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), 6057(b), 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

2015

This Form is Open to Public Inspection

Part I Annual Report Identification Information

For calendar plan year 2015 or fiscal plan year beginning 01/01/2015 and ending 12/31/2015

A This return/report is for:
- [ ] a multiemployer plan;
- [ ] a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions); 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 12/31/1994

2a Plan sponsor's name (employer, if for a single-employer plan)
Mailing address (include room, apt., suite no. and street, or P.O. Box)
City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions)
PARKWAY BANCORP, INC.

4800 N HARLEM AVE
HARWOOD HEIGHTS, IL 60706

2b Employer Identification Number (EIN) 36-2694975

2c Plan Sponsor's telephone number 708-867-6600

2d Business code (see instructions) 551111

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.	10/12/2016	FRANK LIS
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE	Filed with authorized/valid electronic signature.	10/12/2016	FRANK LIS
	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

Preparer's name (including firm name, if applicable) and address (include room or suite number)

Preparer's telephone number

3a Plan administrator's name and address [X] Same as Plan Sponsor	**3b** Administrator's EIN	
	3c Administrator's telephone number	
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:	**4b** EIN	
a Sponsor's name	**4c** PN	
5 Total number of participants at the beginning of the plan year	**5**	424
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines **6a(1), 6a(2), 6b, 6c,** and **6d**).		
a(1) Total number of active participants at the beginning of the plan year	**6a(1)**	312
a(2) Total number of active participants at the end of the plan year	**6a(2)**	306
b Retired or separated participants receiving benefits	**6b**	0
c Other retired or separated participants entitled to future benefits	**6c**	88
d Subtotal. Add lines **6a(2)**, **6b**, and **6c**.	**6d**	394
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits	**6e**	0
f Total. Add lines **6d** and **6e**.	**6f**	394
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item)	**6g**	363
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested	**6h**	2
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 Characteristics 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 Characteristics Codes in the instructions:

9a Plan funding arrangement (check all that apply)

- [ ] **(1)** Insurance
- [ ] **(2)** Code section 412(e)(3) insurance contracts
- [X] **(3)** 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
- [X] **(3)** 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

- [X] **(1)** **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

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

Part III **Form M-1 Compliance Information (to be completed by welfare benefit plans)**

11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ..... ☐ Yes ☐ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ……..... ☐ Yes ☐ No

11c Enter the Receipt Confirmation Code for the 2015 Form M-1 annual report. If the plan was not required to file the 2015 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code_____

SCHEDULE C (Form 5500)	Service Provider Information	OMB No. 1210-0110
Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ▶ **File as an attachment to Form 5500.**	**2015** **This Form is Open to Public Inspection.**

For calendar plan year 2015 or fiscal plan year beginning 01/01/2015 and ending 12/31/2015

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).. . . . . ☐ 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

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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)

RAYMOND JAMES & ASSOCIATES

550 WEST WASHINGTON BLVD
SUITE 1050
CHICAGO, IL 60661

(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?
27	INVESTMENT ADVISOR	19080	Yes [ ] No [X]	Yes [ ] No [X]	0	Yes [ ] No [X]

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

VERISIGHT, INC

2001 NORTH MAIN STREET
SUITE 500
WALNUT CREEK, CA 94596

(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?
15 64	RECORD KEEPER	16469	Yes [ ] No [X]	Yes [ ] No [X]		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 [ ]

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)

(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

2015

This Form is Open to Public Inspection

For calendar plan year 2015 or fiscal plan year beginning 01/01/2015 and ending 12/31/2015

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	6351	5985
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions	1b(1)	350173	375248
(2) Participant contributions	1b(2)		
(3) Other	1b(3)	203	0
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)	1058547	0
(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)	485528	473759
(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)	8769291	9643087
(14) Value of funds held in insurance company general account (unallocated contracts)	1c(14)		
(15) Other	1c(15)	909828	758821

		(a) Beginning of Year	(b) End of Year
1d Employer-related investments:			
(1) Employer securities	1d(1)	4403001	4760000
(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	15982922	16016900
Liabilities			
g Benefit claims payable	1g		
h Operating payables	1h	1555	1951
i Acquisition indebtedness	1i		
j Other liabilities	1j		6608
k Total liabilities (add all amounts in lines 1g through1j)	1k	1555	8559
Net Assets			
l Net assets (subtract line 1k from line 1f)	1l	15981367	16008341

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)	375248	
(B) Participants	2a(1)(B)	438067	
(C) Others (including rollovers)	2a(1)(C)	39187	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines **2a(1)(A), (B), (C),** and line **2a(2)**	2a(3)		852502
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)	23496	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines **2b(1)(A)** through **(F)**	2b(1)(G)		23496
(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)	101563	
(D) Total dividends. Add lines **2b(2)(A)**, **(B)**, and **(C)**	2b(2)(D)		101563
(3) Rents	2b(3)		
(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)		
(5) Unrealized appreciation (depreciation) of assets: **(A)** Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines **2b(5)(A)** and **(B)**	2b(5)(C)		

		(a) Amount	(b) Total
(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)		164243
c Other income	2c		9750
d Total income. Add all **income** amounts in column (b) and enter total	2d		1151554
Expenses			
e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	1083724	
(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)		1083724
f Corrective distributions (see instructions)	2f		1780
g Certain deemed distributions of participant loans (see instructions)	2g		3134
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)	35942	
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines **2i(1)** through **(4)**	2i(5)		35942
j Total expenses. Add all **expense** amounts in column (b) and enter total	2j		1124580
Net Income and Reconciliation			
k Net income (loss). Subtract line **2j** from line **2d**	2k		26974
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 AND 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 lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

		Yes	No	N/A	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		

		Yes	No	N/A	Amount
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			2000000
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				
o Did the plan trust incur unrelated business taxable income?	4o				
p Were in-service distributions made during the plan year?	4p				

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)

5c If the plan is a defined benefit plan, is it covered under the PBGC insurance program (see ERISA section 4021)? ..... ☐ Yes ☐ No ☐ Not determined

Part V Trust Information

6a Name of trust	**6b** Trust's EIN

6c Name of trustee or custodian	**6d** Trustee's or custodian's telephone number

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

2015

This Form is Open to Public Inspection.

For calendar plan year 2015 or fiscal plan year beginning 01/01/2015 and ending 12/31/2015

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 (include any prior year accumulated funding deficiency not waived) **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 or other authority 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. 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 lines 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 lines 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 lines 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 lines 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 lines 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 lines 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 line 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 lines (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 line 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify):

Part VII IRS Compliance Questions

20a Is the plan a 401(k) plan?	☐ Yes	☐ No
20b If "Yes," how does the 401(k) plan satisfy the nondiscrimination requirements for employee deferrals and employer matching contributions (as applicable) under sections 401(k)(3) and 401(m)(2)?	☐ Design-based safe harbor method	☐ ADP/ACP test
20c If the ADP/ACP test is used, did the 401(k) plan perform ADP/ACP testing for the plan year using the "current year testing method" for nonhighly compensated employees (Treas. Reg sections 1.401(k)-2(a)(2)(ii) and 1.401(m)-2(a)(2)(ii))?	☐ Yes	☐ No
21a Check the box to indicate the method used by the plan to satisfy the coverage requirements under section 410(b):	☐ Ratio percentage test	☐ Average benefit test
21b Does the plan satisfy the coverage and nondiscrimination tests of sections 410(b) and 401(a)(4) by combining this plan with any other plans under the permissive aggregation rules?	☐ Yes	☐ No
22a Has the plan been timely amended for all required tax law changes?	☐ Yes	☐ No ☐ N/A

22b Date the last plan amendment/restatement for the required tax law changes was adopted ____/____/____. Enter the applicable code _____ (See instructions for tax law changes and codes).

22c If the plan sponsor is an adopter of a pre-approved master and prototype (M&P) or volume submitter plan that is subject to a favorable IRS opinion or advisory letter, enter the date of that favorable letter _____/_____/_____ and the letter's serial number _____.

22d If the plan is an individually-designed plan and received a favorable determination letter from the IRS, enter the date of the plan's last favorable determination letter _____/_____/_____.

23 Is the Plan maintained in a U.S. territory (i.e., Puerto Rico (if no election under ERISA section 1022(i)(2) has been made), American Samoa, Guam, the Commonwealth of the Northern Mariana Islands or the U.S. Virgin Islands)?	☐ Yes	☐ No

PARKWAY BANCORP, INC. 401(K) PLAN

FINANCIAL REPORT

DECEMBER 31, 2015 AND 2014

PARKWAY BANCORP, INC. 401(K) PLAN

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BK BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Parkway Bancorp, Inc. 401(k) Plan

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Parkway Bancorp, Inc. 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

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 Newport Trust Company, formerly known as Verisight Trust Company, the trustee of the Plan, except for comparing the information with the related information included in the financial statements. We have been informed by the plan administrator that Newport Trust Company, formerly known as Verisight Trust Company, 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, 2015 and 2014, that the information provided to the plan administrator by the trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule of assets held for investment purposes at end of year is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the supplemental schedule referred to above.

Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements and supplemental 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.

Beasley and Kiener, L.L.P.

Certified Public Accountants

October 11, 2016

PARKWAY BANCORP, INC. 401(K) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Investments, at fair value	$ 15,161,908	$ 15,140,666
Receivables		
Employer contributions	375,248	350,173
Notes receivable from participants	473,759	485,528
Other receivables	-	203
	849,007	835,904
Cash	5,985	6,351
Total assets	16,016,900	15,982,921
LIABILITIES		
Accrued expenses	8,559	1,554
Net assets available for benefits	$ 16,008,341	$ 15,981,367

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, 2015 AND 2014

	2015	2014
Additions		
Investment income		
Net appreciation in fair value of investments	$ 153,812	$ 939,288
Dividends and interest	101,564	130,304
Net investment income	255,376	1,069,592
Interest income on notes receivable from participants	23,496	23,955
Contributions		
Employee	438,067	363,854
Employer	375,248	350,173
Rollover	39,187	115,688
Total contributions	852,502	829,715
Other income	20,180	30,713
Total additions	1,151,554	1,953,975
Deductions		
Benefits paid to participants	1,088,638	389,774
Administrative expenses	35,942	62,653
Total deductions	1,124,580	452,427
Net increase	26,974	1,501,548
Net assets available for benefits		
Beginning of year	15,981,367	14,479,819
End of year	$ 16,008,341	$ 15,981,367

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

Participants may elect to defer all or a portion of their 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. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions (rollover contributions) from other qualified defined benefit or contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and a money market fund as investment options for participants. The Plan includes an auto enrollment-provision whereby all newly eligible employees are automatically enrolled in the Plan, unless they affirmatively elect not to participate, with a default deferral rate set at 2% of eligible compensation. Contributions are automatically invested in a designated default fund until changed by the participant.

The Bank may make a discretionary profit sharing contribution to the Plan annually.

Participant Accounts

Each participant's account is credited with the participant's contributions, rollover contributions and an allocation of (a) Plan earnings, (b) the employer's contribution (if any), and (c) are charged with an allocation of administrative expenses. Allocations are based on participant earnings, contributions, and account balances as defined in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account, as defined.

Vesting

Participants are immediately 100% vested in their elective contributions, rollover contributions, and Safe Harbor contributions. The discretionary profit sharing contribution vests at 100% after three years of service. Vesting also occurs at age 65, or upon death or disability.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description (Continued)

Forfeited Accounts

As of December 31, 2015, forfeited non-vested accounts amounted to $299. There were no forfeited non-vested accounts at December 31, 2014. These accounts will be used to pay any administrative expenses of the Plan or to reduce employer contributions. In 2014, administrative expenses were reduced by $4,158 from forfeited non-vested accounts.

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.

Notes Receivable from Participants

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 rates ranging from 4.25% to 8.75%, which are commensurate 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 the Plan administrator 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. Related fees are charged directly to the borrowing participant's account and are included in administrative expenses when incurred. As of December 31, 2015 and 2014, no allowance for credit losses has been recorded. If a participant does not make loan payments and the plan administrator considers the participant to be in default, the loan balance is reduced, and the delinquent participant note is recorded as a benefit payment based on the terms of the Plan document.

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 (depreciation) in the fair value of investments includes the Plan's gains and losses on investments bought and sold during the year as well as held during the year.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Significant Accounting Policies (Continued)

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.

Date of Management's Review

Management has evaluated subsequent events through October 11, 2016, the date the financial statements were available to be issued.

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.

Financial Accounting Standards Board Accounting Standards Codification 820, Fair Value Measurements and Disclosures, 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 deemed to be actively traded.

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.

Note 3 – Fair Value Measurement (Continued)

The following table represents the fair value of the Plan's investments as of December 31, 2015 and 2014.

		Fair Value Measurements at Reporting Date Using:	
	Fair Value	Level 1	Level 3
December 31, 2015			
Money market fund	$ 1,024,140	$ 1,024,140	$ -
Mutual funds			
Equity funds	4,461,633	4,461,633	-
International equity funds	736,135	736,135	-
Fixed income funds	904,431	904,431	-
Balanced funds	2,516,748	2,516,748	-
Parkway Bancorp, Inc.	4,760,000	-	4,760,000
Other investments	758,821	708,821	50,000
Total	$15,161,908	$10,351,908	$4,810,000
December 31, 2014			
Money market fund	$ 1,058,547	$ 1,058,547	$ -
Mutual funds			
Equity funds	4,623,302	4,623,302	-
International equity funds	740,713	740,713	-
Fixed income funds	756,298	756,298	-
Balanced funds	2,648,978	2,648,978	-
Parkway Bancorp, Inc.	4,403,000	-	4,403,000
Other investments	909,828	859,828	50,000
Total	$15,140,666	$10,687,666	$4,453,000

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, 2015 and 2014, the fair value of the mutual funds was $8,618,947 and $8,769,291 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, 2015 and 2014.

	Parkway Bancorp stock	Other Investments
December 31, 2015		
Beginning balance	$4,403,000	$50,000
Total gains or losses (unrealized and realized) included in changes in net assets available for benefits	357,000	-
Purchases, sales and settlements	-	-
Ending balance	$4,760,000	$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.	$ 357,000	$ -
December 31, 2014		
Beginning balance	$3,927,000	$50,000
Total gains or losses (unrealized and realized) included in changes in net assets available for benefits	476,000	-
Purchases, sales and settlements	-	-
Ending balance	$4,403,000	$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.	$ 476,000	$ -

Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the years ended December 31, 2015 and 2014 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, 2015	December 31, 2014
American Funds Money Market Fund	$1,024,140	$1,058,547
American Funds AMCAP Fund	1,358,036	1,433,856
American Funds Income Fund of America	742,370*	894,051
MFS Blended Research Core Equity	1,153,239	1,316,708
Parkway Bancorp, Inc.	4,760,000	4,403,000
American Funds 2020 Target Date Retirement	825,012	-
Prudential Total Return Bond	904,430	-

* Investment does not represent more than 5% of the plan's net assets

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 4 – Investments (Continued)

During the years ended December 31, 2015 and 2014, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated in value by $153,812 and $939,288, respectively. The Plan's investment in a money market fund, by the nature of this type of investment, does not appreciate (depreciate) in value.

Net Appreciation (Depreciation) in Fair Value

	Year ended December 31,	
	2015	2014
Mutual funds	$(239,912)	$418,993
Other investments	36,724	44,295
Parkway Bancorp, Inc.	357,000	476,000
Net appreciation in fair value of investments	$ 153,812	$939,288

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 has received a determination letter from the IRS dated December 8, 2011, stating that the plan is qualified under Internal Revenue Code (IRC) Section 401(a), and therefore, the related trust is exempt from taxation. Once qualified, the plan is required to operate in conformity with the IRC to maintain its qualification. The plan administrator believes the plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the plan is qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service, The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Plan is subject to tax examinations generally for three years after returns are filed.

Note 7 – Related-Party Transactions

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

As of December 31, 2015 and 2014, 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.

All of these party-in-interest transactions are exempt from the prohibited transaction rules of ERISA.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 8 – Information Certified by Trustee

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, Newport Trust Company, formerly known as Verisight Trust Company, the trustee of the Plan, 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, 2015 and 2014.
- Investment income, as shown in the statement of changes in net assets available for benefits for the years ended December 31, 2015 and 2014.
- Schedule H, line 4i – schedule of assets held for investment purposes at end of year – December 31, 2015.

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 – Recently Issued Accounting Standards Not Yet Adopted

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient.* Parts I and III are not applicable to the Plan. Part II eliminates the requirements to disclose individual investments that represent 5% or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured at fair value. Plans will continue to disaggregate investments that are measured at fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics, and risks. Further, the disclosure of information about fair value measurements should be provided by general type of plan asset. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Part II is to be retroactively applied.

The Plan has not elected to early adopt these standards. The Trustees are currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Plan's financial statements.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 11 – Reconciliation of Financial Statements to Schedule H of Form 5500

The following is a reconciliation of the statement of changes in net assets available for benefits for the year ended December 31, 2015, to Schedule H of Form 5500:

	Per Financial Statement	Per Form 5500
Investment income:		
Net appreciation in fair value of investments	$ 153,812	$ 164,243
Dividends and interest	101,564	101,563
Total investment income	255,376	265,806
Interest income on notes receivable from participants	23,496	23,496
Contributions:		
Employee	438,067	438,067
Employer	375,248	375,248
Rollover	39,187	39,187
Total contributions	852,502	852,502
Other income	20,180	9,750
Total additions	1,151,554	1,151,554
Benefits paid to participants	1,088,638	1,088,638
Administrative expenses	35,942	35,942
Total deductions	1,124,580	1,124,580
Net increase	26,974	26,974
Net assets available for benefits		
Beginning of year	15,981,367	15,981,367
End of year	$16,008,341	$16,088,341

Certain additions to net assets are classified differently on Schedule H of Form 5500 than on the accompanying statement of changes in net assets available for benefits however, total additions are the same.

SUPPLEMENTAL SCHEDULE

PARKWAY BANCORP, INC. 401(K) PLAN
EIN: 36-2694975
SCHEDULE SUPPORTING FORM 5500 FOR 2015
FOR THE PLAN YEAR ENDED DECEMBER 31, 2015

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES AT END OF YEAR

(A) Party in Interest	(B) Identity of Issue, borrower, lessor or similar party	(C) Description of Investment including maturity date, rate of interest, par value or maturity value			(D) Cost	(E) Market Value
		Interest Rate	Maturity Date	Par Value/ or Shares		
	INTEREST BEARING CASH					
	American Funds Money Market Fund R3	Various	Demand	1,024,140	N/A	$ 1,024,140
	MUTUAL FUNDS					
	American Funds AMCAP Fund R3			53,741.042	N/A	1,358,036
	Hotchkis & Wiley Value Opportunities			11,078.143	N/A	253,357
	Janus Enterprise			6,356.766	N/A	537,782
	JPMorgan Equity Income			47,135.350	N/A	630,200
	Undiscovered Managers Behavioral Value			4,492.320	N/A	242,540
	Prudential Total Return Bond			64,556.640	N/A	904,430
	Prudential Jennison Small CL A			13,590.066	N/A	286,479
	American Funds EuroPacific Growth			14,115.527	N/A	628,141
	American Funds 2045 Target Date Retirement			7,774.187	N/A	96,244
	American Funds 2040 Target Date Retirement			5,332.279	N/A	65,427
	American Funds 2035 Target Date Retirement			7,813.462	N/A	94,387
	American Funds 2030 Target Date Retirement			23,445.255	N/A	282,281
	American Funds 2025 Target Date Retirement			7,958.066	N/A	91,757
	American Funds 2020 Target Date Retirement			74,729.364	N/A	825,012
	American Funds 2015 Target Date Retirement			15,434.155	N/A	159,126
	American Funds 2010 Target Date Retirement			9,625.769	N/A	93,659
	American Funds the Income Fund of America			36,823.898	N/A	742,370
	MFS Blended Research Core Equity			52,587.279	N/A	1,153,239
	Thornburg Investment Income Builder			3,502.925	N/A	66,486
	Virtus Emerging Markets			12,441.759	N/A	107,994
	EMPLOYER ISSUED SECURITIES					
	Parkway Bancorp, Inc. Common stock			28.000		4,760,000
	OTHER					
	Self Directed Accounts					758,821
						$15,161,908
*	Participant loans		Participant loans with interest rates ranging from 4.25% to 8.75%			$ 473,759

N/A- not required for participant directed accounts.

PARKWAY BANCORP, INC. 401(K) PLAN

FINANCIAL REPORT

DECEMBER 31, 2015 AND 2014

PARKWAY BANCORP, INC. 401(K) PLAN

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BK BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

O'HARE PLAZA
8745 WEST HIGGINS ROAD
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TEL: (312) 263-2700
FAX: (312) 263-6935
WWW.BK-CPA.COM

INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Parkway Bancorp, Inc. 401(k) Plan

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Parkway Bancorp, Inc. 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

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 Newport Trust Company, formerly known as Verisight Trust Company, the trustee of the Plan, except for comparing the information with the related information included in the financial statements. We have been informed by the plan administrator that Newport Trust Company, formerly known as Verisight Trust Company, 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, 2015 and 2014, that the information provided to the plan administrator by the trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule of assets held for investment purposes at end of year is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the supplemental schedule referred to above.

Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements and supplemental 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.

Beasley and Kiener, L.L.P.

Certified Public Accountants

October 11, 2016

PARKWAY BANCORP, INC. 401(K) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Investments, at fair value	$ 15,161,908	$ 15,140,666
Receivables		
Employer contributions	375,248	350,173
Notes receivable from participants	473,759	485,528
Other receivables	-	203
	849,007	835,904
Cash	5,985	6,351
Total assets	16,016,900	15,982,921
LIABILITIES		
Accrued expenses	8,559	1,554
Net assets available for benefits	$ 16,008,341	$ 15,981,367

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, 2015 AND 2014

	2015	2014
Additions		
Investment income		
Net appreciation in fair value of investments	$ 153,812	$ 939,288
Dividends and interest	101,564	130,304
Net investment income	255,376	1,069,592
Interest income on notes receivable from participants	23,496	23,955
Contributions		
Employee	438,067	363,854
Employer	375,248	350,173
Rollover	39,187	115,688
Total contributions	852,502	829,715
Other income	20,180	30,713
Total additions	1,151,554	1,953,975
Deductions		
Benefits paid to participants	1,088,638	389,774
Administrative expenses	35,942	62,653
Total deductions	1,124,580	452,427
Net increase	26,974	1,501,548
Net assets available for benefits		
Beginning of year	15,981,367	14,479,819
End of year	$ 16,008,341	$ 15,981,367

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

Participants may elect to defer all or a portion of their 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. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions (rollover contributions) from other qualified defined benefit or contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and a money market fund as investment options for participants. The Plan includes an auto enrollment-provision whereby all newly eligible employees are automatically enrolled in the Plan, unless they affirmatively elect not to participate, with a default deferral rate set at 2% of eligible compensation. Contributions are automatically invested in a designated default fund until changed by the participant.

The Bank may make a discretionary profit sharing contribution to the Plan annually.

Participant Accounts

Each participant's account is credited with the participant's contributions, rollover contributions and an allocation of (a) Plan earnings, (b) the employer's contribution (if any), and (c) are charged with an allocation of administrative expenses. Allocations are based on participant earnings, contributions, and account balances as defined in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account, as defined.

Vesting

Participants are immediately 100% vested in their elective contributions, rollover contributions, and Safe Harbor contributions. The discretionary profit sharing contribution vests at 100% after three years of service. Vesting also occurs at age 65, or upon death or disability.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description (Continued)

Forfeited Accounts

As of December 31, 2015, forfeited non-vested accounts amounted to $299. There were no forfeited non-vested accounts at December 31, 2014. These accounts will be used to pay any administrative expenses of the Plan or to reduce employer contributions. In 2014, administrative expenses were reduced by $4,158 from forfeited non-vested accounts.

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.

Notes Receivable from Participants

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 rates ranging from 4.25% to 8.75%, which are commensurate 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 the Plan administrator 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. Related fees are charged directly to the borrowing participant's account and are included in administrative expenses when incurred. As of December 31, 2015 and 2014, no allowance for credit losses has been recorded. If a participant does not make loan payments and the plan administrator considers the participant to be in default, the loan balance is reduced, and the delinquent participant note is recorded as a benefit payment based on the terms of the Plan document.

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 (depreciation) in the fair value of investments includes the Plan's gains and losses on investments bought and sold during the year as well as held during the year.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Significant Accounting Policies (Continued)

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.

Date of Management's Review

Management has evaluated subsequent events through October 11, 2016, the date the financial statements were available to be issued.

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.

Financial Accounting Standards Board Accounting Standards Codification 820, Fair Value Measurements and Disclosures, 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 deemed to be actively traded.

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.

Note 3 – Fair Value Measurement (Continued)

The following table represents the fair value of the Plan's investments as of December 31, 2015 and 2014.

		Fair Value Measurements at Reporting Date Using:	
	Fair Value	Level 1	Level 3
December 31, 2015			
Money market fund	$ 1,024,140	$ 1,024,140	$ -
Mutual funds			
Equity funds	4,461,633	4,461,633	-
International equity funds	736,135	736,135	-
Fixed income funds	904,431	904,431	-
Balanced funds	2,516,748	2,516,748	-
Parkway Bancorp, Inc.	4,760,000	-	4,760,000
Other investments	758,821	708,821	50,000
Total	$15,161,908	$10,351,908	$4,810,000
December 31, 2014			
Money market fund	$ 1,058,547	$ 1,058,547	$ -
Mutual funds			
Equity funds	4,623,302	4,623,302	-
International equity funds	740,713	740,713	-
Fixed income funds	756,298	756,298	-
Balanced funds	2,648,978	2,648,978	-
Parkway Bancorp, Inc.	4,403,000	-	4,403,000
Other investments	909,828	859,828	50,000
Total	$15,140,666	$10,687,666	$4,453,000

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, 2015 and 2014, the fair value of the mutual funds was $8,618,947 and $8,769,291 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, 2015 and 2014.

	Parkway Bancorp stock	Other Investments
December 31, 2015		
Beginning balance	$4,403,000	$50,000
Total gains or losses (unrealized and realized) included in changes in net assets available for benefits	357,000	-
Purchases, sales and settlements	-	-
Ending balance	$4,760,000	$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.	$ 357,000	$ -
December 31, 2014		
Beginning balance	$3,927,000	$50,000
Total gains or losses (unrealized and realized) included in changes in net assets available for benefits	476,000	-
Purchases, sales and settlements	-	-
Ending balance	$4,403,000	$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.	$ 476,000	$ -

Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the years ended December 31, 2015 and 2014 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, 2015	December 31, 2014
American Funds Money Market Fund	$1,024,140	$1,058,547
American Funds AMCAP Fund	1,358,036	1,433,856
American Funds Income Fund of America	742,370*	894,051
MFS Blended Research Core Equity	1,153,239	1,316,708
Parkway Bancorp, Inc.	4,760,000	4,403,000
American Funds 2020 Target Date Retirement	825,012	-
Prudential Total Return Bond	904,430	-

* Investment does not represent more than 5% of the plan's net assets

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 4 – Investments (Continued)

During the years ended December 31, 2015 and 2014, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated in value by $153,812 and $939,288, respectively. The Plan's investment in a money market fund, by the nature of this type of investment, does not appreciate (depreciate) in value.

Net Appreciation (Depreciation) in Fair Value

	Year ended December 31,	
	2015	2014
Mutual funds	$(239,912)	$418,993
Other investments	36,724	44,295
Parkway Bancorp, Inc.	357,000	476,000
Net appreciation in fair value of investments	$ 153,812	$939,288

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 has received a determination letter from the IRS dated December 8, 2011, stating that the plan is qualified under Internal Revenue Code (IRC) Section 401(a), and therefore, the related trust is exempt from taxation. Once qualified, the plan is required to operate in conformity with the IRC to maintain its qualification. The plan administrator believes the plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the plan is qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service, The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Plan is subject to tax examinations generally for three years after returns are filed.

Note 7 – Related-Party Transactions

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

As of December 31, 2015 and 2014, 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.

All of these party-in-interest transactions are exempt from the prohibited transaction rules of ERISA.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 8 – Information Certified by Trustee

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, Newport Trust Company, formerly known as Verisight Trust Company, the trustee of the Plan, 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, 2015 and 2014.
- Investment income, as shown in the statement of changes in net assets available for benefits for the years ended December 31, 2015 and 2014.
- Schedule H, line 4i – schedule of assets held for investment purposes at end of year – December 31, 2015.

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 – Recently Issued Accounting Standards Not Yet Adopted

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient.* Parts I and III are not applicable to the Plan. Part II eliminates the requirements to disclose individual investments that represent 5% or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured at fair value. Plans will continue to disaggregate investments that are measured at fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics, and risks. Further, the disclosure of information about fair value measurements should be provided by general type of plan asset. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Part II is to be retroactively applied.

The Plan has not elected to early adopt these standards. The Trustees are currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Plan's financial statements.

PARKWAY BANCORP, INC. 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Note 11 – Reconciliation of Financial Statements to Schedule H of Form 5500

The following is a reconciliation of the statement of changes in net assets available for benefits for the year ended December 31, 2015, to Schedule H of Form 5500:

	Per Financial Statement	Per Form 5500
Investment income:		
Net appreciation in fair value of investments	$ 153,812	$ 164,243
Dividends and interest	101,564	101,563
Total investment income	255,376	265,806
Interest income on notes receivable from participants	23,496	23,496
Contributions:		
Employee	438,067	438,067
Employer	375,248	375,248
Rollover	39,187	39,187
Total contributions	852,502	852,502
Other income	20,180	9,750
Total additions	1,151,554	1,151,554
Benefits paid to participants	1,088,638	1,088,638
Administrative expenses	35,942	35,942
Total deductions	1,124,580	1,124,580
Net increase	26,974	26,974
Net assets available for benefits		
Beginning of year	15,981,367	15,981,367
End of year	$16,008,341	$16,088,341

Certain additions to net assets are classified differently on Schedule H of Form 5500 than on the accompanying statement of changes in net assets available for benefits however, total additions are the same.

SUPPLEMENTAL SCHEDULE

PARKWAY BANCORP, INC. 401(K) PLAN
EIN: 36-2694975
SCHEDULE SUPPORTING FORM 5500 FOR 2015
FOR THE PLAN YEAR ENDED DECEMBER 31, 2015

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES AT END OF YEAR

(A) Party in Interest	(B) Identity of Issue, borrower, lessor or similar party	(C) Description of Investment including maturity date, rate of interest, par value or maturity value			(D) Cost	(E) Market Value
		Interest Rate	Maturity Date	Par Value/ or Shares		
	INTEREST BEARING CASH					
	American Funds Money Market Fund R3	Various	Demand	1,024,140	N/A	$ 1,024,140
	MUTUAL FUNDS					
	American Funds AMCAP Fund R3			53,741.042	N/A	1,358,036
	Hotchkis & Wiley Value Opportunities			11,078.143	N/A	253,357
	Janus Enterprise			6,356.766	N/A	537,782
	JPMorgan Equity Income			47,135.350	N/A	630,200
	Undiscovered Managers Behavioral Value			4,492.320	N/A	242,540
	Prudential Total Return Bond			64,556.640	N/A	904,430
	Prudential Jennison Small CL A			13,590.066	N/A	286,479
	American Funds EuroPacific Growth			14,115.527	N/A	628,141
	American Funds 2045 Target Date Retirement			7,774.187	N/A	96,244
	American Funds 2040 Target Date Retirement			5,332.279	N/A	65,427
	American Funds 2035 Target Date Retirement			7,813.462	N/A	94,387
	American Funds 2030 Target Date Retirement			23,445.255	N/A	282,281
	American Funds 2025 Target Date Retirement			7,958.066	N/A	91,757
	American Funds 2020 Target Date Retirement			74,729.364	N/A	825,012
	American Funds 2015 Target Date Retirement			15,434.155	N/A	159,126
	American Funds 2010 Target Date Retirement			9,625.769	N/A	93,659
	American Funds the Income Fund of America			36,823.898	N/A	742,370
	MFS Blended Research Core Equity			52,587.279	N/A	1,153,239
	Thornburg Investment Income Builder			3,502.925	N/A	66,486
	Virtus Emerging Markets			12,441.759	N/A	107,994
	EMPLOYER ISSUED SECURITIES					
	Parkway Bancorp, Inc. Common stock			28.000		4,760,000
	OTHER					
	Self Directed Accounts					758,821
						$15,161,908
*	Participant loans		Participant loans with interest rates ranging from 4.25% to 8.75%			$ 473,759

N/A- not required for participant directed accounts.