PROVIDENT FINANCIAL SERVICES INC
Form 10-K
March 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2013
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File No. 1-31566
PROVIDENT FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	42-1547151
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
239 Washington Street, Jersey City, New Jersey	07302
(Address of Principal Executive Offices)	(Zip Code)

(732) 590-9200
(Registrant's Telephone Number)
Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	New York Stock Exchange
(Title of Class)	(Name of Exchange on Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ý NO ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO ý
Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. YES ý NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer ý Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý

As of February 1, 2014, there were 83,209,293 issued and 60,329,589 shares of the Registrant's Common Stock outstanding, including 410,843 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under accounting principles generally accepted in the United States of America. The aggregate value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the Common Stock as of June 28, 2013, as quoted by the NYSE, was approximately $844.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2014 Annual Meeting of Stockholders of the Registrant (Part III).

PROVIDENT FINANCIAL SERVICES, INC.
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Forward Looking Statements

Certain statements contained herein are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar terms or variations on those terms, or the negative o those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Provident Financial Services, Inc. (the "Company") operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company cautions readers not to place undue reliance on any such forward-looking statements which speak only as of the date made. The Company also advises readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

Item 1. Business

Provident Financial Services, Inc.

The Company is a Delaware corporation which became the holding company for The Provident Bank (the "Bank") on January 15, 2003, following the completion of the conversion of the Bank to a stock chartered savings bank. On January 15, 2003, the Company issued an aggregate of 59,618,300 shares of its common stock, par value $0.01 per share in a subscription offering, and contributed $4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation, a charitable foundation established by the Bank. As a result of the conversion and related stock offering, the Company raised $567.2 million in net proceeds, of which $293.2 million was utilized to acquire all of the outstanding common stock of the Bank. The Company owns all of the outstanding common stock of the Bank, and as such, is a bank holding company subject to regulation by the Federal Reserve Board.

At December 31, 2013, the Company had total assets of $7.49 billion, loans of $5.19 billion, total deposits of $5.20 billion, and total stockholders' equity of $1.01 billion. The Company's mailing address is 239 Washington Street, Jersey City, New Jersey 07302, and the Company's telephone number is (732) 590-9200.

Capital Management. The Company paid cash dividends totaling $32.3 million and repurchased 398,339 shares of its common stock at a cost of $5.9 million in 2013. At December 31, 2013, 3.7 million shares were eligible for repurchase under the board approved stock repurchase program(s). The Company and the Bank were "well capitalized" at December 31, 2013 under current regulatory standards.

Available Information. The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission ("SEC"). These respective reports are on file and a matter of public record with the SEC and may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov). All filed SEC reports and interim filings can also be obtained from the Bank's website, www.providentnj.com, on the "Investor Relations" page, without charge from the Company.

The Provident Bank

Established in 1839, the Bank is a New Jersey-chartered capital stock savings bank currently operating 77 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset and Union, which the Bank considers its primary market area. As a community- and customer-oriented institution, the Bank emphasizes personal service and customer convenience in serving the financial needs of the individuals, families and businesses residing in its primary markets areas. The Bank attracts deposits from the general public and businesses primarily in the areas surrounding its banking offices and uses those funds, together with funds generated from operations and borrowings, to originate

commercial real estate loans, residential mortgage loans, commercial business loans and consumer loans. The Bank also invests in mortgage-backed securities and other permissible investments.

The following are highlights of The Provident Bank's operations:

Diversified Loan Portfolio. To improve asset yields and reduce its exposure to interest rate risk, the Bank has diversified its loan portfolio and has emphasized the origination of commercial real estate loans, multi-family loans and commercial business loans. These loans generally have adjustable rates or shorter fixed terms and interest rates that are higher than the rates applicable to one- to four-family residential mortgage loans. However, these loans generally have a higher risk of loss than one- to four- family residential mortgage loans.

Asset Quality. As of December 31, 2013, non-performing assets were $82.2 million or 1.10% of total assets, compared to $111.5 million or 1.53% of total assets at December 31, 2012. While the Bank's non-performing asset levels have been adversely impacted by the troubled real estate market and the challenging economic environment, the Bank continues to focus on conservative underwriting criteria and on active and timely collection efforts.

Emphasis on Relationship Banking and Core Deposits. The Bank emphasizes the acquisition and retention of core deposit accounts, consisting of savings and all demand deposit accounts, and expanding customer relationships. Core deposit accounts totaled $4.40 billion at December 31, 2013, representing 84.5% of total deposits, compared with $4.47 billion, or 82.4% of total deposits at December 31, 2012. The Bank also focuses on increasing the number of households and businesses served and the number of banking products per customer.

Non-Interest Income. The Bank's focus on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. Fees derived from core deposit accounts are a primary source of non-interest income. The Bank also offers investment, wealth and asset management services through its subsidiaries to generate non-interest income. Total non-interest income was $44.2 million for the year ended December 31, 2013, compared with $43.6 million for the year ended December 31, 2012, and fee income was $34.0 million for the year ended December 31, 2013, compared with $30.3 million for the year ended December 31, 2012.

Managing Interest Rate Risk. The Bank manages its exposure to interest rate risk through the origination and retention of adjustable rate and shorter-term loans. In addition, the Bank uses its investments in securities to manage interest rate risk. At December 31, 2013, 47.7% of the Bank's loan portfolio had a term to maturity of one year or less, or had adjustable interest rates. Moreover, at December 31, 2013, the Bank's securities portfolio totaled $1.57 billion and had an expected average life of 4.55 years.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2013, the Bank operated a network of 77 full-service banking offices throughout eleven counties in northern and central New Jersey, comprised of 14 offices in Hudson County, 3 in Bergen, 7 in Essex, 1 in Mercer, 22 in Middlesex, 8 in Monmouth, 10 in Morris, 4 in Ocean, 1 in Passaic, 4 in Somerset and 3 in Union Counties. The Bank also maintains its administrative offices in Iselin, New Jersey and satellite loan production offices in Convent Station, East Rutherford and Princeton, New Jersey. The Bank's lending activities, though concentrated in the communities surrounding its offices, extend predominantly throughout the State of New Jersey and, to a lesser extent, Eastern Pennsylvania.

The Bank's primary market area includes a mix of urban and suburban communities, and has a diversified mix of industries including pharmaceutical and other manufacturing companies, network communications, insurance and financial services, healthcare, and retail. According to the U.S. Census Bureau's most recent population data for 2013, the Bank's market area has a population of 6.6 million, which was 74.6% of the state's total population. Because of the diversity of industries in the Bank's market area and, to a lesser extent, its proximity to the New York City financial markets, the area's economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, the unemployment rate in New Jersey remained elevated at 7.3% at December 31, 2013, and decreased from 9.6% at December 31, 2012.

Within its primary market area, the Bank had an approximate 2.26% share of bank deposits as of June 30, 2013, the latest date for which statistics are available, and an approximate 1.91% deposit share of the New Jersey market statewide.

COMPETITION

The Bank faces intense competition in originating loans, retaining loans and attracting deposits. The northern and central New Jersey market area has a high concentration of financial institutions, including large money center and regional banks, community banks, credit unions, investment brokerage firms and insurance companies. The Bank faces direct competition for

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loans from each of these institutions as well as from mortgage companies and other loan origination firms operating in its market area. The Bank's most direct competition for deposits has come from several commercial banks and savings banks in its market area. Certain of these banks have substantially greater financial resources than the Bank. In addition, the Bank faces significant competition for deposits from the mutual fund industry and from investors' direct purchases of short-term money market securities and other corporate and government securities.

The Bank competes in this environment by maintaining a diversified product line, including mutual funds, annuities and other investment services made available through its investment subsidiaries. Relationships with customers are built and maintained through the Bank's branch network, its deployment of branch and off-site ATMs, and its mobile, telephone and web-based banking services.

LENDING ACTIVITIES

The Bank originates commercial real estate loans, commercial business loans, fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate and other consumer loans, for borrowers generally located within its primary market area.

Residential mortgage loans are primarily underwritten to standards that allow the sale of the loans to the secondary markets, primarily to the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and the Federal National Mortgage Association ("FNMA" or "Fannie Mae"). To manage interest rate risk, the Bank generally sells fixed-rate residential mortgages that it originates with terms greater than 15 years. The Bank commonly retains biweekly payment fixed-rate residential mortgage loans with a term of 25 years or less and a majority of the originated adjustable rate mortgages for its portfolio.

The Bank originates commercial real estate loans that are secured by income-producing properties such as multi-family apartment buildings, office buildings, and retail and industrial properties. Generally, these loans have terms of either 5 or 10 years.

The Bank historically provided construction loans for both single family and condominium projects intended for sale and commercial projects, including residential for rent projects, that will be retained as investments by the borrower. The Bank underwrites most construction loans for a term of three years or less. The majority of these loans are underwritten on a floating rate basis. The Bank recognizes that there is higher risk in construction lending than permanent lending. As such, the Bank takes certain precautions to mitigate this risk, including the retention of an outside engineering firm to perform plan and cost reviews and to review all construction advances made against work in place and a limitation on how and when loan proceeds are advanced. In most cases, for the single family/condominium projects, the Bank limits its exposure against houses or units that are not under contract. Similarly, commercial construction loans usually have commitments for significant pre-leasing, or funds are held back until the leases are finalized. Funding requirements and loan structure for residential for rent projects vary depending on whether such projects are vertical or horizontal construction.

The Bank originates consumer loans that are secured, in most cases, by a borrower's assets. Home equity loans and home equity lines of credit that are secured by a first or second mortgage lien on the borrower's residence comprise the largest category of the Bank's consumer loan portfolio. The Bank's consumer loan portfolio also includes marine loans made on an indirect basis that are secured by a first lien on recreational boats. The marine loans were generated via boat dealers located on the East Coast of the United States. The Bank discontinued indirect marine lending in 2010. Marine loans are currently made on a direct, limited accommodation basis to existing customers.

Commercial loans are made to businesses of varying size and type within the Bank's market. The Bank lends to established businesses, and the loans are generally secured by business assets such as equipment, receivables, inventory, real estate or marketable securities. On a limited basis, the Bank makes unsecured commercial loans. Most commercial lines of credit are made on a floating interest rate basis and most term loans are made on a fixed interest rate basis, usually with terms of five years or less.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of the loan portfolio in dollar amounts and in percentages (after deductions for deferred fees and costs, unearned discounts and premiums and allowances for losses) as of the dates indicated.

	At December 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Pe
	(Dollars in thousands)									
Residential mortgage loans	$1,174,043	22.89 %	$1,265,015	26.17 %	$1,308,635	28.58 %	$1,386,326	31.93 %	$1,491,358	34
Commercial mortgage loans	1,400,624	27.30	1,349,950	27.92	1,253,542	27.37	1,180,147	27.19	1,089,937	25
Multi-family mortgage loans	928,906	18.11	723,958	14.98	564,147	12.32	387,189	8.92	227,663	5.
Construction loans	183,289	3.57	120,133	2.48	114,817	2.51	125,192	2.88	195,889	4.
Total mortgage loans	3,686,862	71.87	3,459,056	71.55	3,241,141	70.78	3,078,854	70.92	3,004,847	69
Commercial loans	932,199	18.17	866,395	17.92	849,009	18.54	755,487	17.40	785,818	18
Consumer loans	577,602	11.26	579,166	11.98	560,970	12.25	569,597	13.12	586,459	13
Total gross loans	5,196,663	101.30	4,904,617	101.45	4,651,120	101.57	4,403,938	101.45	4,377,124	10
Premiums on purchased loans	4,202	0.08	4,964	0.10	5,823	0.13	6,771	0.16	8,012	0.
Unearned discounts	(62)	—	(78)	—	(100)	—	(104)	—	(266)	(0.
Net deferred costs (fees)	(5,990)	(0.12)	(4,804)	(0.10)	(3,334)	(0.07)	(792)	(0.02)	(676)	(0.
Total loans	5,194,813	101.26	4,904,699	101.45	4,653,509	101.63	4,409,813	101.58	4,384,194	10
Allowance for loan losses	(64,664)	(1.26)	(70,348)	(1.45)	(74,351)	(1.62)	(68,722)	(1.58)	(60,744)	(1.
Total loans, net	$5,130,149	100.00 %	$4,834,351	100.00 %	$4,579,158	100.00 %	$4,341,091	100.00 %	$4,323,450	10

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2013, regarding the maturities of loans in the loan portfolio. Demand loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due within one year.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total

	(Dollars in thousands)						
Residential mortgage loans	$1,801	$4,616	$39,156	$84,149	$418,909	$625,412	$1,174,043
Commercial mortgage loans	79,235	132,317	271,195	790,771	127,012	94	1,400,624
Multi-family mortgage loans	11,515	73,471	41,603	600,108	202,116	93	928,906
Construction loans	72,470	101,819	—	9,000	—	—	183,289
Total mortgage loans	165,021	312,223	351,954	1,484,028	748,037	625,599	3,686,862
Commercial loans	213,753	147,722	108,518	367,005	77,931	17,270	932,199
Consumer loans	23,503	8,391	23,405	90,344	331,647	100,312	577,602
Total loans	$402,277	$468,336	$483,877	$1,941,377	$1,157,615	$743,181	$5,196,663

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2013, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2014.

	Due After December 31, 2014		
	Fixed	Adjustable	Total
	(Dollars in thousands)		
Residential mortgage loans	$770,172	$402,070	$1,172,242
Commercial mortgage loans	719,515	601,874	1,321,389
Multi-family mortgage loans	541,196	376,195	917,391
Construction loans	—	110,819	110,819
Total mortgage loans	2,030,883	1,490,958	3,521,841
Commercial loans	318,905	399,541	718,446
Consumer loans	367,418	186,681	554,099
Total loans	$2,717,206	$2,077,180	$4,794,386

Residential Mortgage Loans. The Bank originates residential mortgage loans secured by first mortgages on one- to four-family residences, generally located in the State of New Jersey. The Bank originates residential mortgages primarily through commissioned mortgage representatives and through the Internet. The Bank originates both fixed-rate and adjustable-rate mortgages. As of December 31, 2013, $1.17 billion or 22.9% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 65.8% were fixed-rate and 34.2% were adjustable-rate loans.

The Bank originates fixed-rate fully amortizing residential mortgage loans with the principal and interest due each month, that typically have maturities ranging from 10 to 30 years. The Bank also originates fixed-rate residential mortgage loans with maturities of 15, 20 and 30 years that require the payment of principal and interest on a biweekly basis. Fixed-rate jumbo residential mortgage loans (loans over the maximum that one of the government-sponsored agencies will purchase) are originated with maturities of up to 30 years. The Bank has offered adjustable-rate mortgage loans with a fixed-rate period of 1, 3, 5, 7 or 10 years prior to the first annual interest rate adjustment. In October 2009, the Bank discontinued the origination of one- and three-year adjustable rate mortgage loans. The standard adjustment formula is the one-year constant maturity Treasury rate plus 2 3/4%, adjusting annually with a 2% maximum annual adjustment and a 6% maximum adjustment over the life of the loan.

The Bank does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Bank originated on a limited basis “Alt-A” mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50%. The balance of these “Alt-A” loans at December 31, 2013 was $7.5 million.

Residential loans are primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank’s standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac or Fannie Mae programs that will finance up to 95% of the value of the residence. Generally all fixed-rate loans with terms of 20 years or more are sold into the secondary market with servicing rights retained. Fixed-rate residential mortgage loans retained in the Bank’s portfolio generally include loans with a term of 15 years or less and biweekly payment residential mortgage loans with a term of 25 years or less. The Bank retains the majority of the originated adjustable-rate mortgages for its portfolio.

Loans are sold without recourse, generally with servicing rights retained by the Bank. The percentage of loans sold into the secondary market will vary depending upon interest rates and the Bank’s strategies for reducing exposure to interest rate risk. In 2013, $31.0 million, or 25.3% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2013 were long-term, fixed-rate mortgages.

The retention of adjustable-rate mortgages, as opposed to longer-term, fixed-rate residential mortgage loans, helps reduce the Bank’s exposure to interest rate risk. However, adjustable-rate mortgages generally pose credit risks different from the credit risks inherent in fixed-rate loans primarily because as interest rates rise, the underlying debt service payments of the borrowers rise, thereby increasing the potential for default. The Bank believes that these credit risks, which have not had a material adverse effect on the Bank to date, generally are less onerous than the interest rate risk associated with holding 20- and 30-year fixed-rate loans in its loan portfolio.

For many years, the Bank has offered discounted rates on residential mortgage loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled $43.0 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over $2.7 million for the past five years.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including multi-family apartment buildings, office buildings and retail and industrial properties. Commercial real estate loans were 27.3% of the loan portfolio at December 31, 2013. A substantial majority of the Bank's commercial real estate loans are secured by properties located in the State of New Jersey.

The Bank originates commercial real estate loans with adjustable rates and with fixed interest rates for a period that is generally five to ten years or less, which may adjust after the initial period. Typically these loans are written for maturities of ten years or less and generally have an amortization schedule of 20 or 25 years. As a result, the typical amortization schedule will result in a substantial principal payment upon maturity. The Bank generally underwrites commercial real estate loans to a maximum 75% advance against either the appraised value of the property, or its purchase price (for loans to fund the acquisition of real estate), whichever is less. The Bank generally requires minimum debt service coverage of 1.20 times. There is a potential risk that the borrower may be unable to pay off or refinance the outstanding balance at the loan maturity date. The Bank typically lends to experienced owners or developers who have knowledge and contacts in the commercial real estate market.

Among the reasons for the Bank's continued emphasis on commercial real estate lending is the desire to invest in assets bearing interest rates that are generally higher than interest rates on residential mortgage loans and more sensitive to changes in market interest rates. Commercial real estate loans, however, entail significant additional credit risk as compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on commercial real estate loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and thus may be more significantly impacted by adverse conditions in the real estate market or in the economy generally.

The Bank performs more extensive diligence in underwriting commercial real estate loans than loans secured by owner-occupied one- to four-family residential properties due to the larger loan amounts and the riskier nature of such loans. The Bank assesses and mitigates the risk in several ways, including inspection of all such properties and the review of the overall financial condition of the borrower and guarantors, which may include, for example, the review of the rent rolls and the verification of income. If applicable, a tenant analysis and market analysis are part of the underwriting. Generally, for commercial real estate secured loans in excess of $750,000 and for all other commercial real estate loans where it is deemed appropriate, the Bank requires environmental experts to inspect the property and ascertain any potential environmental risks.

The Bank requires a full independent appraisal for commercial real estate in accordance with regulatory guidelines. The appraiser must be selected from the Bank's approved list, or otherwise approved by the Chief Credit Officer in instances such as out-of-state or special use property. The Bank also employs an independent review appraiser to ensure that the appraisal meets the Bank's standards. In addition, financial statements are required annually for review. The Bank's policy also requires that a property inspection of commercial mortgages over $2.5 million be completed at least every 18 months, or more frequently when warranted.

The Bank's largest commercial mortgage loan as of December 31, 2013 was a $28.4 million loan secured by a first mortgage lien on a 378 room, full service hotel and a 422 car parking garage located in Elizabeth, New Jersey. The loan has a risk rating of "4" (loans rated 1-4 are deemed to be "acceptable quality"—see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section) and was performing in accordance with its terms and conditions as of December 31, 2013.

Multi-family Loans. The Bank underwrites loans secured by apartment buildings that have five or more units. The Bank considers multi-family lending a component of the commercial real estate lending portfolio. The underwriting standards and procedures that are used to underwrite commercial real estate loans are used to underwrite multi-family loans, except the loan-to-value ratio shall not exceed 80% of the appraised value of the property, the debt-service coverage should be a minimum of 1.15 times and an amortization period of up to 30 years.

The Bank's largest multi-family loan as of December 31, 2013 was a $35.4 million loan on a newly constructed 220-unit luxury multi-family apartment project located in Howell, New Jersey. The loan has a risk rating of "4" (loans rated 1-4 are deemed to be "acceptable quality"—see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section) and was performing in accordance with its terms and

conditions as of December 31, 2013.

Construction Loans. The Bank originates commercial construction loans. Commercial construction lending includes both new construction of residential and commercial real estate projects and the reconstruction of existing structures. The Bank's commercial construction financing takes two forms: projects that are constructed for investment purposes (rental property) and projects for sale (single family/condominiums). To mitigate the speculative nature of construction loans, the Bank generally requires significant pre-leasing on rental properties; requires that a percentage of the for sale single-family residences

or condominiums be under contract to support construction loan advances; requires other covenants on residential for rent projects depending on whether the project is vertical or horizontal construction.

The Bank underwrites construction loans for a term of three years or less. The majority of the Bank's construction loans are floating-rate loans with a maximum 75% loan-to-value ratio for the completed project. The Bank employs professional engineering firms to assist in the review of construction cost estimates and make site inspections to determine if the work has been completed prior to the advance of funds for the project.

Construction lending generally involves a greater degree of risk than one- to four-family mortgage lending. Repayment of a construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject project and the successful marketing of the sale or lease of the project. Construction delays, slower than anticipated absorption or the financial impairment of the builder may negatively affect the borrower's ability to repay the loan.

For all construction loans, the Bank requires an independent appraisal, which includes information on market rents and/or comparable sales for competing projects. The Bank also obtains personal guarantees and conducts environmental due diligence as appropriate.

The Bank also employs other means to mitigate the risk of the construction lending process. On commercial construction projects that the developer maintains for rental, the Bank typically holds back funds for tenant improvements until a lease is executed. For single family/condominium financing, the Bank generally requires payment for the release of a unit that exceeds the amount of the loan advance attributable to such unit.

The Bank's largest construction loan as of December 31, 2013 was a $28.0 million loan secured by a first lien on a new 250 unit luxury multi-family apartment project located in Woolwich Township, Gloucester County, New Jersey. The loan had an outstanding balance of $25.6 million at December 31, 2013. The project is approximately 90% complete with 149 units leased and occupied. The loan has a risk rating of "4" (loans rated 1-4 are deemed to be "acceptable quality"—see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section) and was performing in accordance with its terms and conditions as of December 31, 2013.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 18.2% of the loan portfolio at December 31, 2013. The majority of the Bank's commercial loan customers are local businesses with revenues of less than $50.0 million. The Bank primarily offers commercial loans for equipment purchases, lines of credit for working capital purposes, letters of credit and real estate loans where the borrower is the primary occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial term loans are fully amortized over a five-year period. Owner-occupied commercial real estate loans are generally underwritten to terms consistent with those utilized for commercial real estate; however, the maximum loan-to-value ratio for owner-occupied commercial real estate loans is 80%.

The Bank also underwrites Small Business Administration ("SBA") guaranteed loans and guaranteed or assisted loans through various state, county and municipal programs. These governmental guarantees are typically used in cases where the borrower requires additional credit support. The Bank has "Preferred Lender" status with the SBA, allowing a more streamlined application and approval process.

The underwriting of a commercial loan is based upon a review of the financial statements of the prospective borrower and guarantors. In most cases the Bank obtains a general lien on accounts receivable and inventory, along with the specific collateral such as real estate or equipment, as appropriate.

Commercial loans generally bear higher interest rates than mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself and the general economic environment. The Bank's largest commercial loan as of December 31, 2013 was a $38.0 million line of credit to a general contracting company specializing in bridge and highway construction with a risk rating of "3" (loans rated 1-4 are deemed "acceptable quality"-see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section). The line is used primarily for bid bonding and working capital purposes. The Bank sold a participation interest of $10.0 million in the line of credit to another financial institution, which reduced the Bank's exposure to $28.0 million. As of December 31, 2013, the line

of credit did not have an outstanding balance.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 11.3% of the loan portfolio at December 31, 2013. Home equity loans and home equity lines of credit constituted 90.4% of the consumer loan portfolio and indirect marine loans constituted 5.8% of the consumer loan portfolio as of December 31, 2013. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans,

which represented 3.8% of the consumer loan portfolio. The Bank no longer purchases indirect auto, marine or recreational vehicle loans.

Interest rates on home equity loans are fixed for a term not to exceed 20 years and the maximum loan amount is $500,000. A portion of the home equity loan portfolio includes “first lien product loans,” under which the Bank has offered special rates to borrowers who refinance first mortgage loans on the home equity (first lien) basis. As of December 31, 2013, there was $295.9 million of first-lien home equity loans outstanding. The Bank’s home equity lines are made at floating interest rates and the Bank provides lines of credit of up to $350,000. The approved home equity lines and utilization amounts as of December 31, 2013 were $445.1 million and $180.7 million, respectively, representing utilization of 40.6%.

The Bank previously purchased marine loans from established dealers and brokers located on the East Coast of the United States, which were underwritten to the Bank’s pre-established underwriting standards. The maximum marine loan is $500,000. All marine loans are collateralized by a first lien on the vessel. Originations of marine loans have declined significantly as the Bank discontinued indirect marine lending in 2010. Marine loans are currently made only on a direct, limited accommodation basis to existing customers. At December 31, 2013, marine loans totaled $33.4 million.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of home equity loans and lines of credit secured by second lien positions, consumer loans that are unsecured or that are secured by assets that tend to depreciate, such as automobiles, boats and recreational vehicles. Collateral repossessed by the Bank from a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance, and the remaining deficiency may warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent upon the borrower’s continued financial stability, and which is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount the Bank can recover on such loans.

Loan Originations, Purchases, and Repayments. The following table sets forth the Bank’s loan origination, purchase and repayment activities for the periods indicated.

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Originations:			
Residential mortgage	$122,492	$184,327	$146,742
Commercial mortgage	254,087	270,190	240,930
Multi-family mortgage	294,288	219,068	150,625
Construction	182,895	92,291	119,245
Commercial	711,248	658,228	664,199
Consumer	205,282	228,401	184,955
Subtotal of loans originated	1,770,292	1,652,505	1,506,696
Loans purchased	34,766	73,740	79,521
Total loans originated	1,805,058	1,726,245	1,586,217
Loans sold or securitized	30,977	36,723	21,394
Repayments:			
Residential mortgage	228,195	270,251	285,848
Commercial mortgage	216,068	179,937	159,742
Multi-family mortgage	137,576	59,599	21,065
Construction	47,835	73,116	86,447
Commercial	635,764	622,851	555,535
Consumer	203,256	206,654	187,040
Total repayments	1,468,694	1,412,408	1,295,677

Total reductions	1,499,671	1,449,131	1,317,071
Other items, net[1]	(15,273)	(25,924)	(25,450)
Net increase	$290,114	$251,190	$243,696

(1) Other items include charge-offs, deferred fees and expenses, discounts and premiums.

Loan Approval Procedures and Authority. The Bank’s Board of Directors approves the Lending Policy on an annual basis as well as on an interim basis as modifications are warranted. The Lending Policy sets the Bank’s lending authority for each type of loan. The Bank’s lending officers are assigned dollar authority limits based upon their experience and expertise. All loan approvals require joint lending authority.

The largest individual lending authority is $10.0 million, which is only available to the Chief Executive Officer and the Chief Lending Officer for permanent commercial real estate loans. The Chief Executive Officer and the Chief Lending Officer have individual lending authority up to $7.5 million for all other loan facilities. Loans in excess of these limits, or which when combined with existing credits of the borrower or related borrowers exceed these limits, are presented to the management Credit Committee for approval. The Credit Committee currently consists of seven senior officers including the Chief Executive Officer, the Chief Lending Officer, the Chief Financial Officer and the Chief Credit Officer, and requires a majority vote for credit approval.

While the Bank discourages loan policy exceptions, from time to time, based upon reasonable business considerations exceptions to the policy may be warranted. The business reason and mitigants for the exception must be noted on the loan approval document. The policy exception requires the approval of the Chief Lending Officer or the Department Manager of the lending department responsible for the underlying loan, if it is within his or her approval authority limit. All other policy exceptions must be approved by the Credit Committee. The Credit Administration Department reports the type and frequency of loan policy exceptions to the Credit Committee and the Risk Committee of the Board of Directors on a quarterly basis, or more frequently if necessary.

The Bank has adopted a risk rating system as part of the credit risk assessment of its loan portfolio. The Bank’s commercial real estate and commercial lending officers are required to assign a risk rating to each loan in their portfolio at origination. When the lender learns of important financial developments, the risk rating is reviewed accordingly. Similarly, the Credit Committee can adjust a risk rating. Quarterly, management’s Credit Risk Management Committee meets to review all loans rated a “watch” ("5") or worse. In addition, a loan review examination is performed by an independent third party which validates the risk ratings. In addition, the Bank requires an annual review be performed for commercial and commercial real estate loans above certain dollar thresholds, depending on loan type, to help determine the appropriate risk ratings. The risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses.

Loans to One Borrower. The regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of the Bank’s unimpaired capital and surplus. As of December 31, 2013, the regulatory lending limit was $95.0 million. The Bank’s current internal policy limit on total loans to a borrower or related borrowers that constitute a group exposure is up to $80.0 million for loans with a risk rating of 2 or better, $70.0 million for loans with a risk rating of "3" and $50.0 million for loans with a risk rating of "4". The Bank reviews these group exposures on a quarterly basis. The Bank also sets additional limits on size of loans by loan type.

At December 31, 2013, the Bank’s largest group exposure with an individual borrower and its related entities was $72.1 million, consisting of two construction/permanent first mortgages on a 454-unit multi-family apartment project being constructed in New Jersey (one has a risk rating of "3" and the other has a risk rating of "4"), a permanent mortgage secured by a first lien on a 150 unit apartment project in New Jersey with a risk rating of "2", and a line of credit secured by a 108 unit apartment project in Allentown, Pennsylvania with a risk rating of 2. The borrower, headquartered in New Jersey, is an experienced real estate owner and developer in New Jersey and Eastern Pennsylvania. Management has determined that this exception to the internal group exposure policy limit is manageable and is mitigated by the borrower’s diverse revenue mix, as well as its reputation and proven successful track record. This lending relationship was approved as an exception to the internal policy limits by the management Credit Committee and reported to the Risk Committee of the Board of Directors, and conformed to the regulatory limit applicable to the Bank at the time of loan origination. As of December 31, 2013, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2013, the Bank had $1.7 billion in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

General. One of the Bank's key objectives has been and continues to be to maintain a high level of asset quality. In addition to maintaining sound credit standards for new loan originations, the Bank employs proactive collection and workout processes in dealing with delinquent or problem loans. The Bank actively markets properties that it acquires through foreclosure or otherwise in the loan collection process.

Collection Procedures. In the case of residential mortgage and consumer loans, the collections personnel in the Bank's Asset Recovery Department are responsible for collection activities from the sixteenth day of delinquency. Collection efforts include automated notices of delinquency, telephone calls, letters and other notices to delinquent borrowers. Foreclosure proceedings and other appropriate collection activities such as repossession of collateral are commenced within at least 90 to 120 days after a loan

is delinquent. Periodic inspections of real estate and other collateral are conducted throughout the collection process.
The Bank's collection procedures for Federal Housing Association ("FHA") and Veteran's Administration ("VA") one- to four-family mortgage loans follow the collection guidelines outlined by those agencies.
Real estate and other assets acquired through foreclosure or in connection with a loan workout are held as foreclosed assets. The Bank carries other real estate owned and other foreclosed assets at the lower of their cost or their fair value less estimated selling costs. The Bank attempts to sell the property at foreclosure sale or as soon as practical after the foreclosure sale through a proactive marketing effort.
The collection procedures for commercial real estate and commercial loans include sending periodic late notices and letters to a borrower once a loan is past due. The Bank attempts to make direct contact with a borrower once a loan is 16 days past due, usually by telephone. The Chief Lending Officer and Chief Credit Officer review all commercial real estate and commercial loan delinquencies on a weekly basis. Generally, delinquent commercial real estate and commercial loans are transferred to the Asset Recovery Department for further action if the delinquency is not cured within a reasonable period of time, typically 60 to 90 days. The Chief Lending Officer and Chief Credit Officer have the authority to transfer performing commercial real estate or commercial loans to the Asset Recovery Department if, in their opinion, a credit problem exists or is likely to occur.
Loans deemed uncollectible are proposed for charge-off on a monthly basis. Any charge-off recommendation of $250,000 or greater is submitted to Executive Management for approval.
Delinquent Loans and Non-performing Loans and Assets. The Bank's policies require that the Chief Credit Officer continuously monitor the status of the loan portfolios and report to the Board of Directors on a monthly basis. These reports include information on impaired loans, delinquent loans, criticized and classified assets, and foreclosed assets.
An impaired loan is defined as a non-homogenous loan greater than $1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings ("TDRs"). A loan is deemed to be a TDR when a modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower's financial difficulty. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans, except for TDRs. Impaired loans are individually identified and reviewed to determine that each loan's carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. As of December 31, 2013, there were 152 impaired loans totaling $106.4 million, of which 142 loans totaling $89.4 million were TDRs. Included in this total were 115 TDRs to 110 borrowers totaling $58.2 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2013.
Interest income stops accruing on loans when interest or principal payments are 90 days in arrears or earlier when the timely collectability of such interest or principal is doubtful. When the accrual of interest on a loan is stopped, the loan is designated as a non-accrual loan and the outstanding unpaid interest previously credited is reversed. A non-accrual loan is returned to accrual status when factors indicating doubtful collection no longer exist, the loan has been brought current and the borrower demonstrates some period (generally six months) of timely contractual payments.
Federal and state regulations as well as the Bank's policy require the Bank to utilize an internal risk rating system as a means of reporting problem and potential problem assets. Under this system, the Bank classifies problem and potential problem assets as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the Bank will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are designated "special mention."
General valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem

assets. When the Bank classifies one or more assets, or portions thereof, as “substandard” or “doubtful,” the Bank may establish a specific allowance for loan losses in an amount deemed prudent by management. When the Bank classifies one or more assets, or portions thereof, as “loss,” the Bank is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge-off such amount.

The Bank’s determination as to the classification of assets and the amount of the valuation allowances is subject to review by the FDIC and the New Jersey Department of Banking and Insurance, each of which can require the establishment of additional

general or specific loss allowances. The FDIC, in conjunction with the other federal banking agencies, issued an interagency policy statement on the allowance for loan and lease losses. The policy statement provides updated guidance for financial institutions on both the responsibilities of the board of directors and management for the maintenance of adequate allowances, and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement reaffirms that institutions should have effective loan review systems and controls to identify, monitor and address asset quality problems; that loans deemed uncollectible are promptly charged off; and that the institution's process for determining an adequate level for its valuation allowance is based on a comprehensive, adequately documented, and consistently applied analysis of the institution's loan and lease portfolio. While management believes that on the basis of information currently available to it, the allowance for loans losses is adequate as of December 31, 2013, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.
Loans are classified in accordance with the risk rating system described previously. At December 31, 2013, $137.4 million of loans were classified as "substandard," which consisted of $55.0 million in commercial and multi-family mortgage loans, $46.7 million in commercial loans, $23.0 million in residential loans, $8.4 million in construction loans and $4.2 million in consumer loans. At that same date, loans classified as "doubtful" totaled $649,000, consisting solely of commercial loans. There were no loans classified as "loss" at December 31, 2013. As of December 31, 2013, $51.0 million of loans were designated "special mention."
The following table sets forth delinquencies in the loan portfolio as of the dates indicated.

	At December 31, 2013				At December 31, 2012				At December 31, 2011			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
	(Dollars in thousands)											
Residential mortgage loans	23	$ 5,062	116	$ 23,011	43	$ 11,986	146	$ 29,293	35	$ 7,936	184	$ 40,386
Commercial mortgage loans	1	318	12	6,189	5	12,194	11	14,932	2	1,155	9	11,928
Multi-family mortgage loans	—	—	2	403	—	—	2	412	—	—	1	997
Construction loans	—	—	—	—	—	—	—	—	—	—	—	—
Total mortgage loans	24	5,380	130	29,603	48	24,180	159	44,637	37	9,091	194	53,311
Commercial loans	3	77	23	9,722	2	70	46	15,682	11	526	40	15,059
Consumer loans	23	2,194	49	3,819	33	1,808	65	5,666	29	1,908	78	8,533
Total loans	50	$ 7,651	202	$ 43,144	83	$ 26,058	270	$ 65,985	77	$ 11,525	312	$ 76,903

Non-Accrual Loans and Non-Performing Assets. The following table sets forth information regarding non-accrual loans and other non-performing assets. At December 31, 2013, there were 27 TDRs totaling $31.2 million that were classified as non-accrual, compared to 14 non-accrual TDRs which totaled $25.6 million at December 31, 2012; no

TDRs were non-accrual at the end of the prior period. Loans are generally placed on non-accrual status when they become 90 days or more past due or if they have been identified as presenting uncertainty with respect to the collectability of interest or principal.

	At December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$23,011	$29,293	$40,386	$41,247	$28,622
Commercial mortgage loans	18,662	29,072	29,522	16,091	23,356
Multi-family mortgage loans	403	412	997	201	—
Construction loans	8,448	8,896	11,018	9,412	13,186
Commercial loans	22,228	25,467	32,093	23,505	12,548
Consumer loans	3,928	5,850	8,533	6,808	6,765
Total non-accruing loans	76,680	98,990	122,549	97,264	84,477
Accruing loans delinquent 90 days or more	—	—	—	—	—
Total non-performing loans	76,680	98,990	122,549	97,264	84,477
Foreclosed assets	5,486	12,473	12,802	2,858	6,384
Total non-performing assets	$82,166	$111,463	$135,351	$100,122	$90,861
Total non-performing assets as a percentage of total assets	1.10 %	1.53 %	1.91 %	1.47 %	1.33 %
Total non-performing loans to total loans	1.48 %	2.02 %	2.63 %	2.21 %	1.93 %

Non-performing commercial mortgage loans decreased $10.4 million, to $18.7 million at December 31, 2013, from $29.1 million at December 31, 2012. At December 31, 2013, the Company held 15 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $12.5 million loan secured by a first mortgage on a 200,000 square foot office/industrial building located in Eatontown, New Jersey, which has been negatively impacted by the loss of a major tenant that relied upon contracts with the Federal Government. The loan has been restructured and payments are current at December 31, 2013. The borrower continues to make efforts to lease the property. There is no contractual commitment to advance additional funds to this borrower.

Non-performing residential mortgage loans decreased $6.3 million to $23.0 million at December 31, 2013, from $29.3 million at December 31, 2012. Gross charge-offs of residential loans were $3.9 million for the year ended December 31, 2013.

Non-performing commercial loans decreased $3.2 million, to $22.2 million at December 31, 2013, from $25.5 million at December 31, 2012. Non-performing commercial loans at December 31, 2013 consisted of 38 loans. The largest non-performing commercial loan relationship consisted of five loans to a power systems manufacturer with total outstanding balances of $8.0 million at December 31, 2013. All contractual payments on these loans, based upon modified terms, were current at December 31, 2013.

Non-performing consumer loans decreased $1.9 million, to $3.9 million at December 31, 2013, from $5.9 million at December 31, 2012. Gross consumer loan charge-offs were $3.7 million for the year ended December 31, 2013.

Non-performing construction loans decreased $448,000, to $8.4 million at December 31, 2013, from $8.9 million at December 31, 2012. At December 31, 2013, non-performing construction loans consisted of one loan secured by a first mortgage on a 77,000 square foot newly constructed Class A office building, and a parcel of land with approvals for an 110,000 square foot office building located in Parsippany, New Jersey. The office building is completed, except for tenant improvements, but not leased due to weakness in the market. The property is being marketed and the principals are supporting the project. All contractual payments on this loan, based upon modified terms, were current at December 31, 2013. The Company has an unfunded commitment of $3.6 million on this loan at December 31, 2013.

Non-performing multi-family loans declined $9,000 to $403,000 at December 31, 2013, from $412,000 at December 31, 2012.

At December 31, 2013, the Company held $5.5 million of foreclosed assets, compared with $12.5 million at December 31, 2012. Foreclosed assets at December 31, 2013 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $3.0 million of commercial real estate, $2.4 million of residential properties, and $59,000 of marine vessels at December 31, 2013.

Non-performing assets totaled $82.2 million, or 1.10% of total assets at December 31, 2013, compared to $111.5 million, or 1.53% of total assets at December 31, 2012. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $1.9 million during the year ended December 31, 2013.
Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects an evaluation of the probable losses in the loan portfolio. The allowance for loan losses is maintained through provisions for loan losses that are charged to income. Charge-offs against the allowance for loan losses are taken on loans where it is determined the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.
Management's evaluation of the adequacy of the allowance for loan losses includes the review of all loans on which the collectability of principal may not be reasonably assured. For residential mortgage and consumer loans, this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.
As part of the evaluation of the adequacy of the allowance for loan losses, each quarter management prepares an analysis that categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating. The factors considered in assessing the adequacy of the allowance for loan losses include the following:

- results of the routine loan quality reviews performed by an independent third party;
- general economic and business conditions affecting key lending areas;
- credit quality trends (including trends in non-performing loans and anticipated trends based on market conditions);
- collateral values;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the loan portfolio; and
- duration of the current business cycle.

When assigning a risk rating to a loan, management utilizes the Bank's internal nine-point risk rating system. Loans deemed to be "acceptable quality" are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to be of "questionable quality" are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings for loans requiring Credit Committee approval are periodically reviewed by the Credit Committee in the credit approval or renewal process. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports by the independent third party are presented directly to the Audit and Risk Committees of the Board of Directors.
Each quarter, the lending groups prepare individual Credit Risk Management Reports for the Credit Administration Department. These reports review all commercial loans and commercial mortgage loans that have been determined to involve above-average risk (risk rating of 5 or worse). The Credit Risk Management Reports contain the reason for the risk rating assigned to each loan, status of the loan and any current developments. These reports are submitted to a committee chaired by the Chief Credit Officer. Each loan officer reviews the loan and the corresponding Credit Risk Management Report with the committee and the risk rating is evaluated for appropriateness.
Management assigns general valuation allowance ("GVA") percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type, as well as qualitative and environmental factors such as:

- levels of and trends in delinquencies and impaired loans;
- levels of and trends in charge-offs and recoveries;
- trends in volume and terms of loans;
-

effects of any changes in risk selection and underwriting standards, changes in lending policies, procedures and practices;

- changes in the quality of the Bank’s loan review system;
- experience, ability, and depth of lending management and other relevant staff;
- national and local economic trends and conditions;
- industry conditions; and
- effects of changes in credit concentration.

The appropriateness of these percentages is evaluated by management at least annually and monitored on a quarterly basis, with changes made when they are required. In the second quarter of 2013, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to residential mortgage, first-lien home equity loans and commercial mortgage loans were reduced to reflect the decrease in the historical loss experience. In addition, multi-family loans were segregated from other commercial mortgage loans as a result of differing risk characteristics and were assigned GVA percentages accordingly. Multi-family GVAs were established at levels lower than when previously included with other commercial mortgage loans as a result of lower historical loss experience resulting from the diverse cash flow sources supporting these loans.

The reserve factors applied to each loan risk rating are inherently subjective in nature. Reserve factors are assigned to each of the risk rating categories. This methodology permits adjustments to the allowance for loan losses in the event that, in management’s judgment, significant conditions impacting the credit quality and collectability of the loan portfolio as of the evaluation date are not otherwise adequately reflected in the analysis.

The provision for loan losses is established after considering the allowance for loan loss analysis, the amount of the allowance for loan losses in relation to the total loan balance, loan portfolio growth, loan portfolio composition, loan delinquency trends and peer group analysis. As a result of this process, management has established an unallocated portion of the allowance for loan losses. The unallocated portion of the allowance for loan losses is warranted based on factors such as the geographic concentration of the loan portfolio, current economic conditions and imprecision related to collateral valuations.

Management believes the primary risks inherent in the portfolio are a decline in the economy, generally, a decline in real estate market values, rising unemployment or a protracted period of unemployment at current elevated levels, increasing vacancy rates in commercial investment properties and possible increases in interest rates in the absence of economic improvement. Any one or a combination of these events may adversely affect borrowers’ ability to repay the loans, resulting in increased delinquencies, loan losses and future levels of provisions. Accordingly, the Company has provided for loan losses at the current level to address the current risk in its loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio. Management will continue to review the entire loan portfolio to determine the extent, if any, to which further additional loan loss provisions may be deemed necessary. The allowance for loan losses is maintained at a level that represents management’s best estimate of probable losses related to specifically identified loans as well as probable losses inherent in the remaining loan portfolio. There can be no assurance that the allowance for loan losses will be adequate to cover all losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

Analysis of the Allowance for Loan Losses. The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Balance at beginning of period	$70,348	$74,351	$68,722	$60,744	$47,712
Charge offs:					
Residential mortgage loans					
	You may read and copy the registration statement, including the related exhibits and schedules, and any document we file or have filed with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of				

the SEC at 100 F Street, N.E., Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at *http://www.sec.gov.*

We maintain a corporate website at *www.rewalk.com.* Information contained on, or that can be

accessed through, our website does not constitute a part of this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

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Incorporation of Certain Documents by Reference

The SEC allows us to "incorporate by reference" information into this prospectus, which means that we can disclose important information to you by referring you to other documents which we have filed or will file with the SEC. We are incorporating by reference in this prospectus the documents listed below and all amendments or supplements we may file

to such documents:

our annual report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on February 29, 2016 (including portions of our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 7, 2016, to the extent specifically incorporated by reference therein), as amended by the Form 10-K/A filed with the SEC on May 5, 2016;

our current report on Form 8-K filed with the SEC on January 13, 2016, the information under Item 5.02 of our current report on

Form 8-K filed with the SEC on April 5, 2016 and the information under Item 1.01 and in Exhibits 10.1 and 10.2 under Item 9.01 of our current report on Form 8-K filed with the SEC on January 4, 2016; and

the description of our ordinary shares contained in our registration statement on Form 8-A (File No. 001-33612) filed with the SEC on September 2, 2014, including any subsequent amendment or any report filed for the purpose of updating such description.

In addition, we incorporate

by
reference
into this
prospectus
any filings
we make
with the
SEC
pursuant to
Section
13(a),
13(c), 14 or
15(d) of the
Exchange
Act after
the date of
the initial
registration
statement
of which
this
prospectus
is a part
and prior to
the
effectiveness
of the
registration
statement,
and any
filings we
make with
the SEC
pursuant to
Section
13(a),
13(c), 14 or
15(d) of the
Exchange
Act from
the date of
this
prospectus
until the
termination
of this
offering (in
each case,
except for
the
information

furnished under Item 2.02 or Item 7.01 in any current report on Form 8-K). Notwithstanding the foregoing, no information is incorporated by reference in this prospectus or any prospectus supplement hereto where such information under applicable forms and regulations of the SEC is not deemed to be "filed" under Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, unless we indicate in the report or filing containing such information that the

information is to be considered "filed" under the Exchange Act or is to be incorporated by reference in this prospectus or any prospectus supplement hereto.

Certain statements in and portions of this prospectus update and replace information in the above-listed documents incorporated by reference. Likewise, statements in or portions of a future document incorporated by reference in this prospectus may update and replace statements in and portions of

this prospectus or the above-listed documents.

We will provide you without charge, upon your written or oral request, a copy of any of the documents incorporated by reference in this prospectus, other than exhibits to such documents which are not specifically incorporated by reference into such documents. Please direct your written or telephone requests to ReWalk Robotics Ltd., 33 Locke Drive, Marlborough, MA 01752, Attn: Investor Relations,

or
ir@rewalk.com,
telephone
number
508-251-1154.

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Enforceability of Civil Liabilities

We are incorporated under the laws of the State of Israel. It may be difficult to obtain service of process within the United States upon us, upon our directors and officers, some, but less than a majority, of whom reside outside of the United States, and upon the Israeli experts named in this prospectus, who reside outside of the United States. Furthermore, because a majority of

our assets and some, but less than a majority of, our directors and officers are located outside of the United States, any judgment obtained in the United States against us, certain of our directors and officers or the Israeli experts name herein may be difficult to collect within the United States.

We have been informed by our legal counsel in Israel, Goldfarb Seligman & Co., Tel Aviv, that it may be difficult to assert U.S. securities laws claims in original actions

instituted in
Israel.
Israeli
courts may
refuse to
hear a
claim based
on a
violation of
U.S.
securities
laws
because
Israel is not
the most
appropriate
forum in
which to
bring such
a claim. In
addition,
even if an
Israeli court
agrees to
hear a
claim, it
may
determine
that Israeli
law and not
U.S. law is
applicable
to the
claim. If
U.S. law is
found to be
applicable,
the content
of
applicable
U.S. law
must be
proven as a
fact which
can be a
time-consuming
and costly
process.
Matters of
procedure
will also be

governed by Israeli law.

We have irrevocably appointed our subsidiary, ReWalk Robotics, Inc., as our agent to receive service of process in any action against us in any United States federal or state court arising out of this offering or any purchase or sale of securities in connection with this offering. Subject to specified time limitations and legal procedures, Israeli courts may enforce a non-appealable foreign judgment in a civil matter, provided that, among

other things:

- the judgment is obtained after due process before a court of competent jurisdiction, according to the laws of the foreign state in which the judgment is given and the rules of private international law currently prevailing in Israel;

- the prevailing law of the foreign state in which the judgment is rendered allows for the enforcement of judgments of Israeli courts;

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard

and to present his or her evidence;

the judgment is not contrary to the public policy of Israel, and the enforcement of the civil liabilities set forth in the judgment is not likely to impair the security or sovereignty of Israel;

the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties;

an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the foreign court; and

the judgment is enforceable according to the laws of Israel and according to the law of the foreign state in which the relief was granted.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency, which can then be converted into non-Israeli currency and transferred out of Israel. Traditionally, in an action before an Israeli court to recover an amount in a non-Israeli currency, the Israeli court issues a judgment for the equivalent amount in

Israeli currency at the rate of exchange in force on the date of the judgment, but the judgment debtor may make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily will be linked to the Israeli consumer price index plus a per annum statutory rate of interest set on a quarterly basis by Israeli regulations. Judgment creditors must bear the risk of unfavorable exchange rates. The trend in recent years has increasingly been for

Israeli courts to enforce a foreign judgment in the foreign currency specified in the judgment, in which case there are also applicable rules regarding the payment of interest.

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ReWalk Robotics Ltd.

19,000,000 Ordinary Shares

PROSPECTUS SUPPLEMENT

H.C. Wainwright

& Co.

February 21, 2019