | |
| **(13)** Value of interest in registered investment companies (e.g., mutual funds) | 1c(13) | 5514984 | 5947448 |
| **(14)** Value of funds held in insurance company general account (unallocated contracts) | 1c(14) | | |
| **(15)** Other | 1c(15) | 964482 | 806331 |

| | | | (a) Beginning of Year | (b) End of Year |
|---|---|---|---|---|
| **1d** | Employer-related investments: | | | |
| | **(1)** Employer securities | 1d(1) | 4522000 | 3976000 |
| | **(2)** Employer real property | 1d(2) | | |
| **e** | Buildings and other property used in plan operation | 1e | | |
| **f** | Total assets (add all amounts in lines 1a through 1e) | 1f | 13501431 | 13135199 |
| | **Liabilities** | | | |
| **g** | Benefit claims payable | 1g | | |
| **h** | Operating payables | 1h | | |
| **i** | Acquisition indebtedness | 1i | | |
| **j** | Other liabilities | 1j | | |
| **k** | Total liabilities (add all amounts in lines 1g through1j) | 1k | 0 | 0 |
| | **Net Assets** | | | |
| **l** | Net assets (subtract line 1k from line 1f) | 1l | 13501431 | 13135199 |

## Part II Income and Expense Statement

**2** Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

| | Income | | (a) Amount | (b) Total |
|---|---|---|---|---|
| **a** | **Contributions:** | | | |
| | **(1)** Received or receivable in cash from: **(A)** Employers | 2a(1)(A) | | |
| | **(B)** Participants | 2a(1)(B) | | |
| | **(C)** Others (including rollovers) | 2a(1)(C) | | |
| | **(2)** Noncash contributions | 2a(2) | | |
| | **(3)** Total contributions. Add lines **2a(1)(A), (B), (C),** and line **2a(2)** | 2a(3) | | 0 |
| **b** | **Earnings on investments:** | | | |
| | **(1)** Interest: | | | |
| | **(A)** Interest-bearing cash (including money market accounts and certificates of deposit) | 2b(1)(A) | | |
| | **(B)** U.S. Government securities | 2b(1)(B) | | |
| | **(C)** Corporate debt instruments | 2b(1)(C) | | |
| | **(D)** Loans (other than to participants) | 2b(1)(D) | | |
| | **(E)** Participant loans | 2b(1)(E) | 30615 | |
| | **(F)** Other | 2b(1)(F) | | |
| | **(G)** Total interest. Add lines **2b(1)(A)** through **(F)** | 2b(1)(G) | | 30615 |
| | **(2)** Dividends: **(A)** Preferred stock | 2b(2)(A) | | |
| | **(B)** Common stock | 2b(2)(B) | | |
| | **(C)** Registered investment company shares (e.g. mutual funds) | 2b(2)(C) | 135329 | |
| | **(D)** Total dividends. Add lines **2b(2)(A)**, **(B)**, and **(C)** | 2b(2)(D) | | 135329 |
| | **(3)** Rents | 2b(3) | | 0 |
| | **(4)** Net gain (loss) on sale of assets: **(A)** Aggregate proceeds | 2b(4)(A) | | |
| | **(B)** Aggregate carrying amount (see instructions) | 2b(4)(B) | | |
| | **(C)** Subtract line **2b(4)(B)** from line **2b(4)(A)** and enter result | 2b(4)(C) | | 0 |

| | | (a) Amount | (b) Total |
|---|---|---|---|
| 2b (5) Unrealized appreciation (depreciation) of assets: (A) Real estate | 2b(5)(A) | | |
| (B) Other | 2b(5)(B) | -546000 | |
| (C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B) | 2b(5)(C) | | -546000 |
| (6) Net investment gain (loss) from common/collective trusts | 2b(6) | | |
| (7) Net investment gain (loss) from pooled separate accounts | 2b(7) | | |
| (8) Net investment gain (loss) from master trust investment accounts | 2b(8) | | |
| (9) Net investment gain (loss) from 103-12 investment entities | 2b(9) | | |
| (10) Net investment gain (loss) from registered investment companies (e.g., mutual funds) | 2b(10) | | 523823 |
| c Other income | 2c | | 85051 |
| d Total income. Add all **income** amounts in column (b) and enter total | 2d | | 228818 |
| **Expenses** | | | |
| e Benefit payment and payments to provide benefits: | | | |
| (1) Directly to participants or beneficiaries, including direct rollovers | 2e(1) | 561485 | |
| (2) To insurance carriers for the provision of benefits | 2e(2) | | |
| (3) Other | 2e(3) | | |
| (4) Total benefit payments. Add lines 2e(1) through (3) | 2e(4) | | 561485 |
| f Corrective distributions (see instructions) | 2f | | |
| g Certain deemed distributions of participant loans (see instructions) | 2g | | |
| h Interest expense | 2h | | |
| i Administrative expenses: (1) Professional fees | 2i(1) | | |
| (2) Contract administrator fees | 2i(2) | 25235 | |
| (3) Investment advisory and management fees | 2i(3) | 8330 | |
| (4) Other | 2i(4) | | |
| (5) Total administrative expenses. Add lines 2i(1) through (4) | 2i(5) | | 33565 |
| j Total expenses. Add all **expense** amounts in column (b) and enter total | 2j | | 595050 |
| **Net Income and Reconciliation** | | | |
| k Net income (loss). Subtract line 2j from line 2d | 2k | | -366232 |
| l Transfers of assets: | | | |
| (1) To this plan | 2l(1) | | |
| (2) From this plan | 2l(2) | | |

## Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) [ ] Unqualified (2) [ ] Qualified (3) [X] Disclaimer (4) [ ] Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? [X] Yes [ ] No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: BANSLEY & KIENER, LLP (2) EIN: 36-2152389

d The opinion of an independent qualified public accountant is **not attached** because:

(1) [ ] This form is filed for a CCT, PSA, or MTIA. (2) [ ] It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

## Part IV Compliance Questions

**4** CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete 4j and 4l. MTIAs also do not complete 4l.

During the plan year:

| | | Yes | No | Amount |
|---|---|---|---|---|
| **a** | Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.) | 4a | | X | |
| **b** | Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.) | 4b | | X | |
| **c** | Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.) | 4c | | X | |
| **d** | Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.) | 4d | | X | |
| **e** | Was this plan covered by a fidelity bond? | 4e | X | | 1000000 |
| **f** | Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty? | 4f | | X | |
| **g** | Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser? | 4g | | X | |
| **h** | Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser? | 4h | | X | |
| **i** | Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.) | 4i | X | | |
| **j** | Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.) | 4j | | X | |
| **k** | Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC? | 4k | | X | |
| **l** | Has the plan failed to provide any benefit when due under the plan? | 4l | | X | |
| **m** | If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.) | 4m | | X | |
| **n** | If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3. | 4n | | | |

**5a** Has a resolution to terminate the plan been adopted during the plan year or any prior plan year? If yes, enter the amount of any plan assets that reverted to the employer this year ☐ **Yes** ☒ **No** **Amount:**

**5b** If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

| **5b(1)** Name of plan(s) | **5b(2)** EIN(s) | **5b(3)** PN(s) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

# SCHEDULE R (Form 5500)

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

# Retirement Plan Information

This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code).

▶ **File as an attachment to Form 5500.**

OMB No. 1210-0110

**2010**

**This Form is Open to Public Inspection.**

For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

**A** Name of plan
PARKWAY BANCORP, INC. 401(K) PLAN

**B** Three-digit plan number (PN) ▶ 002

**C** Plan sponsor's name as shown on line 2a of Form 5500
PARKWAY BANCORP, INC.

**D** Employer Identification Number (EIN)
36-2694975

## Part I Distributions

**All references to distributions relate only to payments of benefits during the plan year.**

**1** Total value of distributions paid in property other than in cash or the forms of property specified in the instructions ..... **1** 0

**2** Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits):

EIN(s): 65-1214236

**Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.**

**3** Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year. ..... **3**

## Part II Funding Information (If the plan is not subject to the minimum funding requirements of section of 412 of the Internal Revenue Code or ERISA section 302, skip this Part)

**4** Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

**If the plan is a defined benefit plan, go to line 8.**

**5** If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. **Date:** Month _____ Day _____ Year _____

**If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.**

**6** **a** Enter the minimum required contribution for this plan year ..... **6a**

**b** Enter the amount contributed by the employer to the plan for this plan year ..... **6b**

**c** Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount) ..... **6c**

**If you completed line 6c, skip lines 8 and 9.**

**7** Will the minimum funding amount reported on line 6c be met by the funding deadline? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

**8** If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

## Part III Amendments

**9** If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box(es). If no, check the "No" box. ..... ☐ **Increase** ☐ **Decrease** ☐ **Both** ☐ **No**

## Part IV ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.

**10** Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan? ..... ☐ **Yes** ☐ **No**

**11** **a** Does the ESOP hold any preferred stock? ..... ☐ **Yes** ☐ **No**

**b** If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.) ..... ☐ **Yes** ☐ **No**

**12** Does the ESOP hold any stock that is not readily tradable on an established securities market? ..... ☐ **Yes** ☐ **No**

## Part V Additional Information for Multiemployer Defined Benefit Pension Plans

**13** Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

**14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

| | | |
|---|---|---|
| **a** The current year | **14a** | |
| **b** The plan year immediately preceding the current plan year | **14b** | |
| **c** The second preceding plan year | **14c** | |

**15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

| | | |
|---|---|---|
| **a** The corresponding number for the plan year immediately preceding the current plan year | **15a** | |
| **b** The corresponding number for the second preceding plan year | **15b** | |

**16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

| | | |
|---|---|---|
| **a** Enter the number of employers who withdrew during the preceding plan year | **16a** | |
| **b** If item 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers | **16b** | |

**17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

## Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

**18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐

**19** If the total number of participants is 1,000 or more, complete items (a) through (c)

**a** Enter the percentage of plan assets held as:
Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

**b** Provide the average duration of the combined investment-grade and high-yield debt:
☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

**c** What duration measure was used to calculate item 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify):

# PARKWAY BANCORP, INC. 401(K) PLAN

## FINANCIAL REPORT

## DECEMBER 31, 2010 AND 2009

PARKWAY BANCORP, INC. 401(K) PLAN

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BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
O'HARE PLAZA
8745 WEST HIGGINS ROAD, SUITE 200
CHICAGO, ILLINOIS 60631
AREA CODE 312 263.2700

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Board of Directors
Parkway Bancorp, Inc. 401(k) Plan

We were engaged to audit the financial statements of the Parkway Bancorp, Inc. 401(k) Plan (the "Plan") as of December 31, 2010 and 2009, and for the years then ended, and the supplemental schedule as of December 31, 2010, as listed in the accompanying table of contents. These financial statements and schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 8, which was certified by Wilmington Trust, the trustee of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedule. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the years ended December 31, 2010 and 2009, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedule taken as a whole. The form and content of the information included in the financial statements and schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Bansley and Kiener, L.L.P.

Certified Public Accountants

October 5, 2011

PARKWAY BANCORP, INC. 401(K) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| Assets | | |
| Investments, at fair value | $ 12,626,263 | $ 12,950,077 |
| Notes receivable from participants | 508,936 | 551,354 |
| | 13,135,199 | 13,501,431 |
| Liabilities | - | - |
| Net assets available for benefits | $ 13,135,199 | $ 13,501,431 |

The accompanying notes are an integral part of the financial statements.

PARKWAY BANCORP, INC. 401(K) PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| Additions | | |
| Investment income | | |
| Net appreciation (depreciation) in fair value of investments | $ 62,873 | $ (268,947) |
| Dividends and interest | 165,945 | 208,119 |
| Net investment income (loss) | 228,818 | (60,828) |
| Deductions | | |
| Benefits paid to participants | 561,485 | 640,758 |
| Administrative expenses | 33,565 | 51,185 |
| Total deductions | 595,050 | 691,943 |
| Net decrease | (366,232) | (752,771) |
| Net assets available for benefits | | |
| Beginning of year | 13,501,431 | 14,254,202 |
| End of year | $ 13,135,199 | $ 13,501,431 |

The accompanying notes are an integral part of the financial statements.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description

The following description of the Parkway Bancorp, Inc. 401(k) Plan (the "Plan") (formerly the Parkway Bancorp, Inc. Profit Sharing Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

*General*

The Plan is a defined contribution plan covering all employees of Parkway Bancorp, Inc. and Parkway Bank & Trust Company (collectively the "Bank") who have completed one year of employment with at least 1,000 hours of service.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

*Contributions*

In late 2008, the Board of Directors of Parkway Bancorp, Inc. amended the Plan to eliminate the 3% Safe Harbor provision. This amendment was effective for the Plan year beginning January 1, 2009. As a result of this amendment, any employer contributions are at the sole discretion of the Board of Directors, up to a maximum amount of 15% of participant pretax annual compensation (as defined by the Plan). No Employer contributions were made to the Plan for the years ending December 31, 2010 and 2009.

The Plan does not permit participant contributions. (See Note 12)

*Participant Accounts*

Participant accounts are credited with an allocation of (1) the employer's contribution and (2) investment earnings (losses), and are charged with an allocation of administrative expenses. Allocations are based on compensation. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account, as defined.

*Vesting*

Employer discretionary contributions and Safe Harbor contributions are 100% vested immediately. The annual fixed contribution vests at 100% after three years of service. Vesting also occurs at age 65, or upon death or disability.

*Forfeitures*

As of December 31, 2010 and 2009, forfeited non-vested accounts amounted to $5,403 and $2,373, respectively. These accounts will be used to pay any administrative expenses of the Plan or to reduce employer contributions. In 2010, administrative expenses were reduced by $6,271 from forfeited non-vested accounts.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description (Continued)

*Payment of Benefits*

If a participant terminates for any reason, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in the form of (1) a lump sum or (2) installments not to exceed past the participant's life expectancy.

*Participant Loans*

Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balances. Loan terms range from one to five years or up to 30 years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at a rate consistent with that charged for similar loans by lending institutions. Principal and interest are paid through payroll deductions.

Note 2 – Significant Accounting Policies

*Basis of Accounting*

The financial statements of the Plan are prepared on the accrual basis of accounting.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

*Notes Receivable from Participants*

Loans to participants are reported at their unpaid principal balances plus any accrued but unpaid interest.

*Investment Valuation and Income Recognition*

The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurement.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold during the year as well as held during the year.

*Payment of Benefits*

Benefits are recorded when paid.

*Administrative Expenses*

Administrative fees are paid by the Plan unless paid by the Bank at its discretion.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Significant Accounting Policies (Continued)

*Date of Management's Review*

Management has evaluated subsequent events through October 5, 2011, the date the financial statements were available to be issued.

*Reclassifications*

Certain reclassifications have made in the prior year financial statements to conform with the current year presentation.

Note 3 – Fair Value Measurement

The Plan's investments are reported at fair value in the accompanying statement of net assets available for benefits. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement authoritative literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

*Level 1 Fair Value Measurements*

The fair value of mutual funds is based on quoted net asset values of the shares held by the Plan at year-end. The fair value of equity securities and corporate bonds are based on the closing price reported on the active market where the individual securities were traded. Money market funds representing cash are valued as Level 1 investments.

*Level 3 Fair Value Measurements*

Parkway Bancorp stock is not actively traded and significant observable inputs are not available. The fair value of Parkway Bancorp stock is determined by an annual independent valuation. Investments in limited partnerships are not actively traded and are carried at cost.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value Measurement (Continued)

The following represents the fair value of the Plan's investments as of December 31, 2010 and 2009.

| | | Fair Value Measurements at Reporting Date Using: | |
|---|---|---|---|
| | Fair Value | Level 1 | Level 3 |
| December 31, 2010 | | | |
| Mutual funds | $ 7,843,932 | $7,843,932 | $ - |
| Parkway Bancorp, Inc. | 3,976,000 | - | 3,976,000 |
| Other investments | 806,331 | 756,331 | 50,000 |
| Total | $12,626,263 | $8,600,263 | $4,026,000 |
| December 31, 2009 | | | |
| Mutual funds | $ 7,463,595 | $7,463,595 | $ - |
| Parkway Bancorp, Inc. | 4,522,000 | - | 4,522,000 |
| Other investments | 964,482 | 914,482 | 50,000 |
| Total | $12,950,077 | $8,378,077 | $4,572,000 |

Other investments include investments which are permitted under the Plan and the Participant Direction Procedures and include mutual funds, equity securities, corporate bonds, money market funds, and limited partnerships.

Mutual funds above determine fair value using a calculated net asset value per share, or its equivalent. As of December 31, 2010 and 2009, the fair value of the mutual funds was $7,843,932 and $7,463,595, respectively, and there were no unfunded commitments related to these investments. These investments can be redeemed daily with no redemption notice required. This category of investments primarily includes investments in stocks, bonds, and short-term investments.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value Measurement (Continued)

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009.

| | Parkway Bancorp stock | Other Investments |
|---|---|---|
| December 31, 2010 | | |
| Beginning balance | $ 4,522,000 | $50,000 |
| Total gains or losses (unrealized and realized) included in changes in net assets available for benefit | (546,000) | - |
| Purchases, sales and settlements | - | - |
| Ending balance | $ 3,976,000 | $50,000 |
| The amount of total gains and losses for the year included in changes in net assets available for benefits attributable to the changes in the unrealized gains and losses related to assets still held at the reporting date. | $ (546,000) | $ - |
| December 31, 2009 | | |
| Beginning balance | $ 6,069,000 | $50,000 |
| Total gains or losses (unrealized and realized) included in changes in net assets available for benefit | (1,547,000) | - |
| Purchases, sales and settlements | - | - |
| Ending balance | $ 4,522,000 | $50,000 |
| The amount of total gains and losses for the year included in changes in net assets available for benefits attributable to the changes in the unrealized gains and losses related to assets still held at the reporting date. | $(1,547,000) | $ - |

Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the year ended December 31, 2010 are reported in net appreciation in fair value of investments.

Note 4 – Investments

The following table presents the fair values of investments that represent 5% or more of the Plan's net assets:

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| American Funds Money Market Fund | $1,896,486 | $1,948,611 |
| American Funds AMCAP Fund | 945,295 | 868,948 |
| American Funds Income Fund of America | 874,114 | 920,860 |
| Davis New York Venture Fund | 1,748,555 | 1,624,173 |
| Parkway Bancorp, Inc. | 3,976,000 | 4,522,000 |

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 4 – Investments (Continued)

During years ended December 31, 2010 and 2009, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value by $62,873 and $(268,947), respectively.

Net Appreciation (Depreciation) in Fair Value

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Mutual funds | $ 523,823 | $ 1,231,891 |
| Other investments | 85,050 | 46,162 |
| Parkway Bancorp, Inc. | (546,000) | (1,547,000) |
| Net appreciation (depreciation) in fair value of investments | $ 62,873 | $ (268,947) |

The Plan does not have any non-participant-directed investments.

Note 5 – Plan Termination

Although it has not expressed any intent to do so, the Bank has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100% vested.

Note 6 – Tax Status

The Plan is a Prototype Non-standardized 401(k) and Profit Sharing Plan ("Prototype Plan") sponsored by CNA, former trustee, and adopted by the Bank. The Prototype Plan obtained its latest opinion letter on September 25, 2002, in which the Internal Revenue Service ("IRS") stated that the Prototype Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code ("IRC"). The Plan has not requested its own determination letter from the IRS. The Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, the Plan administrator believes that the Plan was qualified and that the related trust was tax exempt as of the financial statement dates.

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Certain Plan investments are in funds managed by the trustees; therefore, these transactions qualify as party-in-interest transactions.

Certain administrative fees are paid by the Bank and are not material to the financial statements.

As of December 31, 2010 and 2009, the Plan held 28 shares of Parkway Bancorp, Inc. common stock, which represents 2.61% of Parkway Bancorp, Inc.'s total outstanding common stock. Distributions in-kind of Bank stock is permitted under the Plan.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 8 – Information Certified by Trustees

The Plan administrator has elected the method of annual reporting compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, the trustee (Wilmington Trust) has certified that the following data included in the accompanying financial statements and supplemental schedule is complete and accurate.

- Investments, as shown in the statements of net assets available for benefits as of December 31, 2010 and 2009.
- Investment income, as shown in the statement of changes in net assets available for benefits for the years ended December 31, 2010 and 2009.
- Schedule H, line 4i – schedule of assets (held at end of year) – December 31, 2010.

Note 9 – Risk and Uncertainties

The Plan invests in various investments securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that the changes in the values of investment securities will occur in the near term and that such changes may materially affect participant account balances and the amounts reported in the statement of net assets available for benefits.

Note 10 – Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of contributions per the financial statements for the years ended December 31, 2010 and 2009 to the Form 5500:

| | 2010 | 2009 |
|---|---|---|
| Contributions per the financial statements | $ - | $ - |
| Current-year receivable per financial statements | - | - |
| Prior-year receivable per financial statements | - | 301,221 |
| Contributions per the Form 5500 | $ - | $301,221 |

Note 11 – Plan Amendments

Effective January 1, 2009, the Plan was amended to suspend Safe Harbor contributions to the Plan.

Note 12 – Subsequent Event

Effective January 1, 2011, the Plan was amended to allow each eligible participant to elect to defer all or a portion of compensation and have that amount contributed to the Plan on a pre-tax basis or on an after-tax basis as a Roth deferral. Elective salary deferrals are subject to Internal Revenue Service Code limitations. Each eligible employee, with respect to employee contributions shall become a participant on the first applicable entry date coincident with or following the date he or she performs an hour of service.

SUPPLEMENTAL SCHEDULE

PARKWAY BANCORP, INC. 401(K) PLAN

SCHEDULE OF ASSETS (HELD AT END OF YEAR)
FORM 5500 SCHEDULE H (4I)
FOR THE PLAN YEAR ENDED DECEMBER 31, 2010
EIN: 36-2694975

| (B) Identity of Issue | (C) Description of Investment | (E) Market Value |
|---|---|---|
| American Funds Money Market Fund R3 | Mutual Fund | $ 1,896,486 |
| American Funds AMCAP Fund R3 | Mutual Fund | 945,295 |
| American Funds Europacific R3 | Mutual Fund | 493,767 |
| American Funds Income R3 | Mutual Fund | 874,114 |
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| Eaton Vance Large Cap Val | Mutual Fund | 243,074 |
| Pimco All Asset | Mutual Fund | 22,162 |
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| Vanguard Bal Idx | Mutual Fund | 28,657 |
| Virtus Mid-Cap Value | Mutual Fund | 70,228 |
| Parkway Bancorp, Inc. | Corporate ER stocks: common | 3,976,000 |
| Self Directed Accounts | Other Investments | 806,331 |
| Participant loans | Notes receivable from participants 4.25%-6.00% | 508,936 |
| | | $13,135,199 |

Cost information is not required as the Plan is participant directed.

# PARKWAY BANCORP, INC. 401(K) PLAN

## FINANCIAL REPORT

## DECEMBER 31, 2010 AND 2009

PARKWAY BANCORP, INC. 401(K) PLAN

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BANSLEY AND KIENER, L.L.P.
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AREA CODE 312 263.2700

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Board of Directors
Parkway Bancorp, Inc. 401(k) Plan

We were engaged to audit the financial statements of the Parkway Bancorp, Inc. 401(k) Plan (the "Plan") as of December 31, 2010 and 2009, and for the years then ended, and the supplemental schedule as of December 31, 2010, as listed in the accompanying table of contents. These financial statements and schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 8, which was certified by Wilmington Trust, the trustee of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedule. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the years ended December 31, 2010 and 2009, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedule taken as a whole. The form and content of the information included in the financial statements and schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Bansley and Kiener, L.L.P.

Certified Public Accountants

October 5, 2011

PARKWAY BANCORP, INC. 401(K) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| Assets | | |
| Investments, at fair value | $ 12,626,263 | $ 12,950,077 |
| Notes receivable from participants | 508,936 | 551,354 |
| | 13,135,199 | 13,501,431 |
| Liabilities | - | - |
| Net assets available for benefits | $ 13,135,199 | $ 13,501,431 |

The accompanying notes are an integral part of the financial statements.

PARKWAY BANCORP, INC. 401(K) PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| Additions | | |
| Investment income | | |
| Net appreciation (depreciation) in fair value of investments | $ 62,873 | $ (268,947) |
| Dividends and interest | 165,945 | 208,119 |
| Net investment income (loss) | 228,818 | (60,828) |
| Deductions | | |
| Benefits paid to participants | 561,485 | 640,758 |
| Administrative expenses | 33,565 | 51,185 |
| Total deductions | 595,050 | 691,943 |
| Net decrease | (366,232) | (752,771) |
| Net assets available for benefits | | |
| Beginning of year | 13,501,431 | 14,254,202 |
| End of year | $ 13,135,199 | $ 13,501,431 |

The accompanying notes are an integral part of the financial statements.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description

The following description of the Parkway Bancorp, Inc. 401(k) Plan (the "Plan") (formerly the Parkway Bancorp, Inc. Profit Sharing Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

*General*

The Plan is a defined contribution plan covering all employees of Parkway Bancorp, Inc. and Parkway Bank & Trust Company (collectively the "Bank") who have completed one year of employment with at least 1,000 hours of service.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

*Contributions*

In late 2008, the Board of Directors of Parkway Bancorp, Inc. amended the Plan to eliminate the 3% Safe Harbor provision. This amendment was effective for the Plan year beginning January 1, 2009. As a result of this amendment, any employer contributions are at the sole discretion of the Board of Directors, up to a maximum amount of 15% of participant pretax annual compensation (as defined by the Plan). No Employer contributions were made to the Plan for the years ending December 31, 2010 and 2009.

The Plan does not permit participant contributions. (See Note 12)

*Participant Accounts*

Participant accounts are credited with an allocation of (1) the employer's contribution and (2) investment earnings (losses), and are charged with an allocation of administrative expenses. Allocations are based on compensation. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account, as defined.

*Vesting*

Employer discretionary contributions and Safe Harbor contributions are 100% vested immediately. The annual fixed contribution vests at 100% after three years of service. Vesting also occurs at age 65, or upon death or disability.

*Forfeitures*

As of December 31, 2010 and 2009, forfeited non-vested accounts amounted to $5,403 and $2,373, respectively. These accounts will be used to pay any administrative expenses of the Plan or to reduce employer contributions. In 2010, administrative expenses were reduced by $6,271 from forfeited non-vested accounts.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description (Continued)

*Payment of Benefits*

If a participant terminates for any reason, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in the form of (1) a lump sum or (2) installments not to exceed past the participant's life expectancy.

*Participant Loans*

Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balances. Loan terms range from one to five years or up to 30 years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at a rate consistent with that charged for similar loans by lending institutions. Principal and interest are paid through payroll deductions.

Note 2 – Significant Accounting Policies

*Basis of Accounting*

The financial statements of the Plan are prepared on the accrual basis of accounting.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

*Notes Receivable from Participants*

Loans to participants are reported at their unpaid principal balances plus any accrued but unpaid interest.

*Investment Valuation and Income Recognition*

The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurement.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold during the year as well as held during the year.

*Payment of Benefits*

Benefits are recorded when paid.

*Administrative Expenses*

Administrative fees are paid by the Plan unless paid by the Bank at its discretion.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Significant Accounting Policies (Continued)

*Date of Management's Review*

Management has evaluated subsequent events through October 5, 2011, the date the financial statements were available to be issued.

*Reclassifications*

Certain reclassifications have made in the prior year financial statements to conform with the current year presentation.

Note 3 – Fair Value Measurement

The Plan's investments are reported at fair value in the accompanying statement of net assets available for benefits. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement authoritative literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

*Level 1 Fair Value Measurements*

The fair value of mutual funds is based on quoted net asset values of the shares held by the Plan at year-end. The fair value of equity securities and corporate bonds are based on the closing price reported on the active market where the individual securities were traded. Money market funds representing cash are valued as Level 1 investments.

*Level 3 Fair Value Measurements*

Parkway Bancorp stock is not actively traded and significant observable inputs are not available. The fair value of Parkway Bancorp stock is determined by an annual independent valuation. Investments in limited partnerships are not actively traded and are carried at cost.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value Measurement (Continued)

The following represents the fair value of the Plan's investments as of December 31, 2010 and 2009.

| | | Fair Value Measurements at Reporting Date Using: | |
|---|---|---|---|
| | Fair Value | Level 1 | Level 3 |
| December 31, 2010 | | | |
| Mutual funds | $ 7,843,932 | $7,843,932 | $ - |
| Parkway Bancorp, Inc. | 3,976,000 | - | 3,976,000 |
| Other investments | 806,331 | 756,331 | 50,000 |
| Total | $12,626,263 | $8,600,263 | $4,026,000 |
| December 31, 2009 | | | |
| Mutual funds | $ 7,463,595 | $7,463,595 | $ - |
| Parkway Bancorp, Inc. | 4,522,000 | - | 4,522,000 |
| Other investments | 964,482 | 914,482 | 50,000 |
| Total | $12,950,077 | $8,378,077 | $4,572,000 |

Other investments include investments which are permitted under the Plan and the Participant Direction Procedures and include mutual funds, equity securities, corporate bonds, money market funds, and limited partnerships.

Mutual funds above determine fair value using a calculated net asset value per share, or its equivalent. As of December 31, 2010 and 2009, the fair value of the mutual funds was $7,843,932 and $7,463,595, respectively, and there were no unfunded commitments related to these investments. These investments can be redeemed daily with no redemption notice required. This category of investments primarily includes investments in stocks, bonds, and short-term investments.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value Measurement (Continued)

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009.

| | Parkway Bancorp stock | Other Investments |
|---|---|---|
| December 31, 2010 | | |
| Beginning balance | $ 4,522,000 | $50,000 |
| Total gains or losses (unrealized and realized) included in changes in net assets available for benefit | (546,000) | - |
| Purchases, sales and settlements | - | - |
| Ending balance | $ 3,976,000 | $50,000 |
| The amount of total gains and losses for the year included in changes in net assets available for benefits attributable to the changes in the unrealized gains and losses related to assets still held at the reporting date. | $ (546,000) | $ - |
| December 31, 2009 | | |
| Beginning balance | $ 6,069,000 | $50,000 |
| Total gains or losses (unrealized and realized) included in changes in net assets available for benefit | (1,547,000) | - |
| Purchases, sales and settlements | - | - |
| Ending balance | $ 4,522,000 | $50,000 |
| The amount of total gains and losses for the year included in changes in net assets available for benefits attributable to the changes in the unrealized gains and losses related to assets still held at the reporting date. | $(1,547,000) | $ - |

Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the year ended December 31, 2010 are reported in net appreciation in fair value of investments.

Note 4 – Investments

The following table presents the fair values of investments that represent 5% or more of the Plan's net assets:

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| American Funds Money Market Fund | $1,896,486 | $1,948,611 |
| American Funds AMCAP Fund | 945,295 | 868,948 |
| American Funds Income Fund of America | 874,114 | 920,860 |
| Davis New York Venture Fund | 1,748,555 | 1,624,173 |
| Parkway Bancorp, Inc. | 3,976,000 | 4,522,000 |

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 4 – Investments (Continued)

During years ended December 31, 2010 and 2009, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value by $62,873 and $(268,947), respectively.

Net Appreciation (Depreciation) in Fair Value

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Mutual funds | $ 523,823 | $ 1,231,891 |
| Other investments | 85,050 | 46,162 |
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PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

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| Current-year receivable per financial statements | - | - |
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| Contributions per the Form 5500 | $ - | $301,221 |

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SUPPLEMENTAL SCHEDULE

PARKWAY BANCORP, INC. 401(K) PLAN

SCHEDULE OF ASSETS (HELD AT END OF YEAR)
FORM 5500 SCHEDULE H (4I)
FOR THE PLAN YEAR ENDED DECEMBER 31, 2010
EIN: 36-2694975

| (B) Identity of Issue | (C) Description of Investment | (E) Market Value |
|---|---|---|
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| American Funds AMCAP Fund R3 | Mutual Fund | 945,295 |
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