

2017







# Dear Fellow Shareholder,

Over the last decade, Investors Bank has achieved significant growth in both assets and net income through its transformation from a wholesale thrift business to a retail commercial bank. Throughout this journey, we have remained dedicated to keeping the “community” in banking. Our transformation has been and continues to be a direct result of our organic growth, de novo branch strategy and acquisitions while being ever mindful of our need to be a good corporate citizen. We strive to be a bank that makes a difference first and foremost with our employees and customers and the communities that we serve.

2017 marked another milestone in our evolution as our total assets exceeded \$25 billion. During the year, we continued on our path of continuous improvement and dedicated significant resources to enhancing our infrastructure to support our future growth. Aligning our efforts around our vision, mission, and values on which Investors Bank’s foundation is built, resulted in Forbes Magazine recognizing us as one of the “Best Banks in America,” for the seventh consecutive year and the highest rated bank headquartered in New Jersey.<sup>1</sup>

In 2017 loan originations of \$3.60 billion helped increase net loans to \$19.85 billion at December 31, 2017. Our strategic plan remains focused on commercial loan growth in order to diversify our loan portfolio. Commercial loans represented 72% of our total loan portfolio. Commercial and Industrial loans, which are included in Commercial loans, account for 8% of our total loan portfolio and have grown \$1.08 billion, or 199%, in the last three years. We remain focused on this segment of the market as we continue to diversify our loan portfolio and expand our products and services. The launch of our Equipment Finance Group in early 2018, targeting middle market companies, will further enhance our efforts to grow this portfolio. We believe that the addition of this capital equipment finance team will provide expanded financing and leasing capabilities, and open up numerous cross selling opportunities.

Funding our continued growth is also a key component of our business plan. Deposits increased to \$17.36 billion in 2017, from \$15.28 billion at December 31, 2016; this represents an increase of 13.6%, or \$2.08 billion. In response to the current interest rate environment and our customer needs, a portion of this increase has been in time deposits, however, we continue to focus on the growth of core deposits, especially non-interest bearing deposits, as they are a stable source of low cost funding and less sensitive to change in interest rates. During the last two years, non-interest deposits have increased \$534 million or 28%.

The current economic and political landscape continues to be challenging and clouded with uncertainty in both Trenton and Washington. In December 2017, the President signed into law H.R. 1, the “Tax Cuts and Jobs Act,” the most significant tax legislation in over three decades. A new chairman was recently appointed to lead the Federal Reserve Board and Congress is currently evaluating legislation to relieve some aspects of the regulatory burden on community banks. We have a new administration in New Jersey which is evaluating additional taxes on high net income individuals and the formation of a state sponsored bank. While the full impact of these changes and initiatives are subject to further evaluation and analysis, it is likely to have both positive and negative effects on our financial results.

<sup>1</sup> Forbes Magazine, January 10, 2018, “America’s Best Banks 2018”



For 2017, we posted net income of \$126.7 million. The initial application of the Tax Cuts and Jobs Act required us to revalue our deferred tax assets which resulted in a \$49.2 million increase in income tax expense. Excluding the income tax expense related to the enactment of the Tax Cuts and Jobs Act and the after tax impact of our restructuring charge in the fourth quarter, net income was \$179.6 million. We anticipate that our effective tax rate will be reduced to approximately 27.5% in the future.

**“I continue to be proud  
of the efforts of our employees  
and the passion they bring  
to our Company every day.”**

During 2017, we continued the build-out of our risk management infrastructure, as well as enhanced technology to support these platforms. Investing in technology to streamline our internal operations is critical for our continued growth. In addition, we are committed to taking the necessary measures to ensure the safety and security of our data, as protecting our customers from cyber risk is paramount. We also recognize the need to continually assess our customer experience and are exploring

technology enhancements that can help us meet and exceed their evolving needs and expectations. We are committed to providing customers with increased options for how they interact with us to further ensure their ongoing engagement and satisfaction.

During 2017, we made a concerted effort to enhance and increase our brand awareness by launching the “Experts in the Field” multi-media advertising campaign. The campaign was built around former NFL quarterbacks, broadcasters, and philanthropists Boomer Esiason and Phil Simms. The branded content was engaging and interactive, and gave us an opportunity to further penetrate our market and become the leading community-oriented bank in the region.

Another opportunity to enhance our market presence and attract core deposits came as a result of the expansion of our successful partnership with the New Jersey Devils. Early in the fourth-quarter, we introduced the New Jersey Devils Checking Account, which gave fans a chance to show their loyalty with New Jersey Devils branded debit card and checks. We are also proud to help sponsor New Jersey Devils’ Goaltender Cory Schneider’s Cory’s Keepers program, which brings under-served community groups to New Jersey Devils home games.

Cory’s Keepers is just one of many programs and organizations which Investors supports. Community involvement is one of our four core values: cooperation, character, community, and commitment. We believe that a commitment to the communities where our employees and customers live and work enables us to truly have a positive and meaningful impact.

Our employees provide the sweat equity in our communities by donating their time, energy and talents. We are proud of all of their efforts and take pride in the financial support provided by our foundations. In 2017, our foundations made grants totaling \$4.5 million to various community organizations.

Each and every day, our employees live the words of our Board Chairman Robert M. Cashill, who has always said that “To do well as an organization, you must do good for others.” These words have been the guiding force at Investors for nearly 20 years. We mean them, we believe in them, and they have carried us through our conversion from a savings bank to a publicly held company. Bob has been the driving force behind that evolution, as well as the development of our vision, mission, and most important, our



core values. After our Annual Meeting this year, Bob will be retiring. Bob's leadership skills and extensive experience in the financial services industry will be missed. He has been our key advisor and driving force in the transformation of Investors Bank.

Also retiring this year is Brian D. Dittenhafer, who was first elected to our Board in 1997. His knowledge of the banking industry and strong background in economics has been an invaluable asset to Investors. We are extremely grateful to both Bob and Brian for their dedicated service to Investors and for the example they have set. We are committed to continuing the vision and mission that they helped to define.

I continue to be proud of the efforts of our employees and the passion they bring to our Company every day. Our teams are on the path of continuous improvement with a goal of creating long-term value for our shareholders. We will continue to keep a watchful eye on our operating expenses and manage our growth appropriately.

This Company remains above the well-capitalized standards with a strong capital position of 12.4%. We are one of the strongest regional banks in the country and continue to be good stewards of your investment. In 2017, the Company repurchased an additional 4.5 million shares of stock for a total of \$59.1 million. Shareholders received dividends of \$0.33 per share in 2017, totaling \$101.6 million.

Looking ahead, rising short-term interest rates combined with competitive pricing in both the loan and deposit markets will continue to create a challenging net interest margin environment for financial institutions. Our business strategy of diversifying our loan mix with higher yielding loans, such as the recently added capital leasing portfolio, will help to counter this headwind. Our capital position and our ability to grow loans and deposits will also provide momentum as we navigate through this rising interest rate cycle.

Our credit metrics, including non-performing loans and net charge offs, have been very strong and are a direct result of the credit culture at the Bank. We continue to make investments in our risk management infrastructure in the areas of technology, cyber security, credit risk and operations. We are committed to managing our expenses and leveraging our investments in these risk areas as we continue to grow. I am optimistic about the economic outlook. In early 2018, we are starting to see the benefit of higher disposable incomes for consumers and additional investments by businesses as the tax cuts move through the economy.

On behalf of the Board of Directors, management, and staff, thank you for your investment and for being a shareholder of Investors Bancorp. We are grateful for your confidence, trust, and the opportunity to serve you.

Sincerely,



Kevin Cummings  
President and Chief Executive Officer

# SELECTED FINANCIAL DATA

(In thousands, except branch data and percent data)

	2017	2016	2015
Total assets	<b>\$25,129,244</b>	\$23,174,675	\$20,888,684
Net loans outstanding	<b>19,857,286</b>	18,608,153	16,668,564
Securities	<b>3,784,348</b>	3,415,989	3,148,920
Deposits	<b>17,357,697</b>	15,280,833	14,063,656
Borrowed funds	<b>4,461,533</b>	4,546,251	3,263,090
Stockholders' equity	<b>3,125,451</b>	3,123,245	3,311,647
Number of full service offices	<b>156</b>	151	140

	2017	2016	2015
Net interest income	<b>\$679,776</b>	\$640,185	\$595,084
Net income	<b>126,744</b>	192,125	181,505
Return on average assets	<b>0.52%</b>	0.88%	0.92%
Return on average equity	<b>4.00%</b>	6.06%	5.26%
Interest rate spread	<b>2.67%</b>	2.83%	2.91%
Net interest margin	<b>2.89%</b>	3.04%	3.12%
Non-performing assets to total assets	<b>0.61%</b>	0.47%	0.69%
Average equity to average assets	<b>13.06%</b>	14.52%	17.41%

Total Assets at December 31 (dollars in billions)



Net Loans Outstanding at December 31 (dollars in billions)



Deposits at December 31 (dollars in billions)



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 2017**

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. 001-36441

**Investors Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

101 JFK Parkway, Short Hills, New Jersey

(Address of Principal Executive Offices)

46-4702118

(I.R.S. Employer  
Identification Number)

07078

Zip Code

(973) 924-5100

(Registrant's telephone number)

**Securities Registered Pursuant to Section 12(b) of the Act:**

Common Stock, par value \$0.01 per share

The NASDAQ Stock Market LLC

(Title of Class)

(Name of each 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 ☒ 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 ☒

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 requirements for the past 90 days. Yes ☒ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 23, 2018, the registrant had 359,070,852 shares of common stock, par value \$0.01 per share, issued and 303,952,719 shares outstanding.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last sale price on June 30, 2017, as reported by the NASDAQ Global Select Market, was approximately \$3.80 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Proxy Statement for the 2018 Annual Meeting of Stockholders of the registrant (Part III).

FORM 10-K



**INVESTORS BANCORP, INC.**  
**2017 ANNUAL REPORT ON FORM 10-K**  
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## PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements may be identified by the use of the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” and similar terms and phrases, including references to assumptions.

Forward-looking statements are based on various assumptions and analyses made by us in light of our management’s experience and its perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond our control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors are outlined in Item 1A. Risk Factors herein and include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins or affect the value of our investments;
- changes in deposit flows, loan demand or real estate values may adversely affect our business;
- changes in accounting principles, policies or guidelines may cause our financial condition to be perceived differently;
- general economic conditions, either nationally or locally in some or all areas in which we do business, or conditions in the real estate or securities markets or the banking industry may be less favorable than we currently anticipate;
- legislative or regulatory changes may adversely affect our business;
- technological changes may be more difficult or expensive than we anticipate;
- success or consummation of new business initiatives may be more difficult or expensive than we anticipate;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may be determined adverse to us or may delay the occurrence or non-occurrence of events longer than we anticipate;
- the risks associated with continued diversification and growth of assets and adverse changes to credit quality;
- difficulties associated with achieving expected future financial results;
- impact on our financial performance associated with the effective deployment of capital raised in our second step conversion offering; and
- the risk of an economic slowdown that would adversely affect credit quality and loan originations.

We have no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

As used in this Form 10-K, “we,” “us” and “our” refer to Investors Bancorp, Inc. and its consolidated subsidiary, Investors Bank. Investors Bancorp, Inc.’s electronic filings with the SEC, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act, as amended, are made available at no cost in the Investor Relations section of the Company’s website, [www.myinvestorsbank.com](http://www.myinvestorsbank.com), as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC. The Company’s SEC filings are also available through the SEC’s website at [www.sec.gov](http://www.sec.gov).

## **PART I**

### **ITEM 1. BUSINESS**

Investors Bancorp, Inc. (the “Company”) is a Delaware corporation which became the holding company for Investors Bank (“the Bank”) in May 2014, upon the completion of the mutual-to-stock conversion of Investors Bancorp, MHC. Prior to the 2014 conversion, Investors Bancorp, MHC held 55% of Investors Bancorp’s outstanding common stock in connection with its initial public offering in October 2005, which raised net proceeds of \$509.7 million. The second step conversion was completed on May 7, 2014. The Company raised net proceeds of \$2.15 billion by selling a total of 219,580,695 shares of common stock at \$10.00 per share in the second step stock offering and issued 1,000,000 shares of common stock and a \$10.0 million cash contribution to the Investors Charitable Foundation. Concurrent with the completion of the stock offering, each share of Investors Bancorp common stock owned by public stockholders (stockholders other than Investors Bancorp, MHC) was exchanged for 2.55 shares of Company common stock. As a result of the conversion, all share information prior to May 2014 has been revised to reflect the 2.55-to-one exchange ratio. At December 31, 2017, the Company had 359,070,852 common stock issued and 306,126,087 outstanding.

The Company is subject to regulation as a bank holding company by the Federal Reserve Board. Investors Bancorp neither owns nor leases any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company employs as officers only certain persons who are also officers of the Bank and uses the support staff of the Bank from time to time. These persons are not separately compensated by Investors Bancorp. Investors Bancorp may hire additional employees, as appropriate, to the extent it expands its business in the future.

Investors Bank is a New Jersey-chartered savings bank headquartered in Short Hills, New Jersey. Originally founded in 1926 as a New Jersey-chartered mutual savings and loan association, it has grown through acquisitions and internal growth, including de novo branching. In 1992, the charter was converted to a mutual savings bank and in 1997 the charter was converted to a New Jersey-chartered stock savings bank.

The Bank is in the business of attracting deposits from the public through its branch network and borrowing funds in the wholesale markets to originate loans and to invest in securities. The Bank originates multi-family loans, commercial real estate loans, commercial and industrial (“C&I”) loans, one-to four- family residential mortgage loans secured by one- to four-family residential real estate, construction loans and consumer loans, the majority of which are home equity loans, home equity lines of credit and cash surrender value lending on life insurance contracts. Securities, primarily mortgage-backed securities, U.S. Government and Federal Agency obligations, and other securities represented 15% of consolidated assets at December 31, 2017. The Bank is subject to comprehensive regulation and examination by the New Jersey Department of Banking and Insurance (“NJDBI”), the Federal Deposit Insurance Corporation (“FDIC”) and the Consumer Financial Protection Bureau (“CFPB”).

### **Our Business Strategy**

Since the Company’s initial public offering in 2005, we have transitioned from a wholesale thrift business to a retail commercial bank. This transition has been primarily accomplished by increasing the amount of our



commercial loans and core deposits (savings, checking and money market accounts). Our transformation can be attributed to a number of factors, including organic growth, de novo branch openings, bank and branch acquisitions, as well as product expansion. We believe the attractive markets we operate in, namely, New Jersey and the greater New York metropolitan areas, will continue to provide us with growth opportunities. Our primary focus is to build and develop profitable customer relationships across all lines of business, both consumer and commercial.

### ***Opportunities through Our Attractive Markets***

The markets we operate in are considered attractive banking markets within the United States, and we believe they will continue to provide us with opportunities to grow. We have expanded our franchise to include the suburbs of Philadelphia and the boroughs of New York City as well as Nassau and Suffolk Counties on Long Island. Additionally, we have strengthened our presence in our historic markets throughout New Jersey. We accomplished this expansion through de novo growth and select bank and branch acquisitions. As a result of this growth, Investors Bank is the largest bank headquartered in the state of New Jersey as measured by assets. The markets in which we operate are desirable from an economic and demographic perspective as they are characterized by large and dense population centers, areas of high income households and centers of robust business and commercial activity. Our competition in these markets tends to be from out-of-state headquartered money centers and super-regional financial institutions as well as smaller local community banks. We believe that as a locally headquartered institution, situated between these extremes, we can compete and capitalize on opportunities that exist in our market area. We continue to examine our branch network to optimize our market presence, which may include branch rationalization plans.

Many of the counties we serve are projected to experience moderate to strong household income growth through 2023. Though slower population growth is projected for many of the counties we serve, it is important to note that these counties are densely populated. All of the counties we serve have a strong mature market and nearly all have median household incomes greater than the national median.

We face intense competition in making loans as well as attracting deposits in our market area. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, credit unions and insurance companies. We face additional competition for deposits from short-term money market funds, brokerage firms and mutual funds. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. As of June 30, 2017, the latest date for which statistics are available, our market share of deposits was ranked in the top 10 of total deposits in the State of New Jersey and in the top 20 within the New York metropolitan area.

### ***Growing and Diversifying the Loan Portfolio***

Our business plan has been, and will continue to be, to grow and diversify our loan portfolio. We have accomplished the majority of this growth by focusing on originating multi-family and commercial real estate loans in our market area through our New York City and New Jersey loan production offices. For the year ended December 31, 2017, we originated \$1.16 billion in multi-family loans and \$705.1 million in commercial real estate loans. We are focusing on growing our commercial loan portfolio because it helps to diversify the loan portfolio and reduces our interest rate exposure to mortgage-backed securities and one- to four-family mortgages.

To further diversify our loan portfolio we have increased C&I lending by building relationships with small to medium sized companies in our market area. We have hired a number of experienced C&I lending teams, including a team specializing in the healthcare industry. For the year ended December 31, 2017, we originated \$663.4 million in C&I loans. A significant portion of our C&I loans are secured by commercial real estate and are primarily on properties and businesses located in New Jersey and New York. We have diversified our loan portfolio, as evidenced by the fact that commercial loans (including commercial real estate, multi-family, C&I and construction loans) represent approximately 72% of our loan portfolio at December 31, 2017 as compared to

December 31, 2013, when commercial loans were approximately 53% of total loans. Growing and diversifying our loan portfolio will continue to be a major focus of our business strategy going forward, however, we are mindful of concentrations as it pertains to capital.

### ***Changing the Mix of Deposits***

We have focused on changing our deposit mix from certificates of deposit to core deposits (savings, checking and money market accounts). Although recent increases in interest rates has resulted in consumer preference for and growth in time deposits, we continue to focus on the growth of core deposits as they are an attractive funding alternative because they are generally a more stable source of low cost funding and are less sensitive to changes in market interest rates. As of December 31, 2017, we had core deposits of \$13.90 billion, representing approximately 80% of total deposits, compared to December 31, 2013 when core deposits were \$7.33 billion, representing 68% of total deposits. Over the same time, the percent of non-interest bearing deposits to total deposits has grown from 10% to 14%. In order to maintain these favorable results and trends, we will continue to invest in branch staff training, product development, de novo branch growth based on existing market presence, as well as commercial deposit gathering efforts. Over the past few years we have developed a suite of commercial deposit and cash management products, designed to appeal to small and mid-sized business owners and non-profit organizations including electronic deposit services such as remote deposit capture. Mobile banking services have also been developed to serve our customers' needs and adapt to a changing environment. We will continue to enhance our web site and use social media as a way to stay connected to our customers.

Our deposit business has become more diversified over the past few years as we attract more deposits from commercial entities, including most of the businesses that borrow from us. Investors Bank has become one of the largest depositories for government and municipal deposits in New Jersey, which provides us with an additional funding source. Our branch network, concentrated in markets with attractive demographics and a high density population, will continue to provide us with opportunities to grow and improve our deposit base.

### ***Acquisitions***

A significant portion of our historic growth can be attributed to our acquisition strategy. Through 2014 we completed eight bank or branch acquisitions. Our most recent acquisition, Gateway Community Financial Corp, was completed in January 2014, with \$254.7 million of deposits and 4 branches in Gloucester County, NJ and our acquisition of Roma Financial Corporation was completed in December 2013, with \$1.34 billion of deposits and 26 branches in the Philadelphia suburbs of New Jersey. Although management evaluates a number of factors when considering an acquisition, we have maintained a fundamental focus on preserving tangible book value per share. Acquisitions have provided us with the opportunity to grow our business, expand our geographic footprint and improve our financial performance. We intend to continue to evaluate potential acquisition opportunities that may present themselves in the future while maintaining the financial and pricing discipline that we have adhered to in the past.

### ***Capital Management***

Capital management is a key component of our business strategy. We raised net proceeds of \$2.15 billion in equity in May 2014 upon the completion of the second step mutual conversion. As of December 31, 2017 our tangible equity to asset ratio was 12.10%. Since our second step, we have managed our capital through a combination of organic growth, stock repurchases and dividends. In March 2015 we received approval from the Board of Governors of the Federal Reserve System to commence a 5% buyback program and announced our first share repurchase program. Subsequently we announced two additional repurchase programs each authorizing a 10% buyback program. Since receiving approval in March 2015 we have repurchased 67.4 million shares totaling \$805.4 million at an average price of \$11.95.

Beginning September of 2012, we began to pay a quarterly cash dividend of \$0.02 per share. Since then our dividend has increased to \$0.09 per share. For the year ended December 31, 2017 our dividend payout ratio was 75% which includes a 12.5% dividend increase in the fourth quarter of 2017 to \$0.09 per share.

### ***Involvement in Our Communities***

Investors Bank proudly promotes a higher quality of life in the communities it serves in New Jersey and New York through employee volunteer efforts and our Charitable Foundations. Employees are continually encouraged to become leaders in their communities and use Investors Bank's support to help others. Through the Investors Charitable Foundation, established in 2005, and the Roma Charitable Foundation, which we acquired in December 2013, Investors Bank has contributed or committed \$27.9 million in donations to enrich the lives of New Jersey and New York citizens by supporting initiatives in the arts, education, youth development, affordable housing, and health and human services.

Community involvement is one of the principal values of Investors Bank and provides our staff with a meaningful ability to help others. We believe these efforts contribute to creating a culture at Investors Bank that promotes high employee morale while enhancing the presence of Investors Bank in our local markets.

### **Lending Activities**

Our loan portfolio is comprised of multi-family loans, commercial real estate loans, construction loans, commercial and industrial loans, residential mortgage loans and consumer and other loans. At December 31, 2017, multi-family loans totaled \$7.80 billion, or 38.8% of our total loan portfolio, commercial real estate loans totaled \$4.55 billion, or 22.6% of our total loan portfolio, commercial and industrial loans totaled \$1.63 billion, or 8.1% of our total loan portfolio, and construction loans totaled \$416.9 million, or 2.1% of our total loan portfolio. Residential mortgage loans represented \$5.03 billion, or 25.0% of our total loans at December 31, 2017. We also offer consumer loans, which consist primarily of home equity loans, home equity lines of credit and cash surrender value lending on life insurance contracts. At December 31, 2017, consumer and other loans totaled \$671.1 million, or 3.3% of our total loan portfolio.



**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio by type of loan. Commercial loans are comprised of multi-family loans, commercial real estate loans, commercial and industrial loans and construction loans. Our primary focus over recent years has been on the origination of commercial loans.

	December 31,									
	2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Commercial loans:										
Multi-family loans	\$ 7,802,835	38.84%	\$ 7,459,131	39.65%	\$ 6,255,904	37.04%	\$ 5,049,114	33.44%	\$ 3,986,208	30.51%
Commercial real estate loans	4,548,101	22.64	4,452,300	23.67	3,829,099	22.67	3,147,153	20.84	2,505,327	19.18
Commercial and industrial loans	1,625,375	8.09	1,275,283	6.78	1,044,385	6.18	544,458	3.61	268,422	2.05
Construction loans	416,883	2.07	314,843	1.67	225,843	1.34	148,396	0.98	202,261	1.55
Total commercial loans	14,393,194	71.64	13,501,557	71.77	11,355,231	67.23	8,889,121	58.87	6,962,218	53.29
Residential mortgage loans	5,026,517	25.02	4,711,880	25.05	5,039,543	29.83	5,769,477	38.21	5,698,351	43.62
Consumer and other loans:										
Home equity loans	137,964	0.69	161,356	0.86	201,063	1.19	222,871	1.48	245,653	1.88
Home equity credit lines	251,654	1.25	240,518	1.28	220,357	1.30	200,066	1.32	150,796	1.15
Other	281,519	1.40	195,391	1.04	75,136	0.45	18,017	0.12	7,600	0.06
Total consumer and other loans	671,137	3.34	597,265	3.18	496,556	2.94	440,954	2.92	404,049	3.09
Total loans	\$20,090,848	100.00%	\$18,810,702	100.00%	\$16,891,330	100.00%	\$15,099,552	100.00%	\$13,064,618	100.00%
Deferred fees and premiums on purchased loans, net <sup>(1)</sup>	(7,778)		(12,474)		(11,692)		(11,698)		(8,146)	
Allowance for loan losses	(230,969)		(228,373)		(218,505)		(200,284)		(173,928)	
Net loans	\$19,852,101		\$18,569,855		\$16,661,133		\$14,887,570		\$12,882,544	

<sup>(1)</sup> Included in deferred fees and premiums on purchased loans are accretable purchase accounting adjustments in connection with loans acquired.

**Portfolio Maturities.** The following table summarizes the scheduled repayments of our loan portfolio based on contractual maturity or next repricing date, including PCI loans at December 31, 2017. Overdraft loans are reported as being due in one year or less.

	At December 31, 2017						
	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction Loans	Residential Mortgage Loans	Consumer and Other Loans	Total
	(In thousands)						
Amounts Due:							
One year or less	\$ 874,423	\$ 543,398	\$ 486,108	\$325,852	\$ 351,249	\$154,677	\$ 2,735,707
After one year:							
One to three years	1,567,409	776,632	195,666	91,031	371,221	193,322	3,195,281
Three to five years	2,512,638	1,674,815	248,454	—	306,824	96,702	4,839,433
Five to ten years	2,599,631	1,301,523	464,897	—	861,563	62,042	5,289,656
Ten to twenty years	248,734	251,733	200,566	—	899,752	61,971	1,662,756
Over twenty years	—	—	29,684	—	2,235,908	102,423	2,368,015
Total due after one year	6,928,412	4,004,703	1,139,267	91,031	4,675,268	516,460	17,355,141
Total loans	\$7,802,835	\$4,548,101	\$1,625,375	\$416,883	\$5,026,517	\$671,137	\$20,090,848
Deferred fees and premiums on purchased loans, net							(7,778)
Allowance for loan losses							(230,969)
Net loans							\$19,852,101

The following table sets forth fixed- and adjustable-rate loans at December 31, 2017 that are contractually due after December 31, 2018.

	Due After December 31, 2018		
	Fixed	Adjustable (In thousands)	Total
Commercial loans:			
Multi-family loans	\$2,386,500	\$4,541,912	\$ 6,928,412
Commercial real estate loans	1,412,058	2,592,645	4,004,703
Commercial and industrial loans	914,023	225,244	1,139,267
Construction loans	91,031	—	91,031
Total commercial loans	4,803,612	7,359,801	12,163,413
Residential mortgage loans	3,367,806	1,307,462	4,675,268
Consumer and other loans:			
Home equity loans	136,244	—	136,244
Home equity credit lines	—	119,162	119,162
Other	159	260,895	261,054
Total consumer and other loans	136,403	380,057	516,460
Total loans	\$8,307,821	\$9,047,320	\$17,355,141

**Multi-family Loans.** At December 31, 2017, \$7.80 billion, or 38.8%, of our total loan portfolio was comprised of multi-family loans. Our policy generally has been to originate multi-family loans in New York, New Jersey and surrounding states. The multi-family loans in our portfolio consist of both fixed-rate and adjustable-rate loans, which were originated at prevailing market rates. Multi-family loans are generally five to fifteen year term balloon loans amortized over fifteen to thirty years.

**Commercial Real Estate Loans.** At December 31, 2017, \$4.55 billion, or 22.6%, of our total loan portfolio was commercial real estate loans. We originate commercial real estate loans in New Jersey, New York and surrounding states, which are secured by industrial properties, retail buildings, office buildings and other commercial properties. Commercial real estate loans in our portfolio consist of both fixed-rate and adjustable-rate loans which were originated at prevailing market rates. Commercial real estate loans are generally five to fifteen year term balloon loans amortized over fifteen to thirty years.

**Commercial and Industrial Loans.** At December 31, 2017, \$1.63 billion, or 8.1%, of our total loan portfolio was commercial and industrial loans. We offer a wide range of credit facilities to commercial and industrial clients throughout our geographic footprint. Our credit offerings are lines of credit, fixed-rate and adjustable-rate term loans and letters of credit. A significant portion of our commercial and industrial loans are secured by commercial real estate and are primarily on properties and businesses located in New Jersey and New York. Other collateral for these types of loans can be comprised of real estate and/or a lien on the general assets, including inventory and receivables of the business, and in many cases are further supported by a personal guarantee of the owner. As the Company and our footprint have grown, we have broadened our product offerings to create certain commercial and industrial lending subspecialties, including expanded lending to the healthcare industry. Included in the Company's commercial and industrial loans were \$108.1 million of loans to Co-operative housing corporations and groups ("Co-Op loans").

**Construction Loans.** At December 31, 2017, we held \$416.9 million in construction loans representing 2.1% of our total loan portfolio. We offer loans directly to builders and developers on income-producing properties and residential for-sale housing units. Generally, construction loans are structured to have a three-year term and are made in amounts of up to 70% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on inspections in accordance with a schedule reflecting the completion of portions of the project. Construction financing for units to be sold require a pre-sale contract or we will limit the amount of speculative building without a sales contract.

**Residential Mortgage Loans.** At December 31, 2017, \$5.03 billion, or 25.0%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, Investors Home Mortgage, for our loan portfolio and for sale to third parties. We also purchase mortgage loans from correspondent entities including other banks and mortgage brokers. Our agreements call for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases, we acquire the loans with servicing rights.

We offer various loan programs to provide financing for low-and moderate-income home buyers, some of which include down payment assistance for home purchases. Through these programs, qualified individuals receive a reduced rate of interest on most of our loan programs and have their application fee refunded at closing, as well as other incentives if certain conditions are met.

**Consumer and Other Loans.** At December 31, 2017, consumer and other loans totaled \$671.1 million, or 3.3% of our total loan portfolio. We offer consumer loans, most of which consist of home equity loans, home equity lines of credit and cash surrender value lending on life insurance contracts. Home equity loans and home equity lines of credit are secured by residences primarily located in New Jersey and New York. Home equity loans are offered with fixed rates of interest, terms up to 20 years and to a maximum of \$500,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate.

At December 31, 2017, cash surrender value loans totaled \$279.4 million, or 42% of consumer and other loans. Acceptable credit history and FICO scores are reviewed along with the evaluation of the financial rating of the insurance carrier.



**Loan Originations and Purchases.** The following table shows our loan originations, loan purchases and repayment activities with respect to our portfolio of loans receivable for the periods indicated. Origination, sale and repayment activities with respect to our loans-held-for-sale are excluded from the table.

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
<b>Loan originations and purchases</b>			
<b>Loan originations:</b>			
Commercial loans:			
Multi-family loans	\$ 1,164,910	\$ 2,162,447	\$ 2,079,201
Commercial real estate loans	705,107	1,078,601	936,889
Commercial and industrial loans	663,433	608,899	930,777
Construction loans	414,183	451,505	82,455
Total commercial loans	2,947,633	4,301,452	4,029,322
Residential mortgage loans	516,532	523,342	646,521
Consumer and other loans:			
Home equity loans	16,781	14,614	23,177
Home equity credit lines	36,505	145,147	131,533
Other	79,717	100,262	93,081
Total consumer and other loans	133,003	260,023	247,791
Total loan originations	3,597,168	5,084,817	4,923,634
<b>Loan purchases:</b>			
Commercial loans:			
Multi-family loans	—	—	2,760
Commercial real estate loans	—	—	141,563
Total commercial loans	—	—	144,323
Residential mortgage loans	540,898	141,562	54,300
Consumer and other loans	—	—	—
Total loan purchases	540,898	141,562	198,623
Loans sold	(48,099)	(9,752)	(394,742)
Principal repayments	(2,809,630)	(3,302,545)	(2,945,852)
Other items, net <sup>(1)</sup>	1,909	(5,360)	(8,100)
Net increase in loan portfolio	\$ 1,282,246	\$ 1,908,722	\$ 1,773,563

<sup>(1)</sup> Other items include charge-offs and recoveries, loan loss provisions, loans transferred to other real estate owned, and amortization and accretion of deferred fees and costs, discounts and premiums, and purchase accounting adjustments.

## Credit Policy and Procedures

**Loan Approval Procedures and Authority.** The credit approval process provides for prompt and thorough underwriting and approval or decline of loan requests. The approval method used is a hierarchy of individual credit authorities for new credit requests and renewals. All credit actions require a total of two signatures, one from the Bank's business line and one from the Bank's credit risk management group. Transactions exceeding certain thresholds are submitted to the Bank's Credit Approval Committee for decision. Our credit authority standards and limits are reviewed periodically by the Board of Directors. Approval limits are established on criteria such as the risk associated with each credit action, amount, and aggregate credit exposure of a borrower. The Bank's Credit Risk Committee approves authorities for lending and credit personnel, which are ultimately submitted to our Board for ratification. Credit authorities are based on position, capability, and experience of the individuals.

**Loans to One Borrower.** The Bank's regulatory limit on total loans to any one borrower or attributed to any one borrower is 15% of unimpaired capital and surplus. As of December 31, 2017, the regulatory lending limit was \$444.7 million. The Bank's internal policy limit is \$150.0 million, with exceptions to this policy communicated to the Board of Directors. The Bank reviews these group exposures on a regular basis. The Bank also sets additional limits on size of loans by loan type. At December 31, 2017 the largest relationship with an individual borrower and its related entities was \$186.1 million in commercial loans. This was the only relationship which exceeded the internal limit, had been communicated to the Board of Directors and was performing in accordance with its contractual terms as of December 31, 2017.

**Asset Quality.** One of the Bank's key operating objectives has been, and continues to be, maintaining a high level of asset quality. The Bank maintains sound credit standards for new loan originations and purchases. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. While our portfolio contains interest only and no income verification residential mortgage loans, we have not originated or purchased these types of residential loan products in recent years. Included in residential and consumer loans for the period ended December 31, 2017 are \$77.8 million of interest only and \$208.9 million of no income verification loans. The Bank does, from time to time and for competitive purposes, originate commercial loans with limited interest only periods. Included in total commercial loans for the period ended December 31, 2017 are \$171.2 million in interest only loans. In addition, the Bank uses proactive collection and workout processes in dealing with delinquent and problem loans.

The underlying credit quality of our loan portfolio is dependent primarily on each borrower's continued ability to make required loan payments and, in the event a borrower is unable to do so, is dependent on the value of the collateral securing the loan, if any. A borrower's ability to pay is typically dependent on employment and other sources of income in the case of one-to four-family mortgage loans and consumer loans. In the case of multi-family and commercial real estate loans, repayment is dependent on the cash flow generated by the property; in the case of C&I loans, on the cash flows generated by the business, which in turn is impacted by general economic conditions. Other factors, such as unanticipated expenditures or changes in the financial markets, may also impact a borrower's ability to pay. Collateral values, particularly real estate values, may also be impacted by a variety of factors including general economic conditions, demographics, maintenance and collection or foreclosure delays.

**Purchased Credit-Impaired Loans.** Purchased Credit-Impaired ("PCI") loans are loans acquired at a discount, due in part to credit quality. PCI loans are accounted for in accordance with Accounting Standard Codification ("ASC") Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality", and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). As of December 31, 2017 and December 31, 2016 PCI loans totaled \$8.3 million and \$9.0 million, respectively.

**Delinquent Loans.** The following table sets forth our loan delinquencies by type and by amount at the dates indicated, excluding loans classified as PCI.

	Loans Delinquent For				Total	
	60-89 Days		90 Days and Over		Number	Amount
	Number	Amount	Number	Amount		
	(Dollars in thousands)					
At December 31, 2017						
Commercial loans:						
Multi-family loans	2	\$ 7,652	1	\$ 203	3	\$ 7,855
Commercial real estate loans	2	778	16	11,519	18	12,297
Commercial and industrial loans	—	—	2	75	2	75
Construction loans	1	295	—	—	1	295
Total commercial loans	5	8,725	19	11,797	24	20,522
Residential mortgage loans	42	8,739	260	54,900	302	63,639
Consumer and other loans	14	521	83	5,755	97	6,276
Total	61	\$17,985	362	\$72,452	423	\$ 90,437
At December 31, 2016						
Commercial loans:						
Multi-family loans	1	\$ 1,099	1	\$ 234	2	\$ 1,333
Commercial real estate loans	8	31,964	14	6,445	22	38,409
Commercial and industrial loans	4	885	6	2,971	10	3,856
Construction loans	—	—	—	—	—	—
Total commercial loans	13	33,948	21	9,650	34	43,598
Residential mortgage loans	52	10,930	286	58,119	338	69,049
Consumer and other loans	10	719	115	7,065	125	7,784
Total	75	\$45,597	422	\$74,834	497	\$120,431

**Non-Performing Assets.** Non-performing assets include loans delinquent 90 days or more, non-accrual loans, performing troubled debt restructurings and real estate owned (“REO”), and excludes PCI loans. Loans are classified as non-accrual when they are delinquent 90 days or more or if management has specific information that it is probable they will not collect all amounts due under the contractual terms of the loan agreement. We did not have any loans delinquent 90 days or more and still accruing interest at December 31, 2017 and 2016. Non-accrual loans increased by \$41.4 million to \$135.7 million at December 31, 2017 from \$94.3 million at December 31, 2016. Included in the increase were \$13.9 million of multi family loans, \$5.6 million of commercial real estate loans and \$6.4 million of commercial and industrial loans that were classified as non-accrual which were performing in accordance with their contractual terms. For the year ended December 31, 2017, the Company sold \$48.1 million of non-performing commercial real estate and multi-family loans from one relationship, resulting in no charge-off recorded through the allowance. There were no sales of non-performing loans during 2016.

The ratio of non-accrual loans to total loans increased to 0.68% at December 31, 2017 from 0.50% at December 31, 2016. Our ratio of non-performing assets to total assets increased to 0.61% at December 31, 2017 from 0.47% at December 31, 2016. The allowance for loan losses as a percentage of total non-accrual loans decreased to 170.17% at December 31, 2017 from 242.24% at December 31, 2016. For further discussion of our non-performing assets and non-performing loans and the allowance for loan losses, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The table below sets forth the amounts and categories of our non-performing assets excluding PCI loans at the dates indicated.

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Non-accrual loans:					
Multi-family loans	\$ 14,978	\$ 482	\$ 3,467	\$ 2,989	\$ 5,905
Commercial real estate loans	34,043	9,205	10,820	13,940	2,711
Commercial and industrial loans	9,989	4,659	9,225	2,903	1,281
Construction loans	295	—	792	4,345	16,181
Total commercial loans	59,305	14,346	24,304	24,177	26,078
Residential mortgage loans	70,220	72,593	81,816	79,971	72,309
Consumer and other loans	6,202	7,335	9,306	4,211	1,973
Total non-accrual loans	135,727	94,274	115,426	108,359	100,360
Real estate owned	5,830	4,492	6,283	7,839	8,516
Performing troubled debt restructurings	10,957	9,445	22,489	35,624	39,570
Total non-performing assets	\$152,514	\$108,211	\$144,198	\$151,822	\$148,446
Total non-accrual loans to total loans	0.68%	0.50%	0.68%	0.72%	0.77%
Total non-performing assets to total assets	0.61%	0.47%	0.69%	0.81%	0.95%

At December 31, 2017, there were \$43.9 million of loans deemed troubled debt restructured loans, of which \$11.0 million were classified as accruing and \$32.9 million were classified as non-accrual. For the year ended December 31, 2017, interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to \$4.8 million. We recognized interest income of \$1.4 million on such loans for the year ended December 31, 2017.

**Other Real Estate Owned.** Real estate we acquire as a result of foreclosure or by deed in lieu of foreclosure is classified as other real estate owned (“REO”) until sold. When property is acquired it is recorded at fair value at the date of foreclosure less estimated costs to sell the property. Holding costs and declines in fair value result in charges to expense after acquisition. At December 31, 2017, we had REO of \$5.8 million consisting of 32 residential properties and 7 commercial properties.

**Classified Assets.** Federal regulations provide that loans and other assets of lesser quality should be classified 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” we 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 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 their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as “special mention” if the asset has a potential weakness that warrants management’s close attention. While such assets are not impaired or classified assets, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset.

We are required to establish an allowance for loan losses in an amount that management considers prudent for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances, which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When we classify problem assets as “loss,” we are 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. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation, which can require that we establish additional general or specific loss allowances.

We review the loan portfolio on a quarterly basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

**Impaired Loans.** The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. The Company evaluates commercial loans with an outstanding balance greater than \$1.0 million and on non-accrual status, loans modified in a troubled debt restructuring (“TDR”), and other commercial loans with an outstanding balance greater than \$1.0 million if management has specific information that it is probable they will not collect all amounts due under the contractual terms of the loan agreement for impairment. Impaired loans are individually evaluated to determine that the loan’s carrying value is not in excess of the fair value of the collateral or the present value of the expected future cash flows. Smaller balance homogeneous loans are evaluated for impairment collectively unless they are modified in a TDR. Such loans include residential mortgage loans, consumer loans, and loans not meeting the Company’s definition of impaired, and are specifically excluded from impaired loans. At December 31, 2017, loans meeting the Company’s definition of an impaired loan totaled \$80.8 million. The allowance for loan losses related to loans classified as impaired at December 31, 2017, amounted to \$1.8 million. Interest income received during the year ended December 31, 2017 on loans classified as impaired totaled \$1.5 million. For further detail on our impaired loans, see Note 1 and Note 4 of Notes to Consolidated Financial Statements in “Item 15 - Exhibits and Financial Statement Schedules.”

### **Allowance for Loan Losses**

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. In determining the allowance for loan losses, management considers the losses inherent in our loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. A description of our methodology in establishing our allowance for loan losses is set forth in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Allowance for Loan Losses.” The allowance for loan losses as of December 31, 2017 is maintained at a level that represents management’s best estimate of losses inherent in the loan portfolio. However, this analysis process is inherently subjective, as it requires us to make estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current economic environment deteriorates.

As an integral part of their examination processes, the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation will periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.



**Allowance for Loan Losses.** The following table sets forth activity in our allowance for loan losses for the periods indicated.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Allowance balance (beginning of period)	\$ 228,373	\$ 218,505	\$ 200,284	\$ 173,928	\$ 142,172
Provision for loan losses	16,250	19,750	26,000	37,500	50,500
Charge-offs:					
Multi-family loans	(6)	(161)	(284)	(323)	(1,266)
Commercial real estate loans	(8,072)	(455)	(1,021)	(6,147)	(1,101)
Commercial and industrial loans	(5,656)	(4,485)	(516)	(2,447)	(516)
Construction loans	(100)	(52)	(466)	(640)	(3,424)
Residential mortgage loans	(4,875)	(9,425)	(9,526)	(7,715)	(15,508)
Consumer and other loans	(500)	(419)	(403)	(972)	(795)
Total charge-offs	(19,209)	(14,997)	(12,216)	(18,244)	(22,610)
Recoveries:					
Multi-family loans	1,677	1,885	445	3,784	219
Commercial real estate loans	549	689	807	201	65
Commercial and industrial loans	200	541	295	516	604
Construction loans	—	267	317	799	315
Residential mortgage loans	2,816	1,631	2,295	1,783	2,528
Consumer and other loans	313	102	278	17	135
Total recoveries	5,555	5,115	4,437	7,100	3,866
Net charge-offs	(13,654)	(9,882)	(7,779)	(11,144)	(18,744)
Allowance balance (end of period)	\$ 230,969	\$ 228,373	\$ 218,505	\$ 200,284	\$ 173,928
Total loans outstanding	\$20,090,848	\$18,810,702	\$16,891,330	\$15,099,552	\$13,064,618
Average loans outstanding	19,414,842	17,479,932	15,716,010	13,776,250	11,065,190
Allowance for loan losses as a percent of total loans outstanding	1.15%	1.21%	1.29%	1.33%	1.33%
Net loans charged off as a percent of average loans outstanding	0.07%	0.06%	0.05%	0.08%	0.17%
Allowance for loan losses to non-performing loans <sup>(1)</sup>	157.46%	220.18%	158.43%	139.10%	124.30%

<sup>(1)</sup> Non performing loans include non-accrual loans and performing TDRs.

**Allocation of Allowance for Loan Losses.** The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	December 31,									
	2017		2016		2015		2014		2013	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
(Dollars in thousands)										
End of period allocated to:										
Multi-family loans	\$ 81,469	38.9%	\$ 95,561	39.6%	\$ 88,223	37.0%	\$ 71,147	33.4%	\$ 42,103	30.5%
Commercial real estate loans	56,137	22.6	52,796	23.7	46,999	22.7	44,030	20.8	46,657	19.2
Commercial and industrial loans	54,563	8.1	43,492	6.8	40,585	6.2	20,759	3.6	9,273	2.1
Construction loans	11,609	2.1	11,653	1.7	6,794	1.3	6,488	1.0	8,947	1.6
Residential mortgage loans	21,835	25.0	19,831	25.0	31,443	29.8	47,936	38.2	51,760	43.6
Consumer and other loans	3,099	3.3	2,850	3.2	3,155	2.9	3,347	2.9	2,161	3.1
Unallocated	2,257		2,190		1,306		6,577		13,027	
Total allowance	<u>\$230,969</u>	100.0%	<u>\$228,373</u>	100.0%	<u>\$218,505</u>	100.0%	<u>\$200,284</u>	100.0%	<u>\$173,928</u>	100.0%

## Security Investments

The Board of Directors has adopted our Investment Policy. This policy determines the types of securities in which we may invest. The Investment Policy is reviewed annually by management and changes to the policy are recommended to and subject to approval by the Board of Directors. The Board of Directors delegates operational responsibility for the implementation of the Investment Policy to the Asset Liability Committee, which is primarily comprised of senior officers. While general investment strategies are developed by the Asset Liability Committee, the execution of specific actions rests primarily with our Treasurer. The Treasurer is responsible for ensuring the guidelines and requirements included in the Investment Policy are followed and all securities are considered prudent for investment. Investment transactions are reviewed and ratified by the Board of Directors at their regularly scheduled meetings.

Our Investment Policy requires that investment transactions conform to Federal and New Jersey State investment regulations. Our investments purchased may include, but are not limited to, U.S. Treasury obligations, securities issued by various Federal Agencies, State and Municipal subdivisions, mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, investment grade corporate debt instruments, and mutual funds. In addition, Investors Bancorp may invest in equity securities subject to certain limitations.

The Investment Policy requires that securities transactions be conducted in a safe and sound manner. Purchase and sale decisions are based upon a thorough pre-purchase analysis of each security to determine it conforms to our overall asset/liability management objectives. The analysis must consider its effect on our risk-based capital measurement, prospects for yield and/or appreciation and other risk factors.

In December 2013, regulatory agencies adopted a rule on the treatment of certain collateralized debt obligations backed by trust preferred securities to implement sections of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd- Frank Act”), known as the Volcker Rule. At December 31, 2017, none of our securities were deemed to be a covered fund under the Volcker Rule.

At December 31, 2017, our securities portfolio totaled \$3.78 billion representing 15.1% of our total assets. Securities are classified as held-to-maturity or available-for-sale when purchased. At December 31, 2017, \$1.80 billion of our securities were classified as held-to-maturity and reported at amortized cost and \$1.99 billion were classified as available-for-sale and reported at fair value.

***Mortgage-Backed Securities.*** We purchase mortgage-backed pass through and collateralized mortgage obligation (“CMO”) securities insured or guaranteed by Fannie Mae, Freddie Mac (government-sponsored enterprises) and Ginnie Mae (government agency), and to a lesser extent, a variety of federal and state housing authorities (collectively referred to below as “agency-issued mortgage-backed securities”). At December 31, 2017, agency-issued mortgage-backed securities including CMOs, totaled \$3.65 billion, or 96.4%, of our total securities portfolio.

Mortgage-backed securities present a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments that can change the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities. The fair value of such securities may be adversely affected by changes in interest rates and/or other market variables.

Our mortgage-backed securities portfolio had a weighted average yield of 2.05% for the year ended December 31, 2017. The estimated fair value of our mortgage-backed securities at December 31, 2017 was \$3.63 billion, which is \$44.1 million less than the carrying value. The decrease to the fair value is attributed to an increase in interest rates during 2017.

We also may invest in securities issued by non-agency or private mortgage originators, provided those securities are rated AAA by nationally recognized rating agencies and satisfactorily pass an internal credit review at the time of purchase. Currently, the Company does not hold any non-agency mortgage-backed securities in its portfolio.

***Corporate and Other Debt Securities.*** Our corporate and other debt securities portfolio primarily consists of collateralized debt obligations (“CDOs”) backed by pooled trust preferred securities (“TruPS”), principally issued by banks and to a lesser extent insurance companies, real estate investment trusts, and collateralized debt obligations. The interest rates on these securities reset quarterly in relation to 3 month LIBOR rate. These securities have been classified in the held-to-maturity portfolio since their purchase. At December 31, 2017, corporate and other debt securities totaled \$48.1 million, or 1.27%, of our total securities portfolio.

At December 31, 2017, the trust preferred securities portfolio had a carrying value of \$43.1 million, or 1.14% of our total securities portfolio, and a fair value of \$81.2 million with none of the securities in an unrealized loss position. Throughout the year we engage an independent valuation firm to assist us in valuing our TruPS portfolio and prepare our other-than temporary impairment, or OTTI, analysis. At December 31, 2017, management deemed that the present value of projected cash flows for each security was greater than the book value and we did not recognize any OTTI charges for the years ended December 31, 2017, 2016, and 2015. For the year ended December 31, 2017, the Company received sale proceeds of \$3.1 million from the liquidation of one TruP security. As a result, \$1.9 million was recognized as interest income from securities in the Consolidated Statements of Income. There was no liquidation of TruP securities for the year ended December 31, 2016. For the year ended December 31, 2015 the Company recognized a loss of \$646,000 on one TruP security which was entirely liquidated by its Trustee.

We continue to closely monitor the performance of the securities we own as well as the events surrounding this segment of the market. We will continue to evaluate for other-than-temporary impairment, which could result in a future non-cash charge to earnings.

***Municipal Bonds.*** At December 31, 2017, we had \$40.6 million in municipal bonds which represents 1.07% of our total securities portfolio. These bonds are comprised of \$36.3 million in short-term Bond Anticipation or

Tax Anticipation notes and \$4.3 million of longer term New Jersey Revenue Bonds. These purchases were made to diversify the securities portfolio and are designated as held to maturity.

**Government Sponsored Enterprises.** At December 31, 2017, debt securities issued by Government Sponsored Enterprises held in our security portfolio totaled \$43.3 million representing 1.14% of our total securities portfolio.

**Marketable Equity Securities.** At December 31, 2017, we had \$5.7 million in equity securities representing 0.15% of our total securities portfolio. Equity securities are not insured or guaranteed investments and are affected by market interest rates and stock market fluctuations. Such investments are classified as available-for-sale, carried at their fair value with fluctuations in the fair value of such investments, including temporary declines in value, directly affect our net capital position.

**Securities Portfolios.** The following table sets forth the composition of our investment securities portfolios at the dates indicated.

	At December 31,					
	2017		2016		2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)					
Available-for-sale:						
Equity securities	\$ 4,911	\$ 5,701	\$ 5,825	\$ 6,660	\$ 5,778	\$ 6,495
Mortgage-backed securities:						
Federal National Mortgage Association	1,322,255	1,303,576	1,022,383	1,008,587	724,851	726,072
Federal Home Loan Mortgage Corporation	649,060	640,242	603,774	598,439	546,652	547,451
Government National Mortgage Association	39,577	38,208	47,538	46,747	24,841	24,679
Total mortgage-backed securities available for sale	2,010,892	1,982,026	1,673,695	1,653,773	1,296,344	1,298,202
Total available-for-sale securities	<u>\$2,015,803</u>	<u>\$1,987,727</u>	<u>\$1,679,520</u>	<u>\$1,660,433</u>	<u>\$1,302,122</u>	<u>\$1,304,697</u>
Held-to-maturity:						
Debt securities:						
Government sponsored enterprises	\$ 43,281	\$ 42,596	\$ 2,128	\$ 2,140	\$ 4,232	\$ 4,243
Municipal bonds	40,595	41,846	37,978	39,493	43,058	44,365
Corporate and other debt securities	48,087	86,294	44,092	84,245	35,113	77,817
Total debt securities	131,963	170,736	84,198	125,878	82,403	126,425
Mortgage-backed securities:						
Federal National Mortgage Association	1,101,093	1,091,600	1,244,833	1,233,079	1,226,140	1,227,325
Federal Home Loan Mortgage Corporation	473,345	468,436	410,133	407,424	514,339	513,470
Government National Mortgage Association	90,220	89,353	16,392	16,420	21,330	21,455
Federal housing authorities	—	—	—	—	11	11
Total mortgage-backed securities held-to-maturity	1,664,658	1,649,389	1,671,358	1,656,923	1,761,820	1,762,261
Total held-to-maturity securities	<u>\$1,796,621</u>	<u>\$1,820,125</u>	<u>\$1,755,556</u>	<u>\$1,782,801</u>	<u>\$1,844,223</u>	<u>\$1,888,686</u>
Total securities	<u>\$3,812,424</u>	<u>\$3,807,852</u>	<u>\$3,435,076</u>	<u>\$3,443,234</u>	<u>\$3,146,345</u>	<u>\$3,193,383</u>

At December 31, 2017, except for our investments in Fannie Mae and Freddie Mac securities, we had no investment in the securities of any issuer that had an aggregate book value in excess of 10% of our equity.

**Portfolio Maturities and Coupon.** The composition, maturities and coupon rate of the securities portfolio at December 31, 2017 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Municipal securities coupons have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Carrying Value	Weighted Average Coupon	Carrying Value	Weighted Average Coupon	Carrying Value	Weighted Average Coupon	Carrying Value	Weighted Average Coupon	Carrying Value	Fair Value	Weighted Average Coupon
(Dollars in thousands)											
<b>Available-for-Sale:</b>											
Equity securities	\$ —	— %	\$ —	— %	\$ —	— %	\$ 4,911	— %	\$ 4,911	\$ 5,701	— %
Mortgage-backed securities:											
Federal Home Loan Mortgage Corporation	—	—	—	—	101,275	2.44	547,785	2.18	649,060	640,242	2.22
Federal National Mortgage Association	—	—	11,384	2.60	213,633	2.24	1,097,238	2.15	1,322,255	1,303,576	2.17
Government National Mortgage Association	—	—	—	—	15,264	1.73	24,313	1.90	39,577	38,208	1.83
Total mortgage-backed securities	—	—	11,384	2.60	330,172	2.28	1,669,336	2.15	2,010,892	1,982,026	2.18
Total available-for-sale securities	\$ —	— %	\$ 11,384	2.60%	\$ 330,172	2.28%	\$ 1,674,247	2.15%	\$ 2,015,803	\$ 1,987,727	2.17%
<b>Held-to-Maturity:</b>											
Debt securities:											
Government sponsored enterprises	\$ 2,037	1.55%	\$ —	— %	\$ 41,244	2.58%	\$ —	— %	\$ 43,281	\$ 42,596	2.53%
Municipal bonds	36,295	1.92	—	—	4,300	9.13	—	—	40,595	41,846	2.69
Corporate and other debt securities	—	—	—	—	5,000	5.13	43,087	2.79	48,087	86,294	3.03
	38,332	1.91	—	—	50,544	3.39	43,087	2.79	131,963	170,736	2.76
Mortgage-backed securities:											
Federal Home Loan Mortgage Corporation	—	—	97	5.37	200,476	2.46	272,772	2.28	473,345	468,436	2.36
Federal National Mortgage Association	—	—	25,037	1.73	277,781	2.18	798,275	2.38	1,101,093	1,091,600	2.31
Government National Mortgage Association	—	—	—	—	—	—	90,220	2.59	90,220	89,353	2.59
Total mortgage-backed securities	—	—	25,134	1.74	478,257	2.30	1,161,267	2.37	1,664,658	1,649,389	2.34
Total held-to-maturity securities	\$ 38,332	1.91%	\$ 25,134	1.74%	\$ 528,801	2.40%	\$ 1,204,354	2.39%	\$ 1,796,621	\$ 1,820,125	2.37%

## Sources of Funds

**General.** Deposits are the primary source of funds used for our lending and investment activities. Our strategy is to increase core deposit growth to fund these activities. In addition, we use a significant amount of borrowings, primarily advances from the Federal Home Loan Bank of New York (“FHLB”), to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management and to manage our cost of funds. Additional sources of funds include principal and interest payments from loans and securities, loan and security prepayments and maturities, repurchase agreements, brokered deposits, income on other earning assets and retained earnings. While cash flows from loans and securities payments can be relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

**Deposits.** At December 31, 2017, we held \$17.36 billion in total deposits, representing 78.9% of our total liabilities. Although recent increases in market interest rates have resulted in consumer preference for and growth in time deposits, our deposit strategy has been focused on attracting core deposits (savings, checking and money market accounts) as they



represent a more stable source of low cost funds and may be less sensitive to changes in market interest rates. At December 31, 2017, we held \$13.90 billion in core deposits, representing 80.1% of total deposits, of which \$709.7 million are brokered money market deposits. At December 31, 2017, \$3.46 billion, or 19.9%, of our total deposit balances were certificates of deposit, which included \$759.5 million of brokered certificates of deposit. In addition, municipal deposits are a significant source of funds. At December 31, 2017, \$4.70 billion, or 27.1%, of our total deposits consisted of public fund deposits from local government entities.

We have a suite of commercial deposit products, designed to appeal to small and mid-sized business owners and non-profit organizations. The interest rates we pay, our maturity terms, service fees and withdrawal penalties are all reviewed on a periodic basis. Deposit rates and terms are based primarily on our current operating strategies, market rates, liquidity requirements, rates paid by competitors and growth goals. We also rely on personalized customer service, long-standing relationships with customers and an active marketing program to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts we offer allows us to respond to changes in consumer demands and to be competitive in obtaining deposit funds. Our ability to attract and maintain deposits and the rates we pay on deposits will continue to be significantly affected by market conditions.

We intend to continue to invest in technology platforms and branch staff training, de novo branches, and to aggressively market and advertise our core deposit products and will attempt to generate our deposits from a diverse client group within our primary market area. We remain focused on attracting and maintaining deposits from consumers, businesses and municipalities which operate in our marketplace.

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

	At December 31,								
	2017			2016			2015		
	Balance	Percent of Total Deposits	Weighted Average Rate	Balance	Percent of Total Deposits	Weighted Average Rate	Balance	Percent of Total Deposits	Weighted Average Rate
(Dollars in thousands)									
<b>Non-interest bearing:</b>									
Checking accounts	\$ 2,424,608	14.0%	—%	\$ 2,173,493	14.2%	—%	\$ 1,890,536	13.4%	—%
<b>Interest-bearing:</b>									
Checking accounts	4,909,054	28.3	0.91	3,916,208	25.6	0.45	2,745,489	19.5	0.29
Money market deposits	4,243,545	24.4	0.90	4,150,583	27.2	0.65	3,861,317	27.5	0.67
Savings	2,320,228	13.4	0.48	2,092,989	13.7	0.29	2,150,004	15.3	0.29
Certificates of deposit	3,460,262	19.9	1.13	2,947,560	19.3	0.91	3,416,310	24.3	1.14
<b>Total deposits</b>	<b>\$17,357,697</b>	<b>100.0%</b>	<b>0.77%</b>	<b>\$15,280,833</b>	<b>100.0%</b>	<b>0.51%</b>	<b>\$14,063,656</b>	<b>100.0%</b>	<b>0.56%</b>

The following table sets forth, by rate category, the amount of certificates of deposit outstanding as of the dates indicated.

	At December 31,		
	2017	2016	2015
	(Dollars in thousands)		
<b>Certificates of Deposit</b>			
0.00% - 0.25%	\$ 527,836	\$ 639,425	\$ 606,970
0.26% - 0.50%	141,253	194,827	304,458
0.51% - 1.00%	396,098	643,526	384,941
1.01% - 2.00%	2,355,997	1,427,999	1,791,549
2.01% - 3.00%	37,808	31,956	301,930
Over 3.00%	1,270	9,827	26,462
Total	<u>\$3,460,262</u>	<u>\$2,947,560</u>	<u>\$3,416,310</u>

The following table sets forth, by rate category, the remaining period to maturity of certificates of deposit outstanding at December 31, 2017.

	Within Three Months	Over Three to Six Months	Over Six Months to One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years	Total
	(Dollars in thousands)						
<b>Certificates of Deposit</b>							
0.00% - 0.25%	\$219,678	\$121,546	\$ 159,436	\$ 8,309	\$ 8,290	\$ 10,577	\$ 527,836
0.26% - 0.50%	25,076	26,751	36,365	52,996	56	9	141,253
0.51% - 1.00%	68,130	132,725	29,067	37,397	40,078	88,701	396,098
1.01% - 2.00%	375,905	488,746	1,156,638	285,021	20,475	29,212	2,355,997
2.01% - 3.00%	—	20	555	4,432	27,866	4,935	37,808
Over 3.00%	139	334	108	106	326	257	1,270
Total	<u>\$688,928</u>	<u>\$770,122</u>	<u>\$1,382,169</u>	<u>\$388,261</u>	<u>\$97,091</u>	<u>\$133,691</u>	<u>\$3,460,262</u>

The following table sets forth the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 and the respective maturity of those certificates as of December 31, 2017.

	At December 31, 2017 (In thousands)
Three months or less	\$ 475,735
Over three months through six months	591,987
Over six months through one year	908,666
Over one year	394,349
Total	<u>\$2,370,737</u>

**Borrowings.** We borrow directly from the FHLB. Our FHLB borrowings, frequently referred to as advances, are collateralized by our residential and commercial mortgage portfolios. The following table sets forth information concerning balances and interest rates on our advances from the FHLB at the dates and for the periods indicated.

	At or for the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Balance at end of period	\$4,331,052	\$4,391,420	\$3,106,783	\$2,598,186	\$3,099,593
Average balance during period	4,526,596	3,663,087	2,997,873	2,548,744	3,015,058
Maximum outstanding at any month end	5,355,298	4,391,420	3,548,000	3,230,000	3,586,000
Weighted average interest rate at end of period	1.96%	1.79%	2.12%	2.24%	1.83%
Average interest rate during period	1.88%	1.86%	2.06%	2.19%	1.90%

We also borrow funds under repurchase agreements with the FHLB and various brokers. These agreements are recorded as financing transactions as we maintain effective control over the transferred or pledged securities. The dollar amount of the securities underlying the agreements continues to be carried in our securities portfolio while the obligations to repurchase the securities are reported as liabilities. The securities underlying the agreements are delivered to the party with whom each transaction is executed. Those parties agree to resell to us the identical securities we delivered to them at the maturity of the agreement. The following table sets forth information concerning balances and interest rates on our securities sold under agreements to repurchase at the dates and for the periods indicated. In addition, the Bank had uncommitted unsecured overnight borrowing lines with other institutions totaling \$475.0 million, of which no balance was outstanding at December 31, 2017.

	At or for the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Balance at end of period	\$130,481	\$154,831	\$156,307	\$167,918	\$267,681
Average balance during period	149,030	153,000	159,438	192,865	164,415
Maximum outstanding at any month end	153,000	154,831	163,000	261,205	267,681
Weighted average interest rate at end of period	1.87%	2.19%	2.21%	2.28%	1.60%
Average interest rate during period	2.11%	2.16%	2.25%	2.02%	1.50%

### Subsidiary Activities

Investors Bancorp, Inc. has one direct subsidiary, which is Investors Bank.

**Investors Bank.** Investors Bank is a New Jersey chartered savings bank headquartered in Short Hills, New Jersey. Originally founded in 1926, the bank is in the business of attracting deposits from the public through its branch network and borrowing funds in the wholesale markets to originate loans and to invest in securities. Investors Bank has the following active direct and indirect subsidiaries: Investors Home Mortgage, Investors Investment Corp., Investors Commercial, Inc., Investors Financial Group, Inc., My Way Development LLC, Marathon Realty Investors Inc. and Investors Financial Group Insurance Agency, Inc. In addition, Investors Bank has the following direct and indirect subsidiaries that are dormant and are in the process of being dissolved or merged into other subsidiaries: MNB NY Holdings Inc., B.F.S. Agency, Inc. and 3D Holding Company, Inc. Two other dormant direct or indirect subsidiaries, Roma Capital Investment Corp. and Roma Service Corporation, were dissolved in 2017. Investors Bank has two additional subsidiaries which are inactive; these subsidiaries are Investors Financial Services, Inc. and Investors Real Estate Corporation.

- **Investors Home Mortgage.** Investors Home Mortgage is a New Jersey limited liability company that was formed in 2001 for the purpose of originating loans for sale to both Investors Bank and third parties. During 2011, in conjunction with the rebranding of Investors Bank, this subsidiary changed the name it does business under from ISB Mortgage Co., LLC to Investors Home Mortgage. Investors Home Mortgage serves as Investors Bank's retail lending production arm throughout the branch network.
- **Investors Investment Corp.** Investors Savings Investment Corp. is a New Jersey corporation that was formed in 2004 as an investment company subsidiary. The purpose of this subsidiary is to invest in securities such as, but not limited to, U.S. Treasury obligations, mortgage-backed securities, certificates of deposit, mutual funds, and equity securities, subject to certain limitations.
- **Investors Commercial, Inc.** Investors Commercial, Inc. is a New Jersey corporation that was formed in 2010 as an operating subsidiary of Investors Bank. The purpose of this subsidiary is to originate and purchase residential mortgage loans and commercial loans including multi-family mortgage loans, commercial real estate mortgage loans and commercial and industrial mortgage loans primarily in New York State.
- **Investors Financial Group, Inc.** Investors Financial Group, Inc. is a New Jersey corporation that was formed in 2011 as an operating subsidiary of Investors Bank. The primary purpose of this subsidiary is

to process sales of non-deposit investment products through third party service providers to customers and consumers as may be referred by Investors Bank.

- **My Way Development LLC.** My Way Development LLC is a New Jersey single-member limited liability company formed in 2001 for the sole purpose of holding Bank owned real estate, pending sale or other disposition.
- **Marathon Realty Investors Inc.** Marathon Realty Investors Inc. is a New York corporation established in 2006 and acquired in the merger with Marathon Banking Corporation in October 2012. Marathon Realty Investors Inc. operates, and is taxed, in a manner that enables it to qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended. As a result of this election, Marathon Realty Investors Inc. is not taxed at the corporate level on taxable income distributed to stockholders, provided that certain REIT qualification tests are met.
- **Investors Financial Group Insurance Agency, Inc.** Investors Financial Group Insurance Agency, Inc. is a New Jersey licensed insurance agency formed in 2016. The purpose of this subsidiary is to receive commissions relating to the sale of certain insurance products, including, but not limited to, life insurance, fixed annuities and indexed annuities.

### Enterprise Risk Management Framework

Our Board of Directors oversees our risk management process, including the bank-wide approach to risk management, carried out by our management. Our Board approves the strategic plans and the policies that set standards for the nature and level of risk we are willing to assume. The Board receives reports on the management of critical risks and the effectiveness of risk management systems. While our full Board maintains the ultimate oversight responsibility for the risk management process, its committees, including Audit, Risk Oversight and Compensation committees, oversee risk in certain specified areas. The Risk Oversight Committee of the Board meets quarterly and provides independent oversight of all risk functions. Our Board has assigned responsibility to our Chief Risk Officer for maintaining the Enterprise Risk Management (“ERM”) framework to identify, assess, monitor and mitigate risks in the execution of our strategic goals and objectives and ensure we operate in a safe and sound manner in accordance with the Board approved policies.

During 2017, the Bank has continued to enhance its risk management systems, policies and procedures and has added significant staffing and expertise. The Bank’s Management Risk Committee meets regularly and provides governance over risk policy and risk escalation. The ERM framework supports a culture that promotes proactive risk management by all Investors Bank Employees, a risk appetite framework with defined risk tolerance limits, and risk governance with a three line of defense model to manage and oversee risk. In a three line of defense structure, each line of business and corporate function serve as the first line of defense and have responsibility for identifying, assessing, managing and mitigating risks in their areas. Independent Risk Management serves as the second line of defense and is responsible for providing guidance, oversight and appropriate challenge to the first line of defense. Internal Audit serves as the third line of defense and ensures that appropriate risk management controls, processes and systems are in place and functioning effectively.

Our ERM framework is consistent with common industry practices and regulatory guidance and is appropriate to our size, growth trajectory and the complexity of our business activities. The ERM Framework encompasses the following categories of risks; credit risk, interest rate risk, liquidity risk, price risk, operational risk, model risk, supplier risk, fraud risk, information security including cybersecurity, compliance risk, strategic risk, and reputational risk.

### Personnel

As of December 31, 2017, we had 1,910 full-time employees and 49 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

## Supervision and Regulation

Investors Bank is a New Jersey-chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation (“FDIC”) under the Deposit Insurance Fund (“DIF”). Investors Bank is subject to extensive regulation, examination and supervision by the Commissioner of the New Jersey Department of Banking and Insurance (the “Commissioner”) as the issuer of its charter, and, as a non-member state chartered savings bank, by the FDIC as the deposit insurer and its primary federal regulator. Investors Bank must file reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC each conduct periodic examinations to assess Investors Bank’s compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank may engage and is intended primarily for the protection of the DIF and its depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

As a bank holding company controlling Investors Bank, Investors Bancorp, Inc. is subject to the Bank Holding Company Act of 1956, as amended (“BHCA”), and the rules and regulations of the Federal Reserve Board under the BHCA and to the provisions of the New Jersey Banking Act of 1948 (the “New Jersey Banking Act”) and the regulations of the Commissioner under the New Jersey Banking Act applicable to bank holding companies.

The regulatory framework applicable to bank holding companies and their subsidiary banks is intended to protect depositors, the DIF, and the U.S. banking system as a whole. This system is not designed to protect equity investors in bank holding companies. Investors Bancorp, Inc. is required to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve Board, the Commissioner and the FDIC. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company’s compliance with various regulatory requirements. Investors Bancorp, Inc. files certain reports with, and otherwise complies with, the rules and regulations of the Securities and Exchange Commission under the federal securities laws and the listing requirements of NASDAQ.

Our business is heavily regulated by both state and federal agencies. Both the scope of the laws and regulations and the intensity of supervision to which our business is subject have increased in recent years, in response to the financial crisis as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place. President Trump has issued an executive order that sets forth principles for the reform of the federal financial regulatory framework and the Republican majority in Congress has also proposed an agenda for financial regulatory change. It is too early to assess whether there will be any major changes in the regulatory environment or merely a rebalancing of the post-financial crisis framework. The Company expects that its business will remain subject to extensive regulation and supervision.

## Stress Tests

The Dodd-Frank Act requires banks with total consolidated assets of more than \$10 billion to conduct annual stress tests. The Dodd-Frank Act also requires the FDIC, in coordination with federal financial regulatory agencies, to issue regulations establishing methodologies for stress testing that provide for at least three different sets of conditions, including baseline, adverse, and severely adverse. The regulations also require banks to publish a summary of the results of the stress tests.

The Bank has developed a repeatable and comprehensive process to comply with the stress testing requirements, which involves the Board of Directors, Senior Management and Risk Management, along with

third-party consultants who assist in this process. The Board of Directors receives regular updates as to the progress and challenges in complying with this regulatory requirement. The Bank submitted its stress tests results by July 31, 2017, as required, and published updated stress test results on October 25, 2017. The stress testing results affirmed the adequacy of the Bank's capital, even under severe economic conditions. As the related methodologies and best practices for banks of Investors' size continue to evolve, the stress testing process requires significant investment and we continue to seek ways to maximize shareholder value from the process while complying with regulatory requirements.

### **Volcker Rule**

Under the provisions of the Volcker Rule we are prohibited from: (i) engaging in short-term proprietary trading for our own account; and (ii) having certain ownership interest in and relationships with hedge funds or private equity funds. The fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Company and Investors Bank. The final Volcker Rule regulations impose significant compliance and reporting obligations on banking entities. The Company has put in place the compliance programs required by the Volcker Rule and has also implemented a governance and control program to ensure appropriate oversight and ongoing compliance.

### **Consumer Protection and Consumer Financial Protection Bureau Supervision**

The Dodd-Frank Act also established the Consumer Financial Protection Bureau ("CFPB"). The CFPB has rulemaking authority over all banks, and its examination and enforcement authority applies to banks at or greater than \$10 billion in total assets. Investors Bank is subject to CFPB supervision and examination of compliance with Federal Consumer Protection Laws. In addition, this agency is responsible for interpreting and enforcing a broad range of consumer protection laws ("Federal Consumer Protection Laws") that govern the provision of deposit accounts and the making of loans, including the regulation of mortgage lending and servicing. This includes laws such as the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth in Savings Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act.

In 2013, the CFPB issued final rules related to new mortgage servicing standards, and mortgage lending requirements that established a "qualified mortgage" which fulfills the Dodd-Frank Act requirement that mortgages be provided to borrowers with an ability to repay. These mortgage servicing and lending rules became effective in January 2014. These and other CFPB regulations have increased the Bank's compliance expenses, and limit the terms under which the Bank can provide consumer financial products.

The Dodd-Frank Act permits states to adopt stricter consumer protection laws and for state attorneys general to enforce consumer protection rules issued by the CFPB. In addition, while the CFPB is under new leadership, it is too early to assess whether this will result in any major change to the supervision or enforcement focus of the CFPB. The Company expects that its business will remain subject to extensive regulations and supervision by the CFPB as well as applicable state consumer protection laws and regulations, which will continue to increase our operating and compliance costs.

### **New Jersey Banking Regulation**

**Activity Powers.** Investors Bank derives its lending, investment and other powers primarily from the applicable provisions of the New Jersey Banking Act and its related regulations. Under these laws and regulations, savings banks, including Investors Bank, generally may invest in:

- real estate mortgages;



- consumer and commercial loans;
- specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;
- certain types of corporate equity securities; and
- certain other assets.

A savings bank may also make investments pursuant to a “leeway” power, which permits investments not otherwise permitted by the New Jersey Banking Act, subject to certain restrictions imposed by the FDIC. “Leeway” investments must comply with a number of limitations on the individual and aggregate amounts of “leeway” investments. A savings bank may also exercise trust powers upon approval of the Commissioner. Lastly, New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers are limited by federal law and the related regulations. See “Federal Banking Regulation — Activity Restrictions on State-Chartered Banks” below.

***Loans-to-One-Borrower Limitations.*** With certain specified exceptions, a New Jersey-chartered savings bank may not make loans or extend credit to a single borrower or to entities related to the borrower in an aggregate amount that would exceed 15% of the bank’s capital funds. A savings bank may lend an additional 10% of the bank’s capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act. Investors Bank currently complies with applicable loans-to-one-borrower limitations.

***Dividends.*** Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or alternatively, the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by Investors Bank. See “— Federal Banking Regulation — Prompt Corrective Action” below.

***Minimum Capital Requirements.*** Regulations of the Commissioner impose on New Jersey-chartered depository institutions, including Investors Bank, minimum capital requirements similar to those imposed on insured state banks. See “— Federal Banking Regulation — Capital Requirements” below.

***Examination and Enforcement.*** The New Jersey Department of Banking and Insurance may examine Investors Bank whenever it deems an examination advisable. The Department engages in routine annual examinations of Investors Bank. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or unsound business practice, and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed. The Commissioner may also seek the appointment of receiver or conservator for a New Jersey saving bank under certain conditions.

## **Federal Banking Regulation**

***Capital Requirements.*** In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The Final Capital Rules also revised the quantity and quality of required minimum risk-based and leverage capital requirements, consistent with the Reform Act and

the Third Basel Accord adopted by the Basel Committee on Banking Supervision, or Basel III capital standards. In doing so, the Final Capital Rules:

- Established a new minimum Common equity tier 1 risk-based capital ratio (common equity tier 1 capital to total risk-weighted assets) of 4.5% and increased the minimum Tier 1 risk-based capital ratio from 4.0% to 6.0%, while maintaining the minimum Total risk-based capital ratio of 8.0% and the minimum Tier 1 leverage capital ratio of 4.0%.
- Revised the rules for calculating risk-weighted assets to enhance their risk sensitivity.
- Phased out trust preferred securities and cumulative perpetual preferred stock as Tier 1 capital.
- Added a requirement to maintain a minimum Conservation Buffer, composed of Common equity tier 1 capital, of 2.5% of risk-weighted assets, to be applied to the new Common equity tier 1 risk-based capital ratio, the Tier 1 risk-based capital ratio and the Total risk-based capital ratio, which means that banking organizations, on a fully phased in basis no later than January 1, 2019, must maintain a minimum Common equity tier 1 risk-based capital ratio of 7.0%, a minimum Tier 1 risk-based capital ratio of 8.5% and a minimum Total risk-based capital ratio of 10.5% or have restrictions imposed on capital distributions and discretionary cash bonus payments.
- Changed the definitions of capital categories for insured depository institutions for purposes of the Federal Deposit Insurance Corporation Improvement Act of 1991 prompt corrective action provisions. Under these revised definitions, to be considered well-capitalized, an insured depository institution must have a Tier 1 leverage capital ratio of at least 5.0%, a Common equity tier 1 risk-based capital ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8.0% and a Total risk-based capital ratio of at least 10.0%.

The new minimum regulatory capital ratios and changes to the calculation of risk-weighted assets became effective for the Bank and Company on January 1, 2015. The required minimum Conservation Buffer was phased in incrementally, starting at 0.625% on January 1, 2016, increased to 1.25% on January 1, 2017 and further increased to 1.875% on January 1, 2018. The Conservation Buffer will increase to 2.5% on January 1, 2019. The rules impose restrictions on capital distributions and certain discretionary cash bonus payments if the minimum Conservation Buffer is not met. As of December 31, 2017 the Company and the Bank met the currently applicable Conservation Buffer of 1.25%.

In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of an institution's exposure to declines in the economic value of a bank's capital due to changes in interest rates when assessing the bank's capital adequacy. Under such a risk assessment, examiners evaluate a bank's capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. Institutions with significant interest rate risk may be required to hold additional capital. According to the agencies, applicable considerations include:

- the quality of the bank's interest rate risk management process;
- the overall financial condition of the bank; and
- the level of other risks at the bank for which capital is needed.

As of December 31, 2017, the Bank and the Company were considered “well capitalized” under applicable regulations and exceeded all regulatory capital requirements as follows:

	As of December 31, 2017 <sup>(1)</sup>					
	Actual		Minimum Capital Requirement		To be Well Capitalized under Prompt Corrective Action Provisions <sup>(2)</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Bank:						
Tier 1 Leverage Ratio	\$2,732,757	11.00%	\$ 993,750	4.00%	\$1,242,188	5.00%
Common Equity Tier 1 Risk-Based Capital	2,732,757	13.94%	1,127,081	5.75%	1,274,092	6.50%
Tier 1 Risk-Based Capital	2,732,757	13.94%	1,421,102	7.25%	1,568,113	8.00%
Total Risk-Based Capital	2,964,721	15.13%	1,813,131	9.25%	1,960,141	10.00%
Investors Bancorp, Inc.:						
Tier 1 Leverage Ratio	\$3,072,783	12.36%	\$ 994,164	4.00%	n/a	n/a
Common Equity Tier 1 Risk-Based Capital	3,072,783	15.67%	1,127,662	5.75%	n/a	n/a
Tier 1 Risk-Based Capital	3,072,783	15.67%	1,421,835	7.25%	n/a	n/a
Total Risk-Based Capital	3,304,747	16.85%	1,814,066	9.25%	n/a	n/a

<sup>(1)</sup> For purposes of calculating Tier 1 leverage ratio, assets are based on adjusted total average assets. In calculating Tier 1 risk-based capital and Total risk-based capital, assets are based on total risk-weighted assets.

<sup>(2)</sup> Prompt corrective action provisions do not apply to the bank holding company.

**Activity Restrictions on State-Chartered Banks.** Federal law and FDIC regulations generally limit the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the FDIC.

Before making a new investment or engaging in a new activity that is not permissible for a national bank or otherwise permissible under federal law or FDIC regulations, an insured bank must seek approval from the FDIC to make such investment or engage in such activity. The FDIC will not approve the activity unless the bank meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC insurance funds. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a “financial subsidiary” are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments or real estate development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank’s total assets or \$50 billion. The bank must have policies and procedures to assess the financial subsidiary’s risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary’s assets with the bank’s and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. State-chartered savings banks may retain subsidiaries in existence as of March 11, 2000 and may engage in activities that are not authorized under federal law. Although Investors Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries, it has not chosen to engage in such activities.

**Federal Home Loan Bank System.** Investors Bank is a member of the Federal Home Loan Bank system, which consists of the regional Federal Home Loan Banks, each subject to supervision and regulation by the

Federal Housing Finance Agency (“FHFA”). The Federal Home Loan Banks provide a credit facility for member institutions. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Banks. The Federal Home Loan Banks make loans to members (i.e., advances) in accordance with policies and procedures, including collateral requirements, established by the respective Boards of Directors of the Federal Home Loan Banks. These policies and procedures are subject to the regulation and oversight of the FHFA. All long-term advances are required to provide funds for residential home financing. The FHFA has also established standards of community or investment service that members must meet to maintain access to such long-term advances.

***Safety and Soundness Standards.*** Pursuant to the requirements of FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, each federal banking agency, including the FDIC, has adopted guidelines establishing general standards relating to matters such as internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder.

In addition, the FDIC adopted regulations to require a savings bank that is given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan to the FDIC. If, after being so notified, a savings bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution is subject under the “prompt corrective action” provisions of FDICIA. If a savings bank fails to comply with such an order, the FDIC may seek to enforce such an order in judicial proceedings and to impose civil monetary penalties.

***Enforcement.*** The FDIC has extensive enforcement authority over insured savings banks, including Investors Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

***Prompt Corrective Action.*** Federal law establishes a prompt corrective action framework to resolve the problems of undercapitalized institutions. The FDIC has adopted regulations to implement the prompt corrective action legislation. Those regulations were amended effective January 1, 2015 to incorporate the previously mentioned increased regulatory capital standards that were effective on the same date. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Generally a receiver or conservator must be appointed for an institution that is “critically “undercapitalized” within specific time frames. The regulations also provide that a capital restoration plan must be filed with the FDIC within 45 days of the date a savings bank receives notice that it is undercapitalized,” “significantly “undercapitalized” or “critically undercapitalized.” Various restrictions, such as restrictions on capital

distributions and growth, also apply to “undercapitalized” institutions. The FDIC may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Investors Bank was classified as “well-capitalized” under the prompt corrective action framework as of December 31, 2017.

**Liquidity.** Investors Bank maintains sufficient liquidity to ensure its safe and sound operation, in accordance with FDIC regulations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

**Deposit Insurance.** Investors Bank is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts in Investors Bank are insured by the FDIC, up to a maximum of \$250,000 for each separately insured depositor.

The FDIC imposes an assessment for deposit insurance against all insured depository institutions. Each institution’s assessment is based on the perceived risk to the insurance fund of the institution, with institutions deemed riskiest paying higher assessments. The Dodd-Frank Act required the FDIC to revise its procedures to base assessments on average total assets less tangible capital, rather than deposits. The FDIC’s assessment schedule ranges from 1.5 basis points to 40 basis points of average total assets less tangible capital. The FDIC has a more comprehensive approach to evaluating, for assessment purposes, the risk presented by larger institutions such as Investors Bank. Large institutions (i.e., \$10 billion more in assets) such as Investors Bank are subject to assessment based upon a detailed scorecard approach involving (i) a performance score determined using forward-looking risk measures, including certain stress testing, and (ii) a loss severity score, which is designed to measure, based on modeling, potential loss to the FDIC insurance fund if the institution failed. The total score is converted to an assessment rate, subject to certain adjustments. In addition, effective as of July 1, 2016 the FDIC implemented a requirement of the Dodd-Frank Act that institutions with assets of \$10 billion or more be responsible for increasing the Deposit Insurance Fund reserve ratio from 1.15% to 1.35%.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We are not currently aware of any practice, condition or violation that may lead to termination of our deposit insurance.

In addition to the FDIC assessments, the Financing Corporation is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO began to mature in 2017 and continue to mature through 2019. For the fourth quarter of 2017, the annualized Financing Corporation assessment was equal to 0.54 basis points of total average assets less tangible capital.

**Transactions with Affiliates of Investors Bank.** Transactions between an insured bank, such as Investors Bank, and any of its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and implementing regulations. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. Generally, a subsidiary of a bank that is not also a depository institution or financial subsidiary is not treated as an affiliate of the bank for purposes of Sections 23A and 23B.

#### Section 23A:

- limits the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such bank’s capital and surplus, as defined in the applicable regulations. Such transactions with all affiliates are limited to an amount equal to 20% of such capital and surplus; and

- requires that all such transactions be on terms that are consistent with safe and sound banking practices.

The term “covered transaction” includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100% to 130% of the loan amounts. In addition, any covered transaction by a bank with an affiliate and any purchase of assets or services by a bank from an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those that would be provided to a non-affiliate.

***Prohibitions Against Tying Arrangements.*** Banks are subject to the prohibitions of 12 U.S.C. Section 1972 on certain tying arrangements. A depository institution is prohibited, subject to specific exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

***Privacy Standards.*** FDIC regulations require Investors Bank to disclose its privacy policy, including identifying with whom it shares “non-public personal information,” to customers at the time of establishing the customer relationship and annually thereafter.

Investors Bank is also required to provide its customers with the ability to “opt-out” of having Investors Bank share their non-public personal information with unaffiliated third parties before it can disclose such information, subject to certain exceptions.

In addition, in accordance with the Fair Credit Reporting Act, Investors Bank must provide its customers with the ability to “opt-out” of having Investors Bank share their non-public personal information for marketing purposes with an affiliate or subsidiary before it can disclose such information.

The FDIC and other federal banking agencies adopted guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies’ expectations for the creation, implementation and maintenance of an information security program, which includes administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

***Community Reinvestment Act and Fair Lending Laws.*** All FDIC-insured institutions have a responsibility under the Community Reinvestment Act (CRA) and related regulations to help meet the credit needs of their communities, including low- and moderate-income individuals and neighborhoods. In connection with its examination of a state chartered savings bank, the FDIC is required to assess the institution’s record of compliance with the CRA. Among other things, the current CRA regulations rates an institution based on its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests:

- a lending test, to evaluate the institution’s record of making loans in its service areas;
- an investment test, to evaluate the institution’s record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and/or census tracts and businesses; and
- a service test, to evaluate the institution’s delivery of services through its branches, ATMs and other offices.



An institution's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities. Investors Bank received a "satisfactory" CRA rating in our most recent publicly-available federal evaluation, which was conducted by the FDIC in August 2014.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

### **Loans to a Bank's Insiders**

**Federal Regulation.** A bank's loans to its insiders — executive officers, directors, principal shareholders (any owner of 10% or more of its stock) and any of certain entities affiliated with any such persons (an insider's related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and its implementing regulations. Under these restrictions, the aggregate amount of the loans to any insider and the insider's related interests may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to Investors Bank. All loans by a bank to all insiders and insiders' related interests in the aggregate may not exceed the bank's capital and surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer's children and certain loans secured by the officer's residence, may not exceed the lesser of (1) \$100,000 or (2) the greater of \$25,000 or 2.5% of the bank's capital and surplus. Federal regulation also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the bank, with any interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider's related interests, would exceed either (1) \$500,000 or (2) the greater of \$25,000 or 5% of the bank's unimpaired capital and surplus.

Generally, loans to insiders must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons. An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

In addition, federal law prohibits extensions of credit to a bank's insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

Extensions of credit to a savings bank's executive officers are subject to specific limits based on the type of loans involved. Generally, loans are limited to \$100,000, except for a mortgage loan secured by the officer's primary residence and education loans for the officer's children.

**New Jersey Regulation.** The New Jersey Banking Act imposes conditions and limitations on loans and extensions of credit to directors and executive officers of a savings bank and to corporations and partnerships controlled by such persons, which are comparable in many respects to the conditions and limitations imposed on the loans and extensions of credit to insiders and their related interests under federal law, as discussed above. The New Jersey Banking Act also provides that a savings bank that is in compliance with federal law is deemed to be in compliance with such provisions of the New Jersey Banking Act.

### **Federal Reserve System**

Under Federal Reserve Board regulations, Investors Bank is required to maintain non-interest earning reserves against its transaction accounts. The Federal Reserve Board regulations generally require that reserves

of 3% must be maintained against aggregate transaction accounts over \$16.0 million and up to \$122.3 million, and 10% against that portion of total transaction accounts in excess of up to \$122.3 million. The first \$16.0 million of otherwise reservable balances are exempted from the reserve requirements. Investors Bank is in compliance with these requirements. These requirements are adjusted annually by the Federal Reserve Board. Required reserves must be maintained in the form of vault cash and/or an interest bearing account at a Federal Reserve Bank; or a pass-through account as defined by the Federal Reserve Board.

### **Anti-Money Laundering and Customer Identification**

Investors Bank is subject to FDIC regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act contains measures intended to encourage information sharing among bank regulatory and law enforcement agencies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Title III of the USA PATRIOT Act and the related FDIC regulations require the:

- Establishment of anti-money laundering compliance programs that includes policies, procedures, and internal controls; the appointment of an anti-money laundering compliance officer; an effective training program; and independent testing;
- Making of certain reports to FinCEN and law enforcement that are designated to assist in the detection and prevention of money laundering and terrorist financing activities;
- Establishment of a program specifying procedures for obtaining and maintaining certain records from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money-laundering, terrorist financing and other suspicious activity;
- Monitoring account activity for suspicious transactions; and
- Impose a heightened level of review for certain high risk customers or accounts.

The USA PATRIOT Act also includes prohibitions on correspondent accounts for foreign shell banks and requires compliance with record keeping obligations with respect to correspondent accounts of foreign banks. Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The bank regulatory agencies have increased the regulatory scrutiny of the Bank Secrecy Act and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the federal bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities. Investors Bank has adopted policies and procedures to comply with these requirements.

On August 12, 2016, Investors Bank agreed to enter into an informal agreement ("Informal Agreement") with the FDIC and the New Jersey Department of Banking and Insurance ("NJDOBI") with regard to Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") compliance matters. Investors Bank agreed to; 1)

develop, adopt and implement a system of internal controls designed to ensure full compliance with BSA; 2) conduct a comprehensive validation of Investors Bank's BSA/AML automated compliance system; and 3) develop, adopt and implement effective training programs relating to BSA. Investors Bank also agreed to review certain transactions and accounts for BSA and AML compliance and to establish a Compliance Committee of the Board. Numerous actions have been taken or commenced by Investors Bank to strengthen its BSA and AML compliance practices, policies, procedures and controls. Throughout 2017, Investors Bank has continued to enhance its risk management and compliance programs through process and technology improvements and increased qualified staff.

### **Holding Company Regulation**

**Federal Regulation.** Bank holding companies, including Investors Bancorp, Inc., are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. Federal Reserve Board regulations imposed consolidated capital adequacy requirements on bank holding companies. The Dodd-Frank Act required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves.

In addition, Federal Reserve Board guidance sets forth the supervisory expectation that bank holding companies will inform and consult with Federal Reserve Board staff in advance of issuing a dividend that exceeds earnings for the quarter and should inform the Federal Reserve Board and should eliminate, defer or significantly reduce dividends if (i) net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

A bank holding company is required to provide the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, would be equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that is as "well capitalized" under applicable regulations of the Federal Reserve Board, that has received a composite "1" or "2" rating, as well as a "satisfactory" rating for management, at its most recent bank holding company examination by the Federal Reserve Board, and that is not the subject of any unresolved supervisory issues.

As a bank holding company, Investors Bancorp is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval is also required for Investors Bancorp to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

In addition, a bank holding company that does not elect to be a financial holding company under federal regulations is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks. Some of the principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are:

- making or servicing loans;

- performing certain data processing services;
- providing discount brokerage services; or acting as fiduciary, investment or financial advisor;
- leasing personal or real property;
- making investments in corporations or projects designed primarily to promote community welfare; and
- acquiring a savings and loan association.

A bank holding company that elects to be a financial holding company may engage in activities that are financial in nature or incident to activities which are financial in nature. Investors Bancorp, Inc. has not elected to be a financial holding company, although it may seek to do so in the future. A bank holding company may elect to become a financial holding company if:

- each of its depository institution subsidiaries is “well capitalized”;
- each of its depository institution subsidiaries is “well managed”;
- each of its depository institution subsidiaries has at least a “satisfactory” Community Reinvestment Act rating at its most recent examination; and
- the bank holding company has filed a certification with the Federal Reserve Board stating that it elects to become a financial holding company.

Under federal law, depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution, or for any assistance provided by the FDIC to such an institution in danger of default. This law would potentially be applicable to Investors Bancorp, Inc. if it ever acquired as a separate subsidiary a depository institution in addition to Investors Bank.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by Section 613 of the Dodd-Frank Act, regulates interstate banking activities by establishing a framework for nationwide interstate banking and branching. As amended, this interstate banking and branching authority generally permits a bank in one state to establish a de novo branch at a location in another host state if state banks chartered in such host state would also be permitted to establish a branch at that location in the state. Under these amendments, Investors Bank is permitted to establish branch offices in other states in addition to its existing New Jersey and New York branch offices.

The Gramm-Leach-Bliley Act of 1999 eliminated most of the barriers to affiliations among banks, securities firms, insurance companies, and other financial companies previously imposed under federal banking laws if certain criteria are satisfied. Certain subsidiaries of well-capitalized and well-managed banks may be treated as “financial subsidiaries,” which are generally permitted to engage in activities that are financial in nature, including securities underwriting, dealing, and market making; sponsoring mutual funds and investment companies, and other activities that the Federal Reserve has determined to be closely related to banking.

***New Jersey Regulation.*** Under the New Jersey Banking Act, a company owning or controlling a savings bank is regulated as a bank holding company. The New Jersey Banking Act defines the terms “company” and “bank holding company” as such terms are defined under the BHCA. Each bank holding company controlling a New Jersey-chartered bank or savings bank must file certain reports with the Commissioner and is subject to examination by the Commissioner.

***Acquisition of Investors Bancorp, Inc.*** Under federal law and under the New Jersey Banking Act, no person may acquire control of Investors Bancorp, Inc. or Investors Bank without first obtaining approval of such acquisition of control by the Federal Reserve Board and the Commissioner. See “Restrictions on the Acquisition of Investors Bancorp, Inc. and Investors Bank.”

**Federal Securities Laws.** Investors Bancorp, Inc.'s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Investors Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Investors Bancorp, Inc. common stock held by persons who are affiliates (generally officers, directors and principal stockholders) of Investors Bancorp, Inc. may not be resold without registration or unless sold in accordance with certain resale restrictions. If Investors Bancorp, Inc. meets specified current public information requirements, each affiliate of Investors Bancorp, Inc. is able to sell in the public market, without registration, a limited number of shares in any three-month period.

**Sarbanes-Oxley Act of 2002.** The Sarbanes-Oxley Act of 2002 was enacted to address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information.

As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

We have existing policies, procedures and systems designed to comply with these regulations.

## Taxation

### Federal Taxation

**General.** Investors Bancorp, Inc. and its subsidiary are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Investors Bancorp, Inc. and its subsidiary file a consolidated federal income tax return. On December 22, 2017, the President signed into law H.R. 1, also known as the Tax Cuts and Jobs Act ("Tax Act"). The new legislation reduces the federal corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017 and will impact the manner in which the Company is taxed going forward. Investors Bancorp, Inc.'s federal tax returns are not currently under audit. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Investors Bancorp, Inc. or its subsidiary.

**Method of Accounting.** For federal income tax purposes, Investors Bancorp, Inc. currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal and state income tax returns.

**Bad Debt Reserves.** Historically, Investors Bank was subject to special provisions in the tax law regarding allowable bad debt tax deductions and related reserves. Tax law changes were enacted in 1996 pursuant to the Small Business Protection Act of 1996 (the "1996 Act"), which eliminated the use of the percentage of taxable income method for tax years after 1995 and required recapture into taxable income over a six-year period of all bad debt reserves accumulated after 1987. Investors Bank has fully recaptured its post-1987 reserve balance. Currently, Investors Bank uses the specific charge off method to account for bad debt deductions for income tax purposes.



**Taxable Distributions and Recapture.** Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 (pre-base year reserves) were subject to recapture into taxable income if Investors Bank failed to meet certain thrift asset and definitional tests. As a result of the 1996 Act, bad debt reserves accumulated after 1987 are required to be recaptured into income over a six-year period. However, all pre-base year reserves are subject to recapture if Investors Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. At December 31, 2017, Investors Bank's total federal pre-base year reserve was approximately \$45.2 million.

**Alternative Minimum Tax.** The Internal Revenue Code imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of AMT may be used as credits against regular tax liabilities in future years. Investors Bancorp, Inc. and its subsidiary have not been subject to the AMT and have no such amounts available as credits for carryover. On December 22, 2017, the President signed into law the Tax Act, which repealed the AMT on corporations for tax years beginning after December 31, 2017.

**Net Operating Loss Carryovers.** A corporation may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. As of December 31, 2017, the Company had total federal net operating loss carryforwards of \$6.1 million related to prior acquisitions. On December 22, 2017, the President signed into law the Tax Act, which eliminates, with certain exceptions, the net operating loss carryback period and permits an indefinite carryforward period, subject to 80 percent of taxable income, for net operating losses generated in tax years beginning after December 31, 2017.

**Corporate Dividends-Received Deduction.** Investors Bancorp, Inc. may exclude from its federal taxable income 100% of dividends received from Investors Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 80% when the dividend is received from a corporation having at least 20% of its stock owned by the recipient corporation. A 70% dividends-received deduction is available for dividends received from a corporation having less than 20% of its stock owned by the recipient corporation. On December 22, 2017, the President signed into law the Tax Act, which reduces the 70% dividends-received deduction to 50%, and the 80% dividends-received deduction to 65%, for tax years beginning after December 31, 2017.

## State Taxation

**New Jersey State Taxation.** Investors Bancorp, Inc. and its subsidiary file separate New Jersey corporate business tax returns on an unconsolidated basis. Generally, the income of corporations and savings institutions in New Jersey, which is calculated based on federal taxable income, subject to certain adjustments, is subject to New Jersey tax. On December 22, 2017, the President signed into law the Tax Act. The provisions of the New Jersey Corporation Business Tax Act continue to conform to federal taxing provisions in the same manner as prior to the enactment of the new legislation.

Investors Bancorp, Inc. is required to file a New Jersey income tax return and is generally subject to a state income tax at a 9% rate. If Investors Bancorp, Inc. meets certain requirements, it may be eligible to elect to be taxed as a New Jersey Investment Company, which would allow it to be taxed at a rate of 3.6%. At December 31, 2017, Investors Bancorp, Inc. currently meets the eligibility requirements and therefore elects to be taxed as a New Jersey Investment Company.

New Jersey tax law does not and has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, under tax legislation, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the New Jersey Director of the Division of Taxation may, at the director's discretion, require the taxpayer to file a consolidated return for the entire operations of the affiliated group or controlled group, including its own operations and income.



In connection with the Company's second step conversion, a \$20.0 million charitable contribution was made to the Investors Charitable Foundation, \$10.0 million of which was made by Investors Bank and the remaining \$10.0 million by Investors Bancorp, Inc. For Investors Bancorp, Inc., the excess contribution over the allowable deduction limit for the standalone entity may be carried forward to the succeeding 5 taxable years. Based on the entity's standalone future state taxable income, a valuation allowance was established for the portion of the state tax benefit related to the contribution that is not more likely than not to be realized.

**New York State Taxation.** The New York State corporate franchise tax is based on the combined entire net income of the Company and its affiliates allocable and apportionable to New York State and taxed at a rate of 6.5%. The amount of revenues that are sourced to New York State under the new legislation can be expected to fluctuate over time. In addition, the Company and its affiliates are subject to the Metropolitan Transportation Authority ("MTA") Surcharge allocable to business activities carried on in the Metropolitan Commuter Transportation District. The MTA surcharge for 2017 was 28.3% of a recomputed New York State franchise tax, calculated using a 6.5% tax rate on allocated and apportioned entire net income. Investors Bank is currently under audit with respect to its New York State combined franchise tax return for tax years 2013 and 2014. On December 22, 2017, the President signed into law the Tax Act. Since the starting point for computing entire net income, the primary base of the New York general corporation franchise tax, is federal taxable income, the federal concepts of income and deductions which apply for New York franchise tax purposes, subject to statutory additions, subtractions and modifications, continue to apply in the same manner as prior to the enactment of the new legislation.

**New York City Taxation.** The Company and its affiliates are subject to the combined corporate tax for New York City calculated on a similar basis as the New York State franchise tax, subject to the New York City apportionment rules. While the majority of the Company's entire net income is derived from outside of the New York City jurisdiction, the sourcing rules enacted by the 2015 tax law provisions have increased the income apportioned to New York City and in turn, caused an increase to our effective tax rate.

**Pennsylvania Taxation.** Considered a mutual thrift institution conducting business in Pennsylvania, Investors Bank is subject to the mutual thrift institutions tax. The mutual thrift institutions tax is imposed at the rate of 11.5% on apportionable net taxable income and is required to be reported and filed on the annual Net Income Tax Report. Mutual thrift institutions are exempt from all other Pennsylvania corporate taxes.

**Delaware State Taxation.** As a Delaware holding company not earning income in Delaware, Investors Bancorp, Inc. is exempted from Delaware corporate income tax but is required to file annual returns and pay annual fees and an annual franchise tax to the State of Delaware.

## **ITEM 1A. RISK FACTORS**

The risks set forth below, in addition to the other risks described in this Annual Report on Form 10-K, may adversely affect our business, financial condition and operating results. In addition to the risks set forth below and the other risks described in this annual report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

**We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.**

Investors Bank is subject to extensive regulation, supervision and examination by the NJDBI, our chartering authority, by the FDIC, as insurer of our deposits, and by the CFPB, with respect to consumer protection laws. As a bank holding company, Investors Bancorp is subject to regulation and oversight by the Federal Reserve Board. Such regulation and supervision govern the activities in which a bank and its holding company may engage and are intended primarily for the protection of the insurance fund and depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the requirement for additional capital, the imposition of restrictions on our operations, restrictions on our ability to pay dividends and make other capital distributions to shareholders, restrictions on our ability to repurchase shares, the classification of our assets and the adequacy of our allowance for loan losses, compliance and privacy issues, Bank Secrecy Act and anti-money laundering compliance, and approval of merger transactions. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on Investors Bank, Investors Bancorp and our operations.

The potential exists for additional Federal or state laws and regulations regarding capital requirements, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to remain active in responding to concerns and trends identified in examinations, including the potential issuance of formal enforcement orders. New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, could increase our costs of regulatory compliance and may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability.

**If the bank regulators impose limitations on our commercial real estate lending activities, our earnings, dividend paying capacity and/or ability to repurchase shares could be adversely affected.**

In 2006, the FDIC, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System (collectively, the “Agencies”) issued joint guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” (the “CRE Guidance”). Although the CRE Guidance did not establish specific lending limits, it provides that a bank’s commercial real estate lending exposure may receive increased supervisory scrutiny where total non-owner occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate and construction and land loans, represent 300% or more of an institution’s total risk-based capital and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Our level of non-owner occupied commercial real estate equaled 420% of Bank total risk-based capital at December 31, 2017 and our commercial real estate loan portfolio increased by 62% during the preceding 36 months.

In December 2015, the Agencies released a new statement on prudent risk management for commercial real estate lending (the “2015 Statement”). In the 2015 Statement, the Agencies express concerns about easing commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that the Agencies will continue “to pay special attention” to commercial real estate lending activities and concentrations going forward. If the FDIC, the Bank’s primary federal regulator were to impose restrictions on the amount of commercial real estate loans we can hold in our portfolio, or require higher capital ratios as a result of the level of commercial real estate loans we hold, our earnings, dividend paying capacity and/or ability to repurchase shares would be adversely affected.

**If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.**

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the

repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If actual results differ significantly from our assumptions, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income. Our allowance for loan losses at December 31, 2017 of \$231.0 million was 1.15% of total loans and 157.46% of non-performing loans at such date.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. A material increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities would have a material adverse effect on our financial condition and results of operations.

**Because we intend to continue to increase our commercial originations, our credit risk will increase.**

At December 31, 2017, our portfolio of multi-family, commercial real estate, C&I and construction loans totaled \$14.39 billion, or 71.6% of our total loans. We intend to continue to increase our originations of multi-family, commercial real estate, C&I and construction loans, which generally have more risk than one- to four-family residential mortgage loans. Since repayment of commercial loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market, local economy or the management of the business or property. In addition, our commercial borrowers may have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

**Significant portions of our multi-family loan portfolio and commercial real estate portfolio and nearly all of our C&I loan portfolio are unseasoned. It is difficult to judge the future performance of unseasoned loans.**

Our multi-family loan portfolio has increased to \$7.80 billion at December 31, 2017 from \$3.99 billion at December 31, 2013. Our commercial real estate portfolio has increased to \$4.55 billion at December 31, 2017 from \$2.51 billion at December 31, 2013. Our C&I loan portfolio has increased to \$1.63 billion at December 31, 2017 from \$268.4 million at December 31, 2013. Consequently, a large portion of our multi-family loans and commercial real estate loans and nearly all of our C&I loans are unseasoned. It is difficult to assess the future performance of these recently originated loans because of their relatively limited payment history from which to judge future collectability, especially in the economic environment since 2013. These loans may experience higher delinquency or charge-off levels than our historical loan portfolio experience, which could adversely affect our future performance.

**Our liabilities reprice faster than our assets and future increases in interest rates will reduce our profits.**

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities; and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The interest income we earn on our assets and the interest expense we pay on our liabilities are generally fixed for a contractual period of time. Our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest

paid on our liabilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Management of Market Risk.”

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. Increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans. In addition, an increase in interest rates cause decreased prepayment of loans and mortgage-backed and related securities. Conversely, a reduction in interest rates causes increased prepayments of loans and mortgage-backed and related securities as borrowers refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest the funds from faster prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2017, the fair value of our total securities portfolio was \$3.81 billion. Unrealized net losses on securities available-for-sale are reported as a separate component of equity. To the extent interest rates increase and the value of our available-for-sale portfolio decreases, our stockholders’ equity will be adversely affected.

We evaluate interest rate sensitivity using models that estimate the change in our net portfolio value over a range of interest rate scenarios. The economic value of equity analysis is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At December 31, 2017, in the event of a 200 basis point increase in interest rates, whereby rates increase evenly over a twelve-month period, and assuming management took no action to mitigate the effect of such change, the model projects that we would experience a 6.5% or \$44.1 million decrease in net interest income and 8.1% or \$377.7 million decrease in economic value of equity.

#### **Historically low interest rates may adversely affect our net interest income and profitability.**

During the past several years it has been the policy of the Federal Reserve Board to maintain interest rates at historically low levels. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at these lower levels. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets. While we have experienced a recent rising short term interest rate environment, our ability to lower our interest expense will be limited at these interest rate levels while the average yield on our interest-earning assets may continue to decrease. Accordingly, our net interest income may be adversely affected and may decrease, which may have an adverse effect on our future profitability.

#### **We may not be able to continue to grow our business, which may adversely impact our results of operations.**

Our total assets have grown from approximately \$15.62 billion at December 31, 2013 to \$25.13 billion at December 31, 2017. Our business strategy calls for continued growth. Our ability to continue to grow depends, in part, upon our ability to successfully attract deposits, identify favorable loan and investment opportunities, acquire other banks and non-bank entities and enhance our market presence. In the event that we do not continue to grow, our results of operations could be adversely impacted.

Our ability to grow successfully will depend on whether we can continue to fund this growth while maintaining cost controls and asset quality, remain in good standing with our regulators, as well as on factors beyond our control, such as national and regional economic conditions and interest rate trends. If we are not able to control costs and maintain asset quality, such growth could adversely impact our earnings and financial condition.

**Public funds deposits are an important source of funds for us and a reduced level of those deposits may hurt our profits.**

Public funds deposits are a significant source of funds for our lending and investment activities. At December 31, 2017, \$4.70 billion, or 27.1% of our total deposits, consisted of public funds deposits from local government entities, primarily domiciled in the state of New Jersey, such as townships, school districts, hospital districts, sheriff departments and other municipalities, which are collateralized by letters of credit from the FHLB and investment securities. Given our use of these high-average balance public funds deposits as a source of funds, our inability to retain such funds could adversely affect our liquidity. Further, our public funds deposits are primarily interest-bearing demand deposit accounts or short-term time deposits and are therefore more sensitive to interest rate risks. If we are forced to pay higher rates on our public funds accounts to retain those funds, or if we are unable to retain such funds and we are forced to resort to other sources of funds for our lending and investment activities, such as borrowings from the FHLB, the interest expense associated with these other funding sources may be higher than the rates we are currently paying on our public funds deposits, which would adversely affect our net income.

**Public funds deposits are an important source of funds for us and legislation concerning a State-chartered bank in New Jersey could challenge our overall strategies and potentially reduce the level of public fund deposits.**

At December 31, 2017, we had \$4.70 billion in municipal deposits from various municipalities and other governmental entities. Such deposits are generally used to fund our loans and investments. The State of New Jersey is considering creating a State Bank, whose purpose would be to promote economic development, commerce, and industry in the State. It intends to permit State funds, including funds from State institutions and any State public source, to be held by the State Bank. Given the degree of our funding reliance on New Jersey-based municipal deposits and the potential lending ability of the proposed State Bank, we are uncertain of the impact this proposal may have on us. The possible loss of public funds on deposit may increase the costs of our funding needs, which could have a negative impact on our net income and negatively impact liquidity. The proposed legislation was only recently introduced, and there is no assurance it will become law, or will become law in its current form.

**We could be required to repurchase mortgage loans or indemnify mortgage loan purchasers due to breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could have an adverse impact on our liquidity, results of operations and financial condition.**

We sell into the secondary market a portion of the residential mortgage loans that we originate through our mortgage subsidiary, Investors Home Mortgage. The whole loan sale agreements we enter into in connection with such loan sales require us to repurchase or substitute mortgage loans in the event there is a breach of any of representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud or in the event of early payment default of the borrower on a mortgage loan. We have established a reserve for estimated repurchase and indemnification obligations on the residential mortgage loans that we sell. We make various assumptions and judgments in determining this reserve. If our assumptions are incorrect, our reserve may not be sufficient to cover losses from repurchase and indemnification obligations related to our residential loans sold. Such event would have an adverse effect on our earnings.

**FHLB funds are an important source of funding for the Company and a reduced level may have an adverse impact on our liquidity, results of operations and financial condition.**

We borrow directly from the FHLB and various financial institutions. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are unable to secure alternative funding or need to rely on more expensive funding sources, our operating margins, profitability and liquidity would be negatively impacted.



### **We may incur impairments to goodwill.**

At December 31, 2017, we had approximately \$77.6 million recorded as goodwill. We evaluate goodwill for impairment, at least annually. Significant negative industry or economic trends, including declines in the market price of our common stock, reduced estimates of future cash flows or disruptions to our business, could result in impairments to goodwill. We operate in competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If our analysis results in impairment to goodwill, we would be required to record an impairment charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such change could have an adverse effect on our results of operations.

### **Investors Bank Entered Into an Informal Agreement with the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance.**

On August 12, 2016, Investors Bank agreed to enter into an informal agreement (“Informal Agreement”) with the FDIC and the New Jersey Department of Banking and Insurance (“NJDOBI”) with regard to Bank Secrecy Act (“BSA”) and Anti-Money Laundering (“AML”) compliance matters. Investors Bank agreed to; 1) develop, adopt and implement a system of internal controls designed to ensure full compliance with BSA; 2) conduct a comprehensive validation of Investors Bank’s BSA/AML automated compliance system; and 3) develop, adopt and implement effective training programs relating to BSA. Investors Bank also agreed to review certain transactions and accounts for BSA and AML compliance and to establish a BSA/AML Compliance Committee of the Board. Numerous actions have been taken or commenced by Investors Bank to strengthen its BSA and AML compliance practices, policies, procedures and controls. These remediation actions are ongoing. Investors Bank has enhanced its risk management and compliance programs through restructured reporting lines, improved technology and increased staff, including hiring senior personnel. The failure to achieve compliance with the requirements of the Informal Agreement could lead to further action by the FDIC and NJDOBI, which could include fines and penalties that would adversely affect Investors Bank. The ultimate costs to remediate are unknown and could adversely affect our growth prospects, financial condition and results of operations.

### **A worsening of economic conditions could adversely affect our financial condition and results of operations.**

Although the U.S. economy has emerged from the severe recession that occurred in 2008 and 2009, economic growth has been slow relative to prior post-recession periods despite the Federal Reserve Board’s unprecedented efforts to maintain low market interest rates and encourage economic growth. A return to prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investments, and our on-going operations, costs and profitability. Declines in real estate values and sales volumes and unemployment levels may result in greater loan delinquencies, increases in our nonperforming, criticized and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and results of operations.

### **Our inability to achieve profitability on new branches may negatively affect our earnings.**

We have expanded our presence throughout our market area and may pursue further expansion through de novo branching or the purchase of branches from other financial institutions. The profitability of our expansion strategy will depend on whether the income that we generate from the new branches will offset the increased expenses resulting from operating these branches. We expect that it may take a period of time before these branches can become profitable, especially in areas in which we do not have an established presence. During this period, the expense of operating these branches may negatively affect our net income.

### **Growing by acquisition entails integration and certain other risks.**

Although we have successfully integrated business acquisitions in recent years, failure to successfully integrate systems subsequent to the completion of any future acquisitions could have a material impact on the operations of Investors Bank.



### **Future acquisition activity could dilute book value.**

Both nationally and in our region, the banking industry is undergoing consolidation marked by numerous mergers and acquisitions. From time to time we may be presented with opportunities to acquire institutions and/or bank branches and we may engage in discussions and negotiations. Acquisitions typically involve the payment of a premium over book and trading values, and therefore, may result in the dilution of our book value per share.

### **The Dodd-Frank Act and its implementing regulations have increased our costs of operations.**

The Dodd-Frank Act significantly changed the bank regulatory structure and the intensity of supervision relating to the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act required various federal agencies to adopt a broad range of new rules and regulations, most of which are now in place. The CFPB is under new leadership but it is too early to assess whether this will result in any major change to the supervision or enforcement focus of the CFPB. The Company expects that its business will remain subject to extensive regulations and supervision by the CFPB as well as applicable state consumer protection laws and regulations, which will continue to increase our operating and compliance costs.

The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks with more than \$10 billion in assets, such as Investors Bank. Banks with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act modified the federal preemption rules that have been applicable for national banks and federal savings associations, and gave state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act required minimum leverage (Tier 1) and risk-based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which excludes (subject to certain grandfathering rules) certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

The Dodd-Frank Act also broadened the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2009. The legislation also increased the required minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits, and directed the FDIC to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets.

The Dodd-Frank Act required publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. It also provided that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

Pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement the Volcker Rule. Generally, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the Securities and Exchange Commission and from engaging in hedging activities that do not hedge a specific identified risk. The Volcker Rule prohibitions and restrictions apply to banking entities of any size, including Investors Bancorp, unless an exception applies.

**We are subject to more stringent capital requirements, which may adversely impact our return on equity, or constrain us from paying dividends or repurchasing shares.**

In 2015, the FDIC and the Federal Reserve Board instituted a new rule which substantially amended the regulatory risk-based capital rules applicable to Investors Bank and Investors Bancorp. This rule implemented the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The rule included new minimum risk-based capital and leverage ratios, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 to risk-based capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4% under prior rules); (iii) a total capital to risk-based assets ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The rule also established a “capital conservation buffer” of 2.5% of common equity Tier 1 capital, and resulted in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital to risk-based assets ratio of 10.5%. The required minimum capital conservation buffer was phased in incrementally and increased to 1.25% on January 1, 2017 and further increased to 1.875% on January 1, 2018. The Conservation Buffer will increase to 2.5% on January 1, 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for Investors Bank and Investors Bancorp could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were to be unable to comply with such requirements.

**Certain CFPB regulations may continue to restrict our ability to originate and sell mortgage loans.**

The CFPB issued a rule which requires lenders to make a reasonable, good faith determination of a borrower’s ability to repay a mortgage loan. Loans that meet this “qualified mortgage” definition will be presumed to have complied with the new ability-to-repay standard. Under the CFPB’s rule, a “qualified mortgage” loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less “bona fide discount points” for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a “qualified mortgage,” a borrower’s total debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The CFPB’s rule on qualified mortgages could continue to limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could limit our growth or profitability.

**We may be adversely affected by changes in U.S. tax laws and regulations.**

The Tax Act, the full impact of which is subject to further evaluation and analysis, is likely to have both positive and negative effects on our financial performance. The new legislation will result in a reduction in our federal corporate tax rate from 35% to 21% beginning in 2018, which will have a favorable impact on our

earnings and capital generation abilities. However, the new legislation also enacted limitations on certain deductions, such as the deduction of FDIC deposit insurance premiums and executive compensation, which will partially offset the anticipated increase in net earnings from the lower tax rate. In addition, under ASC 740, Income Taxes, companies are required to recognize the effect of tax law changes in the period of enactment. As a result of the lower corporate tax rate, the resulting impact of the re-measurement of the Company's deferred tax balances was \$49.2 million, which was recorded as a tax expense in the fourth quarter of 2017. The impact of the Tax Act may differ from the foregoing, possibly materially, due to changes in interpretations or in assumptions that we have made, guidance or regulations that may be promulgated, and other actions that we may take as a result of the Tax Act. Similarly, the Bank's customers are likely to experience varying effects from both the individual and business tax provisions of the Tax Act and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole. We are subject to changes in tax law that could increase our effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance.

**We currently utilize incentive-based payment arrangements with our employees as compensation practices. Potential regulatory changes to this practice could have an impact on our current practices and impact our results of operations.**

Investors Bank is subject to the compensation-related provisions of the Dodd-Frank Act which prohibit incentive-based payment arrangements that encourage inappropriate risk taking. The scope and content of the U.S. banking regulators' policies on incentive compensation are continuing to develop and are likely to continue evolving in the future.

**Strong competition within our market area may limit our growth and profitability.**

Competition in the banking and financial services and non bank industry is intense. In our market area, we compete with numerous commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. In addition, we compete with numerous online financial service providers who compete in the new digital fintech marketplace and who may not be subject to our regulatory requirements. Some of our competitors have substantially greater resources and lending limits than we have, have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger bank and non bank competitors may be able to price loans and deposits more aggressively than we can. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest-earning assets. For additional information see "Item 1. Business."

**Any future increase in FDIC insurance premiums will adversely impact our earnings.**

As a "large institution" within the meaning of FDIC regulations (i.e., greater than \$10 billion in assets), Investors Bank's deposit insurance premium is determined differently than smaller banks. Small banks are assessed based on a risk classification determined by examination ratings, financial ratios and certain specified adjustments. Large institutions are subject to assessment based upon a more detailed scorecard approach involving (i) a performance score determined using forward-looking risk measures, including certain stress testing, and (ii) a loss severity score, which is designed to measure, based on modeling, potential loss to the FDIC insurance fund if the institution failed. The total score is converted to an assessment rate, subject to certain adjustments, with institutions deemed riskier paying higher assessments.

**We may eliminate dividends on our common stock.**

Although we pay quarterly cash dividends to our stockholders, stockholders are not entitled to receive dividends. Downturns in domestic and global economies and other factors could cause our board of directors to

consider, among other things, the elimination of or reduction in the amount and/or frequency of cash dividends paid on our common stock.

**We could be adversely affected by failure in our internal controls.**

We continue to devote a significant amount of effort, time and resources to continually strengthen our controls and ensure compliance with complex accounting standards and banking regulations. A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of us.

**Failures or material breaches in security of the Company's systems and telecommunications networks, or those of a third-party service provider, may have a material adverse effect on our results of operations, financial condition and earnings.**

Investors Bank collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both the Bank and third-party service providers. Our necessary dependence upon automated systems to record and process transactions poses the risk that technical system flaws, employee errors, tampering or manipulation of those systems, or attacks by third parties will result in losses and may be difficult to detect. The Bank has security and backup recovery systems in place, as well as a business continuity plan, designed to ensure the computer systems will not be inoperable, to the extent possible. Our inability to use or access those information systems at critical points in time could unfavorably impact the timeliness and efficiency of the Bank's business operations. Risks to our systems result from a variety of factors, including the potential for bad acts on the part of hackers, criminals, employees or others. As one example, in recent years, some banks have experience denial of service attacks in which individuals or organizations flood the bank's website with extraordinarily high volumes of traffic, with the goal and effect of disrupting the ability of the bank to process transactions. Other businesses have been victims of ransomware attacks in which the business becomes unable to access its own information and is presented with a demand to pay a ransom in order to once again have access to its information. The Bank is also at risk from the impact of natural disasters, terrorism and international hostilities on its systems or from the effects of outages or other failures involving power or communications systems operated by others. These risks also arise from the same types of threats to businesses with which the Bank conducts business.

The Bank could be adversely affected if one of its employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. The Bank is further exposed to the risk that its third-party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risks as the Bank). These disruptions may interfere with service to our customers, cause additional regulatory scrutiny and result in a financial loss or liability.

Misconduct by employees could include fraudulent, improper or unauthorized activities on behalf of clients or improper use of confidential information. The Bank may not be able to prevent employee errors or misconduct, and the precautions the Bank takes to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject the Bank to civil claims for negligence or regulatory enforcement actions, including fines and restrictions on our business.

In addition, there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts. The recent massive breach of the systems of a credit bureau presents additional threats as criminals now have more information about a larger portion of the population of the United States than past breaches have involved, which could be used by criminals to pose as customers initiating transfers of money from customer accounts. Although the Bank has policies and procedures in place to verify the authenticity of its customers, the Bank cannot assure that such policies and procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to our reputation.

The Bank has implemented security controls to prevent unauthorized access to its computer systems and requires its third-party service providers to maintain similar controls. However, we cannot be certain that these measures will be successful. A security breach of our computer systems and loss of confidential information, such as customer account numbers and related information, could result in a loss of customers' confidence and, thus, loss of business. The Bank could also lose revenue if competitors gain access to confidential information about our business operations and use it to compete with the Bank. In addition, unauthorized access to or use of sensitive data could subject the Bank to litigation and liability, and costs to prevent further such occurrences.

Further, the Bank may be affected by data breaches at retailers and other third parties who participate in data interchanges with the Bank and its customers that involve the theft of customer debit card data, which may include the theft of the Bank debit card PIN numbers and card information used to make purchases at such retailers and other third parties. Such data breaches could result in the Bank incurring significant expenses to reissue debit cards and cover losses, which could result in a material adverse effect on the Bank's results of operations. To date, the Bank has not experienced any material losses relating to cyber-attacks or other information security breaches, but there can be no assurance that the Bank will not suffer such attacks or attempted breaches, or incur resulting losses, in the future. The Bank's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats. The Bank plans to continue to implement internet and mobile banking capabilities to meet customer demand and the current economic environment. As cyber and other data security threats continue to evolve, the Bank may be required to expend significant additional resources to continue to modify and enhance its protective measures or to investigate and remediate any security vulnerabilities.

The Bank's assets at risk for cyber-attacks include financial assets and non-public information belonging to customers. Investors Bank uses several third-party vendors who have access to Investors Bank's assets via electronic media. Certain cyber security risks arise due to this access, including cyber espionage, blackmail, ransom and theft.

All of the types of cyber incidents discussed above could result in damage to the Bank's reputation, loss of customer business, costs of incentives to customers or business partners in order to maintain their relationships, litigation, increased regulatory scrutiny and potential enforcement actions, repairs of system damage, increased investments in cybersecurity (such as obtaining additional technology, making organizational changes, deploying additional personnel, training personnel and engaging consultants), increased insurance premiums, and loss of investor confidence, all of which could result in financial loss and material adverse effects on the Bank's results of operations, financial condition and earnings.

**Our failure to effectively deploy the capital raised in our second step conversion offering may have an adverse effect on our financial performance.**

We invested 50% of the net proceeds from our second step conversion offering in Investors Bank; provided funding to our Employee Stock Ownership Plan for the purchase of 6,617,421 shares of common stock sold in the offering; and contributed \$20.0 million to Investors Charitable foundation by issuing 1,000,000 shares and a \$10.0 million cash contribution. A substantial portion of the net proceeds were used to pay off short-term borrowings as they matured and invest in securities. We continue to utilize the remainder of the net proceeds for general corporate purposes, including, among other items, paying cash dividends and repurchasing shares of our common stock. Our failure to deploy the capital effectively may reduce our profitability and may adversely affect the value of our common stock.

**Our recruitment efforts may not be sufficient to implement our business strategy and execute successful operations.**

As we continue to grow, we may find our recruitment efforts more challenging. If we do not succeed in attracting, hiring, and integrating experienced or qualified personnel, we may not be able to continue to successfully implement our business strategy.

**We continue to expand our business lending efforts, which may expose us to increased lending risks and may have a negative effect on our results of operations.**

In an effort to diversify our loan portfolio, we have expanded our lending team to include leveraged lending teams as well as a healthcare lending team. We will continue to explore other markets within business lending. These types of loans generally have a higher risk of loss compared to our one- to four-family residential real estate loans and multi-family loans, which could have a negative effect on our results of operations. In addition, because we are not as experienced with these new loan products, we may require additional time and resources for offering and managing such products effectively or may be unsuccessful in offering such products at a profit.

**Severe weather, acts of terrorism and other external events could impact our ability to conduct business.**

Weather-related events have adversely impacted our market area in recent years, especially areas located near coastal waters and flood prone areas. Such events that may cause significant flooding and other storm-related damage may become more common events in the future. Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising operating and communication systems and the metropolitan New York area and Northern New Jersey remain central targets for potential acts of terrorism. Such events could cause significant damage, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing repayment of our loans, and result in the loss of revenue. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

At December 31, 2017, the Company and the Bank conducted business from their corporate headquarters in Short Hills, New Jersey, with operation centers located in Iselin, Robbinsville and Dunellen, New Jersey as well as lending offices in Short Hills, Robbinsville, Mount Laurel, Spring Lake, Newark, Manhattan, Queens, Brooklyn, Melville, as well as a full-service branch network of 156 offices.

#### **ITEM 3. LEGAL PROCEEDINGS**

The Company, the Bank and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our financial condition or results of operations.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



## **Part II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol "ISBC". The approximate number of holders of record of Investors Bancorp, Inc.'s common stock as of February 23, 2018 was approximately 8,600. Certain shares of Investors Bancorp, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for Investors Bancorp, Inc.'s common stock for the periods indicated. The following information was provided by the NASDAQ Global Select Market.

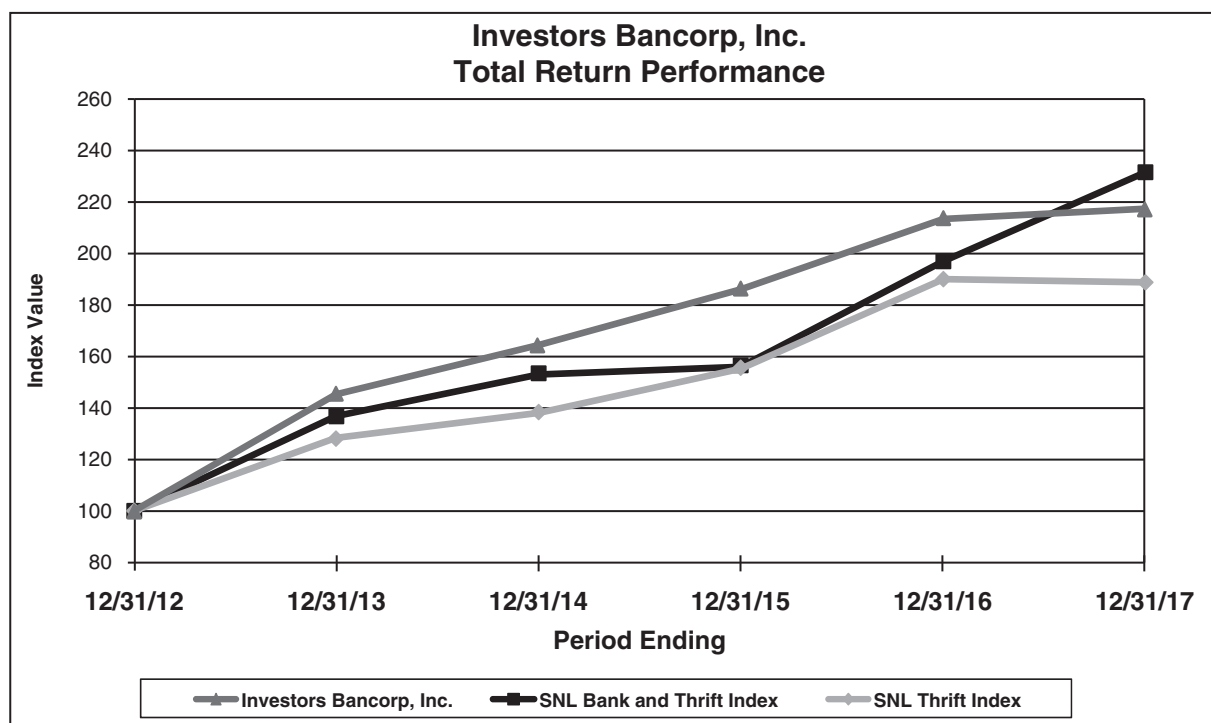
	Year Ended December 31, 2017			Year Ended December 31, 2016		
	High	Low	Dividends Declared	High	Low	Dividends Declared
First Quarter	\$15.11	\$13.39	\$0.08	\$12.37	\$10.77	\$0.06
Second Quarter	14.85	12.89	0.08	12.05	10.67	0.06
Third Quarter	13.80	12.48	0.08	12.30	10.71	0.06
Fourth Quarter	14.68	13.06	0.09	14.39	11.58	0.08

Since 2012, we have been paying quarterly cash dividends to our stockholders, however stockholders are not entitled to receive dividends. We pay dividends to stockholders quarterly. The timing and amount of cash dividends paid depend on our earnings, capital requirements, financial condition and other relevant factors. Downturns in domestic and global economies and other factors could cause our board of directors to consider, among other things, the elimination of or reduction in the amount and/or frequency of cash dividends paid on our common stock. In addition, Federal Reserve Board guidance sets forth the supervisory expectation that bank holding companies will inform and consult with Federal Reserve Board staff in advance of issuing a dividend that exceeds earnings for the quarter and should inform the Federal Reserve Board and should eliminate, defer or significantly reduce dividends if (i) net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

In the future, dividends from Investors Bancorp, Inc. may depend, in part, upon the receipt of dividends from Investors Bank, because Investors Bancorp, Inc. has no source of income other than earnings from the investment of net proceeds retained from the sale of shares of common stock, investment income, and interest earned on its loan to the employee stock ownership plan. Under New Jersey law, Investors Bank may not pay a cash dividend unless, after the payment of such dividend, its capital stock will not be impaired and either it will have a statutory surplus of not less than 50% of its capital stock, or the payment of such dividend will not reduce its statutory surplus.

#### **Stock Performance Graph**

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company's common stock for the period beginning December 31, 2012 through December 31, 2017, (b) the cumulative total return of publicly traded thrifts over such period, and, (c) the cumulative total return of all publicly traded banks and thrifts over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of \$100.



Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
<b>Investors Bancorp, Inc.</b>	100.00	145.26	164.41	186.03	213.31	217.45
<b>SNL U.S. Bank and Thrift</b>	100.00	136.92	152.85	155.94	196.86	231.49
<b>SNL U.S. Thrift</b>	100.00	128.33	138.02	155.20	190.11	188.72

Source: S&P Global Market Intelligence, New York, NY

### Stock Repurchases

The following table reports information regarding repurchases of our common stock during the quarter ended December 31, 2017 and the stock repurchase plans approved by our Board of Directors.

Period	Total Number of Shares Purchased <sup>(1)(2)</sup>	Average Price paid Per Share	As part of Publicly Announced Plans or Programs	Yet to be Purchased Under the Plans or Programs
October 1, 2017 through October 31, 2017	75,841	\$13.53	74,300	17,365,176
November 1, 2017 through November 30, 2017	15,917	\$13.69	—	17,365,176
December 1, 2017 through December 31, 2017	264	\$14.20	—	17,365,176
<b>Total</b>	<b>92,022</b>	<b>\$13.56</b>	<b>74,300</b>	

<sup>(1)</sup> On April 28, 2016, the Company announced its third share repurchase program, which authorized the purchase of 10% of its publicly-held outstanding shares of common stock, or approximately 31,481,189 shares. The plan commenced upon the completion of the second repurchase plan on June 17, 2016. This program has no expiration date and has 17,365,176 shares yet to be repurchased as of December 31, 2017.

<sup>(2)</sup> 17,722 shares were withheld to cover income taxes related to restricted stock vesting under our 2015 Equity Incentive Plan. Shares withheld to pay income taxes are repurchased pursuant to the terms of the 2015 Equity Incentive Plan and not under our share repurchase program.

## Equity Compensation Plan Information

The information set forth in Item 12 of Part III of this Annual Report under the heading “Equity Compensation Plan Information” is incorporated by reference herein.

## ITEM 6. SELECTED FINANCIAL DATA

The following information is derived in part from the consolidated financial statements of Investors Bancorp, Inc. As a result of the completion of the second step conversion on May 7, 2014, all share information prior to that date has been revised to reflect the 2.55-to-one exchange ratio. For additional information, reference is made to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements of Investors Bancorp, Inc. and related notes included elsewhere in this Annual Report.

	At December 31,				
	2017	2016	2015	2014	2013
			(In thousands)		
Selected Financial Condition Data:					
Total assets	\$25,129,244	\$23,174,675	\$20,888,684	\$18,773,639	\$15,623,070
Loans receivable, net	19,852,101	18,569,855	16,661,133	14,887,570	12,882,544
Loans held-for-sale	5,185	38,298	7,431	6,868	8,273
Securities held-to-maturity	1,796,621	1,755,556	1,844,223	1,564,479	831,819
Securities available-for-sale, at estimated fair value	1,987,727	1,660,433	1,304,697	1,197,924	785,032
Bank owned life insurance	155,635	161,940	159,152	161,609	152,788
Deposits	17,357,697	15,280,833	14,063,656	12,172,326	10,718,811
Borrowed funds	4,461,533	4,546,251	3,263,090	2,766,104	3,367,274
Goodwill	77,571	77,571	77,571	77,571	77,571
Stockholders' equity	3,125,451	3,123,245	3,311,647	3,577,855	1,334,327
Year Ended December 31,					
	2017	2016	2015	2014	2013
			(In thousands)		
Selected Operating Data:					
Interest and dividend income	\$ 881,683	\$ 793,521	\$ 731,723	\$ 660,862	\$ 545,068
Interest expense	201,907	153,336	136,639	118,891	109,642
Net interest income	679,776	640,185	595,084	541,971	435,426
Provision for loan losses	16,250	19,750	26,000	37,500	50,500
Net interest income after provision for loan losses	663,526	620,435	569,084	504,471	384,926
Non-interest income	35,637	37,201	40,125	41,861	36,571
Non-interest expenses	418,574	358,564	328,332	339,860	245,711
Income before income tax expense	280,589	299,072	280,877	206,472	175,786
Income tax expense <sup>(1)</sup>	153,845	106,947	99,372	74,751	63,755
Net income	\$ 126,744	\$ 192,125	\$ 181,505	\$ 131,721	\$ 112,031
Earnings per share — basic	\$ 0.44	\$ 0.65	\$ 0.55	\$ 0.38	\$ 0.40
Earnings per share — diluted	\$ 0.43	\$ 0.64	\$ 0.55	\$ 0.38	\$ 0.40

<sup>(1)</sup> Income tax expense for the year ended December 31, 2017 includes \$49.2 million related to the enactment of the Tax Act in December 2017.

**Selected Financial Ratios and Other Data:****Performance Ratios:**

Return on assets (ratio of net income to average total assets)

Return on assets — Adjusted<sup>(1)</sup>

Return on equity (ratio of net income to average equity)

Return on equity — Adjusted<sup>(1)</sup>Net interest rate spread<sup>(2)</sup>Net interest margin<sup>(3)</sup>Efficiency ratio<sup>(4)</sup>

Non-interest expenses to average total assets

Average interest-earning assets to average interest-bearing liabilities

Dividend payout ratio<sup>(5)</sup>**Asset Quality Ratios:**

Non-performing assets to total assets

Non-accrual loans to total loans

Allowance for loan losses to non-performing loans<sup>(6)</sup>

Allowance for loan losses to total loans

**Capital Ratios:**Tier 1 leverage ratio<sup>(7)</sup>Common equity tier 1 risk-based<sup>(7)</sup>Tier 1 risk-based capital<sup>(7)</sup>Total-risk-based capital<sup>(7)</sup>

Equity to total assets

Tangible equity to tangible assets<sup>(8)</sup>

Average equity to average assets

**Other Data:**Book value per common share<sup>(8)</sup>Tangible book value per common share<sup>(8)</sup>

Number of full service offices

Full time equivalent employees

At or for the Year Ended December 31,				
2017	2016	2015	2014	2013
0.52%	0.88%	0.92%	0.76%	0.83%
0.73%	0.88%	0.92%	0.76%	0.83%
4.00%	6.06%	5.26%	4.71%	10.00%
5.56%	6.06%	5.26%	4.71%	10.00%
2.67%	2.83%	2.91%	3.08%	3.24%
2.89%	3.04%	3.12%	3.27%	3.37%
58.51%	52.93%	51.69%	58.21%	52.06%
1.73%	1.64%	1.66%	1.96%	1.82%
1.26x	1.29x	1.30x	1.28x	1.15x
75.00%	40.00%	45.45%	31.58%	19.61%
0.61%	0.47%	0.69%	0.81%	0.95%
0.68%	0.50%	0.68%	0.72%	0.77%
157.46%	220.18%	158.43%	139.10%	124.30%
1.15%	1.21%	1.29%	1.33%	1.33%
11.00%	12.03%	12.41%	12.79%	8.20%
13.94%	14.75%	15.87%	n/a	n/a
13.94%	14.75%	15.87%	17.01%	10.14%
15.13%	15.99%	17.12%	18.26%	11.39%
12.44%	13.48%	15.85%	19.06%	8.54%
12.10%	13.10%	15.43%	18.60%	7.90%
13.06%	14.52%	17.41%	16.16%	8.32%
\$ 10.64	\$ 10.53	\$ 10.30	\$ 10.39	\$ 9.85
\$ 10.31	\$ 10.18	\$ 9.97	\$ 10.08	\$ 9.04
156	151	140	132	129
1,931	1,829	1,734	1,682	1,541

<sup>(1)</sup> The adjusted return on assets and adjusted return on equity ratios for the year ended December 31, 2017 exclude \$49.2 million of income tax expense related to the enactment of the Tax Act in December 2017.

<sup>(2)</sup> The net interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.

<sup>(3)</sup> The net interest margin represents net interest income as a percent of average interest-earning assets for the period.

<sup>(4)</sup> The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

<sup>(5)</sup> The dividend payout ratio represents dividends paid per share divided by net income per share.

<sup>(6)</sup> Non-performing loans include non-accrual loans and performing troubled debt restructured loans.

<sup>(7)</sup> Ratios are for Investors Bank and do not include capital retained at the holding company level. The information presented prior to December 31, 2015 reflect the requirements in effect at that time, as the Basel III requirements became effective on January 1, 2015, see "Item 1. Business — Supervision and Regulation".

<sup>(8)</sup> Excludes goodwill and intangible assets for the calculation of tangible book value and tangible equity. For common share calculation, excludes treasury shares and unallocated ESOP shares.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Since the Company's initial public offering in 2005, we have transitioned from a wholesale thrift business to a retail commercial bank. This transition has been primarily accomplished by increasing the amount of our commercial loans and core deposits (savings, checking and money market accounts). Our transformation can be attributed to a number of factors, including organic growth, de novo branch openings, bank and branch acquisitions, as well as product expansion. We believe the attractive markets we operate in, namely, New Jersey and the greater New York metropolitan area, will continue to provide us with growth opportunities. Our primary focus is to build and develop profitable customer relationships across all lines of business, both consumer and commercial.

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily interest-bearing transaction accounts, time deposits, and borrowed funds. Net interest income is affected by the level and direction of interest rates, the shape of the market yield curve, the timing of the placement and the repricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rates on our mortgage-related assets.

A flattening of the yield curve, caused primarily by rising short term interest rates combined with competitive pricing in both the loan and deposit markets, continues to create a challenging net interest margin environment. We continue to actively manage our interest rate risk against a backdrop of slow but positive economic growth and the potential for additional increases in short-term rates. If short-term interest rates increase, we may be subject to near-term net interest margin compression. Should the yield curve steepen, we may experience an improvement in net interest income, particularly if short-term interest rates do not increase further.

Our results of operations are also significantly affected by general economic conditions. In December 2017, the Tax Act was enacted which reduced our federal tax rate from 35% to 21%, effective for tax years beginning after December 31, 2017. This however resulted in the Company recognizing a \$49.2 million increase to income tax expense for the quarter and year ended December 31, 2017 as a result of revaluing our deferred tax assets. While the consumer continues to benefit from lower energy costs and improved housing and employment metrics, the velocity of economic growth, domestically and internationally, while recently improving may be negatively impacted by rising interest rates.

Total assets increased \$1.95 billion, or 8.4%, to \$25.13 billion at December 31, 2017 from \$23.17 billion at December 31, 2016. Net loans increased \$1.28 billion, or 6.9%, to \$19.85 billion at December 31, 2017 from \$18.57 billion at December 31, 2016, while securities increased \$368.4 million, or 10.8%, to \$3.78 billion at December 31, 2017 from \$3.42 billion at December 31, 2016. During the year ended December 31, 2017, we originated or funded \$1.16 billion in multi-family loans, \$705.1 million in commercial real estate loans, \$663.4 million in commercial and industrial loans, \$516.5 million in residential loans, \$414.2 million in construction loans and \$133.0 million in consumer and other loans. Our loan growth in 2017 was slower than in previous years, reflecting, in part the highly competitive nature of originating loans in the New York and New Jersey metropolitan markets. Our ongoing strategy is to continue to work towards becoming more commercial bank-like and maintain a well-diversified loan portfolio. We understand the heightened regulatory sensitivity around commercial real estate and multi-family concentration and continue to be diligent in our underwriting and credit risk monitoring of these portfolios. The overall level of non-performing loans remains low compared to our national and regional peers; however, our commercial real estate concentration is above 300% of regulatory capital and therefore subjects us to heightened regulatory scrutiny.

Capital management is a key component of our business strategy. We continue to manage our capital through a combination of organic growth, stock repurchases and cash dividends. Effective capital management

and prudent growth allows us to effectively leverage the capital from the Company's public offerings, while being mindful of tangible book value for stockholders. Our capital to total assets ratio has decreased to 12.44% at December 31, 2017 from 13.48% at December 31, 2016. Since the commencement of our first stock repurchase plan in March 2015 through December 31, 2017, the Company has repurchased a total of 67.4 million shares at an average cost of \$11.95 per share totaling \$805.4 million. Stockholders' equity was impacted for the year ended December 31, 2017 by the repurchase of 4.5 million shares of common stock for \$59.1 million as well as cash dividends of \$0.33 per share totaling \$101.6 million.

We will continue to execute our business strategies with a focus on prudent and opportunistic growth while striving to produce financial results that will create value for our stockholders. We intend to continue to grow our business by successfully attracting deposits, identifying favorable loan and investment opportunities, acquiring other banks and non-bank entities, enhancing our market presence and product offerings as well as continuing investments in our people. We continue to enhance our employee training and development programs, build additional risk management and operational infrastructure and add key personnel as our Company grows and our business changes. In August 2016 we entered into an informal agreement with the FDIC and NJDOBI with regard to Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") compliance matters. Our BSA/AML team continues to work diligently to enhance the risk infrastructure procedures and technology, while ensuring its long term sustainability for the Company.

### Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or to make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies.

**Allowance for Loan Losses.** The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. generally accepted accounting principles, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. Loans acquired are marked to fair value on the date of acquisition with no valuation allowance reflected in the allowance for loan losses. In conjunction with the quarterly evaluation of the adequacy of the allowance for loan losses, the Company performs an analysis on acquired loans to determine whether or not an allowance has been ascribed to those loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial loan with an outstanding balance greater than \$1.0 million and on non-accrual status, loans modified in a troubled debt restructuring ("TDR"), and other commercial loans greater than \$1.0 million if management has specific information that it is probable it will not collect all amounts due under the contractual terms of the loan agreement. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk rating (if applicable) and payment history. In addition, the Company's residential portfolio is subdivided between fixed



and adjustable rate loans as adjustable rate loans are deemed to be subject to more credit risk if interest rates rise. Reserves for each loan segment or the loss factors are generally determined based on the Company's historical loss experience over a look-back period determined to provide the appropriate amount of data to accurately estimate expected losses as of period end. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each historical loss factor accordingly. The loss emergence period is the estimated time from the date of a loss event (such as a personal bankruptcy) to the actual recognition of the loss (typically via the first full or partial loan charge-off), and is determined based upon a study of the Company's past loss experience by loan segment. The loss factors may also be adjusted to account for qualitative or environmental factors that are likely to cause estimated credit losses inherent in the portfolio to differ from historical loss experience. This evaluation is based on among other things, loan and delinquency trends, general economic conditions, credit concentrations, industry trends and lending and credit management policies and procedures, but is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be different than the allowance for loan losses we have established which could have a material negative effect on our financial results.

On a quarterly basis, management reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. Loans determined to be impaired are evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance or charge-off if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair value of the collateral is based on the most current appraised value available for real property or a discounted cash flow analysis on a business. This appraised value for real property is then reduced to reflect estimated liquidation expenses.

The allowance contains reserves identified as unallocated. These reserves reflect management's attempt to provide for the imprecision and the uncertainty that is inherent in estimates of probable credit losses.

Our lending emphasis has been the origination of multi-family loans; commercial real estate loans; commercial and industrial loans; one- to four-family residential mortgage loans secured by one- to four-family residential real estate; construction loans; and consumer loans, the majority of which are home equity loans, home equity lines of credit and cash surrender value lending on life insurance contracts. We also originate home equity loans and home equity lines of credit. These activities resulted in a concentration of loans secured by real estate property and businesses located in New Jersey and New York. Based on the composition of our loan portfolio, we believe the primary risks to our loan portfolio are increases in interest rates, a decline in the general economy, and declines in real estate market values in New Jersey, New York and surrounding states. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Negative changes to appraisal assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed to determine that the resulting values reasonably reflect amounts realizable on the related loans.

The Company obtains an appraisal for all commercial loans that are collateral dependent upon origination. An updated appraisal is obtained annually for loans rated substandard or worse with a balance of \$500,000 or greater. An updated appraisal is obtained biennially for loans rated special mention with a balance of \$2.0 million or greater. This is done in order to determine the specific reserve or charge off needed. As part of the allowance for loan losses process, the Company reviews each collateral dependent commercial loan classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its commercial lending officers and its credit department and

special assets department's knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

For homogeneous residential mortgage loans, the Company's policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every two years if the loan remains in non-performing status and the foreclosure process has not been completed. Management adjusts the appraised value of residential loans to reflect estimated selling costs and declines in the real estate market.

Management believes the potential risk for outdated appraisals for impaired and other non-performing loans has been mitigated due to the fact that the loans are individually assessed to determine that the loan's carrying value is not in excess of the fair value of the collateral. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current economic environment deteriorates. Management uses relevant information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

**Deferred Income Taxes.** The Company records income taxes in accordance with ASC 740, Income Taxes, as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforwards became deductible. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

**Investment Impairment Judgments.** Certain of our assets are carried on our consolidated balance sheets at cost, fair value or at the lower of cost or fair value. Valuation allowances or write-downs are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of such assets. In addition to the impairment analyses related to our loans discussed above, another significant impairment analysis is the determination of whether there has been an other-than-temporary decline in the value of one or more of our securities.

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. While the Company does not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before their anticipated recovery of the remaining carrying value, we have the ability to sell the securities. Our held-to-maturity portfolio, consisting primarily of mortgage-backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at carrying value. We

conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. Management utilizes various inputs to determine the fair value of the portfolio. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations.

If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income (loss), net of tax.

**Stock-Based Compensation.** We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with ASC 718, “Compensation-Stock Compensation”. We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The per share fair value of options is highly sensitive to changes in assumptions. In general, the per share fair value of options will move in the same direction as changes in the expected stock price volatility, risk-free interest rate and expected option term, and in the opposite direction as changes in the expected dividend yield. For example, the per share fair value of options will generally increase as expected stock price volatility increases, risk-free interest rate increases, expected option term increases and expected dividend yield decreases. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

**Derivative Financial Instruments.** As part of our interest rate risk management, we may utilize, from time-to-time, derivative financial instruments which are recorded as either assets or liabilities in the consolidated balance sheets at fair value. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is initially recorded in Accumulated Other Comprehensive Income (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives, if any, would be recognized directly in earnings.

### **Comparison of Financial Condition at December 31, 2017 and December 31, 2016**

**Total Assets.** Total assets increased by \$1.95 billion, or 8.4%, to \$25.13 billion at December 31, 2017 from \$23.17 billion at December 31, 2016. Net loans increased by \$1.28 billion to \$19.85 billion at December 31, 2017, securities increased by \$368.4 million, or 10.8%, to \$3.78 billion at December 31, 2017 from \$3.42 billion at December 31, 2016 and cash increased by \$454.2 million to \$618.4 million at December 31, 2017 from \$164.2 million at December 31, 2016.

**Net Loans.** Net loans increased by \$1.28 billion, or 6.9%, to \$19.85 billion at December 31, 2017 from \$18.57 billion at December 31, 2016. The detail of the loan portfolio (including PCI loans) is below:

	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Commercial Loans:		
Multi-family loans	\$ 7,802,835	7,459,131
Commercial real estate loans	4,548,101	4,452,300
Commercial and industrial loans	1,625,375	1,275,283
Construction loans	416,883	314,843
Total commercial loans	14,393,194	13,501,557
Residential mortgage loans	5,026,517	4,711,880
Consumer and other	671,137	597,265
Total Loans	20,090,848	18,810,702
Deferred fees and premiums on purchased loans, net	(7,778)	(12,474)
Allowance for loan losses	(230,969)	(228,373)
Net loans	<u>\$19,852,101</u>	<u>\$18,569,855</u>

During the year ended December 31, 2017, we originated or funded \$1.16 billion in multi-family loans, \$705.1 million in commercial real estate loans, \$663.4 million in commercial and industrial loans, \$516.5 million in residential loans, \$414.2 million in construction loans and \$133.0 million in consumer and other loans. This increase in net loans reflects our continued focus on generating multi-family loans, commercial real estate loans and commercial and industrial loans, which was partially offset by pay downs and payoffs of loans. A significant portion of our commercial loan portfolio, including commercial and industrial loans, are secured by commercial real estate and are primarily on properties and businesses located in New Jersey and New York. In addition to the loans originated for our portfolio, our mortgage subsidiary, Investors Home Mortgage Co., originated residential mortgage loans for sale to third parties totaling \$140.2 million for the year ended December 31, 2017. We also purchased mortgage loans from correspondent entities including other banks and mortgage bankers. During the year ended December 31, 2017, we purchased loans totaling \$442.2 million from these entities.

The following table sets forth non-accrual loans (excluding PCI loans and loans held-for-sale) on the dates indicated as well as certain asset quality ratios:

	December 31, 2017		September 30, 2017		June 30, 2017		March 31, 2017		December 31, 2016	
	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
	(Dollars in millions)									
Multi-family	5	\$ 15.0	4	\$ 14.2	6	\$ 19.0	2	\$ 0.5	2	\$ 0.5
Commercial real estate	37	34.0	31	35.3	36	75.6	24	8.2	24	9.2
Commercial and industrial	11	10.0	6	1.9	5	1.8	4	2.2	8	4.7
Construction	1	0.3	—	—	—	—	—	—	—	—
Total commercial loans	54	59.3	41	51.4	47	96.4	30	10.9	34	14.4
Residential and consumer	427	76.4	417	74.3	447	81.0	470	76.2	478	79.9
Total non-accrual loans	<u>481</u>	<u>\$ 135.7</u>	<u>458</u>	<u>\$ 125.7</u>	<u>494</u>	<u>\$ 177.4</u>	<u>500</u>	<u>\$ 87.1</u>	<u>512</u>	<u>\$ 94.3</u>
Accruing troubled debt restructured loans	49	\$ 11.0	58	\$ 13.4	45	\$ 11.7	47	\$ 12.2	42	\$ 9.4
Non-accrual loans to total loans		0.68%		0.63%		0.89%		0.45%		0.50%
Allowance for loan losses as a percent of non-accrual loans		170.17%		183.09%		129.68%		265.16%		242.24%
Allowance for loan losses as a percent of total loans		1.15%		1.15%		1.16%		1.18%		1.21%

Total non-accrual loans increased to \$135.7 million at December 31, 2017 compared to \$94.3 million at December 31, 2016. Included in the increase were \$13.9 million of multi family loans, \$5.6 million of commercial real estate loans and \$6.4 million of commercial and industrial loans that were classified as non-accrual which were performing in accordance with their contractual terms. For the year ended December 31, 2017, the Company sold \$48.1 million of non-performing commercial real estate and multi-family loans, resulting in no charge-off recorded through the allowance. There were no sales of non-performing loans during 2016. Classified loans as a percentage of total loans increased to 2.17% at December 31, 2017 from 1.00% at December 31, 2016. We continue to proactively and diligently work to resolve our troubled loans. At December 31, 2017, our allowance for loan losses as a percent of total loans was 1.15%. At December 31, 2017, there were \$43.9 million of loans deemed as TDRs, of which \$27.3 million were residential and consumer loans, \$14.5 million were commercial real estate loans, \$1.3 million were commercial and industrial loans and \$918,000 were multi-family loans. TDRs of \$11.0 million were classified as accruing and \$32.9 million were classified as non-accrual at December 31, 2017.

In addition to non-accrual loans, we continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans about which we have concerns as to the ability of the borrower to comply with the current loan repayment terms and which may cause the loan to be placed on non-accrual status. As of December 31, 2017, the Company has deemed potential problem loans, excluding PCI loans, totaling \$25.4 million, which is comprised of 8 commercial real estate loans totaling \$6.8 million, 12 commercial and industrial loans totaling \$4.6 million and 7 multi-family loans totaling \$14.0 million. Management is actively monitoring all of these loans.

The allowance for loan losses increased by \$2.6 million to \$231.0 million at December 31, 2017 from \$228.4 million at December 31, 2016. The increase in our allowance for loan losses from December 31, 2016 is due to the inherent credit risk in our overall portfolio, the growth and composition of the loan portfolio, and the level of non-accrual loans and charge-offs. Future increases in the allowance for loan losses may be necessary based on the growth and composition of the loan portfolio, the level of loan delinquency and the economic conditions in our lending area. At December 31, 2017, our allowance for loan losses as a percent of total loans was 1.15%.

**Securities.** Securities are held primarily for liquidity, interest rate risk management and yield enhancement. Our Investment Policy requires that investment transactions conform to Federal and New Jersey State investment regulations. Our investments purchased may include, but are not limited to, U.S. Treasury obligations, securities issued by various Federal Agencies, State and Municipal subdivisions, mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, investment grade corporate debt instruments, and mutual funds. In addition, the Company may invest in equity securities subject to certain limitations. Purchase decisions are based upon a thorough analysis of each security to determine if it conforms to our overall asset/liability management objectives. The analysis must consider its effect on our risk-based capital measurement, prospects for yield and/or appreciation and other risk factors. Securities are classified as held-to-maturity or available-for-sale when purchased.

At December 31, 2017, our securities portfolio represented 15.1% of our total assets. Securities, in the aggregate, increased by \$368.4 million, or 10.8%, to \$3.78 billion at December 31, 2017 from \$3.42 billion at December 31, 2016. This increase was a result of purchases partially offset by paydowns and sales.

**Stock in the Federal Home Loan Bank, Bank Owned Life Insurance and Other Assets.** The amount of stock we own in the FHLB decreased by \$6.3 million, or 2.7% to \$231.5 million at December 31, 2017 from \$237.9 million at December 31, 2016. The amount of stock we own in the FHLB is primarily related to the balance of our outstanding borrowings from the FHLB. Bank owned life insurance was \$155.6 million at December 31, 2017 and \$161.9 million at December 31, 2016. Other assets were \$3.8 million at December 31, 2017 and \$14.5 million at December 31, 2016.

**Deposits.** At December 31, 2017, deposits totaled \$17.36 billion, representing 78.9% of our total liabilities. Our deposit strategy is focused on attracting core deposits (savings, checking and money market accounts), resulting in a deposit mix of lower cost core products. We remain committed to our plan of attracting more core deposits because core deposits represent a more stable source of low cost funds and may be less sensitive to changes in market interest rates.

Deposits increased by \$2.08 billion, or 13.6%, from \$15.28 billion at December 31, 2016 to \$17.36 billion at December 31, 2017. Total checking accounts increased \$1.24 billion to \$7.33 billion at December 31, 2017 from \$6.09 billion at December 31, 2016. At December 31, 2017, we held \$13.90 billion in core deposits, representing 80.1% of total deposits, of which \$709.7 million are brokered money market deposits. At December 31, 2017, \$3.46 billion, or 19.9%, of our total deposit balances were certificates of deposit, of which included \$759.5 million of brokered certificates of deposit.

**Borrowed Funds.** Our FHLB borrowings, frequently referred to as advances, are collateralized by our residential and commercial mortgage portfolios. Borrowed funds decreased by \$84.7 million, or 1.9%, to \$4.46 billion at December 31, 2017 from \$4.55 billion at December 31, 2016 to help fund the continued growth of the loan portfolio.

**Stockholders' Equity.** Stockholders' equity increased by \$2.2 million to \$3.13 billion at December 31, 2017 from \$3.12 billion at December 31, 2016. The increase was primarily attributed to net income of \$126.7 million and share-based plan activity of \$36.2 million for the year ended December 31, 2017. These increases were partially offset by cash dividends of \$0.33 per share totaling \$101.6 million and the repurchase of 4.5 million shares of common stock for \$59.1 million for the year ended December 31, 2017.

### Analysis of Net Interest Income

Net interest income represents the difference between income we earn on our interest-earning assets and the expense we pay on interest-bearing liabilities. Net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned on such assets and paid on such liabilities.

**Average Balances and Yields.** The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, however interest receivable on these loans have been fully reserved for and not included in interest income. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.



## For the Year Ended December 31,

	2017			2016			2015		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
(Dollars in thousands)									
<b>Interest-earning assets:</b>									
Interest-bearing deposits	\$ 272,382	\$ 2,164	0.79%	\$ 144,610	\$ 342	0.24%	207,331	\$ 225	0.11%
Securities available-for-sale	1,850,586	37,291	2.02	1,398,373	25,515	1.82	1,245,745	22,646	1.82
Securities held-to-maturity	1,704,333	44,923	2.64	1,836,692	42,643	2.32	1,708,176	38,547	2.26
Net loans	19,414,842	783,938	4.04	17,479,932	715,901	4.10	15,716,010	663,424	4.22
Stock in FHLB	243,409	13,367	5.49	204,735	9,120	4.45	172,367	6,881	3.99
Total interest-earning assets	23,485,552	881,683	3.75	21,064,342	793,521	3.77	19,049,629	731,723	3.84
Non-interest-earning assets	758,134			779,138			770,262		
Total assets	<u>\$24,243,686</u>			<u>\$21,843,480</u>			<u>\$19,819,891</u>		
<b>Interest-bearing liabilities:</b>									
Savings deposits	\$ 2,107,363	\$ 8,395	0.40%	\$ 2,096,769	\$ 6,304	0.30%	\$ 2,235,703	\$ 6,402	0.29%
Interest-bearing checking	4,383,110	37,091	0.85	3,381,909	16,268	0.48	2,735,513	9,642	0.35
Money market accounts	4,240,775	34,366	0.81	3,925,095	25,621	0.65	3,564,311	24,136	0.68
Certificates of deposit	3,202,312	33,691	1.05	3,161,843	33,864	1.07	2,972,611	31,234	1.05
Total interest-bearing deposits	13,933,560	113,543	0.81	12,565,616	82,057	0.65	11,508,138	71,414	0.62
Borrowed funds	4,675,626	88,364	1.89	3,816,087	71,279	1.87	3,157,311	65,225	2.07
Total interest-bearing liabilities	18,609,186	201,907	1.08	16,381,703	153,336	0.94	14,665,449	136,639	0.93
Non-interest-bearing liabilities	2,468,005			2,289,036			1,702,945		
Total liabilities	21,077,191			18,670,739			16,368,394		
Stockholders' equity	3,166,495			3,172,741			3,451,497		
Total liabilities and stockholders' equity	<u>\$24,243,686</u>			<u>\$21,843,480</u>			<u>\$19,819,891</u>		
Net interest income		<u>\$679,776</u>			<u>\$640,185</u>			<u>\$595,084</u>	
Net interest rate spread <sup>(1)</sup>			<u>2.67%</u>			<u>2.83%</u>			<u>2.91%</u>
Net interest-earning assets <sup>(2)</sup>	<u>\$ 4,876,366</u>			<u>\$ 4,682,639</u>			<u>\$ 4,384,180</u>		
Net interest margin <sup>(3)</sup>			<u>2.89%</u>			<u>3.04%</u>			<u>3.12%</u>
Ratio of interest-earning assets to total interest-bearing liabilities	<u>1.26</u>			<u>1.29</u>			<u>1.30</u>		

<sup>(1)</sup> Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

<sup>(2)</sup> Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

<sup>(3)</sup> Net interest margin represents net interest income divided by average total interest-earning assets.

### Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume

multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Years Ended December 31, 2017 vs. 2016			Years Ended December 31, 2016 vs. 2015		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
<b>Interest-earning assets:</b>						
Interest-bearing deposits	\$ 310	1,512	1,822	\$ (86)	203	117
Securities available-for-sale	8,279	3,497	11,776	2,772	97	2,869
Securities held-to-maturity	(1,582)	3,862	2,280	3,103	993	4,096
Net loans	82,931	(14,894)	68,037	77,752	(25,275)	52,477
Stock in FHLB	1,719	2,528	4,247	1,387	852	2,239
Total interest-earning assets	91,657	(3,495)	88,162	84,928	(23,130)	61,798
<b>Interest-bearing liabilities:</b>						
Savings deposits	31	2,060	2,091	(351)	253	(98)
Interest-bearing checking	4,760	16,063	20,823	2,576	4,050	6,626
Money market accounts	2,031	6,714	8,745	2,524	(1,039)	1,485
Certificates of deposit	447	(620)	(173)	2,024	606	2,630
Total deposits	7,269	24,217	31,486	6,773	3,870	10,643
Borrowed funds	16,240	845	17,085	12,607	(6,553)	6,054
Total interest-bearing liabilities	23,509	25,062	48,571	19,380	(2,683)	16,697
Increase in net interest income	\$68,148	(28,557)	39,591	\$65,548	(20,447)	45,101

### Comparison of Operating Results for the Year Ended December 31, 2017 and 2016

**Net Income.** Net income for the year ended December 31, 2017 was \$126.7 million compared to net income of \$192.1 million for the year ended December 31, 2016. Included in net income for 2017 was a \$49.2 million increase to income tax expense related to the enactment of the Tax Act due to the revaluation of the Company's deferred tax assets.

**Net Interest Income.** Net interest income increased by \$39.6 million, or 6.2%, to \$679.8 million for the year ended December 31, 2017 from \$640.2 million for the year ended December 31, 2016. The net interest margin decreased 15 basis points to 2.89% for the year ended December 31, 2017 from 3.04% for the year ended December 31, 2016.

**Interest and Dividend Income.** Total interest and dividend income increased by \$88.2 million, or 11.1%, to \$881.7 million for the year ended December 31, 2017. Interest income on loans increased by \$68.0 million, or 9.5%, to \$783.9 million for the year ended December 31, 2017, as a result of a \$1.93 billion, or 11.1%, increase in the average balance of net loans to \$19.41 billion for the year ended December 31, 2017, primarily attributed to the growth in the commercial loan portfolio. This increase was offset by a decrease of 6 basis points in the weighted average yield on net loans to 4.04%. Prepayment penalties, which are included in interest income, totaled \$17.3 million for the year ended December 31, 2017 compared to \$22.0 million for the year ended December 31, 2016. Interest income on all other interest-earning assets, excluding loans, increased by \$20.1 million, or 25.9%, to \$97.7 million for the year ended December 31, 2017 which is attributable to a \$486.3 million increase in the average balance of all other interest earning assets, excluding loans, to \$4.07 billion for the year ended December 31, 2017. In addition, the weighted average yield on interest-earning assets, excluding loans, increased 23 basis points to 2.40%.

**Interest Expense.** Total interest expense increased by \$48.6 million, or 31.7%, to \$201.9 million for the year ended December 31, 2017. Interest expense on interest-bearing deposits increased \$31.5 million, or 38.4%, to \$113.5 million for the year ended December 31, 2017. The average balance of total interest-bearing deposits increased \$1.37 billion, or 10.9%, to \$13.93 billion for the year ended December 31, 2017. In addition, the weighted average cost of interest-bearing deposits increased 16 basis points to 0.81% for the year ended December 31, 2017. Interest expense on borrowed funds increased by \$17.1 million, or 24.0%, to \$88.4 million for the year ended December 31, 2017. The average balance of borrowed funds increased \$859.5 million or 22.5%, to \$4.68 billion for the year ended December 31, 2017. In addition, the weighted average cost of borrowings increased 2 basis points to 1.89% for the year ended December 31, 2017.

**Non-Interest Income.** Total non-interest income decreased by \$1.6 million, or 4.2%, to \$35.6 million for the year ended December 31, 2017. Gain on securities transactions decreased \$1.8 million for the year ended December 31, 2017. In addition, gain on loans decreased \$1.6 million and other income decreased \$1.1 million attributed to non-depository investment products. These decreases were offset by an increase of \$3.2 million in fees and service charges for the year ended December 31, 2017.

**Non-Interest Expense.** Total non-interest expense was \$418.6 million for the year ended December 31, 2017, an increase of \$60.0 million, or 16.7%, as compared to the year ended December 31, 2016. In December 2017, we announced a plan to reduce operating expenses including a workforce reduction and the closure of branches. This plan resulted in the recognition of \$5.9 million of expenses during the year ended December 31, 2017 attributed to \$3.4 million of severance benefits and \$2.5 million related to the branch closures. In addition, professional fees increased \$18.7 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016, largely attributable to BSA remediation efforts and the continued risk management infrastructure enhancements. Compensation and fringe benefits increased \$17.1 million, excluding the workforce reduction severance benefits, for the year ended December 31, 2017 as a result of additions to our staff to support continued growth and continued build out of our risk management and operating infrastructure, as well as normal merit increases, partially offset by lower pension costs. Advertising and promotional expenses increased \$5.8 million due to our current advertising campaigns and federal insurance premiums increased \$4.4 million for the year ended December 31, 2017.

**Income Taxes.** Income tax expense was \$153.8 million and \$106.9 million for the years ended December 31, 2017 and December 31, 2016, respectively. In December 2017, the Tax Act was enacted and resulted in the Company recognizing a \$49.2 million increase to income tax expense due to the revaluation of the Company's deferred tax assets during the year ended December 31, 2017. The effective tax rate was 54.8% for the year ended December 31, 2017 and 35.8% for the year ended December 31, 2016. Additionally, income tax expense includes the excess tax benefits related to the Company's stock plans of \$1.7 million for the year ended December 31, 2017 and \$10.4 million for the year ended December 31, 2016.

### Comparison of Operating Results for the Year Ended December 31, 2016 and 2015

**Net Income.** Net income for the year ended December 31, 2016 was \$192.1 million compared to net income of \$181.5 million for the year ended December 31, 2015.

**Net Interest Income.** Net interest income increased by \$45.1 million, or 7.6%, to \$640.2 million for the year ended December 31, 2016 from \$595.1 million for the year ended December 31, 2015. The net interest margin decreased 8 basis points to 3.04% for the year ended December 31, 2016 from 3.12% for the year ended December 31, 2015.

**Interest and Dividend Income.** Total interest and dividend income increased by \$61.8 million, or 8.4%, to \$793.5 million for the year ended December 31, 2016. Interest income on loans increased by \$52.5 million, or 7.9%, to \$715.9 million for the year ended December 31, 2016, as a result of a \$1.8 billion, or 11.2%, increase in the average balance of net loans to \$17.48 billion for the year ended December 31, 2016, primarily attributed to

the growth in the commercial loan portfolio. This increase was offset by a decrease of 12 basis points in the weighted average yield on net loans to 4.10%. Prepayment penalties, which are included in interest income, totaled \$22.0 million for the year ended December 31, 2016 compared to \$21.0 million for the year ended December 31, 2015. Interest income on all other interest-earning assets, excluding loans, increased by \$9.3 million, or 13.6%, to \$77.6 million for the year ended December 31, 2016 which is attributable to a \$250.8 million increase in the average balance of all other interest earning assets, excluding loans, to \$3.58 billion for the year ended December 31, 2016. In addition, the weighted average yield on interest-earning assets, excluding loans, increased 12 basis points to 2.17%.

**Interest Expense.** Total interest expense increased by \$16.7 million, or 12.2%, to \$153.3 million for the year ended December 31, 2016. Interest expense on interest-bearing deposits increased \$10.6 million, or 14.9%, to \$82.1 million for the year ended December 31, 2016. The average balance of total interest-bearing deposits increased \$1.06 billion, or 9.2% to \$12.57 billion for the year ended December 31, 2016. In addition, the weighted average cost of interest-bearing deposits increased 3 basis points to 0.65% for the year ended December 31, 2016. Interest expense on borrowed funds increased by \$6.1 million, or 9.3%, to \$71.3 million for the year ended December 31, 2016. The average balance of borrowed funds increased \$658.8 million or 20.9%, to \$3.82 billion for the year ended December 31, 2016. This increase was offset by a decrease of 20 basis points in the weighted average cost of borrowings to 1.87% for the year ended December 31, 2016.

**Non-Interest Income.** Total non-interest income decreased by \$2.9 million, or 7.3%, to \$37.2 million for the year ended December 31, 2016. Gain on loans decreased for the year ended December 31, 2016 primarily as a result of fewer loan sales at the Bank. Loan sales at our mortgage subsidiary were consistent year over year. In addition, gain on sale of other real estate owned decreased \$1.5 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. These decreases were offset by an increase of \$2.1 million in gain on securities transactions for the year ended December 31, 2016 primarily due to the sale of securities totaling \$69.1 million, resulting in a gain of \$3.1 million.

**Non-Interest Expense.** Total non-interest expense was \$358.6 million for the year ended December 31, 2016, an increase of \$30.2 million, or 9.2% as compared to the year ended December 31, 2015. Compensation and fringe benefits increased \$20.4 million for the year ended December 31, 2016. The increase was primarily due to an increase of \$12.8 million in equity incentive expense for the year ended December 31, 2016 resulting from the restricted stock and stock option grants on June 23, 2015 to certain employees, officers and directors of the Company, pursuant to the Investors Bancorp, Inc. 2015 Equity Incentive Plan; additions to our staff to support our growth and continued build out of our risk management and operating infrastructure; as well as normal merit increases. These increases were partially offset by decreases of approximately \$1.7 million in benefit expenses related to the freezing of both the defined benefit pension plan and supplemental executive retirement wage replacement plan that was approved by the Board of Directors during the fourth quarter of 2016. Office occupancy and equipment expense increased \$5.4 million for the year ended December 31, 2016 primarily due to new branch openings. Professional fees and other operating expenses increased \$4.0 million and \$2.3 million, respectively for the year ended December 31, 2016 as we continue to enhance additional risk management and operational infrastructure as our company grows and we enhance our employee training and development programs. Included in professional fees for the three months ended December 31, 2016 is \$840,000 related to the recently announced termination of the Bank of Princeton acquisition.

**Income Taxes.** Income tax expense was \$106.9 million and \$99.4 million for the years ended December 31, 2016 and December 31, 2015, respectively.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and accounting for forfeitures. In the fourth quarter of 2016 the Company adopted ASU No. 2016-09. Adjustments to previously reported 2016 interim periods were made to reflect the adoption of this ASU.

The adoption of ASU No. 2016-09 resulted in a tax benefit of \$10.4 million for the year ended December 31, 2016. The tax rate for the year ended December 31, 2015 includes a tax benefit realized from revaluing the Company's deferred tax asset as a result of the New York City tax law reform enacted in 2015 and a discrete item related to a net operating loss carryforward on a prior acquisition.

## Management of Market Risk

**Qualitative Analysis.** We believe one significant form of market risk is interest rate risk. Interest rate risk results from timing differences in the cash flow or re-pricing of our assets, liabilities and off-balance sheet contracts (i.e., loan commitments); the effect of loan prepayments, deposit activity; the difference in the behavior of lending and funding rates arising from the uses of different indices; and "yield curve risk" arising from changing interest rate relationships across the term structure of interest rates. Changes in market interest rates can affect net interest income by influencing the amount and rate of new loan originations, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and the mix and flow of deposits.

The general objective of our interest rate risk management process is to determine the appropriate level of risk given our business model and then manage that risk in a manner consistent with our policy to reduce, to the extent possible, the exposure of our net interest income to changes in market interest rates. Our Asset Liability Committee, which consists of senior management and executives, evaluates the interest rate risk inherent in our balance sheet, our operating environment and capital and liquidity requirements and may modify our lending, investing and deposit gathering strategies accordingly. On a quarterly basis, our Board of Directors reviews the Asset Liability Committee report, the aforementioned activities and strategies, the estimated effect of those strategies on our net interest margin and the estimated effect that changes in market interest rates may have on the economic value of our loan and securities portfolios, as well as the intrinsic value of our deposits and borrowings.

We use various financial instruments, including derivatives, to manage our exposure to interest rate risk. Certain derivatives are designated as hedging instruments in a qualifying hedge accounting relationship (fair value or cash flow hedge). As of December 31, 2017 and December 31, 2016 the Company has cash flow hedges with aggregate notional amounts of \$900.0 million and \$400.0 million, respectively.

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. At December 31, 2017, 25% of our total loan portfolio was comprised of residential mortgages, of which approximately 33% was in variable rate products, while 67% was in fixed rate products. Our variable rate and short term fixed rate mortgage related assets have helped to reduce our exposure to interest rate fluctuations. Long term fixed-rate products may adversely impact our net interest income in a rising rate environment. The origination of commercial real estate loans, particularly multi-family loans and commercial and industrial loans, which have outpaced the growth in the residential portfolio in recent years, generally help reduce our interest rate risk due to their shorter term compared to fixed rate residential mortgage loans. In addition, we primarily invest in securities which display relatively conservative interest rate risk characteristics.

We use an internally managed and implemented industry standard asset/ liability model to complete our quarterly interest rate risk reports. The model projects net interest income based on various interest rate scenarios and horizons. We use a combination of analyses to monitor our exposure to changes in interest rates.

Our net interest income sensitivity analysis determines the relative balance between the repricing of assets and liabilities over various horizons. This asset and liability analysis includes expected cash flows from loans and securities, using forecasted prepayment rates, reinvestment rates, as well as contractual and forecasted liability cash flows. This analysis identifies mismatches in the timing of asset and liability cash flows but does not necessarily provide an accurate indicator of interest rate risk because the rate forecasts and assumptions used in the analysis may not reflect actual experiences. The economic value of equity ("EVE") analysis estimates the change in the net present value ("NPV") of assets and liabilities and off-balance sheet contracts over a range of



immediately changed interest rate scenarios. In calculating changes in EVE, for the various scenarios we forecast loan and securities prepayment rates, reinvestment rates and deposit decay rates.

**Quantitative Analysis.** The table below sets forth, as of December 31, 2017, the estimated changes in our EVE and our net interest income that would result from the designated changes in interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing EVE and a gradual change over a one-year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. The following table reflects management's expectations of the changes in EVE and net interest income for an interest rate decrease of 100 basis points and increase of 200 basis points.

Change in Interest Rates (basis points)	EVE <sup>(1) (2)</sup>			Net Interest Income <sup>(3)</sup>		
	Estimated EVE	Estimated Increase (Decrease)		Estimated Net Interest Income	Estimated Increase (Decrease)	
		Amount	Percent		Amount	Percent
		(Dollars in thousands)				
+ 200bp	\$4,288,102	(377,715)	(8.1)%	\$628,982	(44,054)	(6.5)%
0bp	\$4,665,817	—	—	\$673,036	—	—
-100bp	\$4,774,987	109,170	2.3%	\$693,003	19,967	3.0%

(1) Assumes an instantaneous and parallel shift in interest rates at all maturities.

(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Assumes a gradual change in interest rates over a one year period at all maturities.

The table set forth above indicates at December 31, 2017, in the event of a 200 basis points increase in interest rates, we would be expected to experience a 8.1% decrease in EVE and a \$44.1 million, or 6.5%, decrease in net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 2.3% increase in EVE and a \$20.0 million, or 3.0%, increase in net interest income. This data does not reflect any future actions we may take in response to changes in interest rates, such as changing the mix in or growth of our assets and liabilities, which could change the results of the EVE and net interest income calculations.

As mentioned above, we use an internally developed asset liability model to compute our quarterly interest rate risk reports. Certain shortcomings are inherent in any methodology used in the above interest rate risk measurements. Modeling changes in EVE and net interest income require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The EVE and net interest income table presented above assumes no growth and that generally the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data does not reflect any actions we may take in response to changes in interest rates. The table also assumes a particular change in interest rates is reflected uniformly across the yield curve. Accordingly, although the EVE and net interest income table provide an indication of our sensitivity to interest rate changes at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effects of changes in market interest rates on our EVE and net interest income.

## Liquidity and Capital Resources

Liquidity is the ability to economically meet current and future financial obligations. Our primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, FHLB and other borrowings and, to a lesser extent, proceeds from the sale of loans and investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset Liability Committee is responsible for establishing and monitoring our liquidity targets and strategies to ensure that sufficient liquidity exists for meeting the needs of our customers as well as unanticipated contingencies. The Company has other



sources of liquidity if a need for additional funds arises, including unsecured overnight lines of credit, brokered deposits and other borrowings from the FHLB and other correspondent banks.

A primary source of funds is cash provided by cash flows on loans and securities. Principal repayments on loans for the years ended December 31, 2017, 2016 and 2015 were \$2.81 billion, \$3.30 billion and \$2.95 billion, respectively. Principal repayments on securities for the years ended December 31, 2017, 2016 and 2015 were \$660.3 million, \$671.3 million and \$553.2 million, respectively. There were sales of securities during years ended December 31, 2017 and 2016 of \$102.1 million and \$72.2 million, respectively. There were no sales of securities during the year ended December 31, 2015. Included in principal repayments for the year ended December 31, 2015 were security payoffs of \$2.6 million.

In addition to cash provided by principal and interest payments on loans and securities, our other sources of funds include cash provided by operating activities, deposits and borrowings. Net cash provided by operating activities for the years ended December 31, 2017, 2016 and 2015 totaled \$302.4 million, \$227.1 million and \$536.1 million, respectively. For the years ended December 31, 2017, 2016 and 2015 deposits increased \$2.08 billion, \$1.22 billion and \$1.89 billion, respectively. Deposit flows are affected by the overall level of and direction of changes in market interest rates, the interest rates and products offered by us and our local competitors, and other factors.

For the year ended December 31, 2017 net borrowed funds decreased \$84.7 million. For the years ended December 31, 2016 and 2015, net borrowed funds increased \$1.28 billion, and \$497.0 million, respectively largely due to new loan originations outpacing deposit growth.

Our primary use of funds are for the origination and purchase of loans and the purchase of securities. During the years ended December 31, 2017, 2016 and 2015, we originated loans of \$3.60 billion, \$5.08 billion and \$4.92 billion, respectively. During the years ended December 31, 2017, 2016 and 2015 we purchased loans of \$540.9 million, \$141.6 million and \$198.6 million, respectively. During the year ended December 31, 2017, 2016 and 2015 we purchased securities of \$1.15 billion, \$1.04 billion and \$957.9 million, respectively. In addition, we utilized \$59.1 million, \$363.4 million and \$382.9 million during the years ended December 31, 2017, 2016 and 2015, respectively, to repurchase shares of our common stock under our stock repurchase plans.

At December 31, 2017, we had commitments to originate commercial loans of \$347.9 million. Additionally, we had commitments to originate residential loans of approximately \$143.4 million and purchase residential loans of \$168.2 million. Unused home equity lines of credit and undisbursed business and constructions loans totaled approximately \$1.22 billion at December 31, 2017. Certificates of deposit due within one year of December 31, 2017 totaled \$2.84 billion, or 16.4% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including but not limited to other certificates of deposit and wholesale funding. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2017.

Liquidity management is both a short and long-term function of business management. Our most liquid assets are cash and cash equivalents. The levels of these assets depend upon our operating, financing, lending and investing activities during any given period. At December 31, 2017, cash and cash equivalents totaled \$618.4 million. Securities, which provide additional sources of liquidity, totaled \$3.78 billion at December 31, 2017. If we require funds beyond our ability to generate them internally, we have wholesale funding alternatives, which provide an additional source of funds. At December 31, 2017, our borrowing capacity at the FHLB was \$11.58 billion, of which we had outstanding borrowings of \$8.03 billion, which included letters of credit totaling \$3.70 billion. In addition, the Bank had uncommitted unsecured overnight borrowing lines with other institutions totaling \$475.0 million, of which no balance was outstanding at December 31, 2017.

Investors Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-

weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2017, Investors Bank exceeded all regulatory capital requirements. Investors Bank is considered “well capitalized” under regulatory guidelines. See “Item 1. Supervision and Regulation — Federal Banking Regulation — Capital Requirements.”

## Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

**Off-Balance Sheet Arrangements.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of our commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval processes that we use for loans that we originate.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment.

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2017. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

Contractual Obligations	Payments Due by Period				Total
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	
	(In thousands)				
Other borrowed funds	\$731,000	\$1,694,349	\$1,400,703	\$505,000	\$4,331,052
Repurchase agreements	130,481	—	—	—	130,481
Operating leases	24,017	66,009	51,942	80,571	222,539
Total	<u>\$885,498</u>	<u>\$1,760,358</u>	<u>\$1,452,645</u>	<u>\$585,571</u>	<u>\$4,684,072</u>

The Company has entered into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s borrowings. For the year ended December 31, 2017, such derivatives were used to hedge the variability in cash flows associated with certain short term wholesale funding transactions. These derivatives had an aggregate notional amount of \$900.0 million as of December 31, 2017. The fair value of the derivatives as of December 31, 2017 was a liability of \$613,000. In accordance with the Chicago Mercantile Exchange (“CME”) rulebook changes effective January 3, 2017, the fair value is inclusive of accrued interest and variation margin posted by the CME.

## Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of Investors Bancorp, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

## Recent Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This update was issued to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. On December 22, 2017, the U.S. government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act of 2017). ASU 2018-02 permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate of 35 percent and the newly enacted 21 percent corporate income tax rate. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for (i) public business entities for reporting periods for which financial statements have not yet been issued and (ii) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The changes are required to be applied retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 is recognized. The Company early adopted ASU 2018-02, which resulted in the reclassification from accumulated other comprehensive income to retained earnings totaling \$4.6 million, reflected in the Consolidated Statements of Stockholders’ Equity. See Footnote 18, Comprehensive Income, for further details.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 718): Targeted Improvements to Accounting for Hedging Activities”. The purpose of this guidance is to better align a company’s financial reporting for hedging relationships with the company’s risk management activities by expanding strategies that qualify for hedge accounting, modifying the presentation of certain hedging relationships in the financial statements and simplifying the application of hedge accounting in certain situations. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted in any interim or annual period before the effective date. ASU 2017-12 will be applied using a modified retrospective approach through a cumulative-effect adjustment related to the elimination of the separate measurement of ineffectiveness to the balance of accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year in which the amendments in this update are adopted. The amended presentation and disclosure guidance is required only prospectively. The Company early adopted ASU 2017-12 on January 1, 2018 which did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In May 2017, the FASB issued ASU 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting”. This update provides guidance about changes to terms or conditions of a share-based payment award which would require modification accounting. In particular, an entity is required to account for the effects of a modification if the fair value, vesting condition or the equity/liability classification of the modified award is not the same immediately before and after a change to the terms and conditions of the award. The update is to be applied prospectively for awards modified on or after the adoption date. The Company adopted ASU 2017-09 on January 1, 2018, which did not have a material impact on the Company’s Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities”. The amendments in this update require the premium on callable debt securities to be amortized to the earliest call date rather than the maturity date; however, securities held at a discount continue to be amortized to maturity. The amendments apply only to debt securities purchased at a premium that are callable at fixed prices and on preset dates. The amendments more closely align interest income recorded on debt securities held at a premium or discount with the economics of the underlying instrument. ASU No. 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating its provisions to determine the potential impact the new standard will have on the Company’s Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, which requires that companies disaggregate the service cost component from other components of net benefit cost. This update calls for companies that offer postretirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. The Company adopted ASU 2017-07 on January 1, 2018, which did not have a material impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This ASU simplifies subsequent measurement of goodwill by eliminating Step 2 of the impairment test while retaining the option to perform the qualitative assessment for a reporting unit to determine whether the quantitative impairment test is necessary. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment testing dates beginning after January 1, 2017. The update is to be applied prospectively. The Company does not expect ASU No. 2017-04 to have a material impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)”, which amends certain paragraphs in the ASC to give effect to announcements made by the SEC observer at two recent Emerging Issues Task Force meetings. SEC registrants are required to reasonably estimate the impact that adoption of the standards on revenue recognition, leases, and measurement of credit losses on financial instruments is expected to have on financial statements. If such estimate is indeterminate, registrants should consider providing additional qualitative disclosures to assess the effect on financial statements as a result of adopting of these new standards. There is no effective date or transition requirements for this standard.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The amendments in this ASU provide a practical way to determine when a set of assets and activities is not a business. The screen provided in this ASU requires that when all or substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. The amendments also provide other considerations to determine whether a set is a business if the screen is not met. The update is to be applied prospectively. The Company adopted ASU 2017-01 on January 1, 2018. The adoption of this new guidance did not have a material impact on the determination of whether future acquisitions are considered a business combination and the resulting impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” This ASU addresses the recognition of current and deferred taxes for an intra-entity asset transfer and amends current U.S. GAAP by eliminating the exception for intra-entity transfers of assets other than inventory to defer such recognition until sale to an outside party. The Company adopted ASU 2016-16 on January 1, 2018, which did not have an impact on the Company’s Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, a new standard which addresses diversity in practice related to eight specific cash flow issues: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned

life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. Entities will apply the standard's provisions using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted ASU 2016-15 on January 1, 2018, which did not have a material impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). While early adoption is permitted, the Company does not expect to elect that option. The Company has begun its evaluation of the amended guidance including the potential impact on its Consolidated Financial Statements. The extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. Upon adoption, any impact to the allowance for credit losses — currently allowance for loan and lease losses — will have an offsetting impact on retained earnings.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date for leases classified as operating leases as well as finance leases. The update also requires new quantitative disclosures related to leases in the Consolidated Financial Statements. There are practical expedients in this update that relate to leases that commenced before the effective date, initial direct costs and the use of hindsight to extend or terminate a lease or purchase the leased asset. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company continues to evaluate the impact of the guidance, including determining whether other contracts exist that are deemed to be in scope. As such, no conclusions have yet been reached regarding the potential impact on adoption on the Company's Consolidated Financial Statements and regulatory capital and risk-weighted assets; however, the Company does not expect the amendment to have a material impact on its results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity



securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. Entities should apply the amendment by means of a cumulative effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASU 2016-01 on January 1, 2018, which did not have a material impact on the Company's results of operations, financial position, and liquidity due to the Company's proportionately small portfolio of equity securities.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are in the scope of other standards. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and early adoption is permitted. Subsequently, the FASB issued the following standards related to ASU 2014-09: ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations" ; ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing"; ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting"; ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients"; and ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." These amendments are intended to improve and clarify the implementation guidance of ASU 2014-09 and have the same effective date as the original standard. The Company adopted ASU 2014-09 on January 1, 2018. As the guidance does not apply to revenue associated with financial instruments, including loans, leases, securities and derivatives that are accounted for under other U.S. GAAP, the new revenue recognition standard does not have a material impact on the Company's Consolidated Financial Statements. The Company's implementation efforts have included the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts. While there were no material changes related to the timing or amount of revenue recognition, the Company will continue to evaluate the need for additional disclosures.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

For information regarding market risk see "Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements are included in Part IV, Item 15 of this Form 10-K.



## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

With the participation of management, the Principal Executive Officer and Principal Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2017. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of that date, the Company's disclosure controls and procedures are effective.

(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management's report on internal control over financial reporting.

The management of Investors Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Investors Bancorp's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of Investors Bancorp; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Investors Bancorp's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Investors Bancorp's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*. Based on our assessment we believe that, as of December 31, 2017, the Company's internal control over financial reporting is effective based on those criteria.

Investors Bancorp's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. This report appears on page 76.

The Sarbanes-Oxley Act Section 302 Certifications have been filed with the SEC as Exhibit 31.1 and Exhibit 31.2 to this Annual Report on Form 10-K.

#### **ITEM 9B. OTHER INFORMATION**

Not applicable.

### **Part III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information regarding directors, executive officers and corporate governance of the Company is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the Annual Meeting of Stockholders to be held on May 22, 2018.

#### **ITEM 11. EXECUTIVE COMPENSATION**

Information regarding executive compensation is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the Annual Meeting of Stockholders to be held on May 22, 2018.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the Annual Meeting of Stockholders to be held on May 22, 2018. Information regarding equity compensation plans is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the Annual Meeting of Stockholders to be held on May 22, 2018.

#### **ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information regarding certain relationships and related transactions, and director independence is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the Annual Meeting of Stockholders to be held on May 22, 2018.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding principal accounting fees and services is incorporated herein by reference in Investors Bancorp's definitive Proxy Statement to be filed with respect to the Annual Meeting of Stockholders to be held on May 22, 2018.

### **Part IV**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) (1) Financial Statements

## Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors  
Investors Bancorp, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Investors Bancorp, Inc. and subsidiary (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have not been able to determine the specific year that we began serving as the Company’s auditor, however we are aware that we have served as the Company’s auditor since at least 1954.

Short Hills, New Jersey  
March 1, 2018

## Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors  
Investors Bancorp, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Investors Bancorp, Inc. and subsidiary's (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and our report dated March 1, 2018 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Short Hills, New Jersey  
March 1, 2018

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
	(In thousands except share data)	
ASSETS		
Cash and cash equivalents	\$ 618,394	164,178
Securities available-for-sale, at estimated fair value	1,987,727	1,660,433
Securities held-to-maturity, net (estimated fair value of \$1,820,125 and \$1,782,801 at December 31, 2017 and 2016, respectively)	1,796,621	1,755,556
Loans receivable, net	19,852,101	18,569,855
Loans held-for-sale	5,185	38,298
Federal Home Loan Bank stock	231,544	237,878
Accrued interest receivable	72,855	65,969
Other real estate owned	5,830	4,492
Office properties and equipment, net	180,231	177,417
Net deferred tax asset	121,663	222,277
Bank owned life insurance	155,635	161,940
Goodwill and intangible assets	97,665	101,839
Other assets	3,793	14,543
Total assets	<u>\$25,129,244</u>	<u>23,174,675</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$17,357,697	15,280,833
Borrowed funds	4,461,533	4,546,251
Advance payments by borrowers for taxes and insurance	104,308	105,851
Other liabilities	80,255	118,495
Total liabilities	<u>22,003,793</u>	<u>20,051,430</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 authorized shares; none issued	—	—
Common stock, \$0.01 par value, 1,000,000,000 shares authorized; 359,070,852 issued at December 31, 2017 and 2016; 306,126,087 and 309,449,388 outstanding at December 31, 2017 and 2016, respectively	3,591	3,591
Additional paid-in capital	2,784,390	2,765,732
Retained earnings	1,084,177	1,053,750
Treasury stock, at cost; 52,944,765 and 49,621,464 shares at December 31, 2017 and 2016, respectively	(633,110)	(587,974)
Unallocated common stock held by the employee stock ownership plan	(84,258)	(87,254)
Accumulated other comprehensive loss	(29,339)	(24,600)
Total stockholders' equity	<u>3,125,451</u>	<u>3,123,245</u>
Total liabilities and stockholders' equity	<u>\$25,129,244</u>	<u>23,174,675</u>

See accompanying notes to consolidated financial statements.



# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Income

	For the Years Ended December 31,		
	2017	2016	2015
	(Dollars in thousands, except per share data)		
Interest and dividend income:			
Loans receivable and loans held-for-sale	\$ 783,938	715,901	663,424
Securities:			
Equity	139	198	123
Government-sponsored enterprise obligations	486	36	45
Mortgage-backed securities	70,827	60,211	55,096
Municipal bonds and other debt	10,762	7,713	5,929
Interest-bearing deposits	2,164	342	225
Federal Home Loan Bank stock	13,367	9,120	6,881
Total interest and dividend income	881,683	793,521	731,723
Interest expense:			
Deposits	113,543	82,057	71,414
Borrowed Funds	88,364	71,279	65,225
Total interest expense	201,907	153,336	136,639
Net interest income	679,776	640,185	595,084
Provision for loan losses	16,250	19,750	26,000
Net interest income after provision for loan losses	663,526	620,435	569,084
Non-interest income			
Fees and service charges	20,326	17,148	17,119
Income on bank owned life insurance	3,742	4,423	3,948
Gain on loans, net	3,187	4,787	7,786
Gain on securities transactions, net	1,275	3,100	1,036
Gain on sale of other real estate owned, net	591	96	1,631
Other income	6,516	7,647	8,605
Total non-interest income	35,637	37,201	40,125
Non-interest expense			
Compensation and fringe benefits	227,177	206,698	186,320
Advertising and promotional expense	14,411	8,644	10,988
Office occupancy and equipment expense	61,509	56,220	50,865
Federal deposit insurance premiums	16,610	12,183	9,050
General and administrative	3,030	3,131	4,372
Professional fees	38,853	20,104	16,104
Data processing and communication	24,364	21,043	22,366
Other operating expenses	32,620	30,541	28,267
Total non-interest expenses	418,574	358,564	328,332
Income before income tax expense	280,589	299,072	280,877
Income tax expense	153,845	106,947	99,372
Net income	\$ 126,744	192,125	181,505
Basic earnings per share	\$ 0.44	0.65	0.55
Diluted earnings per share	\$ 0.43	0.64	0.55
Weighted average shares outstanding			
Basic	290,183,952	297,580,834	329,763,527
Diluted	291,966,475	300,954,885	332,933,448

See accompanying notes to consolidated financial statements.

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Comprehensive Income

	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>		
Net income	\$126,744	192,125	181,505
Other comprehensive income (loss), net of tax:			
Change in funded status of retirement obligations	(745)	7,471	(1,455)
Unrealized loss on securities available-for-sale	(8,148)	(12,284)	(4,933)
Accretion of loss on securities reclassified to held to maturity	468	1,092	1,448
Reclassification adjustment for security gains included in net income	(765)	(1,358)	(1,547)
Other-than-temporary impairment accretion on debt securities	(1,612)	880	1,066
Net gains on derivatives arising during the period	6,063	7,424	—
Total other comprehensive (loss) income	(4,739)	3,225	(5,421)
Total comprehensive income	<u>\$122,005</u>	<u>195,350</u>	<u>176,084</u>

See accompanying notes to consolidated financial statements.

# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Stockholders' Equity Year ended December 31, 2017, 2016 and 2015

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unallocated Common Stock Held by ESOP	Accumulated other comprehensive loss	Total stockholders' equity
	(In thousands except share data)						
Balance at December 31, 2014	\$3,591	2,864,406	836,639	(11,131)	(93,246)	(22,404)	3,577,855
Net income	—	—	181,505	—	—	—	181,505
Other comprehensive loss, net of tax	—	—	—	—	—	(5,421)	(5,421)
Purchase of treasury stock (31,576,421 shares)	—	—	—	(382,922)	—	—	(382,922)
Treasury stock allocated to restricted stock plan (6,849,832 shares)	—	(85,897)	5,472	80,425	—	—	—
Compensation cost for stock options and restricted stock	—	9,220	—	—	—	—	9,220
Net tax benefit from stock-based compensation	—	2,985	—	—	—	—	2,985
Option exercise	—	(9,045)	—	19,164	—	—	10,119
Restricted stock forfeitures (90,000 shares)	—	1,129	(181)	(948)	—	—	—
Cash dividend paid (\$0.25 per common share)	—	—	(87,395)	—	—	—	(87,395)
ESOP shares allocated or committed to be released	—	2,705	—	—	2,996	—	5,701
Balance at December 31, 2015	<u>3,591</u>	<u>2,785,503</u>	<u>936,040</u>	<u>(295,412)</u>	<u>(90,250)</u>	<u>(27,825)</u>	<u>3,311,647</u>
Cumulative effect of adopting ASU No. 2016-09	—	(8,051)	8,051	—	—	—	—
Net income	—	—	192,125	—	—	—	192,125
Other comprehensive income, net of tax	—	—	—	—	—	3,225	3,225
Purchase of treasury stock (31,336,369 shares)	—	—	—	(363,410)	—	—	(363,410)
Treasury stock allocated to restricted stock plan (276,890 shares)	—	(3,237)	(85)	3,322	—	—	—
Compensation cost for stock options and restricted stock	—	21,975	—	—	—	—	21,975
Option exercise	—	(34,325)	—	68,642	—	—	34,317
Restricted stock forfeitures (100,205 shares)	—	1,206	(90)	(1,116)	—	—	—
Cash dividend paid (\$0.26 per common share)	—	—	(82,291)	—	—	—	(82,291)
ESOP shares allocated or committed to be released	—	2,661	—	—	2,996	—	5,657
Balance at December 31, 2016	<u>3,591</u>	<u>2,765,732</u>	<u>1,053,750</u>	<u>(587,974)</u>	<u>(87,254)</u>	<u>(24,600)</u>	<u>3,123,245</u>
Net income	—	—	126,744	—	—	—	126,744
Effect of adopting ASU No. 2018-02	—	—	4,629	—	—	(4,629)	—
Other comprehensive loss, net of tax	—	—	—	—	—	(110)	(110)
Purchase of treasury stock (4,463,669 shares)	—	—	—	(59,090)	—	—	(59,090)
Treasury stock allocated to restricted stock plan (440,000 shares)	—	(6,329)	1,030	5,299	—	—	—
Compensation cost for stock options and restricted stock	—	20,542	—	—	—	—	20,542
Option exercise	—	(3,689)	—	12,830	—	—	9,141
Restricted stock forfeitures (367,734 shares)	—	4,601	(426)	(4,175)	—	—	—
Cash dividend paid (\$0.33 per common share)	—	—	(101,550)	—	—	—	(101,550)
ESOP shares allocated or committed to be released	—	3,533	—	—	2,996	—	6,529
Balance at December 31, 2017	<u>3,591</u>	<u>2,784,390</u>	<u>1,084,177</u>	<u>(633,110)</u>	<u>(84,258)</u>	<u>(29,339)</u>	<u>3,125,451</u>

See accompanying notes to consolidated financial statements.

# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 126,744	192,125	181,505
Adjustments to reconcile net income to net cash provided by operating activities:			
ESOP and stock-based compensation expense	27,071	27,632	14,921
Amortization of premiums and accretion of discounts on securities, net	15,077	13,702	13,943
Amortization of premiums and accretion of fees and costs on loans, net	(4,506)	(4,508)	(10,122)
Amortization of intangible assets	2,427	2,881	3,350
Provision for loan losses	16,250	19,750	26,000
Depreciation and amortization of office properties and equipment	17,421	16,190	13,930
Gain on securities transactions, net	(1,275)	(3,100)	(1,036)
Mortgage loans originated for sale	(140,171)	(245,792)	(238,608)
Proceeds from mortgage loan sales	175,669	219,078	590,636
Gain on sales of mortgage loans, net	(2,384)	(4,154)	(5,258)
Gain on sale of other real estate owned	(591)	(96)	(1,631)
Income on bank owned life insurance	(3,742)	(4,423)	(3,948)
Increase in accrued interest receivable	(6,886)	(7,406)	(3,296)
Deferred tax expense (benefit)	100,008	11,640	(3,180)
Decrease in other assets	19,840	3,479	4,245
Decrease in other liabilities	(38,542)	(9,862)	(45,332)
Total adjustments	175,666	35,011	354,614
Net cash provided by operating activities	302,410	227,136	536,119
Cash flows from investing activities:			
Purchases of loans receivable	(540,898)	(141,562)	(198,623)
Net originations of loans receivable	(807,105)	(1,795,505)	(1,990,008)
Proceeds from disposition of loans held for investment	48,902	10,398	49,938
Gain on disposition of loans held for investment	(803)	(646)	(2,528)
Net proceeds from sale of foreclosed real estate	4,751	5,021	7,104
Proceeds from principal repayments/calls/maturities of securities available for sale	339,049	302,769	252,683
Proceeds from sales of securities available for sale	102,120	57,879	—
Proceeds from principal repayments/calls/maturities of securities held to maturity	321,294	368,543	300,549
Proceeds from sales of securities held to maturity	—	14,348	—
Purchases of securities available for sale	(785,917)	(744,380)	(375,605)
Purchases of securities held to maturity	(364,837)	(295,157)	(582,337)
Proceeds from redemptions of Federal Home Loan Bank stock	180,599	215,142	157,342
Purchases of Federal Home Loan Bank stock	(174,265)	(274,583)	(184,492)
Purchases of office properties and equipment	(20,235)	(21,088)	(25,550)
Death benefit proceeds from bank owned life insurance	10,047	875	6,405
Net cash used in investing activities	(1,687,298)	(2,297,946)	(2,585,122)
Cash flows from financing activities:			
Net increase in deposits	2,076,864	1,217,177	1,891,330
Repayments of funds borrowed under other repurchase agreements	(23,000)	—	(10,000)
Net (decrease) increase in other borrowings	(61,718)	1,283,161	506,986
Net (decrease) increase in advance payments by borrowers for taxes and insurance	(1,543)	(2,870)	38,828
Dividends paid	(101,550)	(82,291)	(87,395)
Exercise of stock options	9,141	34,317	10,119
Purchase of treasury stock	(59,090)	(363,410)	(382,922)
Net cash provided by financing activities	1,839,104	2,086,084	1,966,946
Net increase (decrease) in cash and cash equivalents	454,216	15,274	(82,057)
Cash and cash equivalents at beginning of period	164,178	148,904	230,961
Cash and cash equivalents at end of period	\$ 618,394	164,178	148,904
Supplemental cash flow information:			
Non-cash investing activities:			
Real estate acquired through foreclosure	5,913	3,351	4,448
Transfer of loans to loans held for sale	—	—	347,955
Cash paid during the year for:			
Interest	197,810	152,807	135,930
Income taxes	101,948	117,127	88,169

See accompanying notes to consolidated financial statements.

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

**1. Summary of Significant Accounting Policies**

The following significant accounting and reporting policies of Investors Bancorp, Inc. and subsidiary (collectively, the Company) conform to U.S. generally accepted accounting principles (GAAP), and are used in preparing and presenting these consolidated financial statements.

**(a) Basis of Presentation**

The consolidated financial statements are comprised of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiary, Investors Bank (the “Bank”) and the Bank’s wholly-owned subsidiaries (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications. In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the periods presented have been included. The results of operations and other data presented for the years ended December 31, 2017, 2016 and 2015 are not necessarily indicative of the results of operations that may be expected for subsequent years.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The estimate of our allowance for loan losses, the valuation of deferred tax assets, impairment judgments and fair value regarding securities, stock based compensation and derivative instruments are particularly critical because they involve a higher degree of complexity and subjectivity and require estimates and assumptions about highly uncertain matters. Actual results may differ from our estimates and assumptions. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

**Business**

Investors Bancorp, Inc.’s primary business is holding the common stock of the Bank and a loan to the Investors Bank Employee Stock Ownership Plan. The Bank provides banking services to customers primarily through branch offices in New Jersey and New York. The Bank’s competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, credit unions and insurance companies. The Company faces additional competition for deposits from short-term money market funds, brokerage firms and mutual funds and is subject to the regulations of certain federal and state regulatory authorities and undergoes periodic examinations by those regulatory authorities.

**(b) Cash Equivalents**

Cash equivalents consist of cash on hand, amounts due from banks and interest-bearing deposits in other financial institutions. The Company is required by the Federal Reserve System to maintain cash reserves equal to a percentage of certain deposits. The reserve requirement totaled \$68.3 million at December 31, 2017 and \$62.8 million at December 31, 2016.

**(c) Securities**

Securities include securities held-to-maturity and securities available-for-sale. Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent not to sell and the Company would not be required to sell prior to maturity, they are classified as held-to-maturity

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

securities. Such securities are stated at amortized cost, adjusted for unamortized purchase premiums and discounts. Securities in the available-for-sale category are debt and mortgage-backed securities which the Company may sell prior to maturity, and all marketable equity securities. Available-for-sale securities are reported at fair value with any unrealized appreciation or depreciation, net of tax effects, reported as accumulated other comprehensive income/loss in stockholders' equity. Discounts and premiums on securities are accreted or amortized using the level-yield method over the estimated lives of the securities, including the effect of prepayments. Realized gains and losses are recognized when securities are sold or called using the specific identification method.

The Company periodically evaluates the security portfolio for other-than-temporary impairment. Other-than-temporary impairment means the Company believes the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 320, "*Investments — Debt and Equity Securities*", when a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, the Company has to first consider (a) whether it intends to sell the security, and (b) whether it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but the Company does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, the Company compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

To determine whether a security's impairment is other-than-temporary, the Company considers factors that include, the duration and severity of the impairment; the Company's ability and intent to hold security investments until they recover in value (as well as the likelihood of such a recovery in the near term); the Company's intent to sell security investments; and whether it is more likely than not that the Company will be required to sell such securities before recovery of their individual amortized cost basis less any current-period credit loss. For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not it is probable that current or future contractual cash flows have been or may be impaired.

#### (d) *Loans Receivable, Net*

Loans receivable, other than loans held-for-sale, are stated at unpaid principal balance, adjusted by unamortized premiums and unearned discounts, net deferred origination fees and costs, net purchase accounting adjustments and the allowance for loan losses. Interest income on loans is accrued and credited to income as earned. Premiums and discounts on purchased loans and net loan origination fees and costs are deferred and amortized to interest income over the estimated life of the loan as an adjustment to yield.

The allowance for loan losses is increased by the provision for loan losses charged to earnings and is decreased by charge-offs, net of recoveries. The provision for loan losses is based on management's evaluation of the adequacy of the allowance which considers, among other things, the Company's past loan loss experience



**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

(using the appropriate look-back and loss emergence periods), known and inherent risks in the portfolio, existing adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. While management uses available information to recognize estimated losses on loans, future additions may be necessary based on changes in economic or other conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based upon their judgments and information available to them at the time of their examinations.

A loan is considered delinquent when we have not received a payment within 30 days of its contractual due date. The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears or when the timely collection of such income is doubtful. Loans on which the accrual of income has been discontinued are designated as non-accrual loans and outstanding interest previously credited is reversed. Interest income on non-accrual loans and impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. A loan is returned to accrual status when all amounts due have been received and the remaining principal is deemed collectible. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt.

The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. The Company evaluates commercial loans with an outstanding balance greater than \$1.0 million and on non-accrual status, loans modified in a troubled debt restructuring ("TDR"), and other commercial loans with \$1.0 million in outstanding principal if management has specific information that it is probable they will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans are individually evaluated to determine that the loan's carrying value is not in excess of the fair value of the collateral or the present value of the expected future cash flows. Smaller balance homogeneous loans are evaluated for impairment collectively unless they are modified in a troubled debt restructure. Such loans include residential mortgage loans, consumer loans, and loans not meeting the Company's definition of impaired, and are specifically excluded from impaired loans.

Purchased Credit-Impaired ("PCI") loans, are loans acquired at a discount due, in part, to credit quality. PCI loans are accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality", and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loans and would result in an increase in yield on a prospective basis.

**(e) *Loans Held-for-Sale***

Loans held-for-sale are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Net unrealized losses, if any, are recognized in a valuation allowance through charges to earnings. Premiums and discounts and origination fees and costs on loans held-for-sale are deferred and recognized as a component of the gain or loss on sale. Gains and losses on sales of loans held-for-sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of the loans. These transactions are accounted for as sales based on our satisfaction of the criteria for such accounting which provide that, as transferor, we have surrendered control over the loans.

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

**(f) *Stock in the Federal Home Loan Bank***

The Bank, as a member of the Federal Home Loan Bank of New York (“FHLB”), is required to hold shares of capital stock of the FHLB based on our activities, primarily our outstanding borrowings, with the FHLB. The stock is carried at cost, less any impairment.

**(g) *Office Properties and Equipment, Net***

Land is carried at cost. Office buildings, leasehold improvements and furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Office buildings and furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or the lives of the assets, whichever is shorter.

**(h) *Bank Owned Life Insurance***

Bank owned life insurance is carried at the amount that could be realized under the Company’s life insurance contracts as of the date of the consolidated balance sheets and is classified as a non-interest earning asset. Increases in the carrying value are recorded as non-interest income in the consolidated statements of income and insurance proceeds received are generally recorded as a reduction of the carrying value. The carrying value consists of cash surrender value of \$147.7 million at December 31, 2017 and \$152.8 million at December 31, 2016 and a claims stabilization reserve of \$8.0 million at December 31, 2017 and \$9.1 million at December 31, 2016. Repayment of the claims stabilization reserve (funds transferred from the cash surrender value to provide for future death benefit payments) and the deferred acquisition costs (costs incurred by the insurance carrier for the policy issuance) is guaranteed by the insurance carrier provided that certain conditions are met at the date on which a contract is surrendered. The Company satisfied these conditions at December 31, 2017 and 2016.

**(i) *Intangible Assets***

Goodwill. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. For purposes of our goodwill impairment testing, we have identified the Bank as a single reporting unit.

At December 31, 2017, the carrying amount of our goodwill totaled \$77.6 million. In connection with our annual impairment assessment we applied the guidance in FASB Accounting Standards Update (“ASU”) 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount. For the year ended December 31, 2017, the Company’s qualitative assessment concluded that it was not more likely than not that the fair value of the reporting unit is less than its carrying amount.

Mortgage Servicing Rights. The Company recognizes as separate assets the rights to service mortgage loans. The right to service loans for others is generally obtained through the sale of loans with servicing retained. The initial asset recognized for originated mortgage servicing rights (“MSR”) is measured at fair value. The estimated fair value of MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data,

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

including the market's perception of future interest rate movements. MSR are amortized in proportion to and over the period of estimated net servicing income. We apply the amortization method for measurements of our MSR. MSR are assessed for impairment based on fair value at each reporting date. MSR impairment, if any, is recognized in a valuation allowance through charges to earnings as a component of fees and service charges. Subsequent increases in the fair value of impaired MSR are recognized only up to the amount of the previously recognized valuation allowance. Fees earned for servicing loans are reported as income when the related mortgage loan payments are collected.

*Core Deposit Premiums.* Core deposit premiums represent the intangible value of depositor relationships assumed in purchase acquisitions and are amortized on an accelerated basis over 10 years. The Company periodically evaluates the value of core deposit premiums to ensure the carrying amount exceeds its implied fair value.

**(j) Other Real Estate Owned**

Other real estate owned ("REO") consists of properties acquired through foreclosure or deed in lieu of foreclosure. Such assets are carried at the lower of cost or fair value, less estimated selling costs, based on independent appraisals. Write-downs required at the time of acquisition are charged to the allowance for loan losses. Thereafter, decreases in the properties' estimated fair value are charged to income along with any additional property maintenance and protection expenses incurred in owning the properties.

**(k) Borrowed Funds**

Our FHLB borrowings, frequently referred to as advances, are collateralized by our residential and non-residential mortgage portfolios. In addition, the Bank had uncommitted unsecured overnight borrowing lines with other institutions totaling \$475.0 million, of which no balance was outstanding at December 31, 2017.

The Bank also enters into sales of securities under agreements to repurchase with selected brokers and the FHLB. The securities underlying the agreements are delivered to the counterparty who agrees to resell to the Bank the identical securities at the maturity or call of the agreement. These agreements are recorded as financing transactions, as the Bank maintains effective control over the transferred securities, and no gain or loss is recognized. The dollar amount of the securities underlying the agreements continues to be carried in the Bank's securities portfolio. The obligations to repurchase the securities are reported as a liability in the consolidated balance sheets.

**(l) Income Taxes**

The Company records income taxes in accordance with ASC 740, "Income Taxes," as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforwards became deductible. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, where applicable, in income tax expense.

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

**(m) *Employee Benefits***

The Company has a defined-benefit pension plan which operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. As of December 31, 2016, the annual benefit provided under the Pentegra Defined Benefit Plan for Financial Institutions (“Pentegra DB Plan”) was frozen by an amendment to the plan. Freezing the plan eliminates all future benefit accruals and each participant’s frozen accrued benefit was determined as of December 31, 2016 and no further benefits will accrue beyond such date.

The Company has an Executive Supplemental Retirement Wage Replacement Plan (“Wage Replacement Plan”) and the Supplemental Retirement Plan (“SERP I”) (collectively, the “SERPs”). The Wage Replacement Plan is a nonqualified, defined benefit plan which provides benefits to certain executives as designated by the Compensation Committee of the Board of Directors. More specifically, the Wage Replacement Plan was designed to provide participants with a normal retirement benefit equal to an annual benefit of 60% of the participant’s highest annual base salary and cash incentive (over a consecutive 36-month period within the participant’s credited service period) reduced by the sum of the benefits provided under the Pentegra DB Plan and SERP I.

Effective as of the close of business of December 31, 2016, the Wage Replacement Plan was amended to freeze future benefit accruals, and for certain participants, structure the benefits payable attributable solely to the participants’ 2016 year of service to vest over a two-year period such that the participants had a right to 50% of their accrued benefits attributable to their 2016 year of service as of December 31, 2016, which became 100% vested as of December 31, 2017.

The Company has a 401(k) plan covering substantially all employees. The Company currently matches 50% of the first 8% contributed by participants and recognizes expense as its contributions are made. In addition, the 401(k) plan includes a discretionary profit sharing plan for eligible employees.

The employee stock ownership plan (ESOP) is accounted for in accordance with the provisions of ASC 718-40, “*Employers’ Accounting for Employee Stock Ownership Plans*.” The funds borrowed by the ESOP from the Company to purchase the Company’s common stock are being repaid from the Bank’s contributions over a period of up to 30 years. The Company’s common stock not yet allocated to participants is recorded as a reduction of stockholders’ equity at cost. Compensation expense for the ESOP is based on the market price of the Company’s stock and is recognized as shares are committed to be released to participants due to the repayment of the loan by the ESOP to the Company.

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with ASC 718, “*Compensation-Stock Compensation*”. The Company estimates the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

The per share fair value of options is highly sensitive to changes in assumptions. In general, the per share fair value of options will move in the same direction as changes in the expected stock price volatility, risk-free interest rate and expected option term, and in the opposite direction as changes in the expected dividend yield. For example, the per share fair value of options will generally increase as expected stock price volatility increases, risk-free interest rate increases, expected option term increases and expected dividend yield decreases. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

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**(n) *Earnings Per Share***

Basic earnings per common share, or EPS, are computed by dividing net income by the weighted-average common shares outstanding during the year. The weighted-average common shares outstanding includes the weighted-average number of shares of common stock outstanding less the weighted average number of unvested shares of restricted stock and unallocated shares held by the ESOP. For EPS calculations, ESOP shares that have been committed to be released are considered outstanding. ESOP shares that have not been committed to be released are excluded from outstanding shares on a weighted average basis for EPS calculations.

Diluted EPS is computed using the same method as basic EPS, but includes the effect of all potentially dilutive common shares that were outstanding during the period, such as unexercised stock options and unvested shares of restricted stock, calculated using the treasury stock method. When applying the treasury stock method, we add: (1) the assumed proceeds from option exercises and (2) the average unamortized compensation costs related to unvested shares of restricted stock and stock options. We then divide this sum by our average stock price to calculate shares repurchased. The excess of the number of shares issuable over the number of shares assumed to be repurchased is added to basic weighted average common shares to calculate diluted EPS.

**(o) *Derivative Financial Instruments***

As part of our interest rate risk management, we may utilize, from time-to-time, derivative financial instruments which are recorded as either assets or liabilities in the consolidated balance sheet at fair value, inclusive of accrued interest and variation margin posted in accordance with the Chicago Mercantile Exchange. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is initially recorded in Accumulated Other Comprehensive Income (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives would be recognized directly in earnings.

**2. Stock Transactions**

***Stock Repurchase Programs***

Under applicable federal regulations, the Company was not permitted to implement a stock repurchase program during the first year following completion of the second-step conversion without prior notice to, and the receipt of a non-objection from, the Federal Reserve Board. On March 16, 2015, the Company announced it had received approval from the Board of Governors of the Federal Reserve System to commence a 5% buyback program prior to the one-year anniversary of the completion of its second step conversion. Accordingly, the Board of Directors authorized the repurchase of 17,911,561 shares. The first program was completed on June 30, 2015.

On June 9, 2015, the Company announced its second share repurchase program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 34,779,211 shares. The second repurchase program commenced immediately upon completion of the first repurchase plan on June 30, 2015. The second program was completed on June 17, 2016.

On April 28, 2016, the Company announced its third share repurchase program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 31,481,189 shares. The third repurchase program commenced immediately upon completion of the second repurchase plan on June 17, 2016.

During the year ended December 31, 2017, the Company purchased 4,463,669 shares at a cost of \$59.1 million, or approximately \$13.24 per share. During the year ended December 31, 2016, the Company

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

purchased 31,336,369 shares at a cost of \$363.4 million, or approximately \$11.60 per share. During the year ended December 31, 2015, the Company purchased 31,576,421 shares at a cost of \$382.9 million, or approximately \$12.13 per share.

For the years ended December 31, 2017 and 2016, shares repurchased include 313,269 shares and 256,405 shares, respectively, withheld to cover income taxes related to restricted stock vesting under our 2015 Equity Incentive Plan. Shares withheld to pay income taxes are repurchased pursuant to the terms of the 2015 Equity Incentive Plan.

### ***Cash Dividends***

Since September 2012, we have paid a quarterly cash dividend. Our dividend payout ratio for the year ended December 31, 2017 was 75%.

### **3. Securities**

The following tables present the carrying value, gross unrealized gains and losses and estimated fair value for available-for-sale securities and the amortized cost, net unrealized losses, carrying value, gross unrecognized gains and losses and estimated fair value for held-to-maturity securities as of the dates indicated:

	At December 31, 2017			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	\$ 4,911	903	113	5,701
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	649,060	382	9,200	640,242
Federal National Mortgage Association	1,322,255	700	19,379	1,303,576
Government National Mortgage Association	39,577	—	1,369	38,208
Total mortgage-backed securities				
available-for-sale	2,010,892	1,082	29,948	1,982,026
Total available-for-sale securities	<u>\$2,015,803</u>	<u>1,985</u>	<u>30,061</u>	<u>1,987,727</u>



# INVESTORS BANCORP, INC. AND SUBSIDIARY

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At December 31, 2017

	Amortized cost	Net unrealized losses <sup>(1)</sup>	Carrying value	Gross unrecognized gains <sup>(2)</sup>	Gross unrecognized losses <sup>(2)</sup>	Estimated fair value
	(In thousands)					
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	\$ 43,281	—	43,281	—	685	42,596
Municipal bonds	40,595	—	40,595	1,251	—	41,846
Corporate and other debt securities	68,232	20,145	48,087	38,207	—	86,294
Total debt securities held-to-maturity	152,108	20,145	131,963	39,458	685	170,736
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	474,314	969	473,345	530	5,439	468,436
Federal National Mortgage Association	1,102,242	1,149	1,101,093	2,787	12,280	1,091,600
Government National Mortgage Association	90,220	—	90,220	—	867	89,353
Total mortgage-backed securities held-to-maturity	1,666,776	2,118	1,664,658	3,317	18,586	1,649,389
Total held-to-maturity securities	\$1,818,884	22,263	1,796,621	42,775	19,271	1,820,125

<sup>(1)</sup> Net unrealized losses of held-to-maturity corporate and other debt securities represent the other than temporary charge related to other non-credit factors and is being amortized through accumulated other comprehensive income (loss) over the remaining life of the securities. For mortgage-backed securities, it represents the net loss on previously designated available-for sale securities transferred to held-to-maturity at fair value and is being amortized through accumulated other comprehensive income (loss) over the remaining life of the securities.

<sup>(2)</sup> Unrecognized gains and losses of held-to-maturity securities are not reflected in the financial statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as held-to-maturity; or (ii) the date that an other than temporary impairment charge is recognized on a held-to-maturity security, through the date of the balance sheet.

At December 31, 2016

	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	\$ 5,825	918	83	6,660
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	603,774	1,971	7,306	598,439
Federal National Mortgage Association	1,022,383	2,678	16,474	1,008,587
Government National Mortgage Association	47,538	—	791	46,747
Total mortgage-backed securities available-for-sale	1,673,695	4,649	24,571	1,653,773
Total available-for-sale securities	\$1,679,520	5,567	24,654	1,660,433

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At December 31, 2016						
	Amortized cost	Net unrealized losses <sup>(1)</sup>	Carrying Value	Gross unrecognized gains <sup>(2)</sup>	Gross unrecognized losses <sup>(2)</sup>	Estimated fair value
(In thousands)						
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	\$ 2,128	—	2,128	12	—	2,140
Municipal bonds	37,978	—	37,978	1,515	—	39,493
Corporate and other debt securities	65,852	21,760	44,092	40,153	—	84,245
Total debt securities held-to-maturity	105,958	21,760	84,198	41,680	—	125,878
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	411,692	1,559	410,133	793	3,502	407,424
Federal National Mortgage Association	1,246,635	1,802	1,244,833	3,635	15,389	1,233,079
Government National Mortgage Association	16,392	—	16,392	28	—	16,420
Total mortgage-backed securities held-to-maturity	1,674,719	3,361	1,671,358	4,456	18,891	1,656,923
Total held-to-maturity securities	\$1,780,677	25,121	1,755,556	46,136	18,891	1,782,801

<sup>(1)</sup> Net unrealized losses of held-to-maturity corporate and other debt securities represent the other than temporary charge related to other non-credit factors and is being amortized through accumulated other comprehensive income (loss) over the remaining life of the securities. For mortgage-backed securities, it represents the net loss on previously designated available-for sale securities transferred to held-to-maturity at fair value and is being amortized through accumulated other comprehensive income (loss) over the remaining life of the securities.

<sup>(2)</sup> Unrecognized gains and losses of held-to-maturity securities are not reflected in the financial statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as held-to-maturity; or (ii) the date that an other-than-temporary impairment charge is recognized on a held-to-maturity security, through the date of the balance sheet.

At December 31, 2017, corporate and other debt securities include a portfolio of collateralized debt obligations backed by pooled trust preferred securities (“TruPS”), principally issued by banks and to a lesser extent insurance companies, real estate investment trusts, and collateralized debt obligations. At December 31, 2017 the TruPS had a carrying value and estimated fair value of \$43.1 million and \$81.2 million, respectively. While all were investment grade at purchase, securities classified as non-investment grade at December 31, 2017 had an amortized cost and estimated fair value of \$41.0 million and \$74.9 million, respectively. Fair value is derived from considering specific assumptions, including terms of the TruPS structure, events of deferrals, defaults and liquidations, the projected cash flow for principal and interest payments, and discounted cash flow modeling.

Investment securities with a carrying value of \$1.11 billion and an estimated fair value of \$1.09 billion are pledged to secure borrowings and municipal deposits. The contractual maturities of the Bank’s mortgage-backed securities are generally less than 20 years with effective lives expected to be shorter due to prepayments. Expected maturities may differ from contractual maturities due to underlying loan prepayments or early call privileges of the issuer, therefore, mortgage-backed securities are not included in the following table. The amortized cost and estimated fair value of debt securities at December 31, 2017, by contractual maturity, are shown below.

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

	December 31, 2017	
	<u>Carrying Value</u>	<u>Estimated fair value</u>
	(In thousands)	
Due in one year or less	\$ 38,333	38,333
Due after one year through five years	—	—
Due after five years through ten years	50,544	51,184
Due after ten years	43,086	81,219
Total	<u>\$131,963</u>	<u>170,736</u>

Gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and December 31, 2016, was as follows:

	December 31, 2017					
	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>
	(In thousands)					
Available-for-sale:						
Equity Securities	\$ 4,778	113	—	—	4,778	113
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	365,078	3,115	220,744	6,085	585,822	9,200
Federal National Mortgage Association	684,327	6,276	447,310	13,103	1,131,637	19,379
Government National Mortgage Association	14,981	283	23,227	1,086	38,208	1,369
Total mortgage-backed securities available-for-sale	<u>1,064,386</u>	<u>9,674</u>	<u>691,281</u>	<u>20,274</u>	<u>1,755,667</u>	<u>29,948</u>
Total available-for-sale securities	<u>1,069,164</u>	<u>9,787</u>	<u>691,281</u>	<u>20,274</u>	<u>1,760,445</u>	<u>30,061</u>
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	\$ 42,596	685	—	—	42,596	685
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	290,340	2,946	111,849	2,493	402,189	5,439
Federal National Mortgage Association	369,484	2,380	430,955	9,900	800,439	12,280
Government National Mortgage Association	51,126	867	—	—	51,126	867
Total mortgage-backed securities held-to-maturity	<u>710,950</u>	<u>6,193</u>	<u>542,804</u>	<u>12,393</u>	<u>1,253,754</u>	<u>18,586</u>
Total held-to-maturity securities	<u>\$ 753,546</u>	<u>6,878</u>	<u>542,804</u>	<u>12,393</u>	<u>1,296,350</u>	<u>19,271</u>
Total	<u>\$1,822,710</u>	<u>16,665</u>	<u>1,234,085</u>	<u>32,667</u>	<u>3,056,795</u>	<u>49,332</u>

# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

	December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available-for-sale:						
Equity Securities	\$ 4,722	83	—	—	4,722	83
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	406,878	7,220	12,756	86	419,634	7,306
Federal National Mortgage Association	762,272	15,977	25,089	497	787,361	16,474
Government National Mortgage Association	46,747	791	—	—	46,747	791
Total mortgage-backed securities available-for-sale	1,215,897	23,988	37,845	583	1,253,742	24,571
Total available-for-sale securities	1,220,619	24,071	37,845	583	1,258,464	24,654
Held-to-maturity:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	339,666	3,354	3,623	148	343,289	3,502
Federal National Mortgage Association	970,194	15,389	—	—	970,194	15,389
Total held-to-maturity securities	\$1,309,860	18,743	3,623	148	1,313,483	18,891
Total	\$2,530,479	42,814	41,468	731	2,571,947	43,545

At December 31, 2017, the majority of gross unrealized losses primarily relate to our mortgage-backed-security portfolio which is comprised of securities issued by U.S. Government Sponsored Enterprises. The fair values of these securities have been negatively impacted by the recent increase in intermediate-term market interest rates.

### Other-Than-Temporary Impairment ("OTTI")

We conduct a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income (loss), net of tax.

With the assistance of a valuation specialist, we evaluate the credit and performance of each issuer underlying our pooled trust preferred securities. Cash flows for each security are forecasted using assumptions for defaults, recoveries, pre-payments and amortization. At December 31, 2017, 2016 and 2015 management deemed that the present value of projected cash flows for each security was greater than the book value and did not recognize any additional OTTI charges for the years ended December 31, 2017, 2016 and 2015. At

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2017, non-credit related OTTI recorded on the previously impaired TruPS was \$20.1 million (\$14.5 million after-tax). This amount is being accreted into income over the estimated remaining life of the securities.

The following table presents the changes in the credit loss component of the impairment loss of debt securities that the Company has written down for such loss as an other-than-temporary impairment recognized in earnings.

	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(In thousands)		
Balance of credit related OTTI, beginning of period	\$95,743	100,200	108,817
Additions:			
Initial credit impairments	—	—	—
Subsequent credit impairments	—	—	—
Reductions:			
Accretion of credit loss impairment due to an increase in expected cash flows	(6,164)	(4,457)	(3,804)
Reductions for securities sold or paid off during the period	(3,811)	—	(4,813)
Balance of credit related OTTI, end of period	<u>\$85,768</u>	<u>95,743</u>	<u>100,200</u>

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the securities prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which OTTI occurred prior to the period presented. If OTTI is recognized in earnings for credit impaired debt securities, they would be presented as additions based upon whether the current period is the first time a debt security was credit impaired (initial credit impairment) or is not the first time a debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) the Company receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

### ***Realized Gains and Losses***

Gains and losses on the sale of all securities are determined using the specific identification method. For the year ended December 31, 2017, the Company received sales proceeds of \$102.1 million on pools of mortgage-backed securities from the available-for-sale portfolio resulting in gross realized gains of \$1.3 million and gross realized losses of \$69,000.

There were no proceeds from sales of securities in the held-to-maturity portfolio for the year ended December 31, 2017; however, for the year ended December 31, 2017, the Company received sale proceeds of \$3.1 million from the liquidation of a TruP security. As a result, \$1.9 million was recognized as interest income from securities in the Consolidated Statements of Income.

For the year ended December 31, 2016, the Company received proceeds of \$57.9 million on equity securities and pools of mortgage-backed securities sold from the available-for-sale portfolio resulting in a gross realized gain of \$2.3 million. For the year ended December 31, 2016, the Company received sale proceeds of \$14.3 million on a pool of mortgage-backed securities from the held-to-maturity portfolio resulting in a gross

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### Notes to Consolidated Financial Statements

realized gain of \$836,000. These securities met the criteria of principal pay downs under 85% of the original investment amount and therefore did not result in a tainting of the held-to-maturity portfolio. The Company sells securities when, in management's assessment, market pricing presents an economic benefit that outweighs holding such securities, and when securities with smaller balances become cost prohibitive to carry.

For the year ended December 31, 2015, the Company received proceeds of \$2.6 million on an equity security from the available-for-sale portfolio resulting in a gross realized gain of \$1.5 million. For the year ended December 31, 2015, the Company recognized gains on available-for-sale securities of \$145,000 related to capital distributions of equity securities held in the available-for-sale portfolio. For the year ended December 31, 2015, there were no sales of securities from held-to-maturity portfolio, however for the year ended December 31, 2015, the Company recognized a loss of \$646,000 on a TruP security which was liquidated by its Trustee.

#### 4. Loans Receivable, Net

The detail of the loan portfolio as of December 31, 2017 and December 31, 2016 was as follows:

	December 31, 2017	December 31, 2016
	(In thousands)	
Multi-family loans	\$ 7,802,835	7,459,131
Commercial real estate loans	4,541,347	4,445,194
Commercial and industrial loans	1,625,375	1,275,283
Construction loans	416,883	314,843
Total commercial loans	14,386,440	13,494,451
Residential mortgage loans	5,025,266	4,710,373
Consumer and other loans	670,820	596,922
Total loans excluding PCI loans	20,082,526	18,801,746
PCI loans	8,322	8,956
Deferred fees and premiums on purchased loans, net <sup>(1)</sup>	(7,778)	(12,474)
Allowance for loan losses	(230,969)	(228,373)
Net loans	<u>\$19,852,101</u>	<u>18,569,855</u>

<sup>(1)</sup> Included in deferred fees and premiums are accretable purchase accounting adjustments in connection with loans acquired.

#### Allowance for Loan Losses

An analysis of the allowance for loan losses is summarized as follows:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Balance at beginning of the period	\$228,373	218,505	200,284
Loans charged off	(19,209)	(14,997)	(12,216)
Recoveries	5,555	5,115	4,437
Net charge-offs	(13,654)	(9,882)	(7,779)
Provision for loan losses	16,250	19,750	26,000
Balance at end of the period	<u>\$230,969</u>	<u>228,373</u>	<u>218,505</u>



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The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, we make significant estimates and therefore, have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. GAAP, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. Loans acquired are marked to fair value on the date of acquisition with no valuation allowance reflected in the allowance for loan losses. In conjunction with the quarterly evaluation of the adequacy of the allowance for loan losses, the Company performs an analysis on acquired loans to determine whether or not an allowance should be ascribed to those loans. Purchased Credit-Impaired (“PCI”) loans are loans acquired at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with Accounting Standards Codification (“ASC”) Subtopic 310-30 and are initially recorded at fair value as determined by the present value of expected future cash flows with no valuation allowance reflected in the allowance for loan losses. For the year ended December 31, 2017 and 2016, the Company recorded charge-offs of \$96,000 and \$52,000, respectively, related to PCI loans acquired.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial loan with an outstanding balance greater than \$1.0 million and on non-accrual status, loans modified in a troubled debt restructuring (“TDR”), and other commercial loans greater than \$1.0 million if management has specific information that it is probable they will not collect all amounts due under the contractual terms of the loan agreement. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk rating (if applicable) and payment history. In addition, the Company’s residential portfolio is subdivided between fixed and adjustable rate loans as adjustable rate loans are deemed to be subject to more credit risk if interest rates rise. Reserves for each loan segment or the loss factors are generally determined based on the Company’s historical loss experience over a look-back period determined to provide the appropriate amount of data to accurately estimate expected losses as of period end. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each historical loss factor accordingly. The loss emergence period is the estimated time from the date of a loss event (such as a personal bankruptcy) to the actual recognition of the loss (typically via the first full or partial loan charge-off), and is determined based upon a study of the Company’s past loss experience by loan segment. The loss factors may also be adjusted to account for qualitative or environmental factors that are likely to cause estimated credit losses inherent in the portfolio to differ from historical loss experience. This evaluation is based on among other things, loan and delinquency trends, general economic conditions, credit concentrations, industry trends and lending and credit management policies and procedures, but is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be different than the allowance for loan losses we have established which could have a material negative effect on our financial results.

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On a quarterly basis, management reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. Loans determined to be impaired are evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance or charge-off if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair value of the collateral is based on the most current appraised value available for real property or a discounted cash flow analysis on a business. The appraised value for real property is then reduced to reflect estimated liquidation expenses.

The allowance contains reserves identified as unallocated. These reserves reflect management's attempt to provide for the imprecision and the uncertainty that is inherent in estimates of probable credit losses.

Our lending emphasis has been the origination of multi-family loans, commercial real estate loans, commercial and industrial loans, one- to four-family residential mortgage loans secured by one- to four-family residential real estate, construction loans and consumer loans, the majority of which are home equity loans, home equity lines of credit and cash surrender value lending on life insurance contracts. These activities resulted in a concentration of loans secured by real estate property and businesses located in New Jersey and New York. Based on the composition of our loan portfolio, we believe the primary risks to our loan portfolio are increases in interest rates, a decline in the general economy, and declines in real estate market values in New Jersey, New York and surrounding states. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Negative changes to appraisal assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed to determine that the resulting values reasonably reflect amounts realizable on the related loans.

The Company obtains an appraisal for all commercial loans that are collateral dependent upon origination. An updated appraisal is obtained annually for loans rated substandard or worse with a balance of \$500,000 or greater. An updated appraisal is obtained biennially for loans rated special mention with a balance of \$2.0 million or greater. This is done in order to determine the specific reserve or charge off needed. As part of the allowance for loan losses process, the Company reviews each collateral dependent commercial loan classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its commercial lending officers and its credit department and special assets department's knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

For homogeneous residential mortgage loans, the Company's policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every two years if the loan remains in non-performing status and the foreclosure process has not been completed. Management adjusts the appraised value of residential loans to reflect estimated selling costs and declines in the real estate market.

Management believes the potential risk for outdated appraisals for impaired and other non-performing loans has been mitigated due to the fact that the loans are individually assessed to determine that the loan's carrying

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

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value is not in excess of the fair value of the collateral. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current economic environment deteriorates. Management uses relevant information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of the years ended December 31, 2017 and 2016:

December 31, 2017								
	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction Loans	Residential Mortgage Loans	Consumer and Other Loans	Unallocated	Total
(Dollars in thousands)								
Allowance for loan losses:								
Beginning balance-								
December 31, 2016 \$	95,561	52,796	43,492	11,653	19,831	2,850	2,190	228,373
Charge-offs	(6)	(8,072)	(5,656)	(100)	(4,875)	(500)	—	(19,209)
Recoveries	1,677	549	200	—	2,816	313	—	5,555
Provision	(15,763)	10,864	16,527	56	4,063	436	67	16,250
Ending balance-								
December 31, 2017 \$	81,469	56,137	54,563	11,609	21,835	3,099	2,257	230,969
Individually evaluated for impairment \$	—	—	—	—	1,678	97	—	1,775
Collectively evaluated for impairment	81,469	56,137	54,563	11,609	20,157	3,002	2,257	229,194
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Balance at December 31, 2017 \$	81,469	56,137	54,563	11,609	21,835	3,099	2,257	230,969
Loans:								
Individually evaluated for impairment \$	14,776	29,736	8,989	—	26,376	879	—	80,756
Collectively evaluated for impairment	7,788,059	4,511,611	1,616,386	416,883	4,998,890	669,941	—	20,001,770
Loans acquired with deteriorated credit quality	—	6,754	—	—	1,251	317	—	8,322
Balance at December 31, 2017	\$7,802,835	4,548,101	1,625,375	416,883	5,026,517	671,137	—	20,090,848

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December 31, 2016

	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction Loans	Residential Mortgage Loans	Consumer and Other Loans	Unallocated	Total
(Dollars in thousands)								
Allowance for loan losses:								
Beginning balance-								
December 31, 2015 \$	88,223	46,999	40,585	6,794	31,443	3,155	1,306	218,505
Charge-offs	(161)	(455)	(4,485)	(52)	(9,425)	(419)	—	(14,997)
Recoveries	1,885	689	541	267	1,631	102	—	5,115
Provision	5,614	5,563	6,851	4,644	(3,818)	12	884	19,750
Ending balance-								
December 31, 2016 \$	95,561	52,796	43,492	11,653	19,831	2,850	2,190	228,373
Individually evaluated for impairment \$	—	—	—	—	1,581	20	—	1,601
Collectively evaluated for impairment	95,561	52,796	43,492	11,653	18,250	2,830	2,190	226,772
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Balance at								
December 31, 2016 \$	95,561	52,796	43,492	11,653	19,831	2,850	2,190	228,373
Loans:								
Individually evaluated for impairment \$	248	5,962	3,370	—	24,453	371	—	34,404
Collectively evaluated for impairment	7,458,883	4,439,232	1,271,913	314,843	4,685,920	596,551	—	18,767,342
Loans acquired with deteriorated credit quality	—	7,106	—	—	1,507	343	—	8,956
Balance at								
December 31, 2016	\$7,459,131	4,452,300	1,275,283	314,843	4,711,880	597,265	—	18,810,702

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. For non-homogeneous loans, such as commercial and commercial real estate loans the Company analyzes the loans individually by classifying the loans as to credit risk and assesses the probability of collection for each type of class. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

**Pass** — “Pass” assets are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

**Watch** — A “Watch” asset has all the characteristics of a Pass asset but warrants more than the normal level of supervision. These loans may require more detailed reporting to management because some aspects of underwriting may not conform to policy or adverse events may have affected or could affect the cash flow or

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ability to continue operating profitably, provided, however, the events do not constitute an undue credit risk. Residential and consumer loans delinquent 30-59 days are considered watch if not already identified as impaired.

**Special Mention** — A “Special Mention” asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Residential and consumer loans delinquent 60-89 days are considered special mention if not already identified as impaired.

**Substandard** — A “Substandard” asset is inadequately protected by the current worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Residential and consumer loans delinquent 90 days or greater as well as those identified as impaired are considered substandard.

**Doubtful** — An asset classified “Doubtful” has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

**Loss** — An asset or portion thereof, classified “Loss” is considered uncollectible and of such little value that its continuance on the institution’s books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery will occur. As such, it is not practical or desirable to defer the write-off.

The following tables present the risk category of loans as of December 31, 2017 and December 31, 2016 by class of loans excluding PCI loans:

	December 31, 2017						
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)						
Commercial loans:							
Multi-family	\$ 6,791,999	702,384	154,125	154,327	—	—	7,802,835
Commercial real estate	3,751,790	528,179	105,089	156,289	—	—	4,541,347
Commercial and industrial	1,102,304	443,669	37,944	41,458	—	—	1,625,375
Construction	272,882	109,252	34,454	295	—	—	416,883
Total commercial loans	11,918,975	1,783,484	331,612	352,369	—	—	14,386,440
Residential mortgage	4,926,002	14,272	7,749	77,243	—	—	5,025,266
Consumer and other	657,515	6,270	521	6,514	—	—	670,820
Total	\$17,502,492	1,804,026	339,882	436,126	—	—	20,082,526

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**December 31, 2016**

	<u>Pass</u>	<u>Watch</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
	<b>(In thousands)</b>						
Commercial loans:							
Multi-family	\$ 6,961,809	276,858	165,948	54,516	—	—	7,459,131
Commercial real estate	3,900,988	373,319	134,154	36,733	—	—	4,445,194
Commercial and industrial	900,190	344,628	23,588	6,877	—	—	1,275,283
Construction	230,630	76,773	3,200	4,240	—	—	314,843
Total commercial loans	11,993,617	1,071,578	326,890	102,366	—	—	13,494,451
Residential mortgage	4,600,611	21,873	10,239	77,650	—	—	4,710,373
Consumer and other	583,140	5,627	719	7,436	—	—	596,922
Total	<u>\$17,177,368</u>	<u>1,099,078</u>	<u>337,848</u>	<u>187,452</u>	<u>—</u>	<u>—</u>	<u>18,801,746</u>

The following tables present the payment status of the recorded investment in past due loans as of December 31, 2017 and December 31, 2016 by class of loans excluding PCI loans:

**December 31, 2017**

	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>
	<b>(In thousands)</b>					
Commercial loans:						
Multi-family	\$ 7,263	7,652	203	15,118	7,787,717	7,802,835
Commercial real estate	19,355	778	11,519	31,652	4,509,695	4,541,347
Commercial and industrial	4,855	—	75	4,930	1,620,445	1,625,375
Construction	—	295	—	295	416,588	416,883
Total commercial loans	31,473	8,725	11,797	51,995	14,334,445	14,386,440
Residential mortgage	15,191	8,739	54,900	78,830	4,946,436	5,025,266
Consumer and other	6,357	521	5,755	12,633	658,187	670,820
Total	<u>\$53,021</u>	<u>17,985</u>	<u>72,452</u>	<u>143,458</u>	<u>19,939,068</u>	<u>20,082,526</u>

**December 31, 2016**

	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>
	<b>(In thousands)</b>					
Commercial loans:						
Multi-family	\$ 5,272	1,099	234	6,605	7,452,526	7,459,131
Commercial real estate	6,568	31,964	6,445	44,977	4,400,217	4,445,194
Commercial and industrial	864	885	2,971	4,720	1,270,563	1,275,283
Construction	—	—	—	—	314,843	314,843
Total commercial loans	12,704	33,948	9,650	56,302	13,438,149	13,494,451
Residential mortgage	24,052	10,930	58,119	93,101	4,617,272	4,710,373
Consumer and other	5,627	719	7,065	13,411	583,511	596,922
Total	<u>\$42,383</u>	<u>45,597</u>	<u>74,834</u>	<u>162,814</u>	<u>18,638,932</u>	<u>18,801,746</u>



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The following table presents non-accrual loans, excluding PCI loans, at the dates indicated:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u># of loans</u>	<u>amount</u>	<u># of loans</u>	<u>amount</u>
	<u>(Dollars in thousands)</u>			
Non-accrual:				
Multi-family	5	\$ 14,978	2	\$ 482
Commercial real estate	37	34,043	24	9,205
Commercial and industrial	11	9,989	8	4,659
Construction	1	295	—	—
Total commercial loans	54	59,305	34	14,346
Residential mortgage and consumer	427	76,422	478	79,928
Total non-accrual loans	481	\$135,727	512	\$94,274

Included in the non-accrual table above are TDR loans whose payment status is current but the Company has classified as non-accrual as the loans have not maintained their current payment status for six consecutive months under the restructured terms and therefore do not meet the criteria for accrual status. As of December 31, 2017 and December 31, 2016, these loans are comprised of the following:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u># of loans</u>	<u>Amount</u>	<u># of loans</u>	<u>Amount</u>
	<u>(Dollars in thousands)</u>			
Current TDR classified as non-accrual:				
Multi-family	—	\$ —	1	\$ 248
Commercial real estate	1	10	1	63
Commercial and industrial	—	—	1	286
Total commercial loans	1	10	3	597
Residential mortgage and consumer	24	4,103	23	5,721
Total current TDR classified as non-accrual	25	\$4,113	26	\$6,318

The following table presents TDR loans which were also 30-89 days delinquent and classified as non-accrual at the dates indicated:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u># of loans</u>	<u>Amount</u>	<u># of loans</u>	<u>Amount</u>
	<u>(Dollars in thousands)</u>			
TDR 30-89 days delinquent classified as non-accrual:				
Multi-family	1	\$ 918	—	\$ —
Commercial real estate	2	14,321	2	169
Total commercial loans	3	15,239	2	169
Residential mortgage and consumer	13	1,995	14	2,869
Total TDR 30-89 days delinquent classified as non-accrual	16	\$17,234	16	\$3,038

The Company has no loans past due 90 days or more delinquent that are still accruing interest.

PCI loans are excluded from non-accrual loans, as they are recorded at fair value based on the present value of expected future cash flows. As of December 31, 2017, PCI loans with a carrying value of \$8.3 million

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included \$7.1 million of which were current, \$203,000 of which were 30-89 days delinquent and \$1.0 million of which were 90 days or more delinquent. As of December 31, 2016, PCI loans with a carrying value of \$9.0 million included \$7.7 million of which were current, none of which were 30-89 days delinquent and \$1.3 million of which were 90 days or more delinquent.

At December 31, 2017 and 2016, loans meeting the Company's definition of an impaired loan were primarily collateral dependent loans which totaled \$80.8 million and \$34.4 million, respectively, with allocations of the allowance for loan losses of \$1.8 million and \$1.6 million for the periods ending December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, interest income received and recognized on these loans totaled \$1.5 million and \$1.5 million, respectively.

The following tables present loans individually evaluated for impairment by portfolio segment as of December 31, 2017 and December 31, 2016:

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
<b>With no related allowance:</b>					
Multi-family	\$14,776	14,819	—	14,365	249
Commercial real estate	29,736	37,288	—	29,974	404
Commercial and industrial	8,989	12,008	—	8,681	28
Construction	—	—	—	—	—
Total commercial loans	53,501	64,115	—	53,020	681
Residential mortgage and consumer	12,357	16,236	—	12,100	430
<b>With an allowance recorded:</b>					
Multi-family	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Construction	—	—	—	—	—
Total commercial loans	—	—	—	—	—
Residential mortgage and consumer	14,898	15,461	1,775	14,767	386
<b>Total:</b>					
Multi-family	14,776	14,819	—	14,365	249
Commercial real estate	29,736	37,288	—	29,974	404
Commercial and industrial	8,989	12,008	—	8,681	28
Construction	—	—	—	—	—
Total commercial loans	53,501	64,115	—	53,020	681
Residential mortgage and consumer	27,255	31,697	1,775	26,867	816
Total impaired loans	<u>\$80,756</u>	<u>95,812</u>	<u>1,775</u>	<u>79,887</u>	<u>1,497</u>

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	December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
<b>With no related allowance:</b>					
Multi-family	\$ 248	248	—	252	20
Commercial real estate	5,962	9,265	—	5,790	301
Commercial and industrial	3,370	3,972	—	3,953	169
Construction	—	—	—	—	—
Total commercial loans	9,580	13,485	—	9,995	490
Residential mortgage and consumer	11,030	14,565	—	9,899	483
<b>With an allowance recorded:</b>					
Multi-family	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Construction	—	—	—	—	—
Total commercial loans	—	—	—	—	—
Residential mortgage and consumer	13,794	14,382	1,601	13,689	479
<b>Total:</b>					
Multi-family	248	248	—	252	20
Commercial real estate	5,962	9,265	—	5,790	301
Commercial and industrial	3,370	3,972	—	3,953	169
Construction	—	—	—	—	—
Total commercial loans	9,580	13,485	—	9,995	490
Residential mortgage and consumer	24,824	28,947	1,601	23,588	962
Total impaired loans	\$34,404	42,432	1,601	33,583	1,452

The average recorded investment is the annual average calculated based upon the ending quarterly balances. The interest income recognized is the year to date interest income recognized on a cash basis.

### Troubled Debt Restructurings

On a case-by-case basis, the Company may agree to modify the contractual terms of a borrower's loan to remain competitive and assist customers who may be experiencing financial difficulty, as well as preserve the Company's position in the loan. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a TDR.

Substantially all of our TDR loan modifications involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan, or a combination of these two methods. These modifications rarely result in the forgiveness of principal or accrued interest. In addition, we frequently obtain additional collateral or guarantor support when modifying commercial loans. Restructured loans remain on non-accrual status until there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

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The following tables present the total TDR loans at December 31, 2017 and December 31, 2016. There were four residential PCI loans that were classified as TDRs for the period ended December 31, 2017. There were three residential PCI loans that were classified as TDRs for the period ended December 31, 2016.

	December 31, 2017					
	Accrual		Non-accrual		Total	
	# of loans	Amount	# of loans	Amount	# of loans	Amount
	(Dollars in thousands)					
Commercial loans:						
Multi-family	—	\$ —	1	\$ 918	1	\$ 918
Commercial real estate	—	—	4	14,489	4	14,489
Commercial and industrial	—	—	1	1,287	1	1,287
Total commercial loans	—	—	6	16,694	6	16,694
Residential mortgage and consumer	49	10,957	71	16,298	120	27,255
Total	49	\$10,957	77	\$32,992	126	\$43,949

	December 31, 2016					
	Accrual		Non-accrual		Total	
	# of loans	Amount	# of loans	Amount	# of loans	Amount
	(Dollars in thousands)					
Commercial loans:						
Multi-family	—	\$ —	1	\$ 248	1	\$ 248
Commercial real estate	2	352	4	3,240	6	3,592
Commercial and industrial	—	—	2	1,688	2	1,688
Total commercial loans	2	352	7	5,176	9	5,528
Residential mortgage and consumer	40	9,093	61	15,731	101	24,824
Total	42	\$9,445	68	\$20,907	110	\$30,352

The following tables present information about TDRs that occurred during the years ended December 31, 2017 and 2016:

	Years Ended December 31,					
	2017			2016		
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructurings:						
Multi-family	1	\$ 929	\$ 929	—	\$ —	\$ —
Commercial real estate	3	20,225	15,787	6	1,289	1,289
Residential mortgage and consumer	27	5,445	5,345	27	4,538	4,538

Post-modification recorded investment represents the net book balance immediately following modification.

All TDRs are impaired loans, which are individually evaluated for impairment, as discussed above. Collateral dependent impaired loans classified as TDRs were written down to the estimated fair value of the collateral. There were charge offs of \$4.8 million for collateral dependent TDRs during the year ended December 31, 2017. There were no charge-offs for collateral dependent TDRs during the year ended

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December 31, 2016. The allowance for loan losses associated with the TDRs presented in the above tables totaled \$1.8 million and \$1.6 million for the periods at December 31, 2017 and 2016, respectively.

Residential mortgage loan modifications generally involve the reduction in loan interest rate and extension of loan maturity dates and also may include step up interest rates in their modified terms which will impact their weighted average yield in the future. All residential loans deemed to be TDRs were modified to reflect a reduction in interest rates to current market rates. The commercial loan modifications which qualified as TDRs had their maturity extended.

The following tables present information about pre and post modification interest yield for troubled debt restructurings which occurred during the years ended December 31, 2017 and 2016:

	Years Ended December 31,					
	2017			2016		
	Number of Loans	Pre- modification Interest Yield	Post- modification Interest Yield	Number of Loans	Pre- modification Interest Yield	Post- modification Interest Yield
Troubled Debt Restructurings:						
Multi-family	1	5.75%	5.75%	—	—%	—%
Commercial real estate	3	4.67%	4.67%	6	5.11%	5.20%
Residential mortgage and consumer	27	4.36%	3.37%	27	6.18%	3.61%

Payment defaults for loans modified as a TDR in the previous 12 months to December 31, 2017 consisted of 6 residential loans, 2 commercial real estate loans and 1 multi family loan with a recorded investment of \$442,000, \$14.4 million and \$918,000, respectively, at December 31, 2017. Payment defaults for loans modified as a TDR in the previous 12 months to December 31, 2016 consisted of 11 residential mortgage loans, 4 commercial real estate loans and 1 construction loan with a recorded investment of \$1.8 million, \$573,000 and \$132,000, respectively, at December 31, 2016.

### ***Loan Sales***

For the year ended December 31, 2017, the Company sold \$48.1 million of non-performing commercial real estate and multi-family loans resulting in no charge-off recorded through the allowance.

For the year ended December 31, 2016, the Company sold \$9.7 million of performing residential loans resulting in a net gain of approximately \$600,000.

### **5. Office Properties and Equipment, Net**

Office properties and equipment are summarized as follows:

	December 31,	
	2017	2016
	(In thousands)	
Land	\$ 19,884	20,006
Office buildings	83,659	83,699
Leasehold improvements	112,485	95,489
Furniture, fixtures and equipment	92,650	83,246
Construction in process	6,567	13,070
	315,245	295,510
Less accumulated depreciation and amortization	135,014	118,093
	<u>\$180,231</u>	<u>177,417</u>

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

Depreciation and amortization expense for the years ended December 31, 2017, 2016 and 2015 was \$17.4 million, \$16.2 million and \$13.9 million, respectively.

#### 6. Goodwill and Other Intangible Assets

The following table summarizes net intangible assets and goodwill at December 31, 2017 and 2016:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	(In thousands)	
Mortgage servicing rights	\$13,228	14,889
Core deposit premiums	6,024	8,451
Other	842	928
Total other intangible assets	20,094	24,268
Goodwill	77,571	77,571
Goodwill and intangible assets	<u>\$97,665</u>	<u>101,839</u>

The following table summarizes other intangible assets as of December 31, 2017 and December 31, 2016:

	<u>Gross Intangible Asset</u>	<u>Accumulated Amortization</u>	<u>Valuation Allowance</u>	<u>Net Intangible Assets</u>
	(In thousands)			
<b>December 31, 2017</b>				
Mortgage Servicing Rights	\$20,236	(6,886)	(122)	13,228
Core Deposit Premiums	25,058	(19,034)	—	6,024
Other	1,150	(308)	—	842
Total other intangible assets	<u>\$46,444</u>	<u>(26,228)</u>	<u>(122)</u>	<u>20,094</u>
<b>December 31, 2016</b>				
Mortgage Servicing Rights	\$24,340	(9,286)	(165)	14,889
Core Deposit Premiums	25,058	(16,607)	—	8,451
Other	1,150	(222)	—	928
Total other intangible assets	<u>\$50,548</u>	<u>(26,115)</u>	<u>(165)</u>	<u>24,268</u>

Mortgage servicing rights are accounted for using the amortization method. Under this method, the Company amortizes the loan servicing asset in proportion to, and over the period of, estimated net servicing revenues. The Company sells loans on a servicing-retained basis. Loans that were sold on this basis had an unpaid principal balance of \$1.77 billion and \$1.98 billion at December 31, 2017 and 2016, respectively, all of which relate to residential mortgage loans. At December 31, 2017 and 2016, the servicing asset, included in intangible assets, had an estimated fair value of \$15.0 million and \$16.2 million, respectively. For the year ended December 31, 2017, fair value was based on expected future cash flows considering a weighted average discount rate of 13.20%, a weighted average constant prepayment rate on mortgages of 9.60% and a weighted average life of 6.9 years.

Core deposit premiums are amortized using an accelerated method and having a weighted average amortization period of 10 years.



**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

The following presents the estimated future amortization expense of other intangible assets for the next five years:

	<u>Mortgage Servicing Rights</u>	<u>Core Deposit Premiums</u> (In thousands)	<u>Other</u>
2018	\$437	\$1,974	\$87
2019	463	1,521	87
2020	479	1,112	87
2021	494	756	67
2022	506	466	57

## 7. Deposits

Deposits are summarized as follows:

	<u>December 31,</u>					
	<u>2017</u>			<u>2016</u>		
	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>% of Total</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>% of Total</u>
			(In thousands)			
<b>Non-interest bearing:</b>						
Checking accounts	—%	\$ 2,424,608	13.97%	—%	\$ 2,173,493	14.22%
<b>Interest-bearing:</b>						
Checking accounts	0.91%	4,909,054	28.28%	0.45%	3,916,208	25.63%
Money market deposits	0.90%	4,243,545	24.45%	0.65%	4,150,583	27.16%
Savings	0.48%	2,320,228	13.37%	0.29%	2,092,989	13.70%
Certificates of deposit	1.13%	3,460,262	19.93%	0.91%	2,947,560	19.29%
Total Deposits	0.77%	<u>\$17,357,697</u>	<u>100.00%</u>	0.51%	<u>\$15,280,833</u>	<u>100.00%</u>

Included in the above balances for the years ended December 31, 2017 and December 31, 2016 are money market deposits of \$709.7 million and \$736.8 million, respectively, obtained through brokers and certificates of deposit of \$759.5 million and \$687.8 million, respectively, obtained through brokers.

Scheduled maturities of certificates of deposit are as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In thousands)	
Within one year	\$2,841,219	1,866,000
One to two years	388,261	674,552
Two to three years	97,091	237,506
Three to four years	65,116	62,500
After four years	68,575	107,002
	<u>\$3,460,262</u>	<u>2,947,560</u>

The aggregate amount of certificates of deposit in denominations of \$100,000 or more totaled approximately \$2.37 billion and \$1.94 billion at December 31, 2017 and December 31, 2016, respectively.

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

Interest expense on deposits consists of the following:

	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>		
Checking accounts	\$ 37,091	16,268	9,642
Money market deposits	34,366	25,621	24,136
Savings	8,395	6,304	6,402
Certificates of deposit	33,691	33,864	31,234
Total	<u>\$113,543</u>	<u>82,057</u>	<u>71,414</u>

## **8. Borrowed Funds**

Borrowed funds are summarized as follows:

	<b>December 31,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Principal</b>	<b>Weighted Average Rate</b>	<b>Principal</b>	<b>Weighted Average Rate</b>
	<b>(Dollars in thousands)</b>			
Funds borrowed under repurchase agreements:				
FHLB	\$ —	—%	\$ 23,629	3.90%
Other brokers	130,481	1.87%	131,202	1.88%
Total funds borrowed under repurchase agreements	130,481	1.87%	154,831	2.19%
Other borrowed funds:				
FHLB advances	4,331,052	1.96%	4,391,420	1.79%
Other	—	—	—	—%
Total other borrowed funds:	<u>4,331,052</u>	1.96%	<u>4,391,420</u>	1.79%
Total borrowed funds	<u>\$4,461,533</u>	1.96%	<u>\$4,546,251</u>	1.81%

Borrowed funds had scheduled maturities as follows:

	<b>December 31,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Principal</b>	<b>Weighted Average Rate</b>	<b>Principal</b>	<b>Weighted Average Rate</b>
	<b>(Dollars in thousands)</b>			
Within one year	\$ 861,481	2.18%	\$ 983,629	1.26%
One to two years	719,349	1.80%	862,202	2.12%
Two to three years	975,000	1.95%	619,567	1.80%
Three to four years	700,000	2.00%	775,000	1.96%
Four to five years	700,703	1.98%	600,000	2.01%
After five years	505,000	1.77%	705,853	1.84%
Total borrowed funds	<u>\$4,461,533</u>	1.96%	<u>\$4,546,251</u>	1.81%

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

Mortgage-backed securities have been sold, subject to repurchase agreements, to the FHLB and various brokers. Mortgage-backed securities sold, subject to repurchase agreements, are held by the FHLB for the benefit of the Company. Repurchase agreements require repurchase of the identical securities. Whole mortgage loans have been pledged to the FHLB as collateral for advances, but are held by the Company.

The amortized cost and fair value of the underlying securities used as collateral for borrowings are as follows:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Amortized cost of collateral:		
Mortgage-backed securities	\$411,933	468,159
Total amortized cost of collateral	<u>\$411,933</u>	<u>468,159</u>
Fair value of collateral:		
Mortgage-backed securities	\$404,331	469,200
Total fair value of collateral	<u>\$404,331</u>	<u>469,200</u>

During the years ended December 31, 2017, 2016 and 2015, the maximum month-end balance of the repurchase agreements was \$153.0 million, \$153.0 million and \$163.0 million, respectively. The average amount of repurchase agreements outstanding during the years ended December 31, 2017, 2016 and 2015 was \$149.0 million, \$153.0 million and \$159.4 million, respectively, and the average interest rate was 2.11%, 2.16% and 2.25%, respectively.

At December 31, 2017, our borrowing capacity at the FHLB was \$11.58 billion, of which the Company had outstanding borrowings of \$8.03 billion, which included letters of credit totaling \$3.70 billion. In addition, the Bank had access to unsecured overnight borrowings (Fed Funds) with other financial institutions totaling \$475.0 million, of which no balance was outstanding at December 31, 2017.

## 9. Income Taxes

The components of income tax expense are as follows:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Current tax expense:			
Federal	\$ 47,101	82,708	87,748
State	6,736	12,599	14,804
	<u>53,837</u>	<u>95,307</u>	<u>102,552</u>
Deferred tax expense (benefit):			
Federal	105,044	8,107	4,310
State	(5,036)	3,533	(7,490)
	<u>100,008</u>	<u>11,640</u>	<u>(3,180)</u>
Total income tax expense	<u>\$153,845</u>	<u>106,947</u>	<u>99,372</u>

# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

The following table presents the reconciliation between the actual income tax expense and the “expected” amount computed using the applicable statutory federal income tax rate of 35%:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
“Expected” federal income tax expense	\$ 98,206	104,675	98,307
State tax, net	6,051	9,887	4,753
Impact of tax reform	49,164	—	—
Bank owned life insurance	(1,310)	(1,548)	(1,382)
Excess tax benefits from employee share-based payments	(1,722)	(7,735)	—
Acquisition related net operating loss	—	—	(4,076)
ESOP fair market value adjustment	1,237	931	947
Non-deductible compensation	1,451	1,602	276
Expiration of stock options	—	—	19
Other	768	(865)	528
Total income tax expense	<u>\$153,845</u>	<u>106,947</u>	<u>99,372</u>

The temporary differences and loss carryforwards which comprise the deferred tax asset and liability are as follows:

	December 31,	
	2017	2016
	(In thousands)	
Deferred tax asset:		
Employee benefits	\$ 21,201	34,218
Deferred compensation	994	1,596
Premises and equipment	—	1,587
Allowance for loan losses	67,307	92,738
Net unrealized loss on securities	12,542	17,078
Net other than temporary impairment loss on securities	—	40,228
ESOP	3,518	4,333
Allowance for delinquent interest	283	14,539
Fair value adjustments related to acquisitions	12,750	20,823
Charitable contribution carryforward	720	406
Loan origination costs	7,964	9,599
Intangible assets	—	—
State NOL	3,996	—
Other	1,720	1,305
Gross deferred tax asset	132,995	238,450
Valuation allowance	(284)	(346)
	<u>132,711</u>	<u>238,104</u>
Deferred tax liability:		
Intangible assets	71	363
Discount accretion	—	4,080
Mortgage servicing rights	4,039	6,257
Premises and equipment	1,664	—
Net unrealized gain on hedging activities	5,274	5,127
Gross deferred tax liability	11,048	15,827
Net deferred tax asset	<u>\$121,663</u>	<u>222,277</u>

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

A deferred tax asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred tax assets is reduced by the amount of any tax benefits that, based on available evidence, are more likely than not to be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforwards become deductible. A valuation allowance is recorded for tax benefits which management has determined are not more likely than not to be realized.

On December 22, 2017, the President signed into law the Tax Act. The new law reduces the federal corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. Under ASC 740, "Income Taxes", companies are required to recognize the effect of tax law changes in the period of enactment; therefore, the Company re-measured its deferred tax assets and liabilities at the enacted tax rate expected to apply when its temporary differences are expected to be realized or settled. As of the date of enactment, the resulting impact of the re-measurement of the Company's deferred tax balances was \$49.2 million.

Based on the Company's standalone future state taxable income, a valuation allowance was established for the portion of the state tax benefit related to a prior year charitable contribution that is not more likely than not to be realized. At December 31, 2017, the Company's valuation allowance pertaining to the charitable contribution was \$284,000.

Based upon projections of future taxable income and the ability to carry forward net operating losses indefinitely, management believes it is more likely than not the Company will realize the remaining deferred tax asset.

Retained earnings at December 31, 2017 included approximately \$45.2 million for which deferred income taxes of approximately \$13.8 million have not been provided. The retained earnings amount represents the base year allocation of income to bad debt deductions for tax purposes only. Base year reserves are subject to recapture if the Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. Under ASC 740, this amount is treated as a permanent difference and deferred taxes are not recognized unless it appears that it will be reduced and result in taxable income in the foreseeable future. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes or distributions in complete or partial liquidation.

The Company had no unrecognized tax benefits or related interest or penalties at December 31, 2017 and 2016.

The Company files income tax returns in the United States federal jurisdiction and in the states of New Jersey, New York and Pennsylvania. As of December 31, 2017, the Company is no longer subject to federal income tax examination for years prior to 2014. Investors Bank and its affiliates are currently under audit by the New York State Department of Taxation and Finance for tax years 2013 and 2014. The Company is no longer subject to income tax examination by New Jersey and New York for years prior to 2013 and 2014, respectively.

## **10. Benefit Plans**

### ***Defined Benefit Pension Plan***

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan"), a tax-qualified defined-benefit pension plan. The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan contributions made by a participating employer may be used to provide benefits to participants of other participating employers. As of December 31, 2016, the annual benefit provided under the Pentegra DB plan was frozen by an amendment to the plan. Freezing the plan eliminates all future benefit accruals and each participant's frozen accrued benefit was determined as of December 31, 2016 and no further benefits will accrue beyond such date.

The funded status (fair value of plan assets divided by funding target) as of July 1, 2017 and 2016 was 93.06% and 94.92%, respectively. The fair value of plan assets reflects any contributions received through June 30, 2017.

The Company's required contribution and pension cost was \$1.6 million, \$4.2 million and \$6.4 million in the years ended December 31, 2017, 2016 and 2015, respectively. The accrued pension liability was \$499,000 and \$780,000 at December 31, 2017 and 2016, respectively. The Company's contributions to the Pentegra DB Plan are not more than 5% of the total contributions to the Pentegra DB Plan. The Company's expected contribution for the 2018 plan year is approximately \$3.9 million.

#### ***SERPs, Directors' Plan and Other Postretirement Benefits Plan***

The Company has an Executive Supplemental Retirement Wage Replacement Plan ("Wage Replacement Plan") and the Supplemental Retirement Plan ("SERP I") (collectively, the "SERPs"). The Wage Replacement Plan is a nonqualified, defined benefit plan which provides benefits to certain executives as designated by the Compensation Committee of the Board of Directors. More specifically, the Wage Replacement Plan was designed to provide participants with a normal retirement benefit equal to an annual benefit of 60% of the participant's highest annual base salary and cash incentive (over a consecutive 36-month period within the participant's credited service period) reduced by the sum of the benefits provided under the Pentegra DB Plan and SERP I.

Effective as of the close of business of December 31, 2016, the Wage Replacement Plan was amended to freeze future benefit accruals, and for certain participants, structure the benefits payable attributable solely to the participants' 2016 year of service to vest over a two-year period such that the participants had a right to 50% of their accrued benefits attributable to their 2016 year of service as of December 31, 2016, which became 100% vested as of December 31, 2017.

The Supplemental ESOP compensates certain executives (as designated by the Compensation Committee of the Board of Directors) participating in the ESOP whose contributions are limited by the Internal Revenue Code. The Company also maintains the Amended and Restated Director Retirement Plan ("Directors' Plan") for certain directors, which is a nonqualified, defined benefit plan. The Directors' Plan was frozen on November 21, 2006 such that no new benefits accrued under, and no new directors were eligible to participate in the plan. The Wage Replacement Plan, Supplemental ESOP and the Directors' Plan are unfunded and the costs of the plans are recognized over the period that services are provided.



# **INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

The following table sets forth information regarding the Wage Replacement Plan and the Directors' Plan:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 40,296	47,887
Service cost	1,486	2,088
Interest cost	1,513	1,895
Gain due to change in mortality assumption	(260)	(468)
Loss due to change in discount rate	2,270	1,035
Gain due to demographic changes	(1,375)	(6,716)
Settlements	—	(233)
Actuarial gain	(196)	(27)
Curtailment	—	(4,294)
Benefits paid	(833)	(871)
Benefit obligation at end of year	<u>42,901</u>	<u>40,296</u>
Funded status	<u><u>\$(42,901)</u></u>	<u><u>(40,296)</u></u>

The unfunded pension benefits of \$42.9 million and \$40.3 million at December 31, 2017 and 2016, respectively, are included in other liabilities in the consolidated balance sheets. The components of accumulated other comprehensive loss related to pension plans, on a pre-tax basis, at December 31, 2017 and 2016, are summarized in the following table.

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
Prior service cost	\$ —	—
Net actuarial loss	<u>6,738</u>	<u>6,759</u>
Total amounts recognized in accumulated other comprehensive loss	<u><u>\$6,738</u></u>	<u><u>6,759</u></u>

The accumulated benefit obligation for the Wage Replacement Plan and Directors' Plan was \$36.2 million and \$33.5 million at December 31, 2017 and 2016, respectively. The measurement date for our Wage Replacement Plan and Directors' Plan is December 31 for the years ended December 31, 2017 and 2016.

The weighted-average actuarial assumptions used in the plan determinations at December 31, 2017 and 2016 were as follows:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	3.34%	3.80%
Rate of compensation increase	—%	—%

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

The components of net periodic benefit cost are as follows:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Service cost	\$1,486	2,088	3,096
Interest cost	1,513	1,895	1,497
Amortization of:			
Prior service cost	—	—	49
Net loss	458	2,055	1,282
Total net periodic benefit cost	<u>\$3,457</u>	<u>6,038</u>	<u>5,924</u>

The following are the weighted average assumptions used to determine net periodic benefit cost:

	Years Ended December 31,		
	2017	2016	2015
Discount rate	3.80%	3.99%	3.71%
Rate of compensation increase	—%	4.36%	4.19%

Estimated future benefit payments, which reflect expected future service, as appropriate for the next ten calendar years are as follows:

	Amount
	(In thousands)
2018	\$ 896
2019	879
2020	2,078
2021	2,718
2022	2,694
2023 through 2027	14,452

#### **401(k) Plan**

The Company has a 401(k) plan covering substantially all employees provided they meet the eligibility age requirement of age 21. For the year ended December 31, 2017, the Company matched 50% of the first 8% contributed by the participants to the 401(k) plan. For the years ended December 31, 2016 and 2015 the Company matched 50% of the first 6% contributed by participants. In addition, for 2017, the 401(k) plan includes a discretionary profit sharing plan for eligible employees. The Company's aggregate contributions to the 401(k) plan for the years ended December 31, 2017, 2016 and 2015 were \$4.9 million, \$2.6 million and \$2.2 million, respectively.

#### **Employee Stock Ownership Plan**

The ESOP is a tax-qualified plan designed to invest primarily in the Company's common stock that provides employees with the opportunity to receive a funded retirement benefit from the Bank, based primarily on the value of the Company's common stock. During the Company's initial public stock offering in October 2005, the ESOP was authorized to purchase, and did purchase, 10,847,883 shares of the Company's common stock at a price of \$3.92 per share with the proceeds of a loan from the Company to the ESOP. In connection with the completion of the Company's mutual to stock conversion on May 7, 2014, the ESOP purchased an

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

additional 6,617,421 common shares of stock at a price of \$10.00 per share with the proceeds of a loan from the Company to the ESOP. The Company refinanced the outstanding principal and interest balance of \$33.9 million and borrowed an additional \$66.2 million to purchase the additional shares. The outstanding loan principal balance at December 31, 2017 was \$90.8 million. Shares of the Company's common stock pledged as collateral for the loan are released from the pledge pro-rata for allocation to participants as loan payments are made.

At December 31, 2017, shares allocated to participants were 5,149,155 since the plan inception. ESOP shares that were unallocated or not yet committed to be released totaled 12,316,149 at December 31, 2017, and had a fair value of \$170.9 million. ESOP compensation expense for the years ended December 31, 2017, 2016 and 2015 was \$5.8 million, \$5.4 million and \$5.5 million, respectively, representing the fair value of shares allocated or committed to be released during the year.

The Supplemental ESOP also provides supplemental benefits to certain executives as designated by the Compensation Committee of the Board of Directors who are prevented from receiving the full benefits contemplated by ESOP's benefit formula due to the Internal Revenue Code. During the years ended December 31, 2017, 2016 and 2015, compensation expense related to this plan amounted to \$262,000, \$766,000 and \$656,000, respectively.

***Equity Incentive Plan***

At the annual meeting held on June 9, 2015, stockholders of the Company approved the Investors Bancorp, Inc. 2015 Equity Incentive Plan ("2015 Plan") which provides for the issuance or delivery of up to 30,881,296 shares (13,234,841 restricted stock awards and 17,646,455 stock options) of Investors Bancorp, Inc. common stock.

Restricted shares granted under the 2015 Plan vest in equal installments, over the service period generally ranging from 5 to 7 years beginning one year from the date of grant. Additionally, certain restricted shares awarded are performance vesting awards, which may or may not vest depending upon the attainment of certain corporate financial targets. The vesting of restricted stock may accelerate in accordance with the terms of the 2015 Plan. The product of the number of shares granted and the grant date closing market price of the Company's common stock determine the fair value of restricted shares under the 2015 Plan. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period. For the year ended December 31, 2017, the Company granted 440,000 shares of restricted stock awards under the 2015 Plan.

Stock options granted under the 2015 Plan vest in equal installments, over the service period generally ranging from 5 to 7 years beginning one year from the date of grant. The vesting of stock options may accelerate in accordance with the terms of the 2015 Plan. Stock options were granted at an exercise price equal to the fair value of the Company's common stock on the grant date based on the closing market price and have an expiration period of 10 years. For the year ended December 31, 2017, the Company granted 93,800 stock options under the 2015 Plan.

During the year ended December 31, 2016, the Compensation and Benefits Committee approved the issuance of 276,890 restricted stock awards and 201,440 stock options to certain officers under the 2015 Plan. During the year ended December 31, 2015, the Compensation and Benefits Committee approved the issuance of 6,849,832 restricted stock awards and 11,576,611 stock options to certain officers under the 2015 Plan.

# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

The fair value of stock options granted as part of the 2015 Plan was estimated utilizing the Black-Scholes option pricing model using the following assumptions for the period presented below:

	For the Year Ended December 31,		
	2017	2016	2015
Weighted average expected life (in years)	6.50	7.00	7.43
Weighted average risk-free rate of return	2.05%	1.67%	1.96%
Weighted average volatility	24.12%	24.05%	25.33%
Dividend yield	2.45%	1.93%	1.59%
Weighted average fair value of options granted	\$ 2.91	\$ 2.80	\$ 3.12
Total stock options granted	93,800	201,440	11,576,611

The weighted average expected life of the stock option represents the period of time that stock options are expected to be outstanding and is estimated using historical data of stock option exercises and forfeitures. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on the historical volatility of the Company's stock. The Company recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Upon exercise of vested options, management expects to draw on treasury stock as the source for shares.

The following table presents the share based compensation expense for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Stock option expense	\$ 5,994	6,556	2,905
Restricted stock expense	14,548	15,419	6,315
Total share based compensation expense	<u>\$20,542</u>	<u>21,975</u>	<u>9,220</u>

The following is a summary of the status of the Company's restricted shares as of December 31, 2017 and changes therein during the year then ended:

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	5,876,491	\$12.51
Granted	440,000	14.38
Vested	(1,008,422)	12.52
Forfeited	(367,734)	12.51
Non-vested at December 31, 2017	<u>4,940,335</u>	\$12.67

Expected future expenses relating to the non-vested restricted shares outstanding as of December 31, 2017 is \$51.7 million over a weighted average period of 3.89 years.

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The following is a summary of the Company's stock option activity and related information for its option plan for the year ended December 31, 2017:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	13,165,333	\$11.74	8.2	\$29,101
Granted	93,800	13.24	9.5	
Exercised	(1,068,103)	8.56	3.7	
Forfeited	(704,470)	12.53		
Expired	(17,143)	12.54		
Outstanding at December 31, 2017	<u>11,469,417</u>	\$12.00	7.0	\$21,587
Exercisable at December 31, 2017	4,514,219	\$11.18	6.3	\$12,186

The weighted average grant date fair value of options granted during the years ended December 31, 2017, 2016 and 2015 were \$2.91, \$2.80 and \$3.12 per share, respectively. Expected future expense relating to the non-vested options outstanding as of December 31, 2017 is \$20.7 million over a weighted average period of 3.74 years.

#### 11. Commitments and Contingencies

The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. Management and the Company's legal counsel are of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

At December 31, 2017, the Company was obligated under various non-cancelable operating leases on buildings and land used for office space and banking purposes. These operating leases contain escalation clauses which provide for increased rental expense, based primarily on increases in real estate taxes and cost-of-living indices. Rental expense under these leases aggregated approximately \$23.7 million, \$22.3 million and \$19.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The projected annual minimum rental commitments are as follows:

	Amount (In thousands)
2018	\$ 24,017
2019	23,527
2020	22,001
2021	20,481
2022	18,838
Thereafter	<u>113,675</u>
	<u>\$222,539</u>

#### *Financial Transactions with Off-Balance-Sheet Risk and Concentrations of Credit Risk*

The Company is a party to transactions with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These transactions consist of commitments to extend credit. These transactions involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the accompanying consolidated balance sheets.

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At December 31, 2017, the Company had commitments to originate total commercial loans of \$347.9 million. Additionally, the Company had commitments to originate residential loans of approximately \$143.4 million and purchase residential loans of \$168.2 million. Unused home equity lines of credit and undisbursed business and construction lines totaled approximately \$1.22 billion at December 31, 2017. No commitments are included in the accompanying consolidated financial statements. The Company has no exposure to credit loss if the customer does not exercise its rights to borrow under the commitment.

The Company uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet loans. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrower.

The Company principally grants commercial real estate loans, multi-family loans, commercial and industrial loans, construction loans, residential mortgage loans and consumer and other loans to borrowers throughout New Jersey, New York, Pennsylvania and states in close proximity. Its borrowers' abilities to repay their obligations are dependent upon various factors, including the borrowers' income and net worth, cash flows generated by the underlying collateral or from business operations, value of the underlying collateral and priority of the Company's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company's control; the Company is, therefore, subject to risk of loss. The Company believes its lending policies and procedures adequately minimize the potential exposure to such risks and adequate provisions for loan losses are provided for all probable and estimable losses.

The Company also holds in its loan portfolio interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower's contractually required payments due to the required amortization of the principal amount after the interest-only period. These payment increases could affect the borrower's ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at December 31, 2017 and December 31, 2016 was \$76.0 million, and \$122.0 million, respectively. The Company maintained stricter underwriting criteria for these interest-only loans than it did for its amortizing loans. The Company believes these criteria adequately control the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

In the normal course of business the Company sells residential mortgage loans to third parties. These loan sales are subject to customary representations and warranties. In the event that the Company is found to be in breach of these representations and warranties, it may be obligated to repurchase certain of these loans.

The Company has entered into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings. These derivatives were used to hedge the variability in cash flows associated with certain short term wholesale funding transactions. The fair value of the derivative as of December 31, 2017 was liability of \$613,000, inclusive of accrued interest and variation margin posted in accordance with the Chicago Mercantile Exchange.



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In connection with its mortgage banking activities, the Company has certain freestanding derivative instruments. At December 31, 2017, the Company had commitments of approximately \$8.2 million to fund loans which will be classified as held-for-sale with a like amount of commitments to sell such loans which are considered derivative instruments under ASC 815, "*Derivatives and Hedging*." The Company also had commitments of \$5.0 million to sell loans at December 31, 2017. The fair values of these derivative instruments are immaterial to the Company's financial condition and results of operations.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The guarantees generally extend for a term of up to one year and are fully collateralized. For each guarantee issued, if the customer defaults on a payment or performance to the third party, the Company would have to perform under the guarantee. Outstanding standby letters of credit totaled \$35.5 million at December 31, 2017. The fair values of these obligations were immaterial at December 31, 2017. At December 31, 2017, the Company had no commercial letters of credit outstanding.

## **12. Derivatives and Hedging Activities**

The Company uses various financial instruments, including derivatives, to manage its exposure to interest rate risk. Certain derivatives are designated as hedging instruments in a qualifying hedge accounting relationship (fair value or cash flow hedge). As of December 31, 2017 and December 31, 2016 the Company has cash flow hedges with aggregate notional amounts of \$900.0 million and \$400.0 million, respectively.

### ***Cash Flow Hedges of Interest Rate Risk***

The Company's objectives in using interest rate derivatives are primarily to reduce cost and add stability to interest expense in an effort to manage its exposure to interest rate movements. Interest rate swaps designated as cash flow hedges involve the receipt of amounts subject to variability caused by changes in interest rates from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is initially recorded in other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company did not have any derivatives outstanding prior to the third quarter of 2016.

During 2017, such derivatives were used to hedge the variability in cash flows associated with certain short term wholesale funding transactions. Since entering into the derivatives in the third quarter of 2016, the Company did not record any hedge ineffectiveness. The ineffective portion of the change in fair value of the derivatives would be recognized directly in earnings.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable rate borrowings. During the next twelve months, the Company estimates that an additional \$762,000 will be reclassified as a decrease to interest expense.

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***Fair Values of Derivative Instruments on the Balance Sheet***

The following table presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016:

	Asset Derivatives				Liability Derivatives			
	At December 31, 2017 <sup>(1)</sup>		At December 31, 2016		At December 31, 2017 <sup>(1)</sup>		At December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)								
Derivatives designated as hedging instruments:								
Interest Rate Swaps	Other assets	\$—	Other assets	\$12,550	Other liabilities	\$613	Other liabilities	\$—
Total derivatives designated as hedging instruments		<u>\$—</u>		<u>\$12,550</u>		<u>\$613</u>		<u>\$—</u>

<sup>(1)</sup> In accordance with the Chicago Mercantile Exchange ("CME") rulebook changes effective January 3, 2017, the fair value is inclusive of accrued interest and variation margin posted by the CME.

The CME amended their rules to legally characterize the variation margin posted between counterparties to be classified as settlements of the outstanding derivative contracts instead of cash collateral. The Company adopted the new rule on a prospective basis to include the accrued interest and variation margin posted by the CME in the fair value.

***Effect of Derivative Instruments on the Income Statement***

The following table presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income as of December 31, 2017 and 2016.

	Twelve Months Ended December 31,	
	2017	2016
	(In thousands)	
<b>Cash Flow Hedges — Interest rate swaps</b>		
Amount of gain recognized in other comprehensive income (loss)	\$ 2,049	\$12,110
Amount of (loss) reclassified from accumulated other comprehensive income (loss) to interest expense	(4,160)	\$ (440)
Amount of gain (loss) recognized in other non-interest income (ineffective portion)	—	—

***Offsetting Derivatives***

The following table presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives in the Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016. The net amounts of derivative liabilities and assets can be reconciled to the tabular disclosure of the fair value hierarchy, see Footnote 13, Fair Value Measurements. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Company's Consolidated Balance Sheets.

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(1) In accordance with the CME rulebook changes effective January 3, 2017, the gross amounts recognized are inclusive of accrued interest and variation margin posted by the CME.

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations and could be required to terminate its derivative positions with the counterparty. The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well capitalized institution, then the Company could be required to terminate its derivative positions with the counterparty.

The Company has minimum collateral posting thresholds with certain of its derivative counterparties and posts collateral on a daily basis as required by the clearing house against the Company's obligations, as required by these agreements.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights (“MSR”), loans receivable and other real estate owned. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets. Additionally, in connection with our mortgage banking activities we have commitments to fund loans held-for-sale and commitments to sell loans, which are considered free-standing derivative instruments, the fair values of which are not material to our financial condition or results of operations.

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

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- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on 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. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

***Assets Measured at Fair Value on a Recurring Basis***

**Securities available-for-sale**

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. The fair values of available-for-sale securities are based on quoted market prices (Level 1), where available. The Company obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded (Level 2), the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service.

**Derivatives**

Derivatives are reported at fair value utilizing Level 2 inputs. The fair values of interest rate swap agreements are based on a valuation model that uses primarily observable inputs, such as benchmark yield curves and interest rate spreads.

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The following tables provide the level of valuation assumptions used to determine the carrying value of our assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and December 31, 2016.

	Carrying Value at December 31, 2017			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets:</b>				
Securities available for sale:				
Equity securities	\$ 5,701	5,701	—	—
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	640,242	—	640,242	—
Federal National Mortgage Association	1,303,576	—	1,303,576	—
Government National Mortgage Association	38,208	—	38,208	—
Total mortgage-backed securities available-for-sale	1,982,026	—	1,982,026	—
Total securities available-for-sale	\$1,987,727	5,701	1,982,026	—
<b>Liabilities:</b>				
Derivative financial instruments <sup>(1)</sup>	\$ 613	—	613	—

<sup>(1)</sup> In accordance with the CME rulebook changes effective January 3, 2017, the gross amounts recognized are inclusive of accrued interest and variation margin posted by the CME.

	Carrying Value at December 31, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets:</b>				
Securities available for sale:				
Equity securities	\$ 6,660	6,660	—	—
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	598,439	—	598,439	—
Federal National Mortgage Association	1,008,587	—	1,008,587	—
Government National Mortgage Association	46,747	—	46,747	—
Total mortgage-backed securities available-for-sale	1,653,773	—	1,653,773	—
Total securities available-for-sale	\$1,660,433	6,660	1,653,773	—
Derivative financial instruments	\$ 12,550	—	12,550	—

There have been no changes in the methodologies used at December 31, 2017 from December 31, 2016, and there were no transfers between Level 1 and Level 2 during the year ended December 31, 2017.

There were no Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2017 and December 31, 2016.

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***Assets Measured at Fair Value on a Non-Recurring Basis***

**Mortgage Servicing Rights, Net**

Mortgage servicing rights are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market's perception of future interest rate movements. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At December 31, 2017, the fair value model used prepayment speeds ranging from 5.56% to 23.22% and a discount rate of 13.20% for the valuation of the mortgage servicing rights. A significant degree of judgment is involved in valuing the mortgage servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate.

**Impaired Loans Receivable**

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial loan with an outstanding balance greater than \$1.0 million and on non-accrual status, loans modified in a troubled debt restructuring, and other commercial loans with \$1.0 million in outstanding principal if management has specific information that it is probable they will not collect all amounts due under the contractual terms of the loan agreement. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Estimated fair value is calculated using an independent third-party appraisals for collateral-dependent loans. In the event the most recent appraisal does not reflect the current market conditions due to the passage of time and other factors, management will obtain an updated appraisal or make downward adjustments to the existing appraised value based on their knowledge of the property, local real estate market conditions, recent real estate transactions, and for estimated selling costs, if applicable. At December 31, 2017, appraisals were discounted in a range of 0%-25% for estimated costs to sell. For non collateral-dependent loans, management estimates the fair value using discounted cash flows based on inputs that are largely unobservable and instead reflect management's own estimates of the assumptions as a market participant would in pricing such loans.

**Other Real Estate Owned**

Other Real Estate Owned is recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are discounted an additional 0%-25% for estimated costs to sell. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If further declines in the estimated fair value of the asset occur, a writedown is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Operating costs after acquisition are generally expensed.

**Loans Held For Sale**

Residential mortgage loans held for sale are recorded at the lower of cost or fair value and are therefore measured at fair value on a non-recurring basis. When available, the Company uses observable secondary market data, including pricing on recent closed market transactions for loans with similar characteristics.

The following tables provide the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at December 31, 2017 and December 31, 2016. For the



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year ended December 31, 2017, there was no change to the carrying value of MSR or loans held for sale. For the year ended December 31, 2016, there was no change to carrying value of other real estate owned measured at fair value on a non-recurring basis.

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average Input	Carrying Value at December 31, 2017			
					Total	Level 1	Level 2	Level 3
					(In thousands)			
Impaired loans	Market comparable and estimated cash flow	Lack of marketability and probability of default	1.0% - 45.0%	21.00%	30,445	—	—	30,445
Other real estate owned	Market comparable	Lack of marketability	0.0% - 25.0%	21.65%	263	—	—	263
					\$30,708	—	—	30,708

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average Input	Carrying Value at December 31, 2016			
					Total	Level 1	Level 2	Level 3
					(In thousands)			
MSR, net	Estimated cash flow	Prepayment speeds	3.15% - 24.18%	9.84%	\$12,877	—	—	12,877
Impaired loans	Estimated cash flow	Lack of marketability and probability of default	22.0% - 29.0%	26.00%	1,403	—	—	1,403
Loans held for sale	Market comparable	Lack of marketability	2.5% - 4.5%	3.45%	313	—	—	313
					\$14,593	—	—	14,593

### Other Fair Value Disclosures

Fair value estimates, methods and assumptions for the Company's financial instruments not recorded at fair value on a recurring or non-recurring basis are set forth below.

### Cash and Cash Equivalents

For cash and due from banks, the carrying amount approximates fair value.

### Securities Held-to-Maturity

Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. Management utilizes various inputs to determine the fair value of the portfolio. The Company obtains one price for each security primarily from a third-party pricing service, which generally uses quoted or other observable inputs for

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the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable, are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to forecasted cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service.

#### **FHLB Stock**

The fair value of the Federal Home Loan Bank of New York ("FHLB") stock is its carrying value, since this is the amount for which it could be redeemed. There is no active market for this stock and the Bank is required to hold a minimum investment based upon the balance of mortgage related assets held by the member and or FHLB advances outstanding.

#### **Loans**

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans is calculated by discounting forecasted cash flows through the estimated maturity date using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. Fair value for significant non-performing loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

#### **Deposit Liabilities**

The fair value of deposits with no stated maturity, such as savings, checking accounts and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates which approximate currently offered for deposits of similar remaining maturities.

#### **Borrowings**

The fair value of borrowings are based on securities dealers' estimated fair values, when available, or estimated using discounted contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

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**Commitments to Extend Credit**

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For commitments to originate fixed rate loans, fair value also considers the difference between current levels of interest rates and the committed rates. Due to the short-term nature of our outstanding commitments, the fair values of these commitments are immaterial to our financial condition.

The carrying values and estimated fair values of the Company's financial instruments are presented in the following table.

December 31, 2017					
	Carrying value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
			(In thousands)		
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 618,394	618,394	618,394	—	—
Securities available-for-sale	1,987,727	1,987,727	5,701	1,982,026	—
Securities held-to-maturity	1,796,621	1,820,125	—	1,738,906	81,219
Stock in FHLB	231,544	231,544	231,544	—	—
Loans held for sale	5,185	5,185	—	5,185	—
Net loans	19,852,101	20,003,717	—	—	20,003,717
<b>Financial liabilities:</b>					
Deposits, other than time deposits	\$13,897,435	13,897,435	13,897,435	—	—
Time deposits	3,460,262	3,438,673	—	3,438,673	—
Borrowed funds	4,461,533	4,437,346	—	4,437,346	—
Derivative financial instruments <sup>(1)</sup>	613	613	—	613	—
December 31, 2016					
	Carrying value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
			(In thousands)		
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 164,178	164,178	164,178	—	—
Securities available-for-sale	1,660,433	1,660,433	6,660	1,653,773	—
Securities held-to-maturity	1,755,556	1,782,801	—	1,703,559	79,242
Stock in FHLB	237,878	237,878	237,878	—	—
Loans held for sale	38,298	38,298	—	38,298	—
Net loans	18,569,855	18,391,018	—	—	18,391,018
Derivative financial instruments	12,550	12,550	—	12,550	—
<b>Financial liabilities:</b>					
Deposits, other than time deposits	\$12,333,273	12,333,273	12,333,273	—	—
Time deposits	2,947,560	2,938,137	—	2,938,137	—
Borrowed funds	4,546,251	4,545,745	—	4,545,745	—

<sup>(1)</sup> In accordance with the CME rulebook change effective January 3, 2017, the gross amounts recognized are inclusive of accrued interest variation margin posted by the CME.

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**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred tax assets, premises and equipment and bank owned life insurance. Liabilities for pension and other postretirement benefits are not considered financial liabilities. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

**14. Regulatory Capital**

The Bank and the Company are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Company to maintain minimum amounts and ratios of Tier 1 leverage ratio, Common equity tier 1 risk-based, Tier 1 risk-based capital and Total risk-based capital (as defined in the regulations). In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The Final Capital Rules also revised the quantity and quality of required minimum risk-based and leverage capital requirements, consistent with the Reform Act and the Third Basel Accord adopted by the Basel Committee on Banking Supervision, or Basel III capital standards. The Common equity tier 1 risk-based ratio and changes to the calculation of risk-weighted assets became effective for the Bank and Company on January 1, 2015. The required minimum Conservation Buffer will be phased in incrementally, starting at 0.625% on January 1, 2016 and increasing to 1.25% on January 1, 2017. The Conservation Buffer increased to 1.875% on January 1, 2018 and will increase to 2.5% on January 1, 2019. The rules impose restrictions on capital distributions and certain discretionary cash bonus payments if the minimum Conservation Buffer is not met. As of December 31, 2017 the Company and the Bank met the currently applicable Conservation Buffer of 1.25%.

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

categorized as well capitalized, the Bank and the Company must maintain minimum Tier 1 leverage ratio, Common equity tier 1 risk-based, Tier 1 risk-based capital and Total risk-based capital as set forth in the tables. There are no conditions or events since that notification that management believes have changed the Bank and the Company's category.

The following is a summary of the Bank and the Company's actual capital amounts and ratios as of December 31, 2017 compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution.

	Actual		Minimum Capital Requirement		To be Well Capitalized Under Prompt Corrective Action Provisions <sup>(1)</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>As of December 31, 2017:</b>						
Bank:						
Tier 1 Leverage Ratio	\$2,732,757	11.00%	\$ 993,750	4.00%	\$1,242,188	5.00%
Common equity tier 1 risk-based	2,732,757	13.94%	1,127,081	5.75%	1,274,092	6.50%
Tier 1 Risk-Based Capital	2,732,757	13.94%	1,421,102	7.25%	1,568,113	8.00%
Total Risk-Based Capital	2,964,721	15.13%	1,813,131	9.25%	1,960,141	10.00%
Investors Bancorp, Inc.:						
Tier 1 Leverage Ratio	\$3,072,783	12.36%	\$ 994,164	4.00%	n/a	n/a
Common equity tier 1 risk-based	3,072,783	15.67%	1,127,662	5.75%	n/a	n/a
Tier 1 Risk-Based Capital	3,072,783	15.67%	1,421,835	7.25%	n/a	n/a
Total Risk-Based Capital	3,304,747	16.85%	1,814,066	9.25%	n/a	n/a

	Actual		Minimum Capital Requirement		To be Well Capitalized Under Prompt Corrective Action Provisions <sup>(1)</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>As of December 31, 2016:</b>						
Bank:						
Tier 1 Leverage Ratio	\$2,736,173	12.03%	\$ 909,534	4.00%	\$1,136,917	5.00%
Common equity tier 1 risk-based	2,736,173	14.75%	950,740	5.125%	1,205,817	6.50%
Tier 1 Risk-Based Capital	2,736,173	14.75%	1,229,006	6.625%	1,484,082	8.00%
Total Risk-Based Capital	2,965,720	15.99%	1,600,026	8.625%	1,855,103	10.00%
Investors Bancorp, Inc.:						
Tier 1 Leverage Ratio	\$3,066,401	13.48%	\$ 910,058	4.00%	n/a	n/a
Common equity tier 1 risk-based	3,066,401	16.52%	951,411	5.125%	n/a	n/a
Tier 1 Risk-Based Capital	3,066,401	16.52%	1,229,872	6.625%	n/a	n/a
Total Risk-Based Capital	3,295,948	17.75%	1,601,155	8.625%	n/a	n/a

<sup>(1)</sup> Prompt corrective action provisions do not apply to the Bank holding company.

## 15. Parent Company Only Financial Statements

The following condensed financial statements for Investors Bancorp, Inc. (parent company only) reflect the investment in its wholly-owned subsidiary, Investors Bank, using the equity method of accounting.

# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

### Balance Sheets

	December 31,	
	2017	2016
	(In thousands)	
Assets:		
Cash and due from bank	\$ 194,848	195,114
Securities available-for-sale, at estimated fair value	5,903	6,918
Investment in subsidiary	2,800,867	2,792,474
ESOP loan receivable	90,794	92,839
Other assets	42,196	43,711
Total Assets	<u>\$3,134,608</u>	<u>3,131,056</u>
Liabilities and Stockholders' Equity:		
Total liabilities	\$ 9,157	7,811
Total stockholders' equity	3,125,451	3,123,245
Total Liabilities and Stockholders' Equity	<u>\$3,134,608</u>	<u>3,131,056</u>

### Statements of Operations

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Income:			
Interest on ESOP loan receivable	\$ 3,481	3,084	3,151
Dividend from subsidiary	131,400	30,000	—
Interest on deposit with subsidiary	2	2	2
Interest and dividends on investments	277	132	65
Gain on securities transactions	—	72	1,682
Other income	2	—	—
	<u>135,162</u>	<u>33,290</u>	<u>4,900</u>
Expenses:			
Interest expense	144	120	54
Other expenses	2,578	3,933	3,170
Income before income tax expense	<u>132,440</u>	<u>29,237</u>	<u>1,676</u>
Income tax expense	276	452	540
Income before undistributed earnings of subsidiary	<u>132,164</u>	<u>28,785</u>	<u>1,136</u>
(Dividend in excess of earnings) equity in undistributed earnings of subsidiary	<u>(5,420)</u>	<u>163,340</u>	<u>180,370</u>
Net income	<u>\$126,744</u>	<u>192,125</u>	<u>181,506</u>



**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

**Other Comprehensive Income**

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Net income	\$126,744	192,125	181,506
Other comprehensive income, net of tax:			
Unrealized gain on securities available-for-sale	534	543	433
Total other comprehensive income	534	543	433
Total comprehensive income	<u>\$127,278</u>	<u>192,668</u>	<u>181,939</u>

**Statements of Cash Flows**

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 126,744	192,125	181,506
Adjustments to reconcile net income to net cash provided by operating activities:			
Dividend in excess of earnings (equity in undistributed earnings of subsidiary)	5,420	(163,340)	(180,370)
Gain on securities transactions, net	—	(72)	1,682
Decrease in other assets	14,678	14,805	2,107
Increase (decrease) in other liabilities	1,346	(3,655)	4,927
Net cash provided by operating activities	<u>148,188</u>	<u>39,863</u>	<u>9,852</u>
Cash flows from investing activities:			
Purchases of securities held-to-maturity	—	(5,000)	—
Proceeds from principal repayments on equity securities available-for-sale	1,000	72	2,700
Principal collected on ESOP loan	2,045	2,050	2,062
Net cash provided by (used in) investing activities	<u>3,045</u>	<u>(2,878)</u>	<u>4,762</u>
Cash flows from financing activities:			
Purchase of treasury stock	(59,090)	(363,410)	(382,922)
Exercise of stock options	9,141	34,317	2,985
Dividends paid	(101,550)	(82,291)	(87,395)
Net cash used in financing activities	<u>(151,499)</u>	<u>(411,384)</u>	<u>(467,332)</u>
Net decrease in cash and due from bank	(266)	(374,399)	(452,718)
Cash and due from bank at beginning of year	195,114	569,513	1,022,231
Cash and due from bank at end of year	<u>\$ 194,848</u>	<u>195,114</u>	<u>569,513</u>

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Notes to Consolidated Financial Statements

**16. Selected Quarterly Financial Data (Unaudited)**

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2017 and 2016.

	2017 Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest and dividend income	\$210,094	215,508	225,764	230,317
Interest expense	42,975	48,452	54,853	55,627
Net interest income	167,119	167,056	170,911	174,690
Provision for loan losses	4,000	6,000	1,750	4,500
Net interest income after provision for loan losses	163,119	161,056	169,161	170,190
Non-interest income	9,703	9,320	8,395	8,219
Non-interest expenses	99,558	106,268	103,274	109,474
Income before income tax expense	73,264	64,108	74,282	68,935
Income tax expense	27,244	24,475	28,437	73,689
Net income (loss)	\$ 46,020	39,633	45,845	(4,754)
Basic earnings per common share	\$ 0.16	0.14	0.16	(0.02)
Diluted earnings per common share	\$ 0.16	0.14	0.16	(0.02)

	2016 Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest and dividend income	\$192,107	194,960	198,374	208,079
Interest expense	37,544	37,655	38,768	39,369
Net interest income	154,563	157,305	159,606	168,710
Provision for loan losses	5,000	5,000	5,000	4,750
Net interest income after provision for loan losses	149,563	152,305	154,606	163,960
Non-interest income	8,707	11,469	8,520	8,504
Non-interest expenses	87,146	91,009	91,398	89,010
Income before income tax expense	71,124	72,765	71,728	83,454
Income tax expense	26,455	27,625	21,878	30,989
Net income	\$ 44,669	45,140	49,850	52,465
Basic earnings per common share	\$ 0.14	0.15	0.17	0.18
Diluted earnings per common share	\$ 0.14	0.15	0.17	0.18

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**17. Earnings Per Share**

The following is a summary of our earnings per share calculations and reconciliation of basic to diluted earnings per share.

	For the Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands, except per share data)		
<b>Earnings for basic and diluted earnings per common share</b>			
Earnings applicable to common stockholders	\$ 126,744	\$ 192,125	\$ 181,505
<b>Shares</b>			
Weighted-average common shares outstanding — basic	290,183,952	297,580,834	329,763,527
Effect of dilutive common stock equivalents <sup>(1)</sup>	1,782,523	3,374,051	3,169,921
Weighted-average common shares outstanding — diluted	291,966,475	300,954,885	332,933,448
<b>Earnings per common share</b>			
Basic	\$ 0.44	\$ 0.65	\$ 0.55
Diluted	\$ 0.43	\$ 0.64	\$ 0.55

<sup>(1)</sup> For the years ended December 31, 2017, 2016 and 2015, there were 10,246,677, 19,046,222, and 18,200,877 equity awards, respectively, that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

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**18. Comprehensive Income**

The components of comprehensive income, both gross and net of tax, are as follows:

	Year ended December 31, 2017			Year ended December 31, 2016			Year ended December 31, 2015		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
	(Dollars in thousands)								
Net income	\$280,589	(153,845)	126,744	299,072	(106,947)	192,125	280,877	(99,372)	181,505
Other comprehensive income (loss):									
Change in funded status of retirement obligations	313	(1,058)	(745)	12,452	(4,981)	7,471	(2,425)	970	(1,455)
Unrealized loss on securities available-for-sale	(7,714)	(434)	(8,148)	(19,399)	7,115	(12,284)	(7,982)	3,049	(4,933)
Accretion of loss on securities reclassified to held-to-maturity from available-for-sale	1,243	(775)	468	1,846	(754)	1,092	2,448	(1,000)	1,448
Reclassification adjustment for security gains included in net income	(1,275)	510	(765)	(2,264)	906	(1,358)	(1,553)	6	(1,547)
Other-than-temporary impairment accretion on debt securities	1,614	(3,226)	(1,612)	1,488	(608)	880	1,802	(736)	1,066
Net gains on derivatives arising during the period	6,209	(146)	6,063	12,550	(5,126)	7,424	—	—	—
Total other comprehensive (loss) income	390	(5,129)	(4,739)	6,673	(3,448)	3,225	(7,710)	2,289	(5,421)
Total comprehensive income	<u>\$280,979</u>	<u>(158,974)</u>	<u>122,005</u>	<u>305,745</u>	<u>(110,395)</u>	<u>195,350</u>	<u>273,167</u>	<u>(97,083)</u>	<u>176,084</u>

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## Notes to Consolidated Financial Statements

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the years ended December 31, 2017 and 2016:

	Change in funded status of retirement obligations	Accretion of loss on securities reclassified to held-to- maturity	Unrealized (losses) gains on securities available- for-sale and gains included in net income	Other-than- temporary impairment accretion on debt securities	Unrealized gains on derivatives	Total accumulated other comprehensive loss
			(Dollars in thousands)			
Balance — December 31, 2016	\$ (4,895)	(1,988)	(12,271)	(12,870)	7,424	(24,600)
Net change	188	398	(2,113)	(2,256)	3,673	(110)
Reclassification due to the adoption of ASU No. 2018-02	(933)	70	(6,800)	644	2,390	(4,629)
Balance — December 31, 2017	\$ (5,640)	(1,520)	(21,184)	(14,482)	13,487	(29,339)
Balance — December 31, 2015	\$(12,366)	(3,080)	1,371	(13,750)	—	(27,825)
Net change	7,471	1,092	(13,642)	880	7,424	3,225
Balance — December 31, 2016	\$ (4,895)	(1,988)	(12,271)	(12,870)	7,424	(24,600)

The following table presents information about amounts reclassified from accumulated other comprehensive loss to the consolidated statements of income and the affected line item in the statement where net income is presented.

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
<i>Reclassification adjustment for gains included in net income</i>		
Gain on securities transactions, net	\$(1,275)	(2,264)
<i>Change in funded status of retirement obligations</i>		
Adjustment of net obligation	(20)	249
Amortization of net loss	479	1,610
Compensation and fringe benefits	459	1,859
Interest expense		
Reclassification adjustment for unrealized losses on derivatives	4,161	440
Total before tax	3,345	35
Income tax (expense) benefit	(1,213)	1,179
Net of tax	\$ 2,132	(1,144)

## **19. Recent Accounting Pronouncements**

In February 2018, the FASB issued ASU 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. This update was issued to address a narrow-scope financial reporting issue that arose as a consequence of the change

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### Notes to Consolidated Financial Statements

in the tax law. On December 22, 2017, the U.S. government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act of 2017). ASU 2018-02 permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate of 35 percent and the newly enacted 21 percent corporate income tax rate. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for (i) public business entities for reporting periods for which financial statements have not yet been issued and (ii) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The changes are required to be applied retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 is recognized. The Company early adopted ASU 2018-02, which resulted in the reclassification from accumulated other comprehensive income to retained earnings totaling \$4.6 million, reflected in the Consolidated Statements of Stockholders' Equity. See Footnote 18, Comprehensive Income, for further details.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 718): Targeted Improvements to Accounting for Hedging Activities". The purpose of this guidance is to better align a company's financial reporting for hedging relationships with the company's risk management activities by expanding strategies that qualify for hedge accounting, modifying the presentation of certain hedging relationships in the financial statements and simplifying the application of hedge accounting in certain situations. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted in any interim or annual period before the effective date. ASU 2017-12 will be applied using a modified retrospective approach through a cumulative-effect adjustment related to the elimination of the separate measurement of ineffectiveness to the balance of accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year in which the amendments in this update are adopted. The amended presentation and disclosure guidance is required only prospectively. The Company early adopted ASU 2017-12 on January 1, 2018 which did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting". This update provides guidance about changes to terms or conditions of a share-based payment award which would require modification accounting. In particular, an entity is required to account for the effects of a modification if the fair value, vesting condition or the equity/liability classification of the modified award is not the same immediately before and after a change to the terms and conditions of the award. The update is to be applied prospectively for awards modified on or after the adoption date. The Company adopted ASU 2017-09 on January 1, 2018, which did not have a material impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities". The amendments in this update require the premium on callable debt securities to be amortized to the earliest call date rather than the maturity date; however, securities held at a discount continue to be amortized to maturity. The amendments apply only to debt securities purchased at a premium that are callable at fixed prices and on preset dates. The amendments more closely align interest income recorded on debt securities held at a premium or discount with the economics of the underlying instrument. ASU No. 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating its provisions to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.



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In March 2017, the FASB issued ASU 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, which requires that companies disaggregate the service cost component from other components of net benefit cost. This update calls for companies that offer postretirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. The Company adopted ASU 2017-07 on January 1, 2018, which did not have a material impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This ASU simplifies subsequent measurement of goodwill by eliminating Step 2 of the impairment test while retaining the option to perform the qualitative assessment for a reporting unit to determine whether the quantitative impairment test is necessary. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment testing dates beginning after January 1, 2017. The update is to be applied prospectively. The Company does not expect ASU No. 2017-04 to have a material impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)”, which amends certain paragraphs in the ASC to give effect to announcements made by the SEC observer at two recent Emerging Issues Task Force meetings. SEC registrants are required to reasonably estimate the impact that adoption of the standards on revenue recognition, leases, and measurement of credit losses on financial instruments is expected to have on financial statements. If such estimate is indeterminate, registrants should consider providing additional qualitative disclosures to assess the effect on financial statements as a result of adopting of these new standards. There is no effective date or transition requirements for this standard.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The amendments in this ASU provide a practical way to determine when a set of assets and activities is not a business. The screen provided in this ASU requires that when all or substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. The amendments also provide other considerations to determine whether a set is a business if the screen is not met. The update is to be applied prospectively. The Company adopted ASU 2017-01 on January 1, 2018. The adoption of this new guidance did not have a material impact on the determination of whether future acquisitions are considered a business combination and the resulting impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” This ASU addresses the recognition of current and deferred taxes for an intra-entity asset transfer and amends current U.S. GAAP by eliminating the exception for intra-entity transfers of assets other than inventory to defer such recognition until sale to an outside party. The Company adopted ASU 2016-16 on January 1, 2018, which did not have an impact on the Company’s Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, a new standard which addresses diversity in practice related to eight

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specific cash flow issues: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. Entities will apply the standard's provisions using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted ASU 2016-15 on January 1, 2018, which did not have a material impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). While early adoption is permitted, the Company does not expect to elect that option. The Company has begun its evaluation of the amended guidance including the potential impact on its Consolidated Financial Statements. The extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. Upon adoption, any impact to the allowance for credit losses — currently allowance for loan and lease losses — will have an offsetting impact on retained earnings.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date for leases classified as operating leases as well as finance leases. The update also requires new quantitative disclosures related to leases in the Consolidated Financial Statements. There are practical expedients in this update that relate to leases that commenced before the effective date, initial direct costs and the use of hindsight to extend or terminate a lease or purchase the leased asset. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company continues to

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

evaluate the impact of the guidance, including determining whether other contracts exist that are deemed to be in scope. As such, no conclusions have yet been reached regarding the potential impact on adoption on the Company's Consolidated Financial Statements and regulatory capital and risk-weighted assets; however, the Company does not expect the amendment to have a material impact on its results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. Entities should apply the amendment by means of a cumulative effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASU 2016-01 on January 1, 2018, which did not have a material impact on the Company's results of operations, financial position, and liquidity due to the Company's proportionately small portfolio of equity securities.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are in the scope of other standards. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and early adoption is permitted. Subsequently, the FASB issued the following standards related to ASU 2014-09: ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations"; ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing"; ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting"; ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients"; and ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." These amendments are intended to improve and clarify the implementation guidance of ASU 2014-09 and have the same effective date as the original standard. The Company adopted ASU 2014-09 on January 1, 2018. As the guidance does not apply to revenue associated with financial instruments, including loans, leases, securities and derivatives that are accounted for under other U.S. GAAP, the new revenue recognition standard does not have a material impact on the Company's Consolidated Financial Statements. The Company's implementation efforts have included the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts. While there were no material changes related to the timing or amount of revenue recognition, the Company will continue to evaluate the need for additional disclosures.

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
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**20. Subsequent Events**

As defined in FASB ASC 855, “*Subsequent Events*”, subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or available to be issued. Financial statements are considered issued when they are widely distributed to stockholders and other financial statement users for general use and reliance in a form and format that complies with GAAP.

On January 25, 2018, the Company declared a cash dividend of \$0.09 per share. The \$0.09 dividend per share was paid to stockholders on February 23, 2018, with a record date of February 9, 2018.

On February 6, 2018, the Company announced the acquisition of a portfolio of capital equipment leases of approximately \$350 million which will enhance its C&I lending capabilities with middle market companies. This acquisition includes a seven-person team of financing professionals to lead the Equipment Finance Group.

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements

**(a)(3) Exhibits**

The following exhibits are either filed as part of this report or are incorporated herein by reference:

- 3.1 Certificate of Incorporation of Investors Bancorp, Inc.<sup>(1)</sup>
- 3.2 Bylaws of Investors Bancorp, Inc.<sup>(1)</sup>
- 4 Form of Common Stock Certificate of Investors Bancorp, Inc.<sup>(1)</sup>
- 10.1 Amended and Restated Employment Agreement between Investors Bancorp, Inc. and Kevin Cummings<sup>(1)</sup>
- 10.2 Amended and Restated Employment Agreement between Investors Bancorp, Inc. and Domenick A. Cama<sup>(1)</sup>
- 10.3 Amended and Restated Employment Agreement Investors Bancorp, Inc. and Richard S. Spengler<sup>(2)</sup>
- 10.4 Amendment to Amended and Restated Employment Agreement with Richard S. Spengler<sup>(3)</sup>
- 10.5 Amended and Restated Employment Agreement Investors Bancorp, Inc. and Paul Kalamaras<sup>(4)</sup>
- 10.6 Amendment to Amended and Restated Employment Agreement with Paul Kalamaras<sup>(3)</sup>
- 10.7 Employment Agreement Investors Bancorp, Inc. and Sean Burke<sup>(5)</sup>
- 10.8 Amendment to Employment Agreement with Sean Burke<sup>(3)</sup>
- 10.9 Investors Bancorp, Inc. 2015 Equity Incentive Plan<sup>(6)</sup>
- 10.10 First Amendment to the Investors Bancorp, Inc. 2015 Equity Incentive Plan<sup>(12)</sup>
- 10.11 Investors Bancorp, Inc. 2006 Equity Incentive Plan<sup>(7)</sup>
- 10.12 Roma Financial Corporation 2008 Equity Incentive Plan<sup>(8)</sup>
- 10.13 Investors Bank Executive Officer Annual Incentive Plan<sup>(9)</sup>
- 10.14 Investors Bank Amended and Restated Supplemental ESOP and Retirement Plan<sup>(1)</sup>
- 10.15 Amended and Restated Investors Bank Executive Supplemental Retirement Wage Replacement Plan<sup>(1)</sup>
- 10.16 Amendment to Amended and Restated Investors Bank Executive Supplemental Retirement Wage Replacement Plan dated December 19, 2016<sup>(11)</sup>
- 10.17 Amendment to Amended and Restated Investors Bank Executive Supplemental Retirement Wage Replacement Plan dated February 29, 2016<sup>(11)</sup>
- 10.18 Investors Bank Amended and Restated Director Retirement Plan<sup>(1)</sup>
- 10.19 Investors Bancorp, Inc. Deferred Directors Fee Plan<sup>(1)</sup>
- 10.20 Investors Bank Deferred Directors Fee Plan<sup>(1)</sup>
- 10.21 Split Dollar Life Insurance Agreement between Roma Bank and Robert C. Albanese, as assumed by Investors Bank<sup>(10)</sup>
- 10.22 Split Dollar Life Insurance Agreement between Roma Bank and Dennis M. Bone, assumed by Investors Bank<sup>(10)</sup>

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
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- 10.23 Split Dollar Life Insurance Agreement between Roma Bank and Michele N. Siekerka, as assumed by Investors Bank<sup>(10)</sup>
- 10.24 Agreement between Investors Bancorp, Inc. and Blue Harbour Group, L.P.<sup>(12)</sup>
- 21 Subsidiaries of Registrant
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements

- <sup>(1)</sup> Incorporated by reference to the Registration Statement on Form S-1 of Investors Bancorp, Inc. (Commission File no. 333-192966), originally filed with the Securities and Exchange Commission on December 20, 2013.
- <sup>(2)</sup> Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Investors Bancorp, Inc. (Commission File No. 000-51557) filed with the Securities and Exchange Commission on April 1, 2010.
- <sup>(3)</sup> Incorporated by reference to Exhibits 10.1, 10.2 and 10.3 to the Quarterly Report on 10-Q of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on May 10, 2016.
- <sup>(4)</sup> Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Investors Bancorp, Inc. (Commission File No. 000-51557) filed with the Securities and Exchange Commission on April 1, 2010.
- <sup>(5)</sup> Incorporated by reference to Exhibit 10.5 to the Annual Report on Form 10-K of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on March 3, 2015.
- <sup>(6)</sup> Incorporated by reference to Appendix A to the Definitive Proxy Statement for Investors Bancorp, Inc.'s 2015 Annual Meeting of Stockholders (Commission File No. 001-36441) filed with the Securities and Exchange Commission on April 30, 2015.
- <sup>(7)</sup> Incorporated by reference to Appendix B to the Definitive Proxy Statement for Investors Bancorp, Inc.'s 2006 Annual Meeting of Stockholders (Commission File No. 000-51557) filed with the Securities and Exchange Commission on September 15, 2006.
- <sup>(8)</sup> Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Investors Bancorp, Inc. (Commission File No. 333-192717) filed with the Securities and Exchange Commission on December 9, 2013.
- <sup>(9)</sup> Incorporated by reference to Annex D to the Definitive Proxy Statement for Investors Bancorp, Inc.'s 2013 Annual Meeting of Stockholders (Commission File No. 000-51557) filed with the Securities and Exchange Commission on April 29, 2013.
- <sup>(10)</sup> Incorporated by reference to the Amended Registration Statement on Form S-1 of Investors Bancorp, Inc. (Commission File No. 333-192966) filed with the Securities and Exchange Commission on February 11, 2014.
- <sup>(11)</sup> Incorporated by reference to Exhibits 10.15 and 10.16 to the Annual Report on Form 10-K of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on March 1, 2017.
- <sup>(12)</sup> Incorporated by reference to Exhibits 10.1 and 10.2 to the Quarterly Report on Form 10-Q of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on May 10, 2017.



**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
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**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **INVESTORS BANCORP, INC.**

Date: March 1, 2018

By: /s/ Kevin Cummings

Kevin Cummings  
Chief Executive Officer and President  
(Principal Executive Officer)  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kevin Cummings</u> Kevin Cummings	Director, Chief Executive Officer and President (Principal Executive Officer)	March 1, 2018
<u>/s/ Domenick Cama</u> Domenick Cama	Director, Chief Operating Officer and Senior Executive Vice President	March 1, 2018
<u>/s/ Sean Burke</u> Sean Burke	Chief Financial Officer and Senior Vice President (Principal Financial and Accounting Officer)	March 1, 2018
<u>/s/ Robert M. Cashill</u> Robert M. Cashill	Director, Chairman	March 1, 2018
<u>/s/ Robert C. Albanese</u> Robert C. Albanese	Director	March 1, 2018
<u>/s/ Dennis M. Bone</u> Dennis M. Bone	Director	March 1, 2018
<u>/s/ Doreen R. Byrnes</u> Doreen R. Byrnes	Director	March 1, 2018
<u>/s/ Peter H. Carlin</u> Peter H. Carlin	Director	March 1, 2018
<u>/s/ William Cosgrove</u> William Cosgrove	Director	March 1, 2018
<u>/s/ Brian D. Dittenhafer</u> Brian D. Dittenhafer	Director	March 1, 2018
<u>/s/ James Garibaldi</u> James Garibaldi	Director	March 1, 2018
<u>/s/ Michele N. Siekerka</u> Michele N. Siekerka	Director	March 1, 2018
<u>/s/ James H. Ward III</u> James H. Ward III	Director	March 1, 2018



101 JFK Parkway  
Short Hills, New Jersey 07078

April 12, 2018

Dear Fellow Stockholder:

You are cordially invited to attend the 2018 Annual Meeting of Stockholders of Investors Bancorp, Inc., which will be held at The Grand Summit Hotel, 570 Springfield Avenue, Summit, New Jersey 07901, on May 22, 2018, at 9:00 a.m., local time.

The business to be conducted at the Annual Meeting consists of the election of three directors, an advisory (non-binding) vote to approve the compensation paid to our Named Executive Officers and the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018. Your Board of Directors has determined that an affirmative vote on each of these matters is in the best interests of Investors Bancorp, Inc. and its stockholders and unanimously recommends a vote **“FOR”** the election of each of the nominees for director, **“FOR”** approval on an advisory basis of executive compensation and **“FOR”** ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, please promptly submit your vote by Internet, telephone or mail, as applicable, to ensure that your shares are represented at the Annual Meeting.

In accordance with the Company’s Bylaws, the Chairman of the Company’s Board of Directors, Robert M. Cashill, will be retiring following the Annual Meeting. Mr. Cashill was first elected to the Boards of Directors of the Company and Investors Bank in 1998 and has served as Chairman since 2010. Mr. Cashill also served as President and Chief Executive Officer of Investors Bank from 2002 through his retirement in 2007. We are grateful for Mr. Cashill’s vision and leadership in the transformation of the Company and Investors Bank from a wholesale thrift to a retail commercial bank.

In addition, and also in accordance with the Company’s Bylaws, Brian D. Dittenhafer, the Board’s Lead Independent Director, will be retiring following the Annual Meeting. Mr. Dittenhafer was first elected to the Boards of Directors of the Company and Investors Bank in 1997 and has served as Lead Independent Director since November 2011. We are grateful for Mr. Dittenhafer’s guidance and perspective throughout his years of service.

We ask that you join us in thanking Mr. Cashill and Mr. Dittenhafer for their leadership and service to the Company.

On behalf of the Board of Directors, officers and employees of Investors Bancorp, Inc., we thank you for your continued support.

Sincerely,

A handwritten signature in dark ink that reads 'Kevin Cummings'.

Kevin Cummings  
President and Chief Executive Officer

**Investors Bancorp, Inc.**

**101 JFK Parkway  
Short Hills, New Jersey 07078  
(973) 924-5100**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held on May 22, 2018**

NOTICE IS HEREBY GIVEN THAT the 2018 Annual Meeting of Stockholders of Investors Bancorp, Inc. will be held at The Grand Summit Hotel, 570 Springfield Avenue, Summit, New Jersey 07901, on May 22, 2018, at 9:00 a.m., local time, to consider and vote upon the following matters:

1. The election of three persons to serve as directors of Investors Bancorp, Inc., each for a three-year term, and until their successors are elected and qualified.
2. An advisory (non-binding) vote to approve the compensation paid to our Named Executive Officers.
3. The ratification of the appointment of KPMG LLP as the independent registered public accounting firm for Investors Bancorp, Inc. for the year ending December 31, 2018.
4. The transaction of such other business as may properly come before the Annual Meeting, and any adjournment or postponement of the Annual Meeting.

The Board of Directors of Investors Bancorp, Inc. has fixed March 26, 2018 as the record date for determining the stockholders entitled to vote at the Annual Meeting and any adjournment or postponement of the Annual Meeting. Only stockholders of record at the close of business on that date are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement of the Annual Meeting.

The Board of Directors unanimously recommends that you vote "FOR" each of the nominees for director listed in the Proxy Statement, "FOR" approval on an advisory basis of executive compensation and "FOR" the ratification of the appointment of KPMG LLP as the independent registered public accounting firm for the year ending December 31, 2018.

Whether or not you plan to attend the Annual Meeting, please promptly submit your vote by Internet, telephone or mail, as applicable, to ensure that your shares are represented at the Annual Meeting.

By Order of the Board of Directors  
Investors Bancorp, Inc.



Brian F. Doran, Esq.  
Corporate Secretary

Short Hills, New Jersey  
April 12, 2018

## **Internet Availability of Proxy Materials**

We are relying upon a U.S. Securities and Exchange Commission rule that allows us to furnish proxy materials to stockholders over the Internet. As a result, beginning on or about April 12, 2018, we sent by mail a Notice Regarding the Availability of Proxy Materials containing instructions on how to access our proxy materials, including our Proxy Statement and Annual Report to Stockholders, over the Internet and how to vote. Internet availability of our proxy materials is designed to expedite receipt by stockholders and lower the cost and environmental impact of our Annual Meeting. However, if you received such a notice and would prefer to receive paper copies of our proxy materials, please follow the instructions included in the Notice Regarding the Availability of Proxy Materials.

If you hold our common stock through more than one account, you may receive multiple copies of these proxy materials and will have to follow the instructions for each in order to vote all of your shares of our common stock.

**Our Proxy Statement and 2017 Annual Report to Stockholders are available at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC).**

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## General Information

Investors Bancorp, Inc. (“Investors Bancorp” or the “Company”), a Delaware corporation, is the bank holding company for Investors Bank, a FDIC-insured, New Jersey-chartered capital stock savings bank. Investors Bancorp had \$25.13 billion in total assets and 156 full-service banking offices in New Jersey and New York at December 31, 2017. Investors Bancorp’s principal executive offices are located at 101 JFK Parkway, Short Hills, New Jersey 07078, and our telephone number is (973) 924-5100.

The Board of Directors of Investors Bancorp is soliciting proxies for our 2018 Annual Meeting of Stockholders, and any adjournment or postponement of the meeting (“Annual Meeting”). The Annual Meeting will be held on May 22, 2018 at 9:00 a.m., local time, at The Grand Summit Hotel, 570 Springfield Avenue, Summit, New Jersey.

A Notice Regarding the Availability of Proxy Materials is first being sent to stockholders of Investors Bancorp on or about April 12, 2018.

## Questions and Answers about the Annual Meeting and Voting

### When and where is the annual meeting?

The Annual Meeting of Stockholders will be on Tuesday, May 22, 2018, at 9:00 a.m., local time, at The Grand Summit Hotel, 570 Springfield Avenue, Summit, New Jersey 07901.

### What is the purpose of the annual meeting?

To consider and vote on the election of three directors, the approval of the compensation paid to our Named Executive Officers on an advisory (non-binding) basis and the ratification of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018.

You may be asked to vote upon other matters that may properly be submitted to a vote at the Annual Meeting. We may adjourn or postpone the Annual Meeting for the purpose, among others, of allowing additional time to solicit proxies.

### Who is entitled to vote at the meeting, and what are my voting rights?

The Board of Directors has set March 26, 2018 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting. Accordingly, only holders of record of shares of Investors Bancorp common stock, par value \$0.01 per share, at the close of business on such date will be entitled to vote at the Annual Meeting.

On March 26, 2018, 302,363,636 shares of Investors Bancorp common stock were outstanding and held by approximately 17,400 holders of record.

Each holder of shares of Investors Bancorp common stock outstanding on March 26, 2018 will be entitled to one vote for each share held of record. However, Investors Bancorp’s certificate of incorporation provides that stockholders of record who beneficially own in excess of 10% of the then outstanding shares of common stock of Investors Bancorp are not entitled to vote any of the shares held in excess of that 10% limit. A person or entity is deemed to beneficially own shares that are owned by an affiliate of, as well as by any person acting in concert with, such person or entity.

### How many shares must be present to hold the meeting?

The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of Investors Bancorp common stock is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes will be counted as present for the purpose of determining whether a quorum is present. A proxy submitted by a broker on certain “non-routine” matters over which the broker has not received voting instructions from a stockholder and over which the broker does not have discretion to vote the shares is sometimes referred to as a broker non-vote. At the Annual Meeting, the proposal to elect directors and the advisory vote to approve executive compensation are each considered a “non-routine” matter, and accordingly, if you do not instruct your broker how to vote on these matters, no votes will be cast on your behalf.

### What vote is required to approve the proposals, and what are the effects of abstentions and broker non-votes?

Subject to the Board’s majority voting policy described in this Proxy Statement, directors are elected by a plurality of votes cast. Proxies marked “**WITHHELD**” and broker non-votes will have no effect on the election of a director.

The advisory vote to approve executive compensation and the ratification of KPMG LLP as the independent registered public accounting firm are determined by a majority of the votes cast. In each case, proxies marked “**ABSTAIN**” or broker non-votes received will have no effect on the approval of the proposal.

### What does the Board recommend?

Your Board of Directors unanimously recommends that you vote “**FOR**” each of the nominees for director listed in this Proxy Statement, “**FOR**” approval on a non-binding advisory basis of the executive compensation paid to our Named Executive Officers and “**FOR**” the ratification of KPMG LLP as Investors Bancorp’s independent registered public accounting firm for the year ending December 31, 2018.

### How do I vote shares held of record?

- **In person at the Annual Meeting.** All stockholders of record may vote in person at the Annual Meeting. Beneficial owners may vote in person if they have a legal proxy from their bank or broker.
- **By telephone or Internet (see the instructions at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC)).** Beneficial owners may also vote by telephone or Internet if their bank or broker makes those methods available, in which case the bank or broker will include the instructions with the proxy materials.
- **By written proxy.** All stockholders of record can vote by written proxy card. If you received a printed copy of this Proxy Statement, you may vote by signing, dating and mailing the enclosed Proxy Card, or if you are a beneficial owner, you may request a voting instruction form from your bank or broker.

### What if I do not specify how I want my shares voted?

If you return an executed Proxy Card without marking your instructions, your executed Proxy Card will be voted in accordance with the Board’s recommendations.

### **How do I vote shares held in Investors Bancorp benefit plans?**

If you are a participant in our Employee Stock Ownership Plan or 401(k) Plan, or any other benefit plans sponsored by us through which you own shares of our common stock, you will have received a Notice Regarding the Availability of Proxy Materials. Under the terms of these plans, the trustee or administrator votes all shares held by the plan, but each participant may direct the trustee or administrator how to vote the shares of our common stock allocated to his or her plan account. If you own shares through any of these plans and you do not vote by May 17, 2018, the respective plan trustees or administrators will vote your shares in accordance with the terms of the respective plans.

### **Can I change my vote after submitting my proxy?**

You may revoke your proxy at any time before the vote is taken at the Annual Meeting. You may revoke your proxy by:

- submitting written notice of revocation to the Corporate Secretary of Investors Bancorp prior to the voting of such proxy;
- submitting a properly executed proxy bearing a later date;
- voting again by telephone or Internet (provided such vote is received on a timely basis); or
- voting in person at the Annual Meeting; however, simply attending the Annual Meeting without voting will not revoke an earlier proxy.

Written notices of revocation and other communications regarding the revocation of your proxy should be addressed to:

Investors Bancorp, Inc.  
101 JFK Parkway  
Short Hills, New Jersey 07078  
Attention: Brian F. Doran, Esq., Corporate Secretary

If your shares are held in street name, you should follow your broker's instructions regarding the revocation of proxies.

### **Who pays the expenses of this proxy solicitation?**

Investors Bancorp will bear the entire cost of soliciting proxies. In addition to solicitation of proxies by mail, Investors Bancorp will request that banks, brokers and other holders of record send proxies and proxy material to the beneficial owners of Investors Bancorp common stock and secure their voting instructions, if necessary. Investors Bancorp will reimburse such holders of record for their reasonable expenses in taking those actions. Laurel Hill Advisory Group, LLC will assist us in soliciting proxies and we have agreed to pay them a fee of \$7,500 plus reasonable expenses for their services. Innisfree M&A Incorporated, which has been providing assistance in connection with stockholder advisory services, will also assist in soliciting proxies and we have agreed to pay them a fee of \$20,000. If necessary, Investors Bancorp may also use several of its regular employees, who will not be specially compensated, to solicit proxies from stockholders, personally or by telephone, facsimile or letter. In the event there are not sufficient votes for a quorum, or to approve or ratify any matter being presented at the time of this Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

## Security Ownership of Certain Beneficial Owners and Management

Persons and groups who beneficially own in excess of five percent of Investors Bancorp's common stock are required to file certain reports with the Securities and Exchange Commission ("SEC") regarding such beneficial ownership. The following table sets forth, as of March 26, 2018, certain information as to the shares of Investors Bancorp common stock owned by persons who beneficially own more than five percent of Investors Bancorp's issued and outstanding shares of common stock. We know of no persons, except as listed below, who beneficially owned more than five percent of the outstanding shares of Investors Bancorp common stock as of March 26, 2018. For purposes of the following table and the table included under the heading "Directors and Executive Officers," and in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, a person is deemed to be the beneficial owner of any shares of common stock (i) over which he or she has, or shares, directly or indirectly, voting or investment power, or (ii) as to which he or she has the right to acquire beneficial ownership at any time within 60 days after March 26, 2018.

### Principal Stockholders

Name and Address of Beneficial Owner	Number of Shares Owned and Nature of Beneficial Ownership	Percent of Shares of Common Stock Outstanding <sup>(1)</sup>
Blue Harbour Group, LP 646 Steamboat Road Greenwich, CT 06830	29,582,428 <sup>(2)</sup>	9.78%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	21,754,028 <sup>(3)</sup>	7.19%
Fuller & Thaler Asset Management, Inc. 411 Borel Avenue, Suite 300 San Mateo, CA 94402	21,630,726 <sup>(4)</sup>	7.15%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	17,719,175 <sup>(5)</sup>	5.86%
State Street Corporation One Lincoln Street Boston, MA 02111	16,170,639 <sup>(6)</sup>	5.35%
Investors Bank Employee Stock Ownership Plan Trust Trustee: First Bankers Trust Services, Inc. 2321 Kochs Lane Quincy, IL 62305	16,134,329 <sup>(7)</sup>	5.34%

(1) Based on 302,363,636 shares of Investors Bancorp common stock outstanding as of March 26, 2018.

(2) Based on a Form 13F filed with the SEC on February 14, 2018.

(3) Based on a Schedule 13G/A filed with the SEC on February 9, 2018.

(4) Based on a Schedule 13G/A filed with the SEC on February 13, 2018.

(5) Based on a Schedule 13G/A filed with the SEC on January 25, 2018.

(6) Based on a Schedule 13G filed with the SEC on February 14, 2018.

(7) Based on a Schedule 13G/A filed with the SEC on February 5, 2018.

## Directors and Executive Officers

The following table sets forth information about shares of Investors Bancorp common stock owned by each nominee for election as director, each incumbent director, each Named Executive Officer identified in the Summary Compensation Table included elsewhere in this Proxy Statement, and all nominees, incumbent directors and executive officers as a group, as of March 26, 2018.

Name	Position(s) held with Investors Bancorp Inc. and/or Investors Bank	Shares Owned Directly and Indirectly <sup>(1)</sup>	Options Exercisable within 60 days	Beneficial Ownership	Percent of Class	Unvested Stock Awards Included in Beneficial Ownership
<b>NOMINEES</b>						
Kevin Cummings	Director, President and Chief Executive Officer	1,983,137	380,952	2,364,089	*	652,381
Michele N. Siekerka	Director	182,268	170,606	352,874	*	60,000
Paul Stathouloupoulos	Director <sup>(2)</sup>	225,000	100,000	325,000	*	60,000
<b>INCUMBENT DIRECTORS</b>						
Robert C. Albanese	Director	161,988	135,302	297,290	*	60,000
Domenick A. Cama	Director, Senior Executive Vice President and Chief Operating Officer	1,530,455	304,761	1,835,216	*	521,905
James J. Garibaldi	Director	101,550	100,000	201,550	*	60,000
James H. Ward III	Director	445,969	100,000	545,969	*	60,000
Dennis M. Bone	Director	165,244	100,000	265,244	*	60,000
Doreen R. Byrnes	Director	162,638	100,000	262,638	*	60,000
Peter H. Carlin	Director	—	—	—	*	—
William V. Cosgrove	Director	157,450	100,000	257,450	*	60,000
<b>RETIRING DIRECTORS <sup>(3)</sup></b>						
Robert M. Cashill	Chairman	756,902	166,666	923,568	*	50,000
Brian D. Dittenhafer	Lead Independent Director	344,057	166,666	510,723	*	50,000
<b>EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS</b>						
Richard S. Spengler	Executive Vice President and Chief Lending Officer	792,307	203,809	996,116	*	395,936
Paul Kalamaras	Executive Vice President and Chief Retail Banking Officer	728,067	203,809	931,876	*	407,936
Sean Burke	Senior Vice President and Chief Financial Officer	357,978	179,047	537,025	*	336,445
All directors and executive officers as a group <sup>(4)</sup>		8,095,010	2,511,618	10,606,628	3.51%	2,894,603

\* Less than 1%

(1) Unless otherwise indicated, each person effectively exercises sole, or shared with spouse, voting and dispositive power as to the shares reported.

(2) Mr. Stathouloupoulos has been nominated for election as Director at the May 22, 2018 Annual Meeting.

(3) In accordance with the Company's Bylaws, Messrs. Cashill and Dittenhafer will retire effective following the Annual Meeting.

(4) Includes 128,147 shares of common stock allocated to the accounts of executive officers under the Investors Bank Employee Stock Ownership Plan ("ESOP") and excludes the remaining 17,337,157 shares of common stock of which 12,316,149 are unallocated and held for the future benefit of all employee participants. Under the terms of the ESOP, shares of common stock allocated to the account of employees are voted in accordance with the instructions of the respective employees. Unallocated shares are voted by the ESOP Trustee in the same proportion as the vote obtained from participants on allocated shares. Includes 52,924 shares of common stock held through the Company's 401(k) Plan.

It is expected that, pending reelection at the Annual Meeting, Mr. Cummings will serve as Chairman of the Boards of Directors of the Company and Investors Bank and Chief Executive Officer. In addition, Mr. Bone, who has served on the Boards of Directors of the Company and Investors Bank since 2013, will succeed Mr. Dittenhafer as Lead Independent Director.

## Proposal I—Election of Directors

### General

Investors Bancorp's Board of Directors currently consists of 12 members and is divided into three classes, with one class of directors elected each year. Each of the 12 members of the Board of Directors also serves as a director of Investors Bank. The current Bylaws of Investors Bancorp provide that a director shall retire from the Board at the annual meeting of the Board immediately following the year in which the director attains age 75.

Three directors will be elected at the Annual Meeting. On the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated Kevin Cummings, Michele Siekerka and Paul Stathouloupoulos for election as directors, each of whom has agreed to serve if so elected. All will serve until their respective successors have been elected and qualified. Effective as of Annual Meeting, two current directors, Messrs. Cashill and Dittenhafer, will retire and in anticipation of the election of Mr. Stathouloupoulos to the Board, the number of directors comprising the Board will be 11 members.

Except as disclosed in this Proxy Statement, there are no arrangements or understandings between any nominee and any other person pursuant to which any such nominee was selected. **Unless authority to vote for the nominees is withheld, it is intended that the shares represented by your Proxy Card, if executed and returned, will be voted "FOR" the election of all nominees.**

In the event that any nominee is unable or declines to serve, the persons named in the Proxy Card as proxies will vote with respect to a substitute nominee designated by Investors Bancorp's current Board of Directors. At this time, the Board of Directors knows of no reason why any of the nominees would be unable or would decline to serve, if elected.

**Investors Bancorp's Board of Directors recommends a vote "FOR" the election of the nominees for Director named in this proxy statement.**

### Directors and Executive Officers of Investors Bancorp

The following table states our directors' names, their ages as of March 26, 2018, and the years when they began serving as directors of Investors Bancorp and when their current term expires.

Name	Position(s) Held With Investors Bancorp	Age	Director Since	Current Term Expires
<b>DIRECTORS</b>				
Kevin Cummings	Director, President and Chief Executive Officer	63	2008	2018
Michele N. Siekerka	Director	53	2013	2018
Robert C. Albanese	Director	70	2013	2019
Domenick A. Cama	Director, Senior Executive Vice President and Chief Operating Officer	61	2011	2019
James J. Garibaldi	Director	66	2012	2019
James H. Ward III	Director	69	2009	2019
Dennis M. Bone	Director	66	2013	2020
Doreen R. Byrnes	Director	68	2002	2020
Peter H. Carlin	Director	45	2017	2020
William V. Cosgrove	Director	70	2011	2020
<b>RETIRING DIRECTORS</b>				
Robert M. Cashill	Chairman	75	1998	2018
Brian D. Dittenhafer	Lead Independent Director	75	1997	2018



The following information describes the business experience for each of Investors Bancorp's directors and executive officers.

## Nominees for Director

### *Term to Expire 2021*



**Kevin Cummings** was appointed President and Chief Executive Officer of Investors Bancorp and Investors Bank effective January 1, 2008 and was also appointed to serve on the Board of Directors of Investors Bank at that time. He previously served as Executive Vice President and Chief Operating Officer of Investors Bank since July 2003. Prior to joining Investors Bank, Mr. Cummings had a 26-year career with the independent accounting firm of KPMG LLP, where he had been partner for 14 years. Immediately prior to joining Investors Bank, he was an audit partner in KPMG's Financial Services practice in their New York City office and lead partner on a major commercial banking client. Mr. Cummings also worked in the New Jersey community bank practice for over 20 years. Mr. Cummings has a Bachelor's degree in Economics from Middlebury College and a Master's degree in Business Administration from Rutgers University. He is the former Chairman of the Board of the New Jersey Bankers Association and sits on the Board of Trustees of the Scholarship Fund for Inner-City Children and Liberty Science Center and is also a member of the Development Leadership Council of Morris Habitat for Humanity. In addition, Mr. Cummings is a member of the Board of the Federal Home Loan Bank of New York, the Independent College Fund of New Jersey and the Community Foundation of New Jersey.

Mr. Cummings is a certified public accountant and his background in public accounting enhances the board of directors' oversight of financial reporting and disclosure issues. The Nominating and Corporate Governance Committee considers Mr. Cummings' leadership skills and knowledge of accounting, auditing and corporate governance in the financial services industry to be assets to the Board of Directors.



**Michele N. Siekerka** was appointed to the Board of Directors of Investors Bancorp and Investors Bank on December 6, 2013 upon the consummation of Investors Bancorp's acquisition of Roma Financial Corporation where she served as Chairman. Ms. Siekerka is a licensed attorney and President and CEO of New Jersey Business and Industry Association. From 2010 to 2014, Ms. Siekerka was employed by the New Jersey Department of Environmental Protection, first as an Assistant Commissioner and then she completed her service as Deputy Commissioner. From 2004 to 2010, she served as the President and Chief Executive Officer of the Mercer Regional Chamber of Commerce. From 2000 to 2004, Ms. Siekerka was employed by AAA Mid-Atlantic, first as vice president of human resources and then as senior counsel. Active in numerous civic/professional organizations, Ms. Siekerka is on the Board of Choose New Jersey, New Jersey Innovation Institute, Junior Achievement of New Jersey, Better Choices Better Care and Opportunity New Jersey where she serves as Co-Founder and Co-Chairman. Ms. Siekerka is a former member of the Robbinsville Township Board of Education where she served as President from 2002 to 2005. Ms. Siekerka has received the Board Leadership Fellow designation from the National Association of Corporate Directors ("NACD").

The Nominating and Corporate Governance Committee considers Ms. Siekerka's legal and government affairs expertise and market knowledge to be assets to the Board of Directors.





***Paul Stathouloupoulos*** was appointed to serve on the Board of Directors of Investors Bank in October 2012. Prior to this appointment, Mr. Stathouloupoulos served as Executive Vice President & Chief Operating Officer, President & Chief Executive Officer, and Chairman of the Board of Directors of Marathon National Bank of New York and Marathon Banking Corporation from their inception in November 1989 and February 1997, respectively, through their acquisition by Investors Bancorp, Inc.. From early 1987 to November 1989, Mr. Stathouloupoulos served as the principal organizer and spokesperson of Marathon National Bank of New York, which commenced operations in November 1989. In January 1985, Mr. Stathouloupoulos organized Whitehouse Associates, LLC, a real estate investment company, in operation to-date. Starting in 1969, Mr. Stathouloupoulos was employed by the Atlantic Bank of New York, where his last position was Senior Vice President & Officer-in-Charge of Retail Banking, resigning in July 1984 to pursue the organization of Marathon National Bank of New York. Mr. Stathouloupoulos has served as a board member and/or trustee with the following organizations: Greek Theater of New York, Orpheus Cultural Foundation, the Soterios Ellenas Parochial School, the Greek Orthodox Community of Kimisis tis Theotokou, the Hellenic-American Chamber of Commerce, and the Greek-American Educational and Public Information System.

Mr. Stathouloupoulos has extensive knowledge of the banking industry and local markets served by Investors Bank. The Nominating and Corporate Governance Committee considers Mr. Stathouloupoulos's experience and leadership to be assets to the Board of Directors.

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## Continuing Directors

### *Term to Expire 2019*



**Robert C. Albanese** was appointed to the Board of Directors of Investors Bancorp and Investors Bank on December 6, 2013 upon the consummation of Investors Bancorp's acquisition of Roma Financial Corporation, where he served as a director. He was the President and Chief Executive Officer of Pentegra Retirement Services, located in White Plains, New York, from 2007 to 2013 following an eleven year tenure on Pentegra's Board of Directors. Prior to his employment with Pentegra, he served as Regional Director of the Northeast Region of the Office of Thrift Supervision from 1996 through 2007 where he was directly responsible for the oversight of all federally chartered institutions and their holding companies located in the twelve states comprising the Northeast Region. Prior to 1996, he served in various other capacities with the Office of Thrift Supervision and its predecessor, the Federal Home Loan Bank Board.

Mr. Albanese has also been involved in many civic activities, most prominently as past President and Treasurer of the Waldwick, New Jersey Jaycees. He presently sits on the Board of Trustees of the Bridge Academy, a school for children with learning disabilities located in Lawrenceville, New Jersey. The Nominating and Corporate Governance Committee considers Mr. Albanese's extensive regulatory experience with particular expertise in financial analysis, enterprise risk analysis and audit to be assets to the Board of Directors.



**Domenick A. Cama** was appointed to the Board of Directors of Investors Bancorp and Investors Bank in January 2011. He became Chief Operating Officer of Investors Bank effective January 1, 2008 and was appointed Senior Executive Vice President in January 2010. Prior to this appointment, Mr. Cama had served as Chief Financial Officer since April 2003. Prior to joining Investors Bank, Mr. Cama was employed for 13 years by the FHLB where he served as Vice President and Director of Sales. Mr. Cama is also a member of the Board of Directors for the Raritan Bay Medical Center Foundation and the Madison YMCA. Mr. Cama holds a Bachelor's degree in Economics and a Master's degree in Finance from Pace University.

Mr. Cama has extensive knowledge of the banking industry and local markets served by Investors Bank. The Nominating and Corporate Governance Committee considers Mr. Cama's experience, leadership, financial expertise and strong economics background to be unique assets for the Board of Directors.



**James J. Garibaldi** was appointed to the Board of Directors of Investors Bancorp and Investors Bank in 2012. He is currently the Chief Executive Officer of The Garibaldi Group, a corporate real estate services firm headquartered in Chatham, New Jersey. Mr. Garibaldi joined The Garibaldi Group in 1974. In 1986, Mr. Garibaldi assumed the role of managing partner of the firm and in 1997 he became its Chief Executive Officer. Mr. Garibaldi formerly served as President of CORFAC International. He is also a member of the Board of Trustees of Big Brothers and Big Sisters of North Jersey, a member of the Advisory Board for the Community Soup Kitchen in Morristown and a former member of the Board of Trustees for the Cancer Hope Network as well as the Finance Council for the Diocese of Paterson. Mr. Garibaldi has a Bachelor of Science degree from the University of Scranton.

Mr. Garibaldi's extensive real estate experience and knowledge of the local real estate market bring valuable expertise to the Board of Directors. The Nominating and Corporate Governance Committee considers Mr. Garibaldi's leadership skills and real estate knowledge to be assets to the Board of Directors.



**James H. Ward III** was appointed to the Board of Directors of Investors Bancorp and Investors Bank in June 2009 upon consummation of Investors Bancorp's acquisition of American Bancorp of New Jersey, Inc. From 1998 to 2000, he was the majority stockholder and Chief Operating Officer of Rylyn Group, which operated a restaurant in Indianapolis, Indiana. Prior to that, he was the majority stockholder and Chief Operating Officer of Ward and Company, an insurance agency in Springfield, New Jersey, where he was employed from 1968 to 1998. He is now a retired investor. In 2009 he was awarded the Certificate of Director Education by the NACD, where he is a member and continues his education.

Mr. Ward brings a wide range of management experience and business knowledge that provides a valuable resource to the Board of Directors. These skills and experience combined with the unique perspective Mr. Ward brings from his background as an entrepreneur provide skills and experience which the Nominating and Corporate Governance Committee considers to be valuable assets for the Board of Directors.

## ***Term to Expire 2020***



***Dennis M. Bone*** was appointed to the Board of Directors of Investors Bancorp and Investors Bank on December 6, 2013 upon the consummation of Investors Bancorp's acquisition of Roma Financial Corporation, where he served as a director. Mr. Bone is the Director of the Feliciano Center for Entrepreneurship at Montclair State University. Previously, Mr. Bone served as President of Verizon New Jersey for 12 years where he was responsible for Verizon's corporate interests across New Jersey. Mr. Bone had over 33 years' experience with Verizon, where he served in executive management positions for 17 years. Active in his community, Mr. Bone is on the Board of Trustees of the New Jersey Institute of Technology where he is Chairman of the Audit & Finance Committee, the New Jersey Center for Teaching and Learning, the Citizens Campaign and was recently elected Chairman of the Newark Alliance. In addition, Mr. Bone is Chairman of the New Jersey State Employment and Training Commission which oversees New Jersey's Workforce System, and was the founding Chairman of Choose New Jersey. Mr. Bone previously served on the Board of Trustees of the Liberty Science Center (12 years), the Board of Directors of the New Jersey Performing Arts Center (12 years), the Aviation Research Technology Park (2 years), and the New Jersey Utilities Association (12 years).

The Nominating and Corporate Governance Committee believes that Mr. Bone's experience, which brings a broader corporate perspective, and his extensive community involvement to be assets to the Board of Directors.



***Doreen R. Byrnes*** was elected to the Board of Directors of Investors Bancorp and Investors Bank in January 2002. Ms. Byrnes retired in 2007 after an employment career in the area of human resources, including having served as Executive Vice President of Human Resources of Investors Bancorp. Ms. Byrnes has a Bachelor's degree from the University of Florida and a Master's degree from Fairleigh Dickinson University. She is a member of the NACD and was awarded the Certificate of Director Education in 2010.

Ms. Byrnes has extensive experience with executive recruitment, retention and compensation as well as a strong understanding of the employees and markets served by Investors Bank. This experience provides a unique perspective to the Board of Directors. The Nominating and Corporate Governance Committee considers Ms. Byrnes' skills and experience to be assets to the Board of Directors.



**Peter H. Carlin** was appointed to the Board of Directors of Investors Bancorp and Investors Bank on March 27, 2017. Mr. Carlin has been a Managing Director at Blue Harbour Group since 2014. Prior to joining Blue Harbour Group, Mr. Carlin was a Managing Member of Estekene Capital from 2009 to 2013. Previously, he was a Deputy Portfolio Manager at Alson Capital, where he worked from 2002 to 2009 and at Sanford Bernstein & Co. where he was a Buyside Research Analyst from 2000 to 2002. Mr. Carlin began his career at Morgan Stanley in the Mergers & Acquisitions Group. Mr. Carlin earned his MBA from Columbia Business School in 1999, a JD from Columbia Law School in 1999, and a BA from the University of Pennsylvania in 1994.

Mr. Carlin's tenure working with financial institutions through the capital markets brings valuable expertise to the Board of Directors. Mr. Carlin's financial and leadership skills and experience and knowledge, as well as the representation of stockholder interest bring an important asset to the Board of Directors.



**William V. Cosgrove** was first appointed to the Board of Directors of Investors Bancorp and Investors Bank in October 2011. Mr. Cosgrove had been employed as a non Section 16 officer of Investors Bank since Investors Bancorp's acquisition of Summit Federal Bankshares, Inc. and Summit Federal Savings Bank in June 2008 through his retirement from Investors Bank on October 1, 2011. Mr. Cosgrove was President and Chief Executive Officer of Summit Federal Savings Bank from 2003 until the acquisition of Summit Federal Savings Bank by Investors Bank in 2008. Mr. Cosgrove has over 40 years of experience in banking and has served as president of the N.J. Council of Federal Savings Institutions, and the Union County Savings League. In addition he served on the Board of Governors of the New Jersey Savings League. Mr. Cosgrove is a member of the NACD, where he continues his education.

Mr. Cosgrove's extensive experience in the banking industry and local markets bring valuable expertise to the Board of Directors. The Nominating and Corporate Governance Committee considers Mr. Cosgrove's financial and leadership skills and his experience and knowledge of the financial services industry in general to be assets to the Board of Directors.



## Retiring Directors



**Robert M. Cashill** was first elected to the Board of Directors of Investors Bancorp and Investors Bank in February 1998 and has served as Chairman since January 2010. Mr. Cashill served as President and Chief Executive Officer of Investors Bank from December 2002 until his retirement on December 31, 2007. During this time Mr. Cashill was an integral part of the conversion of the former savings bank into the mutual holding company structure raising \$500 million in the process. Prior to joining Investors Bank, Mr. Cashill was employed as Vice President Institutional Sales by Salomon Smith Barney from 1977 to 1998, and at Hornblower, Weeks, Hemphill, Noyes from 1966 to 1977. For much of that time he specialized in providing investment analysis and asset/liability management advice to thrift institutions and was, therefore, familiar with thrift recapitalizations and debt issuance. Mr. Cashill has a Bachelor of Science degree in Economics from Saint Peter's College. He is a member of the NACD, where he continues his education and served on the boards of both the New Jersey League of Savings Institutions and the Paper Mill Playhouse.

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**Brian D. Dittenhafer** was first elected to the Board of Directors of Investors Bancorp and Investors Bank in 1997. He served as President and Chief Executive Officer of the Federal Home Loan Bank of New York from 1985 until his retirement in 1992. Mr. Dittenhafer joined the FHLB in 1976 where he also served as Vice President and Chief Economist, Chief Financial Officer and Executive Vice President. Previously, he was employed as a Business Economist at the Federal Reserve Bank of Atlanta from 1971 to 1976. From 1992 to 1995, Mr. Dittenhafer served as President and Chief Financial Officer of Collective Federal Savings Bank and as Chairman of the Resolution Funding Corporation from 1989 to 1992. From 1995 to 2007 Mr. Dittenhafer was Chairman of MBD Management Company. Mr. Dittenhafer has a Bachelor of Arts from Ursinus College and a Master of Arts in Economics from Temple University where he subsequently taught economics. He was named to Omicron Delta Epsilon, the national honor society in Economics. Mr. Dittenhafer is a member of the National Association for Business Economics and the NACD. In 2007 he was awarded the Certificate of Director Education by the NACD, where he continues his education and has achieved Director Professional designation. In 2012, Mr. Dittenhafer achieved the status of NACD Governance Fellow.

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## Executive Officers of the Bank Who Are Not Also Directors



**Richard S. Spengler**, age 56, was appointed Executive Vice President and Chief Lending Officer of Investors Bank effective January 1, 2008. Mr. Spengler began working for Investors Bank in September 2004 as Senior Vice President. Prior to joining Investors Bank, Mr. Spengler had a 21-year career with First Savings Bank, Woodbridge, New Jersey where he served as Executive Vice President and Chief Lending Officer from 1999 to 2004. Mr. Spengler holds a Bachelor's degree in Business Administration from Rutgers University.



**Paul Kalamaras**, age 59, was appointed Executive Vice President and Chief Retail Banking Officer of Investors Bank in January 2010. Mr. Kalamaras joined Investors Bank as a Senior Vice President and Director of Retail Banking in August 2008. Before joining Investors, Mr. Kalamaras was Executive Vice President of Millennium bcp bank, N.A., in Newark, New Jersey where he was responsible for the retail, commercial banking and treasury lines of business. He served on the bank's Executive Committee and was a member of the Board of Directors. Mr. Kalamaras previously was President and CEO of The Barré Company, a manufacturer of precision engineered metal components for the electronics and telecommunications industry. Mr. Kalamaras is a member of, among other organizations, the Board of Directors of New Jersey State Chamber of Commerce, Board of Trustees, New Jersey SEEDS, Board of Directors Big Brothers Big Sisters of Northern NJ and Board of Directors New Jersey Region of the American Red Cross. Earlier, Mr. Kalamaras was Executive Vice President at Summit Bank, where he was responsible for the retail network and business banking. Mr. Kalamaras holds a Bachelor's degree in Finance from the University of Notre Dame.



**Sean Burke**, age 46, was appointed Senior Vice President and Chief Financial Officer of Investors Bank effective January 26, 2015. Prior to joining Investors Bank, Mr. Burke was the Managing Director and Head of U.S. Depository Institution Investment Banking for RBC Capital Markets in New York. Mr. Burke has over 20 years of experience working with financial institutions. Mr. Burke earned bachelor's degrees in accounting and computer science from the University of Notre Dame and earned an MBA from Northwestern University's J.L. Kellogg Graduate School of Management. Prior to attending Northwestern, Mr. Burke was a certified public accountant and worked in the financial services audit practice of Ernst & Young.

## Corporate Governance Matters

Investors Bancorp is committed to maintaining sound corporate governance guidelines and very high standards of ethical conduct and is in compliance with applicable corporate governance laws and regulations. The following are key features of our corporate governance practices:

### What We Do

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- ✓ The Board and management regularly focus on strategy and planning.
- ✓ Of the Board's current 12 Directors, 9 are independent, including the Lead Independent Director.
- ✓ Our Board has adopted a majority voting policy, described below, which requires Directors who do not receive majority stockholder support to tender their resignation.
- ✓ The Board held 12 meetings in 2017 and the Board's Committees each held three to six meetings in 2017. The Board met in executive sessions seven times.
- ✓ Our Director attendance for Board and Committee meetings averaged 99 percent in 2017, and each Director attended at least 75 percent of Board and Committee meetings on which the Director served.
- ✓ The Board conducts annual self-evaluations.
- ✓ New Directors are provided with an orientation package and attend a Board orientation session.
- ✓ The Board has a robust Director Education Program to keep abreast of significant risks and compliance issues; laws, regulations and requirements applicable to the Company; corporate governance best practices; products and services offered by the Company; and changes in the financial services industry.
- ✓ Robust stock ownership guidelines for Directors and executive officers are in place.
- ✓ We have specific policies and procedures to align executive compensation with long-term stockholder interests; these policies and procedures are routinely reviewed by the Compensation and Benefits Committee in conjunction with an independent compensation consultant.
- ✓ We have a clawback policy that applies to our executive officers.
- ✓ The Board reviews management talent and succession at least annually.
- ✓ The Company makes on-going investments in systems and technology, as well as training and education for all employees and Directors to combat cybersecurity threats.
- ✓ The Board understands the importance of maintaining regular, open, and transparent communications with our regulators.
- ✓ Our Board has oversight of risk management with a focus on the most significant enterprise risks facing our Company, including compliance, credit, legal, liquidity, market, operational, reputational, and strategic risks.
- ✓ We have guidelines governing the use of pre-established trading plans for transactions in our securities.

### What We Don't Do

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- ✗ We prohibit all hedging of Investors Bancorp common stock by Directors and executive officers.
- ✗ We prohibit pledging of Investors Bancorp common stock as collateral by Directors and executive officers.
- ✗ We prohibit short sales of Investors Bancorp common stock by Directors and executive officers.
- ✗ No immediate family relationships exist between any of our Directors or executive officers and any of our other Directors or executive officers.

## Board of Directors Meetings and Committees

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The Board of Directors of Investors Bancorp and Investors Bank each met 12 times during 2017. The Board of Directors of Investors Bancorp currently maintains four standing committees: the Nominating and Corporate Governance Committee, the Audit Committee, the Compensation and Benefits Committee and the Risk Oversight Committee.

No director attended fewer than 75% of the total number of Board meetings held by the Investors Bancorp and Investors Bank Board of Directors and all committees of the Boards on which they served (for the period they served) during 2017. In addition, all of Investors Bancorp's directors attended the annual meeting of stockholders held on May 23, 2017.

### Board and Committee Composition – December 31, 2017

The table below indicates the members and Chairs of the Board of Directors and each of its Committees as of December 31, 2017 as well as the number of meetings for each Committee in 2017.

Director	Position(s) Held With Investors Bancorp	Nominating and Corporate Governance Committee	Audit Committee	Compensation and Benefits Committee	Risk Oversight Committee
Robert C. Albanese	Director		Chair	Member	Member
Dennis M. Bone	Director	Member		Chair	Member
Doreen R. Byrnes	Director	Chair	Member	Member	Member
Domenick A. Cama	Director, Senior Executive Vice President and Chief Operating Officer				
Peter H. Carlin	Director				Member
Robert M. Cashill	Chairman <sup>(1)</sup>				Member
William V. Cosgrove	Director	Member	Member	Member	Member
Kevin Cummings	Director, President and Chief Executive Officer				
Brian D. Dittenhafer	Lead Independent Director	Member	Member	Member	Member
James J. Garibaldi	Director				Member
Michele N. Siekerka	Director	Member	Member		Member
James H. Ward III	Director	Member	Member	Member	Chair
<b>Number of Meetings</b>		<b>3</b>	<b>6</b>	<b>5</b>	<b>4</b>

(1) Chairman serves ex officio on each committee.

### Board and Committee Composition – Following the Annual Meeting on May 22, 2018

The Nominating and Corporate Governance Committee has proposed, and the Board of Directors has agreed, that the membership of the Board and each of its Committees following the Annual Meeting, assuming each Director nominee is elected, shall be as follows:

Director	Position(s) Held With Investors Bancorp	Nominating and Corporate Governance Committee	Audit Committee	Compensation and Benefits Committee	Risk Oversight Committee
Robert C. Albanese	Director		Chair	Member	Member
Dennis M. Bone	Lead Independent Director	Member	Member	Member	Member
Doreen R. Byrnes	Director	Chair		Member	Member
Domenick A. Cama	Director, President and Chief Operating Officer				
Peter H. Carlin	Director	Member	Member		Member
William V. Cosgrove	Director	Member	Member		Member
Kevin Cummings	Director, Chairman and Chief Executive Officer <sup>(1)</sup>				
James J. Garibaldi	Director				Member
Michele N. Siekerka	Director	Member		Chair	Member
Paul Stathouloupoulos	Director		Member	Member	Member
James H. Ward III	Director		Member	Member	Chair

(1) Chairman serves ex officio on each committee.

## Director Independence

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Pursuant to our Nominating and Corporate Governance Guidelines (the “Corporate Governance Guidelines”), the Board of Directors conducts an annual review of director independence. As a result of the review performed in December 2017, the Board of Directors determined, based upon the recommendation of the Nominating and Corporate Governance Committee, that 9 of the 12 members of the Board of Directors, and each member of the Compensation and Benefits, Nominating and Corporate Governance and Audit Committees are independent, as affirmatively determined by the Board of Directors consistent with the listing rules of the Nasdaq Stock Market.

In connection with this review, the Board of Directors considers all relevant facts and circumstances relating to relationships that each director, his or her immediate family members and their respective related interests has with Investors Bancorp and its subsidiaries.

As a result of this review, the Board of Directors determined that Messrs. Cashill, Albanese, Cosgrove, Bone, Dittenhafer, Ward, Carlin and Ms. Byrnes and Siekerka, are independent as defined in the Nasdaq corporate governance listing rules. The Board of Directors determined that Messrs. Cummings and Cama are not independent as they are Investors Bank employees. Mr. Garibaldi is not independent due to commercial real estate brokerage services provided by his company to Investors Bank, the subsidiary of Investors Bancorp, in 2015.

In considering the nomination and inclusion of Paul Stathouloupoulos to the Board, there was an evaluation by the Board as to whether Mr. Stathouloupoulos was independent as defined in the listing rules of the Nasdaq Stock Market. Such evaluation determined that Mr. Stathouloupoulos is independent.

In establishing its structure and appointing a Lead Independent Director, Investors Bancorp has also taken into account the extent to which a director who satisfies independence standards under the listing rules of the Nasdaq Stock Market would also qualify as an independent outside director (as opposed to an affiliated outside director) under the standards set forth by Institutional Shareholder Services (“ISS”).

## Board Leadership Structure and Lead Independent Director

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Currently, the positions of Chairman of the Board and Chief Executive Officer are held by different persons. However, the Board has historically recognized that its optimal leadership structure can change over time to reflect our Company’s evolving needs, strategy, and operating environment; changes in our Board’s composition and leadership needs; and other factors, including the perspectives of stockholders and other stakeholders.

In anticipation of Mr. Cashill’s pending retirement as Chairman, the Board, based upon the recommendation of the Nominating and Corporate Governance Committee, unanimously determined to appoint Kevin Cummings as Chairman of the Board and Chief Executive Officer of the Company and Investors Bank, pending his reelection to the Board, to become effective following the Annual Meeting. The Board believes that appointing Mr. Cummings to both of these roles is in the best interest of the Company and its stockholders, in light of his significant leadership tenure with the Company and his close working relationship with Mr. Cashill. The Board will continue to have a separate Lead Independent Director with the principal duties specified in our Corporate Governance Guidelines, as discussed below. We believe that combining the roles of CEO and Chairman will facilitate the day-to-day management of the Company. By holding both roles, Mr. Cummings will be in the best position to be aware of major issues and challenges facing the Company on a day-to-day and long-term basis and to continue to identify key risks and developments that should be brought to the Board’s attention.

The combined Chairman/CEO position will be counterbalanced by our strong Lead Independent Director position. Our Corporate Governance Guidelines provide that the Lead Independent Director shall be an

“independent outside director”, which is defined as an independent director who has never been employed by the Company or Investors Bank. The Lead Independent Director presently has the following duties:

- Preside at all meetings of the independent outside directors and independent directors;
- Coordinate as necessary Company-related activities of the independent outside directors;
- Facilitate communications among the Chairman of the Board, Company management and the independent outside directors;
- Consult with the Chairman of the Board with respect to meeting agendas and schedules, as well as Board materials, prior to Board meetings; and
- Consult with the Chairman of the Board to assure that appropriate topics are being discussed with sufficient time allocated for each.

The Lead Independent Director also has the authority to call meetings of the independent outside directors. Currently, Brian D. Dittenhafer serves as Lead Independent Director. In light of Mr. Dittenhafer’s pending retirement, the Nominating and Corporate Governance Committee has appointed Dennis M. Bone to serve as Lead Independent Director, effective following the Annual Meeting.

In considering the decision to consolidate the Chairman and CEO positions, the Nominating and Corporate Governance Committee and the Board evaluated the existing duties of the Lead Independent Director and also assessed the independent directors’ capacity to effectively provide enhanced independent leadership and oversight of challenges and opportunities facing the Board and the Company. In determining that Mr. Bone would be highly qualified to provide such enhanced independent leadership and oversight, the Nominating and Corporate Governance Committee also deemed it appropriate to increase the duties of the Lead Independent Director as follows, with such increased duties to be effective following the Annual Meeting:

- Preside at Board meetings when the Chairman is not present;
- Approve all meeting agendas for the Board;
- Solicit and receive topic suggestions from other directors to be discussed at upcoming executive sessions and facilitate discussion on key issues outside of meetings;
- If requested by our larger stockholders, ensure that he or she is available for consultation and direct communication with them;
- Follow up on meeting outcomes and management deliverables;
- Communicate, as appropriate, with our regulators;
- Meet regularly with the Chairman/CEO on issues and opportunities facing the Company, including business strategy, regulatory matters and succession planning; and
- Act as an advisor to the Chairman/CEO.

The Board itself has substantial independence, with nine of the ten non-employee Directors qualifying as independent under Nasdaq rules. In addition, the Board values the fresh perspective brought by Peter Carlin, who was appointed to the Board in March 2017. Mr. Carlin, who has substantial experience and expertise in the capital and financial markets, is a Managing Director at Blue Harbour Group, L.P. (“Blue Harbour”), which is the Company’s largest stockholder. Mr. Carlin’s appointment and continuing service on the Board further evidences the Company’s commitment to alignment and engagement with its stockholders.

We recognize that different board leadership structures may be appropriate for the Company at different times and in different situations. As part of the Nominating and Corporate Governance Committee’s and the Board’s annual evaluation processes, the Nominating and Corporate Governance Committee and the Board will evaluate the Company’s leadership structure to ensure that it provides the most appropriate structure.

## Nominating and Corporate Governance Guidelines

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The Board of Directors has adopted Corporate Governance Guidelines, which are posted on the “Governance Documents” section of the “Investor Relations” page of Investors Bank’s website at [www.investorsbank.com](http://www.investorsbank.com). The Corporate Governance Guidelines cover the general operating policies and procedures followed by the Board of Directors including, among other things:

- Mission of the Board;
- Board size and composition;
- Director responsibilities and qualifications;
- Lead Independent Director responsibilities;
- Independence standards for Directors;
- Board nominating procedures and election criteria;
- Board committees;
- Director access to officers and employees;
- Stock ownership policies;
- Director compensation;
- Director continuing education;
- Annual Director performance evaluation;
- Annual CEO evaluation and succession; and
- Our Code of Business Conduct and Ethics.

The Corporate Governance Guidelines, which were last updated in May 2017, provide for the independent directors of the Board of Directors to meet in regularly scheduled executive sessions. During 2017, seven executive sessions were held, of which one was conducted by the independent directors.

The Nominating and Corporate Governance Committee periodically reviews our Bylaws and Corporate Governance Guidelines to maintain effective and appropriate standards of corporate governance. The Board adopted the Corporate Governance Guidelines to further its longstanding and continuing goal of providing effective governance of our Company’s business and affairs for the long-term benefit of stockholders. The Nominating and Corporate Governance Committee and the Board affirm their commitment of considering and, where appropriate, adopting, revisions and enhancements to our Bylaws and Corporate Governance Guidelines which would further our alignment and engagement with our stockholders.

## Anti-Hedging Policy

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The Corporate Governance Guidelines include an anti-hedging policy, which prohibits Directors and executive officers from engaging in or effecting any transaction designed to hedge or offset the economic risk of owning shares of Company common stock. Accordingly, any hedging, derivative or other equivalent transaction that is specifically designed to reduce or limit the extent to which declines in the trading price of Company common stock would affect the value of the shares of Company common stock owned by an executive officer or Director is prohibited. Cashless exercises of employee stock options are not deemed short sales and are not prohibited. This policy does not prohibit transactions in the stock of other companies.

## Prohibition on Pledging Securities

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Company policy prohibits Directors and executive officers from holding Company securities in a margin account or pledging Company securities as collateral for any other loan. An exception to this prohibition may be granted, in the sole discretion of the Board and in limited circumstances, after giving consideration to, among



other factors, the number of shares proposed to be pledged as a percentage of the Director's or executive officer's total shares held. No shares are currently pledged by a Director or executive officer.

## Stock Ownership Requirements

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The Board of Directors believes that it is in the best interest of Investors Bancorp and its stockholders to align the financial interests of its executives and directors with those of stockholders. Accordingly, the Corporate Governance Guidelines include Stock Ownership Guidelines for Named Executive Officers and Directors of Investors Bancorp that require the following minimum investment in Investors Bancorp common stock:

CEO:	A number of shares having a market value equal to five times (5.0x) annual base salary
Other Named Executive Officers:	A number of shares having a market value equal to three times (3.0x) annual base salary
Directors:	25,000 shares

Stock holdings are expected to be achieved within five (5) years of either the implementation of the Ownership Guidelines or the starting date of the individual, whichever is later. Stock ownership for Named Executive Officer and Directors is reviewed as of the last day of each calendar quarter.

## Majority Voting Policy

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The Board of Directors believes that each director of the Company should have the confidence and support of the Company's stockholders and, to this end, the Board has adopted a majority voting policy, which is utilized for the election of any director at any meeting of stockholders for uncontested elections and shall not be applicable for contested elections. Pursuant to this policy, any incumbent director nominee in an uncontested election who receives a greater number of votes **"WITHHELD"** than votes cast **"FOR"** at the stockholders meeting shall promptly tender his or her proposed resignation following certification of the stockholder vote.

The Nominating and Corporate Governance Committee will promptly consider the resignation and will recommend to the Board whether to accept the resignation or to take other action, including rejecting the resignation and addressing any apparent underlying causes of the failure of the director to obtain a majority of votes **"FOR"** such nominee. The Board will act on the Nominating and Corporate Governance Committee's recommendation no later than at its first regularly scheduled meeting following the committee's deliberation and recommendation, but in any case, no later than 90 days following the certification of the stockholder vote. The Company will publicly disclose the Board's decision and process in a periodic or current report filed with or furnished with to the SEC within 90 days following the certification of the stockholder vote. Any director who tenders his or her resignation will not participate in the Nominating and Corporate Governance Committee's or full Board's deliberations, considerations or actions regarding whether or not to accept the resignation or take any other related action.

## Nominating and Corporate Governance Committee

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Each member of the Nominating and Corporate Governance Committee is considered independent as defined in the Nasdaq corporate governance listing rules. The Nominating and Corporate Governance Committee's Charter and Corporate Governance Guidelines are posted on the "Governance Documents" section of the "Investor Relations" page of the Investors Bank's website at [www.investorsbank.com](http://www.investorsbank.com).

As noted in the Nominating and Corporate Governance Committee Charter, the purpose of the committee is to assist the Board in identifying individuals to become Board members, determine the size and composition of the Board and its committees, monitor Board effectiveness and implement the Corporate Governance Guidelines.

In furtherance of this purpose, this Committee, among other things, shall:

- Lead the search for individuals qualified to become members of the Board of Directors and develop criteria (such as independence, experience relevant to the needs of the Company, leadership qualities, diversity, stock ownership) for board membership;
- Make recommendations to the Board concerning Board nominees and stockholders proposals;
- Develop, recommend and oversee the annual self-evaluation process of the Board and its committees;
- Develop and annually review corporate governance guidelines applicable to the Company;
- Review and monitor the Board's compliance with Nasdaq Stock Market listing standards for independence; and
- Review, in consultation with the Compensation and Benefits Committee, Directors' compensation and benefits.

In accordance with the Corporate Governance Guidelines, the Committee considers all qualified director candidates identified by members of the Committee, by other members of the Board of Directors, by senior management and by stockholders. Stockholders recommending a director candidate to the Committee may do so by submitting the candidate's name, resume and biographical information to the attention of the Chairperson of this Committee in accordance with procedures listed in this proxy statement (also available on Investors Bancorp's website). All stockholder recommendations for director candidates that the Chairperson of the Committee receives in accordance with these procedures will be presented to the Committee for its consideration. The Committee's recommendations to the Board are based on its determination as to the suitability of each individual, and the slate as a whole, to serve as directors of Investors Bancorp.

Except for Paul Stathouloupoulos, each nominee for election as a director at the Annual Meeting currently serves as a director of the Company. Mr. Stathouloupoulos has served on the Board of Directors of Investors Bank, the wholly owned subsidiary of the Company, since 2012, and in that capacity was known to the Nominating and Corporate Governance Committee and the Board.

The Nominating and Corporate Governance Committee and the Board, when evaluating Board vacancies that may occur, are committed to seeking members from diverse professional and demographic backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity, to ensure that the Board maintains an appropriate complement of skills, experience and characteristics to meet the evolving nature and needs of our Company.

## Criteria for Election

Investors Bancorp's goal is to have a Board of Directors whose members have diverse professional backgrounds and have demonstrated professional achievement with the highest personal and professional ethics and integrity and whose values are compatible with those of Investors Bancorp. While the Nominating and Corporate Governance Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, the Committee members recognize the benefits of a Board whose members possess a diversity of business experience and demographic backgrounds and seek to identify nominees with a range of background and experience. However, important factors considered in the selection of nominees for director include experience in positions that develop good business judgment, that demonstrate a high degree of responsibility and independence, and that show the individual's ability to commit adequate time and effort to serve as a director.

Nominees should have a familiarity with the markets in which Investors Bancorp operates, be involved in activities that do not create a conflict with his/her responsibilities to Investors Bancorp and its stockholders, and

have the capacity and desire to represent the balanced, best interests of the stockholders of Investors Bancorp as a group, and not primarily a special interest group or constituency.

The Nominating and Corporate Governance Committee will also take into account whether a candidate satisfies the criteria for “independence” as defined in the Nasdaq corporate governance listing rules, and, if a candidate with financial and accounting expertise is sought for service on the Audit Committee, whether the individual qualifies as an audit committee financial expert.

## **Procedures for the Nomination of Directors by Stockholders**

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As previously indicated, the Nominating and Corporate Governance Committee has adopted procedures for the consideration of Board candidates submitted by stockholders. Stockholders can submit the names of candidates for director by writing to the Chair of the Nominating and Corporate Governance Committee, at Investors Bancorp, Inc., 101 JFK Parkway, Short Hills New Jersey 07078. The submission must include the following information:

- a statement that the writer is a stockholder and is proposing a candidate for consideration by the Nominating and Corporate Governance Committee;
- the qualifications of the candidate and why this candidate is being proposed;
- the name, address and contact information for the nominated candidate, and the number of shares of Investors Bancorp common stock that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the stockholder’s ownership should be provided);
- the name and address of the nominating stockholder as he/she appears on Investors Bancorp’s books, and number of shares of Investors Bancorp common stock that are owned beneficially by such stockholder (if the stockholder is not a holder of record, appropriate evidence of the stockholder’s ownership will be required);
- a statement of the candidate’s business and educational experience;
- such other information regarding the candidate as would be required to be included in a proxy statement pursuant to SEC Regulation 14A;
- a statement detailing any relationship between the candidate and Investors Bancorp and between the candidate and any customer, supplier or competitor of Investors Bancorp;
- detailed information about any relationship or understanding between the proposing stockholder and the candidate; and
- a statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

A nomination submitted by a stockholder for presentation by the stockholder at an annual meeting of stockholders must comply with the procedural and informational requirements described in “Advance Notice of Business to be Conducted at an Annual Meeting.” Investors Bancorp did not receive any stockholder submission for Board nominees for this annual meeting.

## Stockholder and Interested Party Communication with the Board

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A stockholder of Investors Bancorp who wants to communicate with the Board or with any individual director can write to the Chair of the Nominating and Corporate Governance Committee at Investors Bancorp, Inc., 101 JFK Parkway, Short Hills, New Jersey 07078. The letter should indicate that the author is a stockholder and if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, the Chair will:

- Forward the communication to the director(s) to whom it is addressed;
- Handle the inquiry directly, for example where it is a request for information about Investors Bancorp or it is a stock-related matter; or
- Not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

At each Board meeting, the Chair of the Nominating and Corporate Governance Committee shall present a summary of all communications received since the last meeting and make those communications available to the directors upon request.

## Summary of Stockholder Engagement

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Our commitment to our stockholders is part of the Company's mission: Investors Bank strives to provide high-quality products and services in an honest and straightforward manner while operating responsibly and ethically, so that our clients, employees, stockholders and communities may prosper. We believe that engaging with our stockholders and soliciting their points of view is critical to providing long-term value to all of the Company's stakeholders. We are committed to constructive and meaningful communications with our stockholders.

Throughout the course of 2017, management met with the majority of stockholders, primarily through individual conversations, investor conferences, investor roadshows, through our investor relations channel and at our annual stockholder meeting. During 2017, management reached out to stockholders representing or holding more than 70% of outstanding shares and had interaction with stockholders representing or holding more than 55% of outstanding shares. Over the course of the interaction and meetings, management discussed the Company's most recent financial results, corporate governance matters, compensation practices, capital management and business strategies.

Many of our conversations with stockholders related to the continuing impact that the informal agreement we entered into on August 12, 2016 with the FDIC and the New Jersey Department of Banking and Insurance regarding Bank Secrecy Act ("BSA") and Anti-Money Laundering compliance matters has had on our financial results and business strategy. We have made and continue to make significant progress in remediating the issues identified in the informal agreement. We also discussed with stockholders our intent to continue to evaluate potential opportunities to enhance long-term stockholder value.

We also continued to emphasize to stockholders the commitment of our Compensation and Benefits Committee to continue to further align our compensation practices with Company performance. A substantial portion of compensation payable to our Named Executive Officers, who directly impact corporate performance, is directly linked to our Company's actual performance.

We believe that our stockholders provide valuable insight and we will continue to create opportunities for stockholder engagement going forward through similar channels as we did in 2017. As mentioned above, we have a structure in place to allow stockholders to communicate directly with our Board.

We have regular dialogue with our largest stockholders, including members of Blue Harbour, one of our largest stockholders since 2014. On March 27, 2017, the Company announced the appointment of Peter Carlin to the 2020 class of Directors for Investors Bancorp and Investors Bank. Mr. Carlin has been a Managing Director at Blue Harbour since 2014. We believe that having one of our largest stockholders represented as a member of our Boards demonstrates our commitment to further aligning our interests with stockholders. Mr. Carlin's strong financial background and operational expertise will enhance our Boards as we continue to grow

our franchise. We remain committed to alignment with our stockholders on strategy and practices that deliver stockholder value.

## **Code of Business Conduct and Ethics**

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Our employees, executive officers and Directors take pride in our ability to maintain the highest ethical standards while continuing to provide products and services to our communities. Protecting our reputation for integrity is dependent on a shared commitment to our Core Values: Character, Commitment, Cooperation and Community, and treating all of our stakeholders—our customers, clients, employees, stockholders, business partners and communities we serve—with integrity.

The Board has adopted a Code of Business Conduct and Ethics to be followed by Investors Bancorp’s employees, officers (including its CEO, CFO and CAO) and directors to communicate our commitment to ethical conduct and to describe our standards and expectations for integrity and ethical behavior. Directors, NEOs, executive officers and employees are required to read, understand and comply with the Code. Investors Bancorp requires that all new employees take Code training shortly after their commencement of employment and also requires annual training for all directors and employees. All employees must certify annually that they have read the Code and agree to abide by it.

The Code provides that any waivers for directors or executive officers may be made only by the Board of Directors and must be promptly disclosed to the stockholders. During 2017, the Board of Directors did not receive nor grant any request for directors or executive officers for waivers under the provisions of the Code.

This Code was last modified on November 20, 2017 and is available on the “Governance Documents” section of the “Investors Relations” page of the Investors Bank’s website at [www.investorsbank.com](http://www.investorsbank.com). Investors Bancorp will post on its website any amendments to the Code and any waivers granted to its directors or executive officers.

Investors Bancorp expects and encourages its employees to report behavior that concerns them or may represent a violation of the Code. To ensure that our employees are comfortable in reporting such concerns or violations of the Code, we offer several channels by which employees may raise an issue or concern, including any actual or potential violation of the Code. One such channel is EthicsPoint, a website and telephone hotline that is available to employees 24 hours a day, 7 days a week. EthicsPoint complaints or concerns can be submitted anonymously. In addition, Investors Bancorp does not permit retaliation of any kind for good faith reports of ethical violations or misconduct of others. All reports are investigated promptly and fully, and effective remedial action is taken when appropriate.

## **Sales Practices**

A key component of our mission is to help our customers, clients and communities achieve economic success and financial well-being. Our culture and sales practices are consistent with this philosophy. Investors Bancorp’s risk and compliance culture heavily influences the design, and emphasis of our sales, compensation and incentive programs. Our compensation and incentive programs are based on balanced performance, with appropriate controls. Sales leaders and managers are held accountable for setting the appropriate tone from the top and recognizing appropriate sales behavior and practices. Employees are held accountable for executing their daily responsibilities in accordance with the Company’s Code of Business Conduct and Ethics.

## **Environmental, Social and Corporate Governance**

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As we continuously endeavor to make Investors Bancorp a great place to work, we listen to our employees and build on our programs and resources to enhance their experience, help cultivate their competencies and further their careers with us. We are dedicated to the learning initiatives for our employees that promote both their professional and personal well-being. We have a chief culture officer who focuses on ensuring that the strategies and ideas of the Company align with the overall long-term strategy of the organization.

Our strong sense of community is one of our main core values and we make this part of the onboarding experience for our new employees through volunteer opportunities in the communities we serve. In addition to many volunteer hours dedicated, we proudly promote a higher quality of life in the communities we serve in New Jersey and New York through our Charitable Foundations. Through the Investors Charitable Foundation, established in 2005, and the Roma Charitable Foundation, which we acquired in December 2013, Investors Bank has contributed or committed \$27.9 million in donations to enrich the lives of New Jersey and New York citizens by supporting initiatives in the arts, education, youth development, affordable housing, and health and human services. This community involvement and team orientation are incorporated into our annual performance reviews. Our contributions to community-based organizations are just a part of the commitment we make.

We believe that we have an obligation to support the communities we serve by balancing the needs of our stockholders, employees, customers and communities. Our business practices and policies also promote social responsibility, both environmentally and industry-related, to promote responsible growth. We continuously focus on our economic, social and corporate governance responsibilities to grow in a sustainable manner.

## **Diversity and Inclusion**

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Investors Bancorp engenders a committed, caring and inclusive environment. We recognize that maintaining a diverse workforce is essential to our Company's growth. We reinforce this commitment through ongoing efforts to reflect and adapt to the changing demographics of the communities where we live and work. Our recruitment efforts at all levels of the Company are centered on our commitment to attract diverse established and emerging talent.

We continue to focus on ethnic and gender representation throughout our Company, including our leadership positions. As part of this strategy, the Company's Human Resources Group regularly develops action plans and strategies to identify areas of opportunity for recruitment, development and retention of a diverse workforce.

In 2016, the Company established its W.O.M.E.N. Together Leadership Council. The W.O.M.E.N. Together initiative was formed with the purpose of supporting and enriching the careers of the women of Investors Bancorp. While the Council is women-focused, all employees - male and female - are invited and encouraged to participate in its events and activities.

The W.O.M.E.N (Women, Opportunity, Mentoring, Empowering and Nurturing) Together Leadership Council is comprised of approximately 50 women leaders from all areas of the Company who work together to empower current and future women leaders by enhancing their personal and professional wellbeing. The Council's goal is to encourage women's professional development through the sharing and exchanging of ideas, as well as promoting and influencing their professional lives through networking events, coaching and mentoring programs and internal exchange of ideas and experiences.

In 2016, to further support and enhance our commitment to attract and develop a pool of emerging and diverse future leaders, the Company, through its Human Resources Group, recruited students from various colleges and universities within our communities for our Commercial Management Associates ("CMA") Program. The CMA Program was designed to develop individuals into well-rounded banking professionals who can support and service our existing commercial clients and develop new clients as well. Our management team interviewed more than 100 applicants for 15 positions. The individuals selected were of various gender and ethnic backgrounds. Our CMA associates received classroom education in credit, financial analysis, loan structure and other relevant areas. They also benefited from rotation through various departments, as well as additional professional and interpersonal skills growth and development opportunities. Upon their graduation from the CMA Program, our CMA associates assumed positions within the Company and provide valuable contributions to our business.

Our commitment to diversity and inclusion is fully supported by our Directors, Executive Management and employees. This commitment is central to our mission and values, which are built on our four core values



of Cooperation, Character, Community and Commitment. Our approach to diversity and inclusion is not only good business, but is the right thing to do by our customers, employees, stockholders and communities.

We have committed to undertake an assessment of our approaches to diversity and inclusion in 2018 to determine whether a Company-wide standalone Diversity and Inclusion policy would be appropriate. Such assessment will include:

- Identification of additional opportunities to reinforce our commitment to diversity and inclusion throughout the Company;
- Continuing review of our recruitment practices; and
- Ensure that our procurement and supplier engagement practices include appropriate diversity and inclusion factors.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

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Investors Bancorp's common stock is registered with the SEC pursuant to Section 12(b) of the Exchange Act. The executive officers and directors of Investors Bancorp, and beneficial owners of greater than 10% of Investors Bancorp's common stock, are required to file reports on Forms 3, 4 and 5 with the SEC disclosing beneficial ownership and changes in beneficial ownership of Investors Bancorp's common stock. The SEC rules require disclosure in Investors Bancorp's Proxy Statement or Annual Report on Form 10-K of the failure of an executive officer, director or 10% beneficial owner of Investors Bancorp's common stock to file a Form 3, 4, or 5 on a timely basis. Based on Investors Bancorp's review of ownership reports and confirmations by executive officers and directors, Investors Bancorp believes that, during 2017, its officers, directors and beneficial owners of greater than 10% of its common stock timely filed all required reports with the exception of the inadvertent late filing of two Form 4s for Mr. Spengler and one Form 4 for Mr. Burke due to administrative error.

## **Transactions With Certain Related Persons**

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Federal laws and regulations generally require that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features. Regulations also permit executive officers and directors to receive the same terms through programs that are widely available to other employees, as long as the executive officer or director is not given preferential treatment compared to the other participating employees. Pursuant to such a program, loans have been extended to executive officers on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public, with the exception of waiving certain fees. These loans do not involve more than the normal risk of collectability or present other unfavorable features.

Section 402 of the Sarbanes-Oxley Act of 2002 generally prohibits an issuer from: (1) extending or maintaining credit; (2) arranging for the extension of credit; or (3) renewing an extension of credit in the form of a personal loan for an officer or director. However, the prohibitions of Section 402 do not apply to loans made by a depository institution, such as Investors Bank, that is insured by the FDIC and is subject to the insider lending restrictions of the Federal Reserve Act. The Audit Committee and the Board review related party transactions, the disclosure of which is required under SEC proxy disclosure rules.

On March 27, 2017 Investors Bancorp entered into the Agreement with Blue Harbour pursuant to which Mr. Carlin was appointed to the Boards of Directors of Investors Bancorp and Investors Bank. Under the terms of the Agreement, for so long as Blue Harbour and the investment funds managed by it own at least four percent (4%) of the outstanding shares of Investors Bancorp's common stock, it shall be entitled to have one designee serve on the Boards of Directors of Investors Bancorp and Investors Bank, subject to the satisfaction of applicable corporate governance requirements. If at any time Blue Harbour's aggregate ownership of Investors Bancorp's common stock shall fall below four percent (4%) of the outstanding shares, Investors Bancorp can

require that Mr. Carlin, or any other designee of Blue Harbour then serving on the Boards of Directors of Investors Bancorp and Investors Bank, resign from the Boards of Directors.

In accordance with the terms of the Agreement, during the period commencing on March 27, 2017 and ending on the earlier of (i) the day after the Company's 2020 Annual Meeting of Stockholders, and (ii) the date as of which Blue Harbour's Board designee is no longer a director of the Company and Investors Bank (the "Restricted Period"), Blue Harbour agreed to vote its shares (A) in favor of each director nominated and recommended by the Board for election by the stockholders, (B) against any stockholder nominations for director that are not approved and recommended by the Board and against any proposals or resolutions to remove any member of the Board, and (C) in accordance with the recommendations of the Board on all other proposals of the Board set forth in the Company's proxy statements. During the Restricted Period, Blue Harbour also agreed to comply with the terms of customary standstill provisions.

## **Risk Oversight Matters**

### **Risk Oversight Committee**

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The entire Board of Directors is engaged in risk oversight. However, the Board established a separate standing Risk Oversight Committee to facilitate its risk oversight responsibilities. The Chief Executive Officer and Chief Operating Officer serve as a resource to the Risk Oversight Committee but have no vote in the committee's decision-making process. The Risk Oversight Committee Charter is posted on the "Governance Documents" section of the "Investors Relations" page of the Investors Bank's website at [www.investorsbank.com](http://www.investorsbank.com).

The Risk Oversight Committee has responsibility for enterprise-wide risk management and determining that significant risks of Investors Bancorp are monitored by the Board of Directors or one of its standing committees. In addition, the Risk Oversight Committee reviews new products and services proposed to be implemented by management to determine that appropriate risk identification has occurred and that controls are considered to mitigate identified risks to an acceptable level. The Risk Oversight Committee is also responsible for reviewing and monitoring enterprise risk including interest rate, liquidity, operational, compliance, strategic and reputational risks.

## **Audit Committee Matters**

### **Audit Committee**

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Each member of the Audit Committee is considered independent as defined in the Nasdaq corporate governance listing rules and under SEC Rule 10A-3. The Board considers Mr. Albanese, the Chair of the Audit Committee, and Mr. Dittenhafer each an "audit committee financial expert" as that term is used in the rules and regulations of the SEC.

The Audit Committee operates under a written charter adopted by the Board of Directors. The Audit Committee's Charter is posted on the "Governance Documents" section of the "Investor Relations" page of Investors Bank's website at [www.investorsbank.com](http://www.investorsbank.com).

As noted in Audit Committee Charter, the primary purpose of the Audit Committee is to assist the Board in overseeing:

- The integrity of Investors Bancorp's financial statements;
- Investors Bancorp's compliance with legal and regulatory requirements;
- The independent auditor's qualifications and independence;

- The performance of Investors Bancorp’s internal audit function and independent auditor; and
- Investors Bancorp’s system of disclosure controls and system of internal controls regarding finance, accounting, and legal compliance.

In furtherance of this purpose, this committee, among other things, shall:

- Retain, oversee and evaluate a firm of independent registered public accountants to audit the annual financial statements;
- Review the integrity of Investors Bancorp’s internal controls over financial reporting, both internal and external, in consultation with the independent registered public accounting firm and the internal auditor;
- Review the financial statements and the audit report with management and the independent registered public accounting firm;
- Review earnings and financial releases and quarterly and annual reports filed with the SEC; and
- Approve all engagements for audit and non-audit services by the independent registered public accounting firm.

The Audit Committee reports to the Board of Directors on its activities and findings.

## Audit Committee Report

*Pursuant to rules and regulations of the SEC, this Audit Committee Report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Investors Bancorp specifically incorporates this information by reference, and otherwise shall not be deemed “soliciting material” or to be “filed” with the SEC subject to Regulation 14A or 14C of the SEC or subject to the liabilities of Section 18 of the Exchange Act.*

Management has the primary responsibility for Investors Bancorp’s internal control and financial reporting process, and for making an assessment of the effectiveness of Investors Bancorp’s internal control over financial reporting. The independent registered public accounting firm is responsible for performing an independent audit of Investors Bancorp’s consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”) and to issue an opinion on those financial statements, and for providing an opinion on the Company’s internal control over financial reporting. The Audit Committee’s responsibility is to monitor and oversee these processes.

As part of its ongoing activities, the Audit Committee has:

- reviewed and discussed with management, and the independent registered public accounting firm, the audited consolidated financial statements and the internal control procedures of Investors Bancorp for the year ended December 31, 2017;
- discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 1301, Communications with Audit Committees, as adopted by the PCAOB; and
- received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm’s communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm its independence from Investors Bancorp.

Based on the review and discussions referred to above, the Audit Committee has recommended to Investors Bancorp’s Board of Directors that the audited consolidated financial statements for the year ended

December 31, 2017 be included in Investors Bancorp's Annual Report on Form 10-K for filing with the SEC. In addition, the Audit Committee approved the re-appointment of KPMG LLP as the independent registered public accounting firm for the year ending December 31, 2018, subject to the ratification of this appointment by the stockholders of Investors Bancorp.

#### **Audit Committee of Investors Bancorp, Inc.**

Robert C. Albanese, *Chair*  
William V. Cosgrove, *Member*  
Brian D. Dittenhafer, *Member*  
James H. Ward III, *Member*  
Doreen R. Byrnes, *Member*  
Michele N. Sickerka, *Member*

## **Compensation and Benefits Committee Matters**

### **Compensation and Benefits Committee**

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Each member of the Compensation and Benefits Committee is considered independent as defined in the Nasdaq corporate governance listing rules and SEC Rule 10C-1. The Compensation and Benefits Committee's Charter is posted on the "Governance Documents" section of the "Investor Relations" page of the Investors Bank's website at [www.investorsbank.com](http://www.investorsbank.com).

As noted in the Compensation and Benefits Committee Charter, the purpose of the committee is to assist the Board in carrying out the Board's overall responsibility relating to executive compensation, incentive compensation and equity and non-equity based benefit plans.

In furtherance of this purpose, this committee, among other things, shall:

- Review and recommend to the Board for approval the Chief Executive Officer's annual compensation, including salary, cash incentive, incentive and equity compensation;
- Review and recommend to the Board the evaluation process and compensation for Investors Bancorp's executive officers and coordinate compensation determinations and benefit plans for all employees of Investors Bancorp;
- Review Investors Bancorp's incentive compensation and other equity-based plans and make changes in such plans as needed;
- Review, as appropriate and in consultation with the Nominating and Corporate Governance Committee, director compensation and benefits; and
- Review the independence of the Compensation and Benefits Committee members, legal counsel and compensation consultants.
- Review and discuss with management and the independent registered public accounting firm, the audited net assets of the Investors Bank Employee 401(k) Plan and the financial statements of the Employee Stock Ownership Plan.

In addition to these duties the committee shall assist the Board in recruiting and succession planning.

The Compensation and Benefits Committee retains responsibility for all compensation decisions and recommendations to the Board of Directors as to Investors Bancorp's executive officers. The Compensation and Benefits Committee may utilize information and benchmarks from an independent compensation consulting firm, and from other sources, to determine how executive compensation levels compare to those companies within the industry. The Compensation and Benefits Committee may review published data for companies of similar size, location, financial characteristics and stage of development among other factors.

In designing the compensation program for Investors Bancorp, the Committee takes into consideration methods to avoid encouraging the taking of excessive risk by executive management or by any other employees. The Committee assessed risks posed by the incentive compensation paid to executive management and other employees and determined that Investors Bancorp's compensation policies, practices and programs do not pose risks that are reasonably likely to have a material adverse effect on Investors Bancorp.

The basic elements of Investors Bancorp's executive compensation program include base salary, annual cash incentive awards, long-term equity incentive awards and other benefit arrangements. In addition to determining the compensation payable to Investors Bancorp's executive officers, including the Chief Executive Officer and other Named Executive Officers, the Compensation and Benefits Committee evaluates senior executive and director compensation plans and programs, administers and has discretionary authority over the issuance of equity awards under Investors Bancorp's equity compensation plans and oversees preparation of a report on executive compensation for inclusion in Investors Bancorp's annual proxy statement. The Compensation and Benefits Committee is supported by the Chief Executive Officer and Chief Operating Officer, both of whom serve as a resource by providing input regarding Investors Bancorp's executive compensation program and philosophy.

## **Compensation and Benefits Committee Interlocks and Insider Participation**

During 2017, Messrs. Dittenhafer, Albanese, Bone and Ward served as members of the Compensation and Benefits Committee. None of these directors has ever been an officer or employee of Investors Bancorp; or an executive officer of another entity at which one of Investors Bancorp's executive officers serves on the Board of Directors, or had any transactions or relationships with Investors Bancorp in 2017 requiring specific disclosures under SEC rules or Nasdaq listing standards. Mr. Cosgrove and Ms. Byrnes, who also served as members of the Compensation and Benefits Committee during 2017, are neither an executive officer of another entity at which one of Investors Bancorp's executive officers serves on the Board of Directors, nor had transactions or relationships with Investors Bancorp in 2017 requiring specific disclosures under SEC rules. Mr. Cosgrove was a non Section 16 officer of Investors Bank commencing with Investors Bancorp's acquisition of Summit Federal Bankshares, Inc. and Summit Federal Savings Bank in June 2008 through his retirement from Investors Bank on October 1, 2011. Ms. Byrnes was an officer of Investors Bank prior to her retirement in 2007.

## **Compensation Discussion and Analysis**

### **Executive Summary**

As discussed in greater detail below, our compensation program is specifically designed to provide executives with competitive compensation packages that include elements of both reward and retention. The Compensation and Benefits Committee routinely reviews our executive compensation practices to remain market competitive and to ensure that these practices are aligned with our compensation philosophy and objectives, regulatory requirements and evolving best practices. Key highlights of the program include:

- All members of the Compensation and Benefits Committee and all of its compensation consultants and advisers are independent under applicable Nasdaq rules, which ensures that all aspects of the compensation decision-making process are free from conflicts of interest.
- The Compensation and Benefits Committee controls the selection and activities of any compensation consultant or advisers who assist us with executive compensation matters.
- We maintain a clawback policy for bonus and other incentive compensation paid to executive officers, which mitigates risk-taking behavior.
- Our directors and Named Executive Officers are required to hold our common stock at specified minimum levels, which recognizes the importance of aligning their interests with those of stockholders. In particular, our Chief Executive Officer is required to hold Investors Bancorp common stock valued at five times his annual base salary.

- The Compensation and Benefits Committee continually reviews all incentive compensation programs with respect to risk-taking behavior, with the guiding principle being the safety and soundness of Investors Bancorp and Investors Bank as paramount to all compensation incentives. The Compensation and Benefits Committee consults with the Risk Oversight Committee on these matters.
- A significant portion of each Named Executive Officer's compensation is in the form of short and long-term performance-based pay, which reflects and reinforces our pay for performance philosophy.
- Compensation packages for Named Executive Officers include an appropriate mix of fixed and variable pay, which provides Named Executive Officers with both reward and retention incentives.
- We provide limited executive perquisites.
- Market data and insight are regularly provided to the Compensation and Benefits Committee by an independent compensation consultant selected by such committee.

This discussion is focused specifically on the compensation of the following executive officers, each of whom is named in the Summary Compensation Table and other compensation tables which appear later in this section. The following executives are referred to in this discussion as “Named Executive Officers.”

Name	Title
Kevin Cummings	President and Chief Executive Officer
Domenick A. Cama	Senior Executive Vice President and Chief Operating Officer
Richard S. Spengler	Executive Vice President and Chief Lending Officer
Paul Kalamaras	Executive Vice President and Chief Retail Banking Officer
Sean Burke	Senior Vice President and Chief Financial Officer

## Executive Compensation Philosophy

Investors Bancorp’s executive compensation program is designed to offer competitive cash and equity compensation and benefits that will attract, motivate and retain highly qualified and talented executives who will help maximize Investors Bancorp’s financial performance and earnings growth. Investors Bancorp’s executive compensation program is also intended to align the interests of its executive officers with stockholders by rewarding performance against established corporate financial targets, and by motivating strong executive leadership and superior individual performance. In this regard: (1) a substantial portion of the compensation payable to our Named Executive Officers is linked to financial and individual performance; (2) the interests of our Named Executive Officers are aligned with the long-term interests of our stockholders through their stock-based and non-equity incentive compensation, which are earned primarily based on the satisfaction of corporate performance metrics; (3) our focus is providing compensation that is commensurate with the achievement of short-term and long-term financial goals and individual performance; and (4) our executive compensation program is competitive to attract, retain and motivate our Named Executive Officers.

Investors Bancorp’s executive compensation program allocates portions of total compensation between long-term and short-term compensation and between cash and non-cash compensation by including competitive base salaries, an annual cash incentive plan, stock options and performance and time-based stock awards, supplemental executive retirement benefits and limited executive perquisites, which encourage long term employment with Investors Bancorp.

The compensation paid to each Named Executive Officer is based on the executive officer’s level of job responsibility, corporate financial performance measured against corporate financial targets, and an assessment of individual performance. A significant portion of each Named Executive Officer's total compensation is performance-based as each executive is in a leadership role that can significantly impact corporate performance.



Following Investors Bancorp's Annual Meeting of Stockholders in May 2017, the Compensation and Benefits Committee reviewed the results of the stockholder advisory vote on our 2016 executive compensation program for our Named Executive Officers and related compensation policies and decisions. Approximately 94.9% of the votes cast on the proposal were voted in support of the compensation outlined in last year's proxy statement. The Compensation and Benefits Committee believes that it is important to align the compensation practices with the performance of the Company. During 2017, we continued to have conversations with our stockholders relating to our compensation practices. After a comprehensive market review and in light of the strong stockholder support, the Compensation and Benefits Committee concluded that no significant revisions were necessary to Investors Bancorp's executive officer compensation program for 2017. However, the Compensation and Benefits Committee is committed to continuing to evaluate our compensation practices and has decided to adjust the weighting of the CEO and COO annual incentive opportunity to 85% for corporate goals and 15% for personal goals for 2018 from the previous weighting of 60% for corporate goals and 40% for personal goals. This further aligns their compensation with the performance of the Company. Refer to Summary of Stockholder Engagement for a description of our engagement with stockholders, whose input we believe is critical to providing long-term value to all of the Company's stakeholders.

The following are key features of our executive compensation program:

What We Do	What We Don't Do
<ul style="list-style-type: none"> <li>✓ We carefully control business risk by ensuring that the structure and administration of our executive and incentive compensation plans are reasonable and appropriate.</li> <li>✓ We utilize an independent compensation consultant to annually evaluate Named Executive Officer cash and stock compensation based on the pay levels of comparable executives in fifteen-to-twenty peer comparator banking companies.</li> <li>✓ We pay equity and non-equity incentive compensation based on our most important measurable and verifiable corporate performance objectives.</li> <li>✓ We award long-term stock compensation, the vesting of which depends on multi-year financial performance.</li> <li>✓ We conservatively vest stock compensation over long periods of time (generally five years for performance-based stock awards and five-to-seven years for time-vested stock awards).</li> <li>✓ We require each of our Named Executive Officers to own Company common stock valued at a minimum of three-to-five times their annual salary.</li> <li>✓ We maintain a clawback policy for bonus and other incentive compensation paid to executive officers, which mitigates risk-taking behavior.</li> <li>✓ We will place greater weight on performance when granting future equity awards.</li> </ul>	<ul style="list-style-type: none"> <li>✗ We don't modify annual incentive compensation performance objectives during the year in which those objectives apply.</li> <li>✗ We don't award stock compensation with short vesting periods to Named Executive Officers</li> <li>✗ We don't require the base salaries and total cash compensation of our Named Executive Officers to attain any particular percentile position versus the compensation of executives in our peer comparator companies.</li> <li>✗ We don't allow directors and executive officers to engage in or effect transactions designed to hedge or offset economic risk of owning shares of our stock.</li> <li>✗ We don't allow directors and executive officers to hold company stock in a margin account or pledge securities as collateral.</li> <li>✗ We no longer enter into change of control agreements with single triggers.</li> <li>✗ We have only limited perquisites.</li> <li>✗ We don't enter into new employment contracts with tax gross up provisions.</li> </ul>

## 2017 Financial Performance

Since the Company's initial public offering in 2005, it has transitioned from a wholesale thrift to a retail commercial bank. This transition has been primarily accomplished by growing commercial loans and shifting the mix of deposits to a greater percentage of core deposits. From 2008 through 2014, the Company completed eight bank or bank branch acquisitions which provided us with the opportunity to grow our business, expand

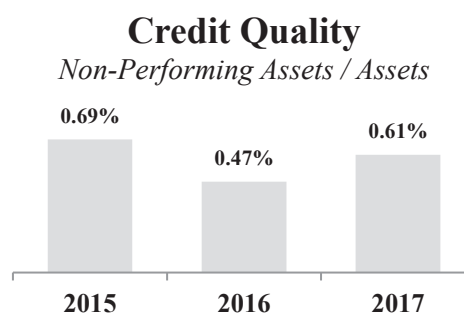
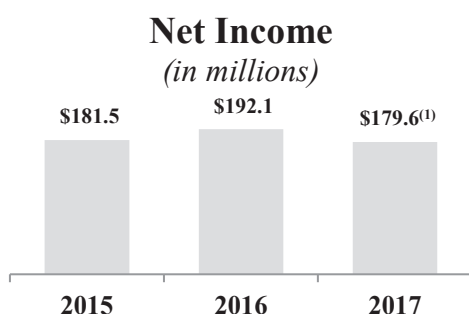
our geographic footprint and improve our financial performance. In May 2014, we raised net proceeds of \$2.2 billion in equity upon the completion of the second step mutual conversion (“Second Step Conversion”).

As we deploy the capital raised in our Second Step Conversion, we remain mindful of our income performance and shareholder return metrics. For 2017, our return on average equity (“ROE”), adjusted for the impact of the Tax Cuts and Jobs Act, was 5.56% as compared to the median of our selected peer banking companies of 8.45%. This difference is primarily due to our excess capital position. As we continue to grow and leverage our capital, we expect our ROE to increase. Our total shareholder return (“TSR”) for the one, two and three year period ended December 31, 2017 was 1.94%, 16.89% and 32.26%, respectively.

Capital management is a key component of our business strategy. We continue to execute on a strategy of prudent capital management to create stockholder value. During 2017, we accomplished this through a combination of organic growth, stock repurchases and dividends. Since receiving approval in March 2015 for our repurchase program, we have repurchased 67.4 million shares totaling \$805.4 million at an average price of \$11.95. For the year ended December 31, 2017 our dividend payout ratio was 75% which includes a 12.5% dividend increase in the fourth quarter of 2017 to \$0.09 per share.

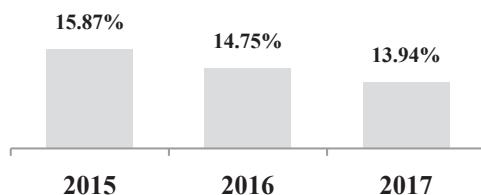
Additionally, in 2017, we made significant investments in our risk management infrastructure and branch franchise as we continued to work diligently on BSA remediation efforts. These efforts remain a top priority of the Company. These costs had an impact on our non-interest expense, which increased \$60.0 million. Our financial results in 2017 included a \$49.2 million increase to income tax expense related to the enactment of the Tax Cuts and Jobs Act in December 2017, while 2016 included a \$10.4 million decrease to income tax expense related to the adoption of Accounting Standard Update 2016-09. Total assets increased \$1.95 billion, or 8.4%, to \$25.13 billion at December 31, 2017 from \$23.17 billion at December 31, 2016, driven mainly by loan growth of \$1.28 billion year-over-year.

One of our key operating objectives has been and continues to be maintaining a high level of asset quality. Our allowance for loan losses as a percentage of loans was 1.15% at December 31, 2017, which is above our peers. For 2017, non-performing assets increased \$44.3 million. Included in this increase was \$25.9 million of commercial loans which we classified as non-accrual, but were performing in accordance with their contractual terms. We continue to proactively and diligently work to resolve non-performing loans in light of the impact that low economic growth, rising interest rates and regional real estate market conditions may have on our portfolio.



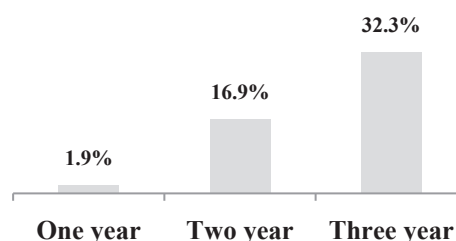
## Capital Levels

*Common Equity Tier 1 Ratio*



## Total Shareholder Return

*period ending December 31, 2017*



- (1) Net income for the year ended December 31, 2017 is adjusted to exclude \$49.2 million of income tax expense related to the enactment of the Tax Cuts and Jobs Act in December 2017 and \$3.7 million of severance and branch closure costs related to the workforce reduction and branch closures announced in December 2017.

## Role of Executive Officers

The Compensation and Benefits Committee is responsible for designing our executive compensation program. When appropriate, the Chief Executive Officer and Chief Operating Officer will provide the Committee with the information it needs to make well-informed and appropriate decisions. The Chief Executive Officer and Chief Operating Officer participate in Committee meetings purely in an informational and advisory capacity and have no votes in the Committee's decision-making process.

The Compensation and Benefits Committee will meet with the Chief Executive Officer and Chief Operating Officer regarding the potential incentive compensation performance metrics, including their respective weightings, and to review the progress towards the achievement of the pre-established corporate financial targets and individual performance goals related to our cash and equity incentive plans. Also, the Committee requires the Chief Executive Officer and Chief Operating Officer to provide the Committee with performance assessments and compensation recommendations for each of the other Named Executive Officers, which are considered by the Compensation and Benefits Committee in arriving at its compensation determinations. The Chief Executive Officer and Chief Operating Officer do not attend portions of committee meetings during which their performance is being evaluated or their compensation is being determined. The Compensation and Benefits Committee uses executive session to determine appropriate actions to be taken.

## Role of Compensation Consultant

For 2017, the Compensation and Benefits Committee engaged GK Partners, an independent compensation consultant, to assist in its evaluation of Investors Bancorp's executive compensation program and provide an annual competitive evaluation of the total compensation of the Named Executive Officers. GK Partners reported directly to the Compensation and Benefits Committee, and did not perform any other services to Investors Bancorp or Investors Bank. GK Partners provided the Compensation and Benefits Committee with executive compensation benchmarking trends and external developments, and also provided input on Investors Bancorp and Investors Bank's overall compensation program, and monitored their short-term and long-term incentive plans for best practices and market competitiveness.

The Compensation and Benefits Committee considered the independence of GK Partners under the Securities and Exchange Commission rules and NASDAQ corporate governance listing standards. The Compensation and Benefits Committee requested and received a report from GK Partners regarding its independence, including information relating to the following factors: (1) other services provided to Investors Bancorp by GK Partners; (2) fees paid by Investors Bancorp as a percentage of GK Partners' total revenue; (3) policies or procedures maintained by GK Partners that are designed to prevent a conflict of interest; (4) any business or personal relationships between the senior advisors and any member of the Compensation and Benefits Committee; (5) any Investors Bancorp common stock owned by the senior advisors; and (6) any

business or personal relationships between Investors Bancorp's executive officers and GK Partners. The Compensation and Benefits Committee discussed these considerations and concluded that GK Partners was independent and had no conflicts of interest with respect to its engagement.

## Market Comparison

For 2017, GK Partners compared Investors Bancorp's executive compensation program to peer group compensation data. GK Partners provided the Compensation and Benefits Committee with relevant competitive cash and stock compensation information obtained from public disclosures of a selected peer group of 17 banking institutions to be used for evaluating 2017 compensation. These included thrift and banking institutions with assets of \$15.6 billion to \$50.3 billion, having an asset mix similar to Investors Bancorp and doing business predominately in the Northeast and Central regions of the United States.

Our peer comparator companies are carefully reviewed and appropriately modified from year-to-year based on several factors, including significant changes and developments in the size, scope, business mix and financial condition of Investors Bancorp and each of the potential peer comparators. In addition, the Compensation and Benefits Committee considers the impact of completed mergers and acquisitions activity in our geographic region and relevant areas of competitive banking operations, as well as other publicly-announced business combinations within the broader banking industry. The Compensation and Benefits Committee also considers pertinent competitive industry knowledge and information provided by its compensation advisors and senior management.

## 2017 Peer Group

The group of companies approved by the Compensation and Benefits Committee for the evaluation of 2017 Named Executive Officer compensation consisted of the 17 peer banking institutions identified below:

Associated Banc-Corp-WI	IBERIABANK Corporation-LA	UMB Financial Corporation-MO
BankUnited, Inc.- FL	MB Financial, Inc.- IL	Umpqua Holdings Corporation-OR
Commerce Bancshares Inc.-MO	New York Community Bancorp.-NY	Valley National Bancorp.-NJ
F.N.B. Corporation-PA	People's United Financial, Inc.-CT	Webster Financial Corporation-CT
FirstMerit Corporation-OH	Signature Bank-NY	Wintrust Financial Corporation- IL
Fulton Financial Corporation-PA	TCF Financial Corporation-MN	

While our executive compensation program targets each Named Executive Officer's base salary, annual cash incentives and long-term equity compensation at fully competitive levels commensurate with corporate and personal performance, Investors Bancorp has no formal policy that requires the compensation of the Named Executive Officers to attain any specific percentile position within our peer group. However, the Compensation and Benefits Committee carefully reviewed detailed comparative information provided by its compensation consultant regarding the cash and stock compensation of each Named Executive Officer, which included the following items:

- A detailed comparative study of the cash and stock compensation of the Named Executive Officers of the selected peer companies on a functionally position-matched basis.
- Statistical Median and Average value of the detailed array of comparative executive compensation data for each element of Named Executive Officer compensation
  - base salary;
  - non-equity incentive compensation;
  - total cash compensation;
  - stock option present value at the date of award;
  - restricted stock present value at the date of award; and
  - total direct compensation

This comparative compensation study also includes specific information regarding the cash and stock compensation provided to the non-employee Directors of each of the peer comparator companies.

In connection with the Compensation and Benefits Committee's understanding and utilization of comparative compensation data in the context of its pay-for-performance philosophy, it should be noted that Investors Bancorp's one-year, three-year and five-year TSR for the period ending December 31, 2016 were 14.66%, 46.85% and 182.11%, respectively, which the Compensation and Benefits Committee regarded as highly competitive and favorable as compared with our selected peer banking companies. For the year ending December 31, 2016, our net income was 98% of the median net income of our seventeen peer banking institutions and our 0.88% return on average assets ("ROAA") was consistent with the 0.88% median ROAA of those seventeen comparator banks. For the year ending December 31, 2016, our ROE was 6.06% while the median of our seventeen comparator banks was 8.10%. This difference is primarily due to our excess capital position. We continue to manage our capital through a combination of organic growth, stock repurchases and cash dividends.

## Elements of Executive Compensation for 2017

The Compensation and Benefits Committee used a total compensation approach in establishing our elements of executive compensation, which consist of base salary, annual cash incentive awards, long-term incentive awards (such as stock option and restricted stock awards), a competitive benefits package and limited perquisites.

### Base Salary

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Base salary is the primary fixed component of our executive compensation package for our Named Executive Officers. Base salary levels for the Named Executive Officers are evaluated by the Compensation and Benefits Committee on an annual basis. In general, base salaries are reviewed considering the experience and market value of each Named Executive Officer based on the competitive executive salary information furnished to the Compensation and Benefits Committee by GK Partners. Specifically, each Named Executive Officer's base salary level is determined by his sustained individual performance, leadership, operational effectiveness, tenure in office, experience in the industry and employment market conditions in our geographical area.

With a clear recognition of senior management's demanding operational challenges in leading and managing a fast-growing business enterprise over the past decade, the Compensation and Benefits Committee endeavors to fairly apply its pay-for-performance philosophy with a view towards both the critical decisions and actions taken by the senior management team on a day-to-day basis, as well as the strategies and initiatives regularly implemented by management that have built and sustained our corporate reputation as a successful, stable and trustworthy financial institution. It is important to the Compensation and Benefits Committee not only to administer Named Executive Officer compensation to meet prevailing banking industry levels and standards, but also to ensure that senior management continues to take a hard-working, reasonable and balanced approach to Investors Bancorp's short-term and long-term condition and performance.

For 2017, Base Salary for our Named Executive Officers included a modest increase. There were no changes to Base Salary for 2016 or 2015. The Compensation and Benefits Committee considered Investors Bancorp's financial performance, and peer group and market-based industry salary data provided by GK Partners, our independent consultant, as well as the individual factors identified above, in approving such base salary increases for 2017.

The following table sets forth for the calendar years ended December 31, 2017, 2016 and 2015 salary earned by Named Executive Officers:

<u>Executive Officer</u>	<u>2017 Salary (\$)</u>	<u>2016 Salary (\$)</u>	<u>2015 Salary (\$)</u>
Kevin Cummings	1,075,000	1,000,000	1,000,000
Domenick A. Cama	725,000	675,000	675,000
Richard S. Spengler	465,000	430,000	430,000
Paul Kalamaras	450,000	415,000	415,000
Sean Burke <sup>(1)</sup>	425,000	400,000	376,923

(1) Mr. Burke was appointed Senior Vice President and Chief Financial Officer on January 26, 2015. Mr. Burke's 2015 full year annualized base salary was \$400,000.

## **Executive Officer Annual Incentive Plan**

The Executive Officer Annual Incentive Plan was adopted, and approved by stockholders, in 2013 such that, under the prior version of Section 162(m) of the Internal Revenue Code, awards issued under the plan were able to be treated as performance-based compensation for purposes of the exemption from the \$1 million limit on deductibility of compensation paid to each Named Executive Officer of a publicly traded company (other than the principal financial officer). Ms. Byrnes did not participate in any decisions related to the annual incentive awards issued to the Named Executive Officers in 2017 because as a former officer of Investors Bank, she is not an "outside director" as determined under Code Section 162(m). Each of the Named Executive Officers participated in the Executive Officer Annual Incentive Plan in 2017.

Effective January 1, 2018, as a result of the Tax Cuts and Jobs Act of 2017, deductible compensation is limited to \$1 million per year for each Named Executive Officer listed in the Summary Compensation Table with no exemptions for "qualified performance-based" compensation as defined under Section 162(m); unless such compensation is paid pursuant to a written binding contract that was in effect prior to November 2, 2017 and which has not subsequently been materially modified.

The Compensation and Benefits Committee assigns corporate financial targets and individual performance goals and a range of annual cash incentive award opportunities to each executive officer, or group of officers participating in the plan. The award opportunities for each Named Executive Officer are linked to specific targets and range of performance results for both annual corporate financial performance and individual goals. In the context of the structure of the Investors Bancorp Executive Officer Annual Incentive Plan, the use of individual goals represents the clear assignment by the Board and its Compensation and Benefits Committee of direct personal accountability for specific financial, organizational, operational, risk management, and information systems objectives to one or more of our Named Executive Officers. In this context, the individual goals assigned by the Compensation and Benefits Committee are quantifiable, measurable and otherwise verifiable performance objectives, the attainment of which contribute significantly to the growth, profitability, productivity and efficiency of our business operations and corporate health.

In many cases, these individual goals include personal accountability on the part of one or more Named Executive Officer (including the Chief Executive Officer) for critical performance with respect to standard banking industry and other public company metrics (e.g., deposit growth, efficiency ratio, loan delinquency, regulator/investor relations, marketing, and other such goals). In our view, the assignment of personal accountability in the form of individual goals has served to strengthen the effectiveness of our executive compensation program, and continues to have a significant positive impact on our managerial performance. The Company believes that this incentive plan structure allows our Named Executive Officers to effectively plan, organize, supervise, monitor and evaluate the key functional areas and departments for which they are responsible, and through which our most important corporate objectives are achieved.

In recent years, our Chief Executive Officer's personal goals have been weighted as 40% of his incentive award opportunity with a weighting of 60% given to corporate objectives. Particularly with respect to our Chief Executive Officer and Chief Operating Officer, the personal goals assigned by the Compensation and Benefits



Committee are fundamentally “corporate goals” in that they are aligned closely with our strategic objectives for growth, productivity, profitability and risk management. The Compensation and Benefits Committee is committed to continuing to evaluate our compensation practices and has decided to adjust the weighting of the CEO and COO annual incentive opportunity to 85% for corporate goals and 15% for personal goals for 2018 from the previous weighting of 60% for corporate goals and 40% for personal goals. The Company believes that the Chief Executive Officer’s and the Chief Operating Officer’s direct personal accountability for the achievement of objectively measurable and verifiable goals that are particularly relevant to our industry, our strategy, and our stage of corporate development has contributed in a meaningful way to our success.

Each Named Executive Officer’s annual cash incentive award is defined as a percentage of base salary. The corporate financial targets and individual goals are established by the Compensation and Benefits Committee no later than 90 days after the commencement of the period of service to which the performance goal relates, but in no event after 25% of the performance period has elapsed, and in either case, so long as the outcome is substantially uncertain at the time that the goal is established. Such targets and goals are weighted in relation to the Named Executive Officer’s position and duties. As corporate financial targets and/or individual performance goals exceed or fall short of achievement levels (which are established at Threshold, Target and Maximum Achievements), the actual amount paid under the plan will exceed or fall short of the targeted payment amount.

## Annual Incentive Opportunity

The Compensation and Benefits Committee regularly evaluates the level of annual incentive compensation, including the annual incentive compensation opportunity available to each of our Named Executive Officers based on the Company’s growth and financial performance, as well as peer competitive compensation practices, and overall marketplace conditions. The Company’s objective is to continue to provide annual incentive opportunities that are commensurate with our annual financial and operational results, as well as each Named Executive Officer’s personal contribution to those results. In that context, the Committee increased the CFO’s annual incentive opportunity from a maximum cash incentive opportunity of 100% to 110%. There were no other changes to the annual incentive opportunity for any of our other Named Executive Officers.

## 2017 Incentive Opportunity

Under the Executive Officer Annual Incentive Plan for 2017, the Compensation and Benefits Committee established the following range of annual cash incentive award opportunities for Threshold, Target and Maximum Achievements as a percentage of base salary:

Executive Officer	Threshold <sup>(1)</sup>	Target <sup>(1)</sup>	Maximum
Kevin Cummings	122.0%	161.0%	200.0%
Domenick A. Cama	97.6%	128.8%	160.0%
Richard S. Spengler	81.0%	100.5%	120.0%
Paul Kalamaras	81.0%	100.5%	120.0%
Sean Burke	74.3%	92.1%	110.0%

(1) Assumed 100% achievement of all individual goals.

The Compensation and Benefits Committee weighted each Named Executive Officer's 2017 annual cash incentive award opportunity under the plan (as a percentage of the total award opportunity) with respect to corporate financial targets and individual goals as follows:

<b>Executive Officer</b>	<b>Corporate Financial Targets</b>	<b>Individual Goals</b>
Kevin Cummings	60%	40%
Domenick A. Cama	60%	40%
Richard S. Spengler	50%	50%
Paul Kalamaras	50%	50%
Sean Burke	50%	50%

The Compensation and Benefits Committee feels strongly that executive compensation should be formally tied to the attainment of certain corporate financial targets and individual performance goals to more closely align the executive's performance with providing value for our stockholders. The corporate financial targets for 2017 were based on: (1) net income, weighted at 70%; and (2) enhanced risk management, weighted at 30%.

The Compensation and Benefits Committee established the following corporate financial targets for net income:

<b>Metric</b>	<b>Weighting</b>	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>
Net Income (\$ in millions)	70%	\$160	\$170	\$180

The net income goals at threshold, target and maximum were 8%, 4% and 1% lower, respectively, than the corresponding net income goals for 2016. In establishing the net income goal, the Compensation and Benefits Committee considered specific challenges facing the Company for 2017. When establishing the net income goal, the Company was aware of the current headwinds it faced with regard to BSA remediation efforts and their related costs. The amount of these costs and their timing were difficult to forecast in establishing the net income goal. In addition, our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Rising short-term interest rates, combined with competitive pricing in both the loan and deposit markets continue to create a challenging net interest margin environment, which was factored into establishing the net income goal for 2017. These two factors were the main drivers for the decrease in net income goals when compared to 2016.

The enhanced risk management goal was viewed by the Compensation and Benefits Committee as a company-wide performance target metric associated with the Company's BSA remediation efforts, as many groups within the Bank worked towards its achievement. In establishing the enhanced risk management goal, management discussed with the Compensation and Benefits Committee; (1) development and implementation of compliance systems; (2) validation of the systems and (3) development and implementation of training programs. The Compensation and Benefits Committee agreed with this assessment.

In comparing the target percentages to the 2016 incentive opportunity, both 2017 and 2016 Net Income goals were given specific amounts for threshold, target and maximum achievement with weightings being the same in both years. For both 2017 and 2016, the enhanced risk management goal was weighted at 0%, 50%, and 100% at the threshold, target and maximum, respectively.

The individual goals established by the Compensation and Benefits Committee were therefore aligned with each Named Executive Officer's area of responsibility at Investors Bancorp and related to the successful implementation of our strategic initiatives. For 2017, each Named Executive Officer's individual goals were related to the following:

- Messrs. Cummings' and Cama's individual goals included achieving certain deposit growth, maintaining loan quality versus peers and promoting Investors Bancorp to various audiences, including but not limited to: stockholders, regulators and communities. In establishing the individual goals of both Messrs. Cummings and Cama the Compensation and Benefits Committee considered the following for each:
  - Deposits are the primary source of funds used for our lending and investment activities. Deposits are essential to fund our continued growth.
  - One of the Company's key operating objectives has been, and continues to be, maintaining a high level of loan quality to ensure that Investors Bancorp does not take any undue risk.
- Mr. Spengler's individual goals included achieving certain loan growth, maintaining loan quality versus our peers, and growing deposits for new loan customers.
- Mr. Kalamaras' individual goals included achieving certain deposit and non-deposit investment product growth, and enhancing retail risk management.
- Mr. Burke's individual goals were related to customization of our ALM model and profitability system, CECL implementation planning, DFAST process enhancements and submission, and tax structure review.

## 2017 Incentive Achievement

For 2017, the net income utilized for evaluation of the corporate goal achievement was \$179.6 million, which was slightly below the Maximum achievement level. In determining net income for 2017, the Compensation and Benefits Committee made adjustments due to events that were considered extraordinary, unusual or non-recurring, as permitted under our Incentive Plan. Specifically, these adjustments were due to the impact to our income tax expense related to the enactment of the Tax Cuts and Jobs Act on December 22, 2017, as well as severance and branch closure costs related to the workforce reduction and branch closures announced in December 2017. The adjustments were as follows:

	2017
Net Income	\$ 126,744
Severance benefits/branch closure costs	3,702
Tax reform impact	49,164
Adjusted net income	<u><u>\$ 179,610</u></u>

For the enhanced risk management goal, there were four criteria which needed to be met. The Compensation and Benefits Committee determined that based on the information provided, the achievement of the enhanced risk management goal was assessed at 100%. Based upon the foregoing and the assessment of the Named Executive Officer's individual performance relative to his pre-established individual goals, the Compensation and Benefits Committee approved the following annual cash incentive awards on January 22, 2018:

### 2017 Annual Cash Incentive Awards

Executive Officer	Eligible Earnings (\$)	Maximum Bonus (%)	Bonus Guidelines		Achievement		Cash Incentive (\$)	Percent of Salary
			Corporate Goals	Individual Goals	Corporate Goals	Individual Goals		
Kevin Cummings	1,075,000	200%	60%	40%	99%	99%	2,134,090	199%
Domenick A. Cama	725,000	160%	60%	40%	99%	99%	1,151,416	159%
Richard S. Spengler	465,000	120%	50%	50%	99%	50%	416,547	90%
Paul Kalamaras	450,000	120%	50%	50%	99%	92%	516,510	115%
Sean Burke	425,000	110%	50%	50%	99%	100%	465,864	110%

## Other Elements of Compensation

### 2015 Equity Incentive Plan

At the annual meeting of stockholders held on June 9, 2015, stockholders of the Company approved the Investors Bancorp, Inc. 2015 Equity Incentive Plan ("2015 Equity Plan"). Under this plan, individuals may receive awards of Investors Bancorp common stock (restricted stock) and grants of options to purchase shares of Investors Bancorp common stock at a specified exercise price during a specified time period. The 2015 Equity Plan provides for the issuance or delivery of up to 30,881,296 shares (13,234,841 restricted stock awards and 17,646,455 stock options) of Investors Bancorp common stock.

During the year ended December 31, 2017, the Company awarded 440,000 restricted stock awards and 93,800 options under the 2015 Equity Plan. None of these grants were to the CEO or COO. However, 160,000 restricted stock awards were issued to Named Executive Officers other than the CEO and COO to ensure the retention and continuity of these high-performing key executives going forward.

For the year ended December 31, 2016, there were no grants to any Named Executive Officer.

On June 23, 2015, Investors Bancorp granted to executive officers, employees and directors a total of 6,849,832 restricted stock awards and 11,576,611 stock options to purchase Investors Bancorp common stock. Of the 2015 grant, a total of 3,333,333 restricted stock awards and 4,453,331 stock options were awarded to Named Executive Officers. As a result of these grants, the CEO's total beneficial stock ownership of Investors Bancorp stock was 0.9% of common stock outstanding on that date. The Compensation and Benefits Committee reviewed comparable levels of beneficial stock ownership among the CEOs of the Company's peer comparator group, which showed an average of 1.4% shares outstanding per CEO. The 2015 grant of stock awards was effective in increasing the CEO's potential for additional stock ownership and thereby reinforcing his alignment of long-term economic interest with all Company stockholders.

The Compensation and Benefits Committee believes that officer and employee stock ownership provides a significant incentive in building stockholder value by further aligning the interests of our officers and employees with stockholders because such compensation is directly linked to the performance of Investors Bancorp common stock. This element of compensation increases in importance as Investors Bancorp, Inc. common stock appreciates in value and serves as a retention tool for executives. The inclusion of performance-vesting awards also encourages long-term strategic focus of our executives.

## Background

From 2007 through 2014, Investors Bancorp experienced substantial growth in assets, revenues and profitability based on senior management's and the Board's consistent and concerted efforts. With oversight from the Board, the Named Executive Officers successfully executed the Company's long-term business strategy which resulted in the transformation of Investors Bancorp from a relatively small community-based banking organization into a much larger, nationally-recognized, and financially strong institution. We believe that senior management was particularly successful in achieving the long-term strategic objectives approved by our Board, and in the process, Investors Bancorp has become a substantially larger, stronger and more profitable company. Investors Bancorp's senior management team successfully completed its Second Step Conversion, raising \$2.2 billion of equity that resulted in Investors Bancorp becoming a fully-public company.

In light of the Company's growth and success and its resulting Second Step Conversion and given that no further stock grants were available under the Investors Bancorp 2006 Equity Plan, the Company believed that a new management stock incentive compensation plan was clearly necessary and warranted as an essential element of its overall executive compensation program. The establishment and structure of the 2015 Equity Incentive Plan was in line with prevailing marketplace executive compensation practices, as well as the precedents established by other banking companies both in their initial conversions to public ownership and in their ongoing administration of executive compensation as exchange-listed companies.

The Company undertook the following in establishing the 2015 Equity Plan approved by Investors Bancorp stockholders:

- Researched comparative financial and compensation data;
- Reviewed directly-related marketplace precedents concerning similar equity compensation plans implemented by the Company's regional competitors at the time of their respective public offerings and conversions from mutual holding companies (MHCs) to exchange-listed companies;
- The Board set an overall limit of 14% of the shares sold in the Company's Second Step Conversion; and
- Received relevant data concerning the appropriate percentages and number of shares typically awarded to the Chief Executive Officer and other Named Executive Officers of competing banks at the time of their "second step" public offerings.

The stock awards granted upon the approval of the 2015 Equity Plan were made at an important milestone in the Company's history, namely, its conversion to a fully public company, and were atypical in nature. The Company does not anticipate that any future awards of stock compensation to the Named Executive Officers will be similar to the 2015 grant in size or in potential compensation value.

## Retention of Key Management

Our Compensation and Benefits Committee and Board recognize and reward what is accomplished by our senior management team, but most importantly, the Compensation and Benefits Committee wishes to ensure the retention and continuity of those high-performing key executives (who are individually and collectively responsible for Investors Bancorp's growth and success) going forward.

## Vesting Term

Stock awards are primarily focused on the future retention and continuity of our key management team. These awards vest over a longer period, generally ranging from 5 to 7 years. We believe that a longer vesting schedule will ensure the strong retention of our key executives in the years ahead. We believe that stock options, whose value are dependent on the performance of Investors Bancorp Inc. stock are a motivational and cost-effective element of our long-term management incentive program, and that they will create a strong mutuality of economic interest with all of our stockholders.

## Performance-Based Equity Awards

The June 2015 performance-based stock awards included three key banking industry performance metrics that our Compensation and Benefits Committee and Board believe are accurate indicators of our long-term, multi-year corporate performance. Two of the three performance metrics measure our financial performance relative to our peer compensation comparators (i.e., the seventeen banking companies listed in the Market Comparison section that our Compensation and Benefits Committee utilizes for its annual marketplace research and benchmarking of executive compensation amounts and practices). Our performance on these indicators was measured over a three-year performance period ended December 31, 2017. If all or any portion of these performance-based stock awards are thereby earned by participating executives, the vesting and payout of any earned shares will be 1/3 at the end of the three-year performance period, 1/3 one year thereafter, and 1/3 two years thereafter (resulting in a total performance and vesting period of five years). The Company believes that the five-year total performance and vesting period for performance stock awards is longer and stricter than what is found in similar stock compensation programs among our competitors. The selected performance metrics for the 2015 performance-based stock awards are described in detail below.

The performance-based restricted stock that is deemed to have been earned at the conclusion of a three-year performance (i.e., the specific number of shares earned based on Investors' three-year performance, and thereafter subject to further time-vesting and subsequent distribution to the participating executives) is based on the satisfaction of the following performance metrics: (1) Net Charge-Offs as a Percentage of Average Loans and Leases vs. Peers; (2) Return on Average Tangible Core Equity vs. Pre-Established Board-Approved Strategic Plan; and (3) Total Shareholder Return vs. Peers. The peer group is established by the Compensation and Benefits Committee with input from our independent compensation consultant and is currently comprised of companies with asset sizes ranging from approximately \$15.6 billion to \$50.3 billion.

Subsequent to December 31, 2017, it was determined that the performance criteria were achieved at 70% of target, resulting in 70% of the performance-based stock awards being deemed earned based on the satisfaction of the performance metrics referenced below and converted to time based vesting. As a result, 1/3 of such earned shares vested on February 15, 2018 and 1/3 will vest on each of February 15, 2019 and February 15, 2020, respectively. No dividends were paid with respect to any stock award subject to performance-vesting conditions until the performance conditions were met and vesting occurred, and only on that portion of the stock award that actually vested.

Below are a summary of the performance metrics and the achievement of each subsequent to December 31, 2017:

- **Net Charge-Offs as a Percentage of Average Loans and Leases vs. Peers.** Up to 40% of the Performance-Based Restricted Stock can be earned based on the following. Subsequent to December 31, 2017, it was determined that this criterion was met and 40% of shares were earned.

<b>If Investors Bancorp's 3-year average peer percentile is equal to or less than 50<sup>th</sup> percentile</b>	<b>If Investors Bancorp's 3-year average peer percentile is 51<sup>st</sup> percentile to 65<sup>th</sup> percentile</b>	<b>If Investors Bancorp's 3-year average peer percentile is 66<sup>th</sup> percentile or higher</b>
<b>40% of Shares vest</b>	<b>20% of Shares vest</b>	<b>0% of Shares vest</b>

- **Return on Average Tangible Core Equity vs. Board-Approved Strategic Plan.** 30% of the Performance-Based Restricted Stock can be earned based on the following. Subsequent to December 31, 2017, it was determined that this criterion was met and 30% of shares were earned.

<b>If Investors Bancorp's 3 year average Return on Average Tangible Core Equity is equal to or greater than that projected in the 2014 Strategic Plan</b>	<b>If Investors Bancorp's 3 year average Return on Average Tangible Core Equity is less than that projected in the 2014 Strategic Plan</b>
<b>30% of Shares vest</b>	<b>0% of Shares vest</b>



- **Total Shareholder Return vs. Peers.** 30% of the Performance-Based Restricted Stock can be earned based on the following. Subsequent to December 31, 2017, it was determined that this criterion was not met.

If Investors Bancorp's 3 year TSR is equal to or greater than the 50 <sup>th</sup> percentile	<b>If Investors Bancorp's 3 year TSR is less than the 50<sup>th</sup> percentile</b>
30% of Shares vest	<b>0% of Shares vest</b>

## Future Grants under the 2015 Equity Incentive Plan

The Compensation and Benefits Committee carefully and diligently reviews all elements of compensation for the Named Executive Officers on an annual basis. As the June 2015 awards were atypical in nature, future stock awards granted to the Named Executive Officers will not be similar in size or potential value. The future use of stock incentive compensation as an element of executive compensation will depend on the below factors:

- Named Executive Officers' individual and company performance;
- the condition of management leadership and succession, as well as other organizational needs of the Company;
- pertinent comparative compensation data provided by our compensation advisors; and
- prevailing marketplace compensation practices, good corporate governance principles, and competitive business requirements at various points in the future.

The Compensation and Benefits Committee is aware of the use of performance-based restricted stock awards made by its selected peer comparator companies in recent years and expects that future awards of stock incentive compensation to the Named Executive Officers will be weighted more towards performance. In addition, the Compensation and Benefits Committee determined that no additional awards of any form of stock compensation will be made to the CEO and the COO until the completion of the current three-year performance period, which ended December 31, 2017. The Compensation and Benefits Committee may consider additional awards in the future to ensure a sound and competitive executive compensation program.

## 2006 Equity Incentive Plan

At the October 24, 2006 annual meeting of stockholders, the stockholders approved the Investors Bancorp, Inc. 2006 Equity Incentive Plan ("2006 Equity Incentive Plan"). Under this plan, individuals received awards of Investors Bancorp common stock (restricted stock) and grants of options to purchase shares of Investors Bancorp common stock at a specified exercise price during a specified time period. Upon completion of the Second Step Conversion and related stock offering on May 7, 2014, vesting accelerated for all stock options and stock awards outstanding and all applicable expenses were recognized at that time. No further grants will be made under the 2006 Equity Incentive Plan or under any equity incentive plan previously maintained by any entity that we acquired.

## Benefits

Investors Bank provides its executives, including the Named Executive Officers, with medical and dental insurance, disability insurance and group life insurance coverage consistent with the same benefits provided to all of its full-time employees. The Named Executive Officers are participants in our qualified retirement plans, including the ESOP, and 401(k) Plan offered to all full-time employees of Investors Bank and designated subsidiaries, and the Bank's non-qualified Supplemental ESOP and Retirement Plan ("SERP I"). The Named Executive Officers have accrued benefits under the Defined Benefit Plan and SERP II that were each frozen as of December 31, 2016. Additionally, Investors Bank sponsors a long-term care program for certain of its executive officers, senior vice presidents and their spouses or spousal equivalents. Each individual policy is owned by the covered person. Investors Bank pays all premiums under the long term care program but will stop

paying premiums in the event of the participant's: (i) termination for cause; (ii) retirement; (iii) relocation outside of the country; or (iv) death. Spousal coverage will be terminated upon: (i) a participant's termination or retirement; (ii) divorce from the participant; (iii) the participant no longer qualifying for coverage; (iv) the spouse's permanent relocation outside of the country; or (v) death. Participants who cannot be insured through an insurance company under the long-term care program will be self-insured by Investors Bank.

## **ESOP**

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Under the ESOP, employees of Investors Bank and any subsidiary (unless excluded by the ESOP) who have been credited with at least 1,000 hours of service during a 12-month period are eligible to participate in the ESOP. In 2005, the ESOP utilized proceeds from a loan made to it by Investors Bancorp to purchase 10,847,883 shares of common stock for the ESOP in connection with Investors Bancorp's initial public offering in 2005. In connection with the completion of the Second-Step Conversion and related stock offering on May 7, 2014, the ESOP purchased an additional 6,617,421 shares of common stock. The Company refinanced the outstanding principal and interest balance of \$33.9 million and borrowed an additional \$66.2 million to purchase the additional shares. The purchased shares serve as collateral for the loan. The loan is being repaid principally through annual contributions to the ESOP by Investors Bank and dividends paid on the unallocated ESOP shares over the 30 year loan. Shares purchased by the ESOP are held in a suspense account for allocation among the participants' accounts as the loan is repaid on a pro-rata basis.

Contributions to the ESOP and shares released from the suspense account in an amount proportional to the repayment of the ESOP loan are allocated to each eligible participant's plan account, based on the ratio of each participant's compensation to the total compensation of all eligible participants. Vested benefits will be payable generally upon the participants' termination of employment, and will be paid generally in the form of Investors Bancorp common stock. Pursuant to FASB ASC Topic 718-40, we are required to record a compensation expense each year in an amount equal to the fair market value of the shares released from the suspense account.

## **401(k) Plan**

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Investors Bank maintains the 401(k) Plan, a tax-qualified defined contribution retirement plan, for all employees who have satisfied the 401(k) Plan's eligibility requirements. All eligible employees may begin participation in the 401(k) Plan on the first day of the plan year or the first day of the month following the date on which the employee attains age 21. A participant may contribute up to 60% of his or her compensation to the 401(k) Plan on a pre-tax basis, subject to the limitations imposed by the Internal Revenue Code. For 2017, the salary deferral contribution limit is \$18,000. However, a participant over age 50 may contribute an additional \$6,000 to the 401(k) Plan. A participant is always 100% vested in his or her salary deferral contributions. In addition to salary deferral contributions, the 401(k) Plan provides that Investors Bank will make an employer contribution equal to 50% of the participant's salary deferral contribution, provided that such amount does not exceed 8% of the participant's compensation earned during the 2017 plan year, which was an increase from 6% in 2016. In addition, during 2017, the 401(k) Plan approved a discretionary profit sharing plan for eligible employees. Participants will become 100% vested in their employer contributions after completing three years of credited service (which is a three-year cliff vesting schedule). However a participant will immediately become 100% vested in any employer contributions upon the participant's disability or attainment of age 65 while employed with Investors Bank. Generally, unless a participant elects otherwise, the participant's benefit under the 401(k) Plan is generally payable in the form of a lump sum payment as soon as administratively feasible following his or her termination of employment with Investors Bank, provided, however that a participant can elect to receive a distribution of his or her vested account upon attaining age 59 1/2.

Each participant has an individual account under the 401(k) Plan and may direct the investment of his or her account among a variety of investment options or vehicles available. In connection with the Second Step Conversion and related stock offering, each participant was eligible to make a one-time purchase of Investors Bancorp common stock through the 401(k) Plan, provided that the purchase did not exceed 50% of the participant's account balance. Investors Bancorp common stock is not currently an investment option available under the 401(k) Plan.

## Defined Benefit Pension Plan

As of December 31, 2016, the Defined Benefit Plan was frozen. Freezing the plan eliminates all future benefit accruals such that each participant's frozen accrued benefit was determined as of December 31, 2016 and no further benefits will accrue beyond such date.

Investors Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions, formerly known as the Financial Institutions Retirement Fund, which is a tax-qualified defined benefit pension plan (the "Defined Benefit Plan"). All employees age 21 or older who have completed one year of employment with Investors Bank are eligible for participation in the Defined Benefit Plan the first of the month following their one year anniversary; however, only employees who have been credited with 1,000 or more hours of service with Investors Bank are eligible to accrue benefits under the Defined Benefit Plan. Effective with the freezing of the plan on December 31, 2016, employees hired after November 30, 2015 would be ineligible for participation in the plan as they would not meet the service eligibility requirement. Investors Bank annually contributes an amount to the plan necessary to satisfy the minimum funding requirements established under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The retirement benefit formula under the Defined Benefit Plan provides for a nonintegrated unit accrual formula with an annual accrual rate of 1.25% of the participant's high five year average salary, with a 30-year salary cap. A participant's average annual compensation is the average annual compensation over the five consecutive calendar years out of the last 10 calendar years in which the participant's compensation was the greatest, or over all calendar years if less than five.

The regular form of retirement benefit is a straight life annuity (if the participant is single) and a joint and survivor annuity (if the participant is married). However, various alternative forms of joint and survivor annuities may be selected instead. If a participant dies while in active service, and after having become fully vested, a qualified 100% survivor benefit will be payable to the participant's beneficiary. Benefits payable upon death may be paid in a lump sum, installments, or in the form of a life annuity. Upon termination of employment due to disability, the participant will be entitled to a disability retirement benefit at age 65.

## SERP I

SERP I is intended to compensate certain executives participating in the Defined Benefit Plan and the ESOP whose contributions or benefits are limited by Sections 415 and/or 401(a)(17) of the Internal Revenue Code, applicable to tax-qualified retirement plans (the "Tax Law Limitations"). As of December 31, 2017, Messrs. Cummings, Cama, Spengler, Kalamaras and Burke were participants in the SERP I.

SERP I provides benefits attributable to participation in the Defined Benefit Plan equal to the excess, if any, of the vested accrued benefit to which the participant would be entitled under the Defined Benefit Plan, determined without regard to the Tax Law Limitations, over the vested accrued benefit to which the participant is actually entitled under the Defined Benefit Plan, taking into account the Tax Law Limitations (the "Supplemental Retirement Plan Benefit").

SERP I also provides benefits attributable to participation in the ESOP equal to the difference between the allocation of shares of Investors Bancorp common stock the participant would have received under the ESOP without regard to the Tax Law Limitations, and the number of shares of stock that are actually allocated as a result of the Tax Law Limitations (the "Supplemental ESOP Benefit"). The Supplemental ESOP Benefit under the plan is denominated in phantom shares of stock such that one phantom share has a value equal to the fair market value of one share of Investors Bancorp common stock. Each participant's phantom shares are held in a bookkeeping account established on his or her behalf. Each plan year, the dollar amount of appreciation on the phantom shares deemed allocated to each participant's account will be converted into phantom shares and credited to each participant's account.

As a long-term compensation plan, the participant's vested interest in the Supplemental Retirement Plan Benefit and in the Supplemental ESOP Benefit is based on a five-year cliff vesting schedule where participants with less than five years of employment will not be vested in their benefits, and will become 100% vested upon the completion of five years of employment.

In the event of a participant's separation from service prior to attainment of age 55, the participant's accrued Supplemental Retirement Plan Benefit will be paid in a single lump sum payment within 30 days of the participant's separation from service. In the event of separation from service after age 55, the participant's Supplemental Retirement Plan Benefit will be payable upon the participant's early retirement date (age 55 with 10 years of service) or normal retirement date (age 65 with five years of service) in either a lump sum or an annuity (single life, single life with 120 months guaranteed, joint and 100% survivor annuity or joint and 50% survivor annuity) as elected by the participant, subject to the requirements of Section 409A of the Internal Revenue Code. In the event of a participant's separation from service within two years following a change in control (as defined in the Plan), the participant will receive his Supplemental Retirement Plan Benefit in a lump sum within 30 days after his separation from service. The participant's Supplemental ESOP Benefit will be payable in cash in either a lump sum or annual installments over a period not to exceed five years, as elected by the participant, and will commence within 30 days following the earlier of the participant's: (i) separation from service, (ii) death or (iii) disability, subject to the requirements of Section 409A of the Internal Revenue Code. Notwithstanding the foregoing, in the event the participant is a "specified employee", as defined under Section 409A of the Internal Revenue Code, no benefit will be payable under the plan during the first six months following the participant's separation from service (except in the event of death or disability).

## SERP II

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SERP II was frozen effective as of the close of business on December 31, 2016. SERP II was originally designed to provide participants with a normal retirement benefit, which is an annual benefit equal to 60% of the participant's highest average annual base salary and cash incentive (over a consecutive 36-month period within the participant's credited service period) reduced by the sum of the benefits provided under the Defined Benefit Plan and the annuitized value of his or her benefits payable from the defined benefit portion of the SERP I (which is referred to above as the Supplemental Retirement Plan Benefit).

The SERP II was amended to freeze future benefit accruals, and for certain participants, structure the benefits payable attributable solely to the participants' 2016 year of service to vest over a two-year period such that the participants would have a right to 50% of their accrued benefits attributable to their 2016 year of service as of December 31, 2016, which will become 100% vested provided the participants remained continuously employed through and including December 31, 2017. As a result, each participant would be entitled to receive his vested frozen accrued benefit as of December 31, 2016, upon his qualifying termination event (the "Frozen Accrued Benefit"). In the event that the participant's Termination Event (as defined below) occurs prior to attaining age 65, the Frozen Accrued Benefit would be subject to further reduction by multiplying the Frozen Accrued Benefit by a percentage equal to: (i) 2% multiplied by (ii) the numerical difference between 65 and the participant's age on the date of his termination, provided, however, that if: (i) the participant has completed 25 years of employment with Investors Bank as of his date of termination; or (ii) the participant's termination is due to death or disability, the participant's Frozen Accrued Benefit would not be reduced pursuant to the foregoing.

Payment of the Frozen Accrued Benefit (as quantified above) would commence upon the earlier of the participant's: (i) separation from service; (ii) disability; or (iii) death (the "Termination Event"), which would be paid generally in the form of a life annuity with 120 monthly payments guaranteed, unless the participant elected an alternative form of distribution.

At December 31, 2017, Messrs. Cummings, Cama, Kalamaras and Spengler were participants in the SERP II.

## Perquisites

The Compensation and Benefits Committee believes that perquisites should be provided on a limited basis, and only to the most senior level of executive officers. As of December 31, 2017, the following perquisites were available for Messrs. Cummings, Cama, Spengler and Kalamaras: (i) club membership; (ii) automobile allowance; (iii) long term care insurance and (iv) an annual medical examination. For Mr. Burke, available perquisites included an annual medical examination and long term care insurance.

## Elements of Post-Termination Benefits

### Employment Agreements

Investors Bancorp entered into employment agreements with each of Messrs. Cummings, Cama, Spengler, Kalamaras and Burke. The employment agreements for Messrs. Cummings, Cama and Spengler were originally entered into on October 11, 2005, the employment agreement for Mr. Kalamaras was originally entered into on August 18, 2008 and the employment agreement for Mr. Burke was entered into on January 26, 2015.

Each of these agreements has an initial term of three years. Unless notice of non-renewal is provided, the agreements renew annually. Each executive is entitled to base salary and is eligible to participate in employee benefit plans and arrangements, including incentive compensation and nonqualified compensation plans, generally made available by Investors Bancorp or Investors Bank to its senior executives and key management employees.

Each executive is entitled to a severance payment and benefits in the event of his termination of employment under specified circumstances. In the event the executive's employment is terminated for reasons other than for just cause, disability or retirement, provided that such termination of employment constitutes a "separation from service" under Internal Revenue Code Section 409A, or in the event the executive resigns during the term of the agreement following: (i) the failure to elect or reelect or to appoint or reappoint the executive to his executive position; (ii) a material change in the executive's functions, duties, or responsibilities, which change would cause the executive's position to become one of lesser responsibility, importance or scope; (iii) the liquidation or dissolution of Investors Bancorp or Investors Bank, other than a liquidation or dissolution caused by a reorganization that does not affect the status of the executive; (iv) a change in control of Investors Bancorp (for Mr. Burke in the event of involuntary termination for any reason other than cause or voluntary termination for good reason); or (v) a material breach of the employment agreement by Investors Bancorp or Investors Bank; then the executive would be entitled to a severance payment equal to three times the sum of his base salary and the highest amount of cash incentive compensation awarded to him during the prior three years, payable in a lump sum. In addition, the executive would be entitled to, at Investors Bancorp's sole expense, the continuation of nontaxable life and medical, dental and disability coverage for 36 months after termination of employment. The executive would also receive a lump sum payment of the excess, if any, of the present value of the benefits he would be entitled to under any defined benefit pension plan maintained by Investors Bank or Investors Bancorp if he had continued working for Investors Bancorp and Investors Bank for 36 months over the present value of the benefits to which he is actually entitled as of the date of termination. The executives would be entitled to no additional benefits under the employment agreement upon retirement at age 65 or if terminated for just cause.

Should the executive become disabled, Investors Bancorp would continue to pay the executive his base salary for the longer of the remaining term of the agreement or one year, provided that any amount paid to the executive pursuant to any employer-provided disability insurance would reduce the compensation he would receive. In the event the executive dies while employed by Investors Bancorp, the executive's estate will be paid the executive's base salary for one year and the executive's family will be entitled to continuation of medical and dental benefits for one year after the executive's death. The employment agreement terminates upon retirement (as defined therein), and the executive would only be entitled to benefits under any retirement plan of Investors Bancorp and other plans to which the executive is a party.



The employment agreements for Messrs. Cummings and Cama also provide for indemnification against any excise taxes which may be owed by the executive for any payments made in connection with a change in control that would constitute “excess parachute payments” under Section 280G of the Internal Revenue Code. The indemnification payment would be the amount necessary to ensure that the amount of such payments and the value of such benefits received by the executive equal the amount of such payments and the value of such benefits the executive would have received in the absence of an excise tax attributable to Sections 280G and 4999 of the Internal Revenue Code, including any federal, state and local taxes on Investors Bancorp’s payment to the executive attributable to such tax. The employment agreements for Messrs. Spengler, Kalamaras and Burke, as amended, provide that the gross benefits under the employment agreements would be reduced to avoid penalties under Section 280G of the Internal Revenue Code if doing so results in a greater after-tax benefit to the executive.

Upon any termination of the executive’s employment, other than a termination (whether voluntary or involuntary) following a change in control as a result of which Investors Bancorp has paid the executive severance benefits, the executive is prohibited from competing with Investors Bank and/or Investors Bancorp for a period of one year following such termination within 25 miles of any existing branch of Investors Bank or any subsidiary of Investors Bancorp or within 25 miles of any office for which Investors Bank, Investors Bancorp or a bank subsidiary of Investors Bancorp has filed an application for regulatory approval to establish an office, determined as of the effective date of such termination, except as agreed to pursuant to a resolution duly adopted by the Board of Directors. The executive is also subject to confidentiality provisions during and after the term of the employment agreement.

## **Other Matters**

### **Stock Ownership Requirements**

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The Board of Directors adopted stock ownership guidelines for our Named Executive Officers that require the following minimum investment in Investors Bancorp common stock:

Chief Executive Officer                      A number of shares having a market value equal to 5x annual base salary

Other Named Executive Officers A number of shares having a market value equal to 3x annual base salary

### **Equity Retention Policy**

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In 2013, the Board of Directors adopted the Equity Retention Policy, which is independent of the stock ownership guidelines described above. This policy applies to all executive officers of Investors Bancorp and all members of the Board of Directors. Under the policy, each executive officer is required to retain direct ownership of at least 50% of his or her “covered shares,” net of taxes and transaction costs, until three months following the date of the executive officer’s termination of employment. Each director is required to retain direct ownership of at least 50% of his or her “covered shares,” net of taxes and transaction costs, until termination of service from the Board of Directors. A “covered share” means any share acquired by an executive officer or director pursuant to an award granted after July 23, 2013 under any equity compensation plan or other written compensatory arrangement.

### **Anti-Hedging Policy**

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The Board of Directors adopted an anti-hedging policy, which prohibits directors and executive officers, including the Named Executive Officers, from engaging in or effecting any transaction designed to hedge or offset the economic risk of owning shares of Investors Bancorp common stock. Accordingly, any hedging, derivative or other equivalent transaction that is specifically designed to reduce or limit the extent to which declines in the trading price of Investors Bancorp common stock would affect the value of shares of Investors Bancorp common stock owned by an executive officer or director is prohibited. Cashless exercises of stock options are not deemed short sales and are permitted. This policy does not prohibit transactions involving the stock of other unrelated companies.



## Prohibition on Pledging Securities

Company policy prohibits directors and executive officers from holding Company securities in a margin account or pledging Company securities as collateral for any other loan. An exception to this prohibition may be granted, in the sole discretion of the Board and in limited circumstances, after giving consideration to, among other factors, the number of shares proposed to be pledged as a percentage of the director's or executive officer's total shares held. No shares are currently pledged by a director or executive officer.

## Clawback Policy

In accordance with a clawback policy adopted by the Board of Directors, as a condition to receiving incentive compensation, Named Executive Officers agree to return bonus and other incentive compensation paid by Investors Bancorp (including cancellation of outstanding equity awards and reimbursement of any gains realized on such awards) if: (i) the payments or awards were based on reported financial statement or financial information or (any performance metrics or criteria that were based on such financial statements or information); (ii) there is an accounting restatement of financial statements due to material noncompliance with financial reporting requirements under the federal securities laws; and (iii) the amount of the bonus or incentive compensation, as calculated under the restated financial results, is less than the amount actually paid or awarded under the original financial results.

## Tax Deductibility of Executive Compensation

Under Section 162(m) of the Internal Revenue Code, publicly traded companies are subject to limits on the deductibility of executive compensation. Deductible compensation is limited to \$1 million per year for each "covered employee" unless such compensation meets an exception as "qualified performance-based" compensation and is paid pursuant to a written binding contract which was in effect prior to November 2, 2017 and which has not subsequently been materially modified. For taxable years ending on or before December 31, 2017, each Named Executive Officer listed in the Summary Compensation Table, except for the principal financial officer, was considered to be a "covered employee." Effective for taxable years beginning on or after January 1, 2018, as a result of the Tax Cuts and Jobs Act of 2017, the "qualified performance-based" compensation exemption no longer applies and the definition of "covered employee" has been revised to include the principal executive officer, the principal financial officer and the three other most highly compensated executive officers of the company required to be included in the Summary Compensation Table. For future years, a "covered employee" will also include any individual who was considered a covered employee for 2018 or any taxable year thereafter. Stock option grants made prior to November 2, 2017 are intended to qualify as performance-based compensation.

A number of requirements must be met for particular compensation to qualify for tax deductibility, so there can be no assurance that the incentive compensation awarded will be fully deductible in all circumstances. While the Compensation and Benefits Committee currently does not have a formal policy with respect to the payment of compensation in excess of the deduction limit, the Committee's historical practice has been to structure compensation programs offered to the Named Executive Officers with a view to maximizing the tax deductibility of amounts paid. However, in structuring compensation programs and making compensation decisions, the Compensation and Benefits Committee considers a variety of factors, including Investors Bancorp's tax position, the materiality of the payment and tax deductions involved and the need for flexibility to address unforeseen circumstances and Investors Bancorp's incentive and retention requirement for its management personnel. After considering these factors, the Compensation and Benefits Committee may decide to authorize payments, all or part of which would be nondeductible for federal tax purposes.

## Compensation Risk Management

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The Compensation and Benefits Committee believes that any risks arising from Investors Bancorp's compensation policies and practices for all of its employees, including the Named Executive Officers, are not reasonably likely to have a material adverse effect on Investors Bancorp or Investors Bank. In addition, the Compensation and Benefits Committee believes that the mix and design of the elements of the compensation program will encourage senior management to act in a manner that is focused on long-term valuation of Investors Bancorp and Investors Bank.

The Compensation and Benefits Committee regularly reviews Investors Bancorp's compensation program to ensure that controls are in place so that employees are not presented with opportunities to take unnecessary and excessive risks that could threaten the value of Investors Bancorp or Investors Bank. With respect to the Executive Officer Annual Incentive Plan, the Compensation and Benefits Committee reviews and approves the company-wide performance objectives that determine the bonus payments to be made thereunder. The performance objectives are selected in consultation with an outside independent consultant, and are customary performance metrics for financial institutions in Investors Bancorp's peer group. Furthermore, all bonus payments are subject to clawback in accordance with our clawback policy, which ensures that performance awards are linked to the actual performance of Investors Bancorp and Investors Bank and promotes the long-term value creation of Investors Bancorp and Investors Bank. Moreover, we instituted our equity retention policy to more closely align the interests of management and the Board with those of our stockholders.

Finally, by implementing the ESOP, the 2006 Equity Plan, the 2015 Equity Plan and by having an executive stock ownership requirement and an equity retention policy, our executive management team and employees have a significant ownership interest in Investors Bancorp, which will align their interests with those of the stockholders, and in turn will contribute to long-term stockholder value and decrease the likelihood that they would take excessive risks that could threaten the value of their Investors Bancorp common stock.

## Compensation and Benefits Committee Report

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*Pursuant to rules and regulations of the SEC, this Compensation and Benefits Committee Report shall not be deemed incorporated by reference to any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Investors Bancorp specifically incorporates this information by reference, and otherwise shall not be deemed "soliciting material" or to be "filed" with the SEC subject to Regulation 14A or 14C of the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.*

The Compensation and Benefits Committee (the Committee) of Investors Bancorp has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation and Benefits Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and our Annual Report on Form 10-K.

The Committee understands its fiduciary responsibility to stockholders. The Committee has worked diligently with the assistance of management and our compensation consultant to implement a performance driven compensation program.

We operate in a very competitive banking market. To ensure fairness and competitiveness, the Committee collects and analyzes an extensive amount of information about executive compensation values and practices in our marketplace. In our region, obtaining and retaining talented people is a serious challenge. The worldwide financial services industry has a large footprint in the New York and New Jersey area and consequently many opportunities exist for employment. It is important to make Investors Bancorp attractive to this important talent pool.

The Committee believes that our Executive Officer Annual Incentive Plan is competitive and has had a positive effect on employee performance and has properly stimulated and motivated our employees to contribute to the overall success of Investors Bancorp. Each year a participant is assigned personal goals and a share of the overall corporate goals. Each participant is advised of the cash incentive opportunity for meeting his/her goals. Careful selection of goals in a way that aligns the employees' performance with advancing the overall strategic objectives of Investors Bancorp moves the entire company along its carefully designed strategic path.

The Committee has also utilized equity grants to drive long term performance and to align employees' financial interests with those of our stockholders. Recent grants have been made with not less than a five- or seven-year vesting requirement, which is much longer than the vesting requirements of our peers and also included performance requirements for the restricted stock awards. Investors Bank also sponsors the ESOP, through which all eligible employees are eligible to receive Investors Bancorp common stock. By ensuring that all employees are stockholders, the Committee believes that the entire workforce has a personal financial stake in the success of Investors Bancorp.

Investors Bancorp has adopted a clawback policy, in order to recapture inappropriate incentive compensation payments, should that ever occur. At the same time, the Committee recognizes the need to discourage the taking of undue risk to achieve short term goals. We have built into our overall compensation philosophy elements that encourage longer term thinking and in particular, the preservation of asset quality. It is the Committee's belief that our compensation program spends company funds in a way that effectively drives superior employee performance and the success of Investors Bancorp.

**Compensation and Benefits Committee of Investors Bancorp, Inc.**

Dennis M. Bone, *Chair*

Robert C. Albanese, *Member*

Doreen R. Byrnes, *Member*

William V. Cosgrove, *Member*

Brian D. Dittenhafer, *Member*

James H. Ward, III, *Member*

## Executive Compensation

The following table sets forth for the calendar years ended December 31, 2017, 2016 and 2015 certain information as to the total remuneration earned to Named Executive Officers with respect to the applicable year.

### Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(2)</sup>	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) <sup>(3)</sup>	All Other Compensation (\$) <sup>(4)</sup>	Total (\$)
Kevin Cummings,	2017	1,075,000	—	—	—	2,134,090	2,282,000	215,557	5,706,647
President and	2016	1,000,000	—	—	—	1,820,000	1,982,000	265,911	5,067,911
Chief Executive Officer	2015	1,000,000	—	12,540,000	4,159,999	2,076,923	2,411,000	230,035	22,417,957
Domenick A. Cama,	2017	725,000	—	—	—	1,151,416	1,285,000	150,065	3,311,481
Senior Executive Vice President	2016	675,000	—	—	—	982,800	1,091,000	180,396	2,929,196
and Chief Operating Officer	2015	675,000	—	10,032,000	3,327,998	1,121,539	1,200,000	161,720	16,518,257
Richard S. Spengler,	2017	465,000	—	891,600	—	416,547	563,000	87,557	2,423,704
Executive Vice President and	2016	430,000	—	—	—	468,012	410,000	99,287	1,407,299
Chief Lending Officer	2015	430,000	—	6,687,996	2,225,599	535,846	295,000	94,231	10,268,672
Paul Kalamaras,	2017	450,000	—	827,400	—	516,510	347,000	82,693	2,223,603
Executive Vice President and	2016	415,000	—	—	—	460,650	663,000	94,333	1,632,983
Chief Retail Banking Officer	2015	415,000	—	6,687,996	2,225,599	516,223	541,000	84,559	10,470,377
Sean Burke,	2017	425,000	—	594,400	—	465,864	4,000	75,998	1,565,262
Senior Vice President and	2016	400,000	—	—	—	370,000	20,000	44,441	834,441
Chief Financial Officer	2015 <sup>(5)</sup>	376,923	—	5,852,004	1,955,198	376,923	—	38,159	8,599,207

- (1) The amounts in this column reflect the aggregate grant date fair value computed in accordance with FASB ASC 718, of restricted stock and stock option awards granted pursuant to the 2015 Equity Incentive Plan. The grant date fair value for the stock awards granted in 2017 was \$14.86 for Messrs. Spengler and Burke and \$13.79 for Mr. Kalamaras. The grant date fair value for each option award and stock award granted in 2015 was \$3.12 and \$12.54, respectively. Assumptions used in the calculation of these amounts are included in Note 10 to Investors Bancorp's audited financial statements for the calendar year ended December 31, 2017 included in Investors Bancorp's Annual Report on Form 10-K.
- (2) The amounts were earned pursuant to the Executive Officer Annual Incentive Plan.
- (3) The amounts in this column reflect the aggregate change in the actuarial present value of the Named Executive Officer's accumulated benefit under all defined benefit and actuarial pension plans (including supplemental plans) from the measurement date in the immediately preceding calendar year to the measurement date in such calendar year, determined using the interest rate and mortality rate assumptions consistent with those used in Investors Bancorp's financial statements. Effective December 31, 2016, the SERP II was frozen. For Mr. Cummings, Cama and Spengler, the benefit attributable to their 2016 year of service vests over two years. Earnings under the SERP I attributable to the Supplemental ESOP Benefit are not included in this column because the earnings were not "above-market," as defined by the SEC.
- (4) The amounts in this column represent all other compensation not reported in prior columns in this table, including perquisites, the aggregate value of which exceeds \$10,000, and employer contributions to defined contribution plans. See the "All Other Compensation" and "Perquisites" tables below for a breakdown of these amounts for the year ended December 31, 2017.
- (5) Mr. Burke was appointed Senior Vice President and Chief Financial Officer on January 26, 2015. Mr. Burke's full year annualized base salary was \$400,000.

Amounts included in the "Stock Awards" and "Option Awards" columns of the Summary Compensation Table represent the grant date fair value of the awards issued to the Named Executive Officers under the 2015 Equity Plan, as determined in accordance with applicable accounting standards. The 2015 Equity Plan was adopted following, and in connection with, the completion of the Company's Second Step Conversion to stock form. Notwithstanding that (1) stock options and time-based restricted stock awards vest ratably over a seven-year period and the performance-based restricted stock awards are subject to a three-year performance period ending on December 31, 2017; and (2) the annual financial statement expense that we are required to recognize for these grants will be expensed ratably over the vesting period and will be significantly less than the amounts included in the "Stock Awards" and "Option Awards" columns for the year ended December 31, 2015, SEC rules require that we report the full grant date fair value of restricted stock and stock option awards in the year in which the grants are made even though the value cannot be received by the officers in that year. In addition, with respect to the performance-based restricted stock awards, the actual value, if any, realized by the Named Executive Officers will depend on the satisfaction of the performance metrics related to the awards. Moreover,

with respect to the stock options, the actual value, if any, realized by any Named Executive Officers will depend on the extent to which the market value of the Investors Bancorp common stock exceeds the exercise price of the stock option on the date of exercise. Accordingly, there is no assurance that the values realized by the Named Executive Officer will be at or near the amounts in the “Stock Awards” and “Option Awards” columns.

## All Other Compensation

Name	Calendar or Fiscal Year	Perquisites and Other Personal Benefits (\$) <sup>(1)</sup>	Company Contribution for Medical and Insurance Benefits (\$)	Company Contributions to ESOP and 401(k) Plan and SERP I (\$)	Total (\$)
Kevin Cummings	2017	22,543	25,764	167,250	215,557
Domenick A. Cama	2017	25,227	22,094	102,744	150,065
Richard S. Spengler	2017	8,607	18,560	60,390	87,557
Paul Kalamaras	2017	20,784	3,360	58,549	82,693
Sean Burke	2017	—	18,617	57,381	75,998

(1) A detailed description of the perquisites included in this column is set forth in the table below.

## Perquisites

Name	Calendar or Fiscal Year	Automobile Allowance (\$)	Long Term Care (\$)	Club Dues (\$)	Executive Health Exam (\$)	Total Perquisites and Other Personal Benefits (\$)
Kevin Cummings	2017	11,142	9,322	2,079	—	22,543
Domenick A. Cama	2017	8,136	13,090	1,231	2,770	25,227
Richard S. Spengler	2017	3,597	2,176	2,834	—	8,607
Paul Kalamaras	2017	6,809	12,262	1,713	—	20,784
Sean Burke	2017	—	—	—	—	—

## CEO Pay Ratio

In accordance with the applicable provisions of Section 953 (b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402 (u) of Regulation S-K, we are providing the following information about the relationship of the median annual total compensation of all employees of the Company and the annual total compensation of our President and Chief Executive Officer.

For 2017, our median annual total compensation for all employees other than our CEO was \$56,883. The annual total compensation for our CEO for the same period was \$5,706,647. The ratio of our CEO’s compensation to the median employee’s compensation was 100 to 1.

We identified our median employee using our entire workforce as of October 26, 2017 of approximately 2,000 full-time and part-time employees. We used wages from our payroll records as reported to the Internal Revenue Service on Form W-2 for fiscal year 2017. We determined the compensation for our median employee by calculating total compensation for such employee for 2017 in accordance with the requirements of Item 402 (c)(2)(x) of Regulation S-K. With regard to the annual total compensation of our CEO, we used the amount reported in the “Total” column of our 2017 Summary Compensation Table included in this Proxy Statement.

As the SEC rules for identifying the median employee and calculating the pay ratio allow companies to apply various methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions,

the pay ratio reported by Investors Bancorp may not be comparable to the pay ratio reported by other companies, as other companies may have different geographic profiles, different employee populations and compensation practices and may utilize different methodologies, conclusions, exclusions, estimates and assumptions in calculating their pay ratios.

## Grants of Plan-Based Awards in 2017

The following table sets forth certain information as to grants during calendar 2017 of plan-based awards to the Named Executive Officers under the Executive Officer Annual Incentive Plan.

Name	Grant Date	Estimated Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			All Other Stock Awards Number of Shares of Units(#)	All Other Option Awards Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(2)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)				
Kevin Cummings	2/27/2017	1,311,500	1,730,750	2,150,000	—	—	\$ —	\$ —
Domenick A. Cama	2/27/2017	707,600	933,800	1,160,000	—	—	\$ —	\$ —
Richard S. Spengler	2/27/2017	376,650	467,325	558,000	—	—	\$ —	\$ —
	2/27/2017	—	—	—	60,000	—	\$ —	\$ 891,600
Paul Kalamaras	2/27/2017	364,500	452,250	540,000	—	—	\$ —	\$ —
	3/27/2017	—	—	—	60,000	—	\$ —	\$ 827,400
Sean Burke	2/27/2017	315,563	391,531	467,500	—	—	\$ —	\$ —
	2/27/2017	—	—	—	40,000	—	\$ —	\$ 594,400

(1) Amounts shown assume achievement of 100% of individual goals and objectives. The range of estimated possible payouts reflects payouts under the Executive Officer Annual Incentive Plan.

(2) Represents the grant date fair value of the awards determined in accordance with FASB ASC Topic 718.

For the year ended December 31, 2017, the Compensation and Benefits Committee granted awards to the individuals listed above to ensure the retention and continuity of these high-performing key executives going forward. For the year ended December 31, 2017, there were no equity grants to the CEO or COO.

For a narrative description of the material factors necessary to an understanding of the information disclosed in the Summary Compensation Table and in the Grants of Plan-Based Awards Table for 2017, please see “Compensation Discussion and Analysis” above.



## Outstanding Equity Awards at December 31, 2017

The following table sets forth information with respect to outstanding equity awards as of December 31, 2017 for the Named Executive Officers.

Name	Grant Date	Option Awards				Stock Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup> Unexercisable	Option Exercise Price (\$)	Option Expiration Date <sup>(2)</sup>	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(1)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(3)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#) <sup>(4)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(3)</sup>
Kevin Cummings	6/23/15	380,952	952,381	12.54	6/23/25	535,714	7,435,710	250,000	3,470,000
Domenick A. Cama	6/23/15	304,761	761,905	12.54	6/23/25	428,572	5,948,579	200,000	2,776,000
Richard S. Spengler	6/23/15	203,809	509,524	12.54	6/23/25	285,714	3,965,710	133,333	1,850,662
	2/27/17	—	—	—	—	60,000	832,800	—	—
Paul Kalamaras	6/23/15	203,809	509,524	12.54	6/23/25	285,714	3,965,710	133,333	1,850,662
	3/27/17	—	—	—	—	60,000	832,800	—	—
Sean Burke	6/23/15	179,047	447,619	12.54	6/23/25	250,000	3,470,000	116,667	1,619,338
	2/27/17	—	—	—	—	40,000	555,200	—	—

- (1) Stock option and restricted stock awards generally vest over a seven-year period commencing on the first anniversary of the date granted.
- (2) Stock options generally expire if unexercised 10 years after the grant date.
- (3) Amounts shown are based on the fair market value of Investors Bancorp common stock on December 31, 2017 of \$13.88.
- (4) Amounts shown represent the number of stock awards that may vest if performance goals are achieved over a three-year period 2015-2017 at Target level. Subsequent to December 31, 2017, it was determined that the performance criteria were achieved at 70% of target, resulting in 70% of the performance-based stock awards being earned and converting to time-vesting restricted stock.

## Option Exercises and Stock Vested in 2017

The following table provides information concerning stock option exercises and the vesting of stock awards for each Named Executive Officer during 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Kevin Cummings	—	—	107,143	1,384,275
Domenick A. Cama	—	—	85,714	1,107,425
Richard S. Spengler	—	—	57,143	738,275
Paul Kalamaras	—	—	57,143	738,275
Sean Burke	—	—	50,000	646,000

## Pension Benefits at or for the year ended December 31, 2017

The table below shows the present value of accumulated benefits payable to each of the Named Executive Officers, including the number of years of service credited to each such Named Executive Officer, under our pension plans determined using interest rate and mortality rate assumptions consistent with those used in Investors Bancorp's financial statements. The Defined Benefit Plan and SERP II were frozen effective as of the close of business on December 31, 2016. For a narrative description of each applicable plan, please see "Compensation Discussion and Analysis" above.

Name	Plan Name	Number of Years Credited Service (\$) <sup>(1)</sup>	Present Value of Accumulated Benefit (\$) <sup>(2)</sup>	Payment During Last Year (\$)
Kevin Cummings	Defined Benefit Plan	12.5	666,000	—
	SERP I and SERP II	12.5	17,963,000	—
Domenick A. Cama	Defined Benefit Plan	26.0	1,211,000	—
	SERP I and SERP II	26.0	9,277,000	—
Richard S. Spengler	Defined Benefit Plan	30.0	996,000	—
	SERP I and SERP II	30.0	2,860,000	—
Paul Kalamaras	Defined Benefit Plan	7.3	290,000	—
	SERP I and SERP II	7.3	3,128,000	—
Sean Burke	Defined Benefit Plan	0.9	24,000	—
	SERP I and SERP II	—	—	—

- (1) The number of years of credited service represents all years of service, including years following the change in benefit formula for the Defined Benefit Plan on January 1, 2006. For Messrs. Cama and Spengler, credited service years include qualified years served at other financial institutions that participated in the Defined Benefit Plan, formerly known as the Financial Institutions Retirement Fund.
- (2) The figures shown are determined as of the plan's measurement date of December 31, 2017 for purposes of Investors Bancorp's audited financial statements. For discount rate and other assumptions used for this purpose, please refer to Note 10 to the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

## Nonqualified Deferred Compensation at or for the year ended December 31, 2017

The following table sets forth information with respect to the Supplemental ESOP portion of SERP I at and for the year ended December 31, 2017 for the Named Executive Officers. For a narrative description of SERP I, please see "Compensation Discussion and Analysis" above.

Name	Plan Name	Executive Contributions in Last Year (\$)	Registrant Contributions in Last Year (\$) <sup>(1)</sup>	Aggregate Earnings in Last Year (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Year-End (\$) <sup>(2)</sup>
Kevin Cummings	SERP I	—	141,025	—	—	2,065,723
Domenick A. Cama	SERP I	—	76,519	—	—	1,034,636
Richard S. Spengler	SERP I	—	34,165	—	—	381,795
Paul Kalamaras	SERP I	—	32,324	—	—	276,645
Sean Burke	SERP I	—	31,156	—	—	31,156

- (1) The value of the non-qualified Supplemental ESOP contribution made pursuant to SERP I in calendar 2017 is based on the fair market value of Investors Bancorp common stock on December 31, 2017 of \$13.88. These contributions are included in the Summary Compensation Table.
- (2) The aggregate balances reported for the Supplemental ESOP Plan are based on the market value of Investors Bancorp common stock on December 31, 2017 of \$13.88. For Messrs. Cummings, Cama, Spengler and Kalamaras, \$1,166,816, \$591,208, \$226,147 and \$180,092, respectively, of their total aggregate balance was previously reported as compensation to them in our Summary Compensation Tables for previous years.

## Potential Payments Upon Termination or Change in Control

At December 31, 2017, Investors Bancorp has entered into employment agreements with Messrs. Cummings, Cama, Spengler, Kalamaras and Burke. A narrative description of the material terms of the agreements is set forth in “Compensation Discussion and Analysis.” The table below reflects the amount of compensation and benefits payable to each Named Executive Officer pursuant to his employment agreement in the event of termination of his employment. No payments are required under the employment agreements due to the Named Executive Officers’ voluntary termination prior to a change in control. The amount of compensation payable to each Named Executive Officer upon: (i) retirement; (ii) early retirement; (iii) involuntary termination (other than for cause); (iv) termination following a change of control; and (v) in the event of disability is shown below. The amounts shown assume that such termination was effective as of December 31, 2017, and thus includes amounts earned through such time and are estimates of the amounts that would be paid to the Named Executive Officer upon termination. The amounts shown relating to unvested stock options and restricted stock awards are based on the fair market value of Investors Bancorp common stock on December 31, 2017 of \$13.88 per share. Messrs. Cummings and Cama are entitled to tax indemnification payments for any excess parachute payments under Section 280G of the Internal Revenue Code. With respect to the change in control benefits payable to Messrs. Spengler, Kalamaras and Burke, the amounts shown in the table below do not take into account any reductions that may be required in order to comply with the Internal Revenue Code Section 280G cut back or net best benefit provision in each of their employment agreements. The actual amounts to be paid out can only be determined at the time of such executive’s date of termination with Investors Bancorp. The following table does not include amounts payable upon termination of employment under SERP I and SERP II that are vested as of December 31, 2017 because the present value of the accumulated vested benefits under each of those plans as of December 31, 2017 is set forth in the tables above.

	Mr. Cummings	Mr. Cama	Mr. Spengler	Mr. Kalamaras	Mr. Burke
<b>Retirement <sup>(1)</sup></b>					
Retiree Health/Life Insurance	—	—	—	—	—
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	—	—	—	—	—
<b>Early Retirement <sup>(1)</sup></b>					
Retiree Health/Life Insurance	—	—	—	—	—
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	—	—	—	—	—
<b>Disability</b>					
Salary Continuation <sup>(2)</sup>	2,608,438	1,638,438	1,138,438	1,093,438	738,438
Stock Option Vesting	1,276,190	1,020,953	682,763	682,763	599,810
Restricted Stock Vesting	10,905,710	8,724,579	6,649,172	6,649,172	5,644,538
Other benefits <sup>(3)</sup>	22,248	23,784	15,260	6,941	11,783
<b>Death</b>					
Salary Continuation <sup>(5)</sup>	1,075,000	725,000	465,000	450,000	425,000
Stock Option Vesting	1,276,190	1,020,953	682,763	682,763	599,810
Restricted Stock Vesting	10,905,710	8,724,579	6,649,172	6,649,172	5,644,538
Other benefits <sup>(3)</sup>	33,697	33,002	26,868	144	22,161
<b>Discharge w/o Cause or Resignation w/ Good Reason-no Change in Control</b>					
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	—	—	—	—	—
Salary and Cash Incentive <sup>(6)</sup>	9,627,270	5,629,248	2,644,641	2,899,530	2,672,592
Other benefits <sup>(3)</sup>	133,485	142,706	96,779	46,865	74,116
Excess Pension Benefit <sup>(4)(6)</sup>	—	—	—	—	—
<b>Discharge w/o Cause or Resignation w/ Good Reason-Change in Control-related</b>					
Stock Option Vesting	1,276,190	1,020,953	682,763	682,763	599,810
Restricted Stock Vesting	10,905,710	8,724,579	6,649,172	6,649,172	5,644,538
Salary and Cash Incentive <sup>(6)</sup>	9,627,270	5,629,248	2,644,641	2,899,530	2,672,592
Other benefits <sup>(3)</sup>	133,485	142,706	96,779	46,865	74,116
Excess Pension Benefit <sup>(4)(6)</sup>	—	—	—	—	—
Tax Indemnification Payment <sup>(7)</sup>	8,117,720	5,671,835	—	—	—

(1) As of December 31, 2017, none of the Named Executive Officers were eligible for early retirement or retirement.

- (2) Upon disability, the Named Executive Officer is entitled to base salary for the longer of the remaining term of his employment agreement or one year. Such benefit is reduced by the amount paid under our disability plan or policy, which is not reflected in this table.
- (3) Other benefits include amounts for benefits in effect prior to termination; life, medical, dental, disability and long term care, and is calculated based on the terms specified in the employment agreements.
- (4) Each employment agreement provides that Investors Bancorp will pay the excess, if any of: (i) the present value of benefits to which the Named Executive Officer would be entitled to under the defined benefit plans if he had continued working for Investors Bancorp for 36 months and (ii) the present value of the benefits to which he is actually entitled.
- (5) This amount is payable according to normal payroll practices for one year following the Named Executive Officer's date of death.
- (6) This amount is paid in a lump sum following the Named Executive Officer's date of termination.
- (7) This amount is generally payable in a lump sum to the Named Executive Officer following the date of termination, but it may be timely paid directly to the applicable taxing authorities on behalf of the named executive officer.

## Director Compensation

### Director Fees

Each of the individuals who serve as a director of Investors Bancorp also serves as a director of Investors Bank. The non-employee directors of Investors Bancorp and Investors Bank are compensated separately for service on each entity's board. Employee directors are not compensated for serving as directors. The following table describes the components of non-employee director compensation during 2017:

Compensation Element	Director Compensation (\$)
Annual Fee for Investors Bancorp Non-Employee Directors	24,000
Annual Fee for Investors Bancorp Chairman	48,000
Annual Fee for Investors Bank Non-Employee Directors	73,200
Annual Fee for Investors Bank Chairman	146,400
Annual Fee for Committee Chairs	10,000
Annual Fee for Audit Committee Members	15,000
Annual Fee for Compensation & Benefits Committee Member	15,000
Annual Fee for Nominating & Corporate Governance Committee Member	7,500
Annual Fee for Risk Oversight Committee Member	10,000

The Board of Directors establishes non-employee director compensation based on recommendations of the Compensation and Benefits Committee. Periodically, the Compensation and Benefits Committee engages the services of GK Partners and its external surveys to assist in the committee's review of director compensation.

### Stock Option and Stock Award Program

At the annual meeting of stockholders held on June 9, 2015, stockholders of the Company approved the Investors Bancorp, Inc. 2015 Equity Plan, as described above in "Compensation Discussion and Analysis." Directors are eligible to participate in the 2015 Equity Incentive Plan. Under this plan, individuals may receive awards of Investors Bancorp common stock (restricted stock) and grants of options to purchase shares of Investors Bancorp common stock at a specified exercise price during a specified time period. The Compensation and Benefits Committee engaged GK Partners, an independent compensation consultant to assess the Committee's recommendations for granting stock options and restricted stock awards to non-employee directors. In determining the amount of restricted stock awards and stock options non-employee directors would receive, the Compensation and Benefits Committee considered the Board's role in setting the strategic direction for the Company, most notably, their role in completing the mutual to stock public offering in 2014. The Committee also considered the directors' past contributions, their industry knowledge, their financial expertise and the role they would play in the Company's future. The Committee also reviewed survey data regarding awards made to directors of other companies that had undertaken a mutual to stock public offering. GK Partners concluded that the Committee's recommendations for the awards were fair and reasonable and intended to align the economic interest of the directors with that of other stockholders consistent with prevailing director compensation practices in the competitive marketplace for similarly situated public companies.

For the year ended December 31, 2017, there were no grants awarded to the directors.

## Director Benefits

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For directors and their spouses or spousal equivalents as of 2007, Investors Bank sponsors a long-term care program. Directors become eligible to participate after one year of service either on the Board of Directors, through past employment or as counsel prior to becoming a director. Each individual policy is owned by the covered person. Investors Bank pays all premiums under the long term care program but will stop paying premiums in the event of the participant's: (i) resignation from the Board of Directors prior to attaining normal retirement age (except for health reasons); (ii) relocation outside of the country; or (iii) death. Spousal coverage will be terminated upon: (i) a participant's resignation prior to normal retirement age (except for health reasons); (ii) divorce from the participant; (iii) the participant no longer qualifying for coverage; (iv) the spouse's permanent relocation outside of the country; or (v) death. Participants who cannot be insured through an insurance company under the long-term care program will be self-insured by Investors Bank.

## Amended and Restated Director Retirement Plan

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Investors Bank maintains the Amended and Restated Director Retirement Plan. Effective November 21, 2006, the Amended and Restated Director Retirement Plan was frozen such that no new benefits accrued under, and no new directors were eligible to participate in, the plan. A director who: (i) was not an active employee of Investors Bank upon retirement from board service; (ii) has provided at least ten years of "cumulative service" (service on the board and, if applicable, as an employee or counsel); and (iii) retired at age 65 or later or as a result of disability, was eligible to participate in the plan prior to November 21, 2006. Directors Cashill and Dittenhafer are the only directors currently participating in the plan.

An eligible director with at least 15 years of cumulative service will be entitled to an annual retirement benefit equal to the sum of 60% of the annual retainer and 13 times the regular board meeting fee in effect for the calendar year preceding the director's year of retirement. A director with at least 10 years of cumulative service but less than 15 years will be entitled to 40% of the sum of the annual retainer and 13 times the regular meeting fee in effect for the calendar year preceding the director's year of retirement, plus a pro-rated percentage of 20% of the sum of the annual retainer and 13 times the regular board meeting fee in effect for the calendar year preceding the director's year of retirement. The plan includes the annual retainer and board fees, if any, paid by Investors Bancorp in determining a director's retirement benefit.

In the event of a change in control, a director who has not yet attained ten years of service will be deemed to have ten years of service and attained age 65 in order to calculate his benefit under the plan. In the event a director dies prior to retirement, the director's beneficiary will be entitled to benefit payments in the form of a joint and survivor benefit payable at 100% of the amount paid to the director. Retirement benefits may be paid, at the director's election, either in monthly payments until the eligible director's death, or as a joint and survivor form of benefit payable for the lifetime of the eligible director and, upon the eligible director's death, at 50% of the benefit amount, to the director's beneficiary, or a joint and survivor form of benefit payable for the lifetime of the director and, upon the director's death, at 100% of the amount, to the director's beneficiary during the beneficiary's lifetime. In order to receive retirement benefits under the plan, the director must remain a director emeritus in good standing after retirement and must not engage in any business enterprise which competes with Investors Bank nor disclose any confidential information relative to the business of Investors Bank.

## Deferred Directors Fee Plans

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Investors Bank maintains the Investors Bank Deferred Directors Fee Plan. Each non-employee member of the Board of Directors of Investors Bank is eligible to participate in the plan and has the right to elect to defer the receipt of all or any part of the director fees earned as a member of the Board of Directors of Investors Bank. Compensation deferred under the plan and interest (at a rate equal to one and one-half percent below the *Wall Street Journal* prime rate) thereon is payable upon the earlier of the participant's death, disability or

separation from service. Such deferred compensation will be payable in a lump sum, unless the participant has elected payment in monthly installments over a period of up to ten years. At December 31, 2017, there were no participants in the Investors Bank Deferred Directors Fee Plan.

Investors Bancorp maintains the Investors Bancorp, Inc. Deferred Directors Fee Plan. Each non-employee member of the Board of Directors of Investors Bancorp is eligible to participate in the plan and has the right to elect to defer the receipt of all or any part of the director fees earned as a member of the Board of Directors of Investors Bancorp. Compensation deferred under the plan and interest (at a rate equal to one and one-half percent below the *Wall Street Journal* prime rate) thereon is payable upon the earlier of the participant's death, disability or separation from service. Such deferred compensation will be payable in a lump sum, unless the participant has elected payment in monthly installments over a period of up to ten years. At December 31, 2017, there were no participants in the Investors Bancorp Inc. Deferred Directors Fee Plan.

## Split Dollar Life Insurance Agreements

Mr. Albanese, Mr. Bone and Ms. Siekerka are each parties to individual split dollar life insurance agreements with Roma Bank, which were assumed by Investors Bank on December 6, 2013 in connection with the merger between Investors Bancorp and Roma Financial Corporation. Investors Bank owns a life insurance policy on the lives of Messrs. Albanese, Bone and Ms. Siekerka. Under the agreement, upon the death of the director, the proceeds of the policy are divided between the director's beneficiary, who is entitled to \$100,000 on the director's death, and Investors Bank, which is entitled to the remainder of the death benefit. The director has the right to designate the beneficiary who will receive his or her share of the proceeds payable upon death.

## Summary of Directors' Compensation

The following table sets forth for the year ended December 31, 2017 certain information as to total compensation paid to non-employee directors.

## Directors' Compensation Table

Name	Investors Bancorp Fees Earned or Paid in Cash (\$)	Investors Bank Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
Robert C. Albanese	74,000	73,200	—	—	—	451	147,651
Dennis M. Bone	66,500	73,200	—	—	—	341	140,041
Doreen R. Byrnes	81,500	73,200	—	—	—	12,751	167,451
Peter H. Carlin <sup>(4)</sup>	25,470	54,900	—	—	—	—	80,370
Robert M. Cashill	48,000	146,400	—	—	—	7,611	202,011
William V. Cosgrove	71,500	73,200	—	—	—	28,548	173,248
Brian D. Dittenhafer	71,500	73,200	—	—	—	17,252	161,952
James J. Garibaldi	34,000	73,200	—	—	—	—	107,200
Michele N. Siekerka	56,500	73,200	—	—	—	319	130,019
James H. Ward III	81,500	73,200	—	—	—	—	154,700

- (1) Messrs. Albanese, Bone, Cashill, Cosgrove, Dittenhafer, Garibaldi and Ward and Ms. Byrnes and Siekerka had unvested stock awards of 60,000, 60,000, 50,000, 60,000, 50,000, 60,000, 60,000, 60,000, 60,000 and 60,000, respectively, at December 31, 2017. All unvested stock awards were granted June 23, 2015 under the 2015 Equity Incentive Plan.



- (2) Messrs. Albanese, Bone, Cashill, Cosgrove, Dittenhafer, Garibaldi and Ward and Ms. Byrnes and Siekerka each had unexercised stock option awards of 250,000, respectively, at December 31, 2017 which were granted June 23, 2015 under the 2015 Equity Incentive Plan. Mr. Cosgrove had unexercised stock option awards of 100,000 at December 31, 2017 which were received as an employee of Investors Bank under the 2006 Equity Incentive Plan. Mr. Albanese and Ms. Siekerka had unexercised stock option awards of 35,302 and 70,606 options, respectively, at December 31, 2017, which were granted under the Roma Financial Corporation 2008 Equity Incentive Plan.
- (3) This amount includes perquisites and other personal benefits, or property, if the aggregate amount for each director is at least \$10,000. Specifically, this amount represents the premiums paid for long term care coverage for Messrs. Cashill and Dittenhafer and Ms. Byrnes and their spouses. In addition, the amount includes automobile allowance and club dues for Mr. Cosgrove. For Messrs. Albanese and Bone and Ms. Siekerka includes imputed income with respect to their split dollar life insurance agreements.
- (4) Mr. Carlin was appointed to the Board of Directors of Investors Bancorp and Investors Bank on March 27, 2017.

## Other Matters

### Director Stock Ownership Requirements

The Board believes its directors should have a financial investment in Investors Bancorp to further align their interests with stockholders. Directors are expected to own at least 25,000 shares of common stock (excluding stock options). Stock holdings are expected to be achieved within five (5) years of either the implementation of the ownership guidelines or the starting date of the individual, whichever is later.

### Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2017 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights <sup>(1)</sup>	Weighted Average Exercise Price <sup>(2)</sup>	Number of Securities Remaining Available For Issuance Under Plan <sup>(3)</sup>
Equity compensation plans approved by stockholders	12,302,750	\$ 12.00	11,442,722 <sup>(3)</sup>
Equity compensation plans not approved by stockholders	—	\$ —	—
Total	<u>12,302,750</u>	<u>\$ —</u>	<u>11,442,722</u>

- (1) Includes outstanding stock options to purchase 665,250 shares of common stock granted under the 2006 Equity Incentive Plan, outstanding stock options to purchase 361,061 shares of common stock granted under the Roma Financial Corporation 2008 Equity Incentive Plan and 833,333 performance-based stock awards granted under the 2015 Equity Incentive Plan.
- (2) With respect to the stock options, the weighted average exercise price reflects an exercise price of \$5.29 for 355,883 stock options granted in 2008; an exercise price of \$4.97 for 12,750 stock options granted in 2010; an exercise price of \$6.76 for 559,503 stock options granted in 2013; an exercise price of \$10.24 for 98,175 stock options granted in 2014; an exercise price of \$12.54 for 10,187,317 stock options granted in 2015; an exercise price of \$11.62 for 162,069 stock options granted in 2016 and an exercise price of \$13.24 for 93,720 stock options granted in 2017 under the Company's stock-based compensation plans.
- (3) Represents the number of available shares that may be granted as stock options and other stock awards under the Company's stock-based compensation plans.

## Proposal II—Advisory Vote to Approve Executive Compensation

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The Compensation Discussion and Analysis appearing earlier in this Proxy Statement describes the executive compensation program and the compensation decisions made by the Compensation and Benefits Committee with respect to the Chief Executive Officer and other officers named in the Summary Compensation Table (who are referred to as the “Named Executive Officers”).

This proposal, commonly known as a “Say-on-Pay” proposal, gives you as a stockholder the opportunity to vote on our executive pay program. In accordance with Section 14A of the Exchange Act, the Board of Directors is requesting stockholder to cast a non-binding advisory vote on the following resolution:

“RESOLVED, that the stockholders of Investors Bancorp, Inc. approve the compensation paid to the Named Executive Officers, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the compensation tables and narrative accompanying the tables.”

Our executive compensation program is based on a pay for performance philosophy that is designed to support our business strategy and align the interests of our executives with our stockholders. The Board of Directors believes that the link between compensation and the achievement of our long- and short-term business goals has helped our financial performance over time, while not encouraging excessive risk taking.

For these reasons, the Board of Directors is requesting stockholders to support this proposal. While this advisory vote is non-binding, the Compensation and Benefits Committee and the Board of Directors value the views of the stockholders and will consider the outcome of this vote in future executive compensation decisions.

**The Board of Directors recommends a vote “FOR” approval of the compensation paid to Investors Bancorp’s Named Executive Officers.**

## Proposal III—Ratification of the Appointment of the Independent Registered Public Accounting Firm

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Investors Bancorp's independent registered public accounting firm for the year ended December 31, 2017 was KPMG LLP. The Audit Committee has re-appointed KPMG LLP to continue as the independent registered public accounting firm for Investors Bancorp for the year ending December 31, 2018, subject to the ratification by the stockholders at the Annual Meeting. Representatives of KPMG LLP are expected to attend the Annual Meeting. They will be given an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Stockholder ratification of the appointment of KPMG LLP is not required by Investors Bancorp's Bylaws or otherwise. However, the Board of Directors is submitting the appointment of the independent registered public accounting firm to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the appointment of KPMG LLP, the Audit Committee will reconsider whether it should select another independent registered public accounting firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change is in the best interests of Investors Bancorp and its stockholders.

**Audit Fees.** The aggregate fees billed to Investors Bancorp for professional services rendered by KPMG LLP for the audit of the Investors Bancorp's annual financial statements, review of the financial statements included in the Investors Bancorp's Quarterly Reports on Form 10-Q and services that are normally provided by KPMG LLP in connection with statutory and regulatory filings and engagements were \$1,180,000 and \$1,180,000 during the years ended December 31, 2017 and 2016, respectively.

**Audit Related Fees.** The aggregate fees billed to Investors Bancorp for assurance and related services rendered by KPMG LLP that are reasonably related to the performance of the audit of and review of the financial statements and that are not already reported in "Audit Fees," above, were \$123,900 and \$130,875 during the years ended December 31, 2017 and 2016, respectively. These services included audits of employee benefit plans, acquisition and transaction related procedures for a subsidiary of the Company.

**Tax Fees.** The aggregate fees billed to Investors Bancorp for professional services rendered by KPMG LLP for tax compliance, tax advice and tax planning were \$141,770 and \$159,970 during the years ended December 31, 2017 and 2016, respectively.

**All Other Fees.** The aggregate fees billed to Investors Bancorp for compliance reviews were \$58,000 and \$127,000 during the years ended December 31, 2017 and 2016, respectively.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of KPMG LLP. The Audit Committee concluded that performing such services does not affect the independence of KPMG LLP in performing its function as Investors Bancorp's independent registered public accounting firm.

The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve audit and audit-related services between meetings of the Audit Committee, provided the Chair reports any such approvals to the full Audit Committee at its next meeting. The full Audit Committee pre-approves all other services to be performed by the independent registered public accounting firm and the related fees.

**The Board of Directors recommends a vote "FOR" the ratification of KPMG LLP as the independent registered public accounting firm.**

## Other Matters

As of the date of this document, the Board of Directors knows of no matters that will be presented for consideration at the Annual Meeting other than as described in this document. However, if any other matter shall properly come before the Annual Meeting or any adjournment or postponement thereof and shall be voted upon, the proposed proxy will be deemed to confer authority to the individuals named as authorized therein to vote the shares represented by the proxy in accordance with their best judgment as to any matters that fall within the purposes set forth in the notice of Annual Meeting.

## Stockholder Proposals

To be eligible for inclusion in the proxy materials for next year's annual meeting of stockholders under SEC Rule 14(a)-8, any stockholder proposal to take action at such meeting must be received at Investors Bancorp's executive office, 101 JFK Parkway, Short Hills, New Jersey 07078, no later than December 13, 2018. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, as amended.

## Advance Notice of Business to be Conducted at an Annual Meeting

The Bylaws of Investors Bancorp also provide an advance notice procedure for certain business, or nominations to the Board of Directors, to be brought before an annual meeting of stockholders. In order for a stockholder to properly bring business before an annual meeting, the stockholder must give written notice to the Corporate Secretary of Investors Bancorp not less than 90 days prior to the date of Investors Bancorp's proxy materials for the preceding year's annual meeting; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not later than the close of business on the tenth day following the day on which public announcement of the date of such annual meeting is first made. The notice must include the stockholder's name, record address, and number of shares owned, describe briefly the proposed business, the reasons for bringing the business before the annual meeting, and any material interest of the stockholder in the proposed business. Nothing in this paragraph shall be deemed to require Investors Bancorp to include in its proxy statement and proxy relating to an annual meeting any stockholder proposal under SEC Rule 14a-8. In accordance with the foregoing, in order for a proposal or a nomination to be brought before the annual meeting of stockholders to be held following the year ending December 31, 2018, notice must be provided to the Corporate Secretary by January 12, 2019.

**The following documents are available on the "Governance Documents" section of the "Investor Relations" page of the Investors Bank's website at [www.investorsbank.com](http://www.investorsbank.com):**

- **Audit Committee Charter**
- **Compensation and Benefits Committee Charter**
- **Nominating and Corporate Governance Charter**
- **Investors Bancorp's Corporate Governance Guidelines**
- **Investors Bancorp's Code of Business Conduct and Ethics**
- **Investors Bancorp's Independence Standards**

**Copies of each will be furnished without charge upon written request to the Corporate Secretary, Investors Bancorp, Inc., 101 JFK Parkway, Short Hills, New Jersey 07078.**

**An additional copy of Investors Bancorp's Annual Report on Form 10-K (without exhibits) for the year ended December 31, 2017, as filed with the Securities and Exchange Commission, will be furnished without charge to stockholders upon written request to the Corporate Secretary, Investors Bancorp, Inc., 101 JFK Parkway, Short Hills, New Jersey 07078. The Form 10-K is also available free of charge on the "Investor Relations" page of the Investors Bank's website at [www.investorsbank.com](http://www.investorsbank.com).**

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Robert M. Cashill**  
Chairman of the Board

**Robert C. Albanese**

**Dennis M. Bone**

**Doreen R. Byrnes**

**Domenick Cama**  
Senior Executive  
Vice President  
& Chief Operating Officer

**Kevin Cummings**  
President &  
Chief Executive Officer

**Peter H. Carlin**

**William V. Cosgrove**

**Brian D. Dittenhafer**

**James J. Garibaldi**

**Michele N. Siekerka**

**James H. Ward, III**

**Paul N. Stathoulopoulos\***

## EXECUTIVE OFFICERS

**Kevin Cummings**  
President &  
Chief Executive Officer

**Richard Spengler**  
Executive Vice President &  
Chief Lending Officer

**Sean Burke**  
Senior Vice President &  
Chief Financial Officer

**Domenick Cama**  
Senior Executive Vice President  
& Chief Operating Officer

**Paul Kalamaras**  
Executive Vice President &  
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