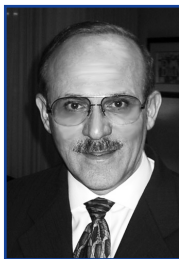


MESSAGE FROM THE CHAIRMAN



The market uncertainty, the frozen credit markets, the volatile stock markets, and the weak real estate markets that plagued 2008 also continued for much of 2009. In 2008, the world witnessed the destruction of wealth at historic levels. For those still active in the stock market, 2009 was a significantly better year, as the Dow Jones Industrial Average finished above 10,000 points as compared to the anemic levels of 2008.

For those active in the real estate market, the news was not as good. The uncertainty that plagued the real estate market was lifted and a definite downward trend in values was established.

The decline in real estate values was amplified by foreclosures, FDIC forced liquidations, and the actions of other highly motivated sellers. The real estate market was flooded with distressed sellers and opportunistic value buyers. The end result was real estate values suffered significantly in 2009.

The downward pressures in real estate values ultimately placed significant pressures on the earnings of all banks, as once prudent and well secured loans became increasingly risky in the current market place. To offset these new risks, the Company increased its reserves for loans by approximately \$19,500,000, to approximately \$39,500,000 or 2.0% of total loans.

The year was also marked by an increase in bank failures throughout the country. Both the volume and the magnitude of the failures stressed the FDIC reserves. As a result, the FDIC increased the cost of insurance drastically. The exponential increase in FDIC premiums placed additional stress on the Company's earnings. In 2009, the Company recorded FDIC insurance expense of \$5,643,000, as compared to \$641,000 in 2008; this represents a 780% increase in FDIC insurance costs.

Also negatively impacting all banks was the growing regulatory uncertainty. The area lacking any clarity was the future standards for capital levels. Current regulations require banks to maintain certain capital levels. In order to meet the well capitalized guidelines, banks are required to maintain 5.0% leverage capital, 6% tier 1 capital, and 10.0% risk based capital. As of December 31, 2009, Parkway Bank and Trust Company exceeded all the well capitalized levels with 8.39% leverage, 9.73% tier 1, and 11.30% risk based capital. This uncertainty in the required capital levels is one of the primary forces behind the much publicized tight credit market. Banks are significantly restricting new loan growth in fear of changes to these capital requirements. This uncertainty also played a major role in the Company's decision to suspend dividends in 2009 and 2010.

Complicating the operating environment for community banks even further was the fallout of the government bailout of Wall Street and the auto industry. Beyond the outrage, the bailout has contributed to the misguided belief that all banks benefitted directly from the government's actions and all banks were to blame for the financial crisis gripping the nation. The Company is proud to have elected not to receive government assistance.

Although our strong historical performance might lead one to view 2009 as a failure, in the context of the operating environment highlighted and in comparison to many peer organizations, Parkway realized many successes during the year. At a time when the capital markets were largely nonexistent for community banks, our Company was successful in raising an additional \$9,795,000 in capital through two Trust Preferred Securities offerings. Also, we were able to reduce operating expenses through an aggressive cost control initiative that began in 2008. The Bank's operating efficiency of 62.41% remains well below the peer level of 74.20%. Lastly, in light of the weak economy, we increased the allowance for loan losses to a historically high level of approximately 2.0% of loans outstanding. The allowance will help shield Parkway from future loan losses.

We believe that the measures taken during 2009 position Parkway to meet the challenges that 2010 will bring. Management and the Board of Directors continue to be committed to the future growth and success of the Company and are prepared to take all necessary steps to achieve that end. We appreciate your continued support and trust.

Rocco Suspenzi
Chairman & CEO



PARKWAY BANCORP, INC.

 **PARKWAY BANCORP, INC.**

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PARKWAY BANCORP, INC.

**Consolidated Statement
of Condition**

December 31, 2009

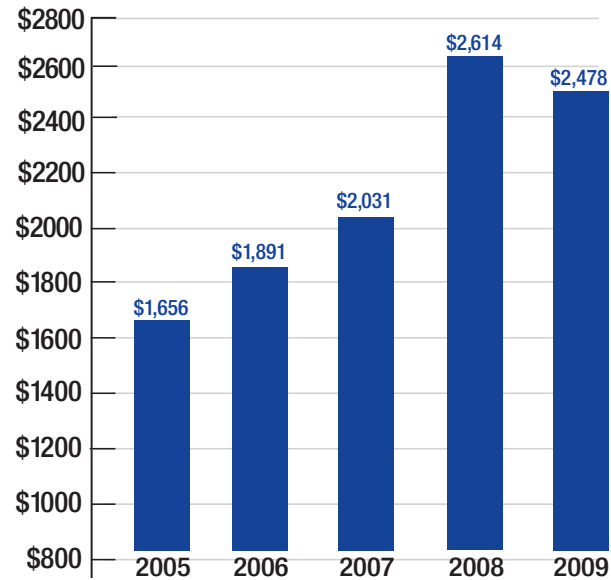
CONSOLIDATED STATEMENT OF CONDITION

ASSETS	Dec. 31, 2009	Dec. 31, 2008
Cash Equivalents	\$ 112,275,028	\$ 96,153,204
Investment Securities	\$ 278,046,716	\$ 343,150,999
Loans (Net of Reserves)	\$ 1,945,640,491	\$ 2,081,972,644
Bank Premises & Other Assets	\$ 141,746,363	\$ 92,929,511
TOTAL ASSETS	\$2,477,708,598	\$2,614,206,358
LIABILITIES & CAPITAL		
Total Deposits	\$ 2,094,265,698	\$ 2,221,496,741
Other Liabilities	\$ 212,030,775	\$ 208,804,011
Total Capital	\$ 171,412,125	\$ 183,905,606
Total Liabilities & Capital	\$2,477,708,598	\$ 2,614,206,358

This document has not been reviewed for accuracy or relevance by the FDIC.

TOTAL ASSETS

in Millions of Dollars - As of Dec. 31st



PARKWAY BANCORP, INC.

BOARD OF DIRECTORS

Rocco Suspenzi

Chairman of the Board,
C.E.O. & Secretary

Isaac Degen

Partner, Degen & Rosato Construction Co.

Gregg Kobelinski

President,
Mid-Europe Trade & Investment Co.

Robert F. Lussier

President & Treasurer

Scott M. Potter

Private Investor

Dennis Zizzo

Account Exec. Midwest Visual Equipment Co.

James Zizzo

Business Development, Parkway Bank

EXECUTIVE OFFICERS

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Chairman of the Board,
C.E.O. & Secretary

Robert F. Lussier

President

Kathleen Bruno

Executive Vice President &
Chief Operating Officer

Frank J. Lis

Executive Vice President &
Chief Financial Officer

Gregory T. Bear

Executive Vice President

Mark A. Shekerjian

Executive Vice President

PARKWAY BANK & TRUST COMPANY

BOARD OF DIRECTORS

Rocco Suspenzi

Chairman of the Board & C.E.O.

Kathleen Bruno

Executive Vice President &
Chief Operating Officer

Lance M. Chody

President, Lance M. Chody, Ltd.

Paul Goldberg

Director, RSM McGladrey, Inc.

Gregg Kobelinski

President,
Mid-Europe Trade & Investment Co.

Thomas Kotel

President, Mid-America Tile Co.

Demetrios Kozonis

President, Delko Construction Co.

Robert F. Lussier

President – Northwest

Dennis Zizzo

Account Exec. Midwest Visual Equipment Co.

Ted Szywala

Chairman Emeritus

EXECUTIVE OFFICERS

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President – Northwest

Kathleen Bruno

Executive Vice President &
Chief Operating Officer

Frank J. Lis

Executive Vice President &
Chief Financial Officer

Gregory T. Bear

Executive Vice President

Mark A. Shekerjian

Executive Vice President

ACCOUNTING

Frank J. Lis

Executive Vice President &
Chief Financial Officer

Salvador R. Gonzalez

Vice President & Controller

Romeo Bolda

Assistant Vice President

Michele Morawski

Purchasing Officer

BUSINESS DEVELOPMENT

Robert F. Lussier

President – Northwest

Kathryn Bosco

Vice President

COMPLIANCE & AUDITING

Raymond Berowski

Vice President &
Compliance Officer

Wayne Waitches

Vice President & Auditor

CUSTOMER SERVICE/ PERSONAL BANKING

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Executive Vice President &
Chief Operating Officer

Karen Franciere

Regional Vice President

Frank McGava

Regional Vice President

Robert Bret Rusk

Regional Vice President

Cynthia Adam

Assistant Vice President

Debra Cherry

Assistant Vice President

Lynn Cialdella

Assistant Vice President

Evelyn Contursi

Assistant Vice President

Walter Davidson

Assistant Vice President

Kathleen DeBenedictis

Assistant Vice President

Anna Kadzielawa

Assistant Vice President

Angeline Loftus

Assistant Vice President

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Assistant Vice President

Frank Oberlander

Assistant Vice President

Kenneth Pederson

Assistant Vice President

Darcy Phillips

Assistant Vice President

Grace Popovic

Assistant Vice President

Beata Santarsieri

Assistant Vice President

Carmela Sautariello

Assistant Vice President

Milos Sekulic

Assistant Vice President

Sandra Severin-Svizzero

Assistant Vice President

Michael Swinford

Assistant Vice President

Lauren Boerman

Officer & District Manager

Anna Koscielniak

Officer & Branch Manager

Andrea Pilipuf

Officer & Branch Manager

Linda Rojas

Officer & Branch Manager

Craig Vacca

Officer & Branch Manager

Carmen Torres

Officer & Assistant Branch Manager

Rosalie Levine

Personal Banking Officer

Sharon Napolitano

Personal Banking Officer

Ritamarie Ritter

Personal Banking Officer

Freeman Riles

Merchant Services Officer

Judith Verdin

Personal Banking Officer

Gwen Ward

Operations Officer

HUMAN RESOURCES

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Senior Vice President &
Human Resources Director

Elaine Au

Human Resources Officer

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Chairman of the Board & C.E.O.

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Executive Vice President

Mark A. Shekerjian

Executive Vice President

David F. Hyde

Vice President

Douglas Jirka

Vice President

Daniel J. Tomasetti

Vice President

Paige Van Vorst

Vice President Loan Review

Marianne L. Wagener

Vice President

Michael Cappetta

Assistant Vice President

Anna M. Cornwall

Assistant Vice President

Laura A. D'Amato

Assistant Vice President

John Bassett

Commercial Loan Officer

Scott Gibson

Commercial Loan Officer

Damian Guzman

Commercial Loan Officer

Janet Hoiberg

Mortgage Loan Officer

Marliene Krogstad

Mortgage Operations Officer

Loukas A. Rogaris

Commercial Loan Officer

Michelle Szymczyk

Mortgage Loan Officer

MARKETING

Charlene Augustine

Marketing Officer

OPERATIONS

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Chief Operating Officer

Alan R. Gunnerson

Senior Vice President & Cashier

Sara Rosellini

Vice President

Richard Evans

Assistant Vice President

Kurt Kuester

Assistant Vice President
& Security Officer

Judy Niklos

Assistant Vice President

Tracy Santagata

Retail Support Officer

TRUST

Diane Peszynski

Vice President

Jo Ann Kubinski

Assistant Trust Officer



PARKWAY BANCORP, INC.