



# 2019

 investors Bancorp, INC.

2019 Annual Report • Form 10-K & Proxy Statement





“ This digital transformation has been an important and worthwhile journey as the entire Investors Bank team worked together on the goal of enhancing relationships and making our customers’ financial lives easier with technology that is simpler, more responsive and accessible when and where they choose. ”



## Dear Fellow Shareholder,

**A**s I write this letter to you, our nation finds itself amid a crisis that is both unpredictable and unprecedented. COVID-19 has disrupted our lives and we at Investors Bank are working hard to address the challenges currently facing our employees, customers and shareholders. While we work proactively to address current events as they develop, we are confident that our strong capital, liquidity positions and credit metrics will help us weather this crisis.

Being able to deliver quality and consistent customer service during this time has never been more important. I am pleased to report that having a robust digital platform has enabled us to continue to provide these crucial services. During 2019, we invested in our online banking and mobile capabilities. The result is a “best-in-class” digital solution that gives our consumer and business customers access to our full suite of products and services from the comfort and safety of their home or business. While these investments have helped us to operate in the current environment, they also position us well for future growth and success.

**“ It is, however, not just growth, but rather creating smart, measurable and sustainable growth that helps us achieve significance. ”**

This digital transformation has been an important and worthwhile journey as the entire Investors Bank team worked together on the goal of enhancing relationships and making our customers’ financial lives easier with technology that is simpler, more responsive and accessible when and where they choose.

We strive to continually improve our products as well as evaluate adding new ones to provide our customers with a robust choice of options to help meet all their financial needs. This focus will allow us to capture a greater share of our customers’ business which could improve future fee income generation.

During 2019, we also expanded our small business banking platform with the addition of nearly 30 new banking relationship managers and executives. This team will help add a new dimension to our product mix that will serve small businesses, which are vital to the success of our communities. Our small business banking team grew deposits by more than \$170 million in 2019.

We will rely on this experienced banking team to engage with businesses throughout our communities as they work through this current crisis. Our efforts will make Investors Bank the preferred financial institution for small businesses and will affirm our commitment to be a part of and help make our communities thrive.

Ensuring our ability to serve the needs of our customers in an omni-channel environment is critical to our continued growth. It is, however, not just growth, but rather creating smart, measurable and sustainable growth that helps us achieve significance.

Investors Bank employees are the foundation of our ability to create a legacy of significance. Much like other industries, including healthcare, pharmacies, and groceries, banks provide important services to our communities and are essential to our daily lives. Our teams have risen to the occasion in response to the COVID-19 pandemic and are acting quickly to meet the needs of our customers. We successfully transitioned to an appointment-based operations model so we could continue operations without disrupting service to our customers during this stressful time. We are providing loan payment relief during this crisis period and helping our affected customers find much needed assistance.

Doing right by our employees and our customers is how we became the leading community-oriented bank in the region. Our core values – Character, Cooperation, Commitment and Community– are the foundation of how we do business.

Investors Bank has worked diligently to contribute to the prosperity of our local communities, in large part through the Investors Foundation. The Foundation reached a significant milestone in 2019, having awarded some \$40 million in grants since its inception in 2005. We intend to continue to support the communities in which we operate and will provide contributions through the Bank and our Foundation to help address the expanding needs of these communities in response to the current situation.

The work of our team doesn't end when a grant is given. We rise to the occasion, offering not just the financial support, but also the helping hands that build and strengthen our communities. Our employees generously give their time and talents to the community by participating in countless volunteer activities.

Our ability to be a leader in our region has been the result of hard work and dedication to our customers, employees and shareholders. We have remained focused on our strategic direction to diversify our loan portfolio and be prudent stewards of our capital.

“ Our core values – Character, Cooperation, Commitment and Community – are the foundation of how we do business. ”

Our net loan growth in 2019 was just under \$100 million; however, the focus was on shifting the portfolio to more commercial lending, which had net growth of \$561 million for the year, in line with our overall long-term initiative of evolving our asset mix. This diversification of our loan portfolio will continue to help drive our transformation strategy as we believe that commercial lending diversifies our credit exposure, enhances our interest rate risk position and adds more core deposits.

While 2019 had its share of challenges, we were pleased with our overall results. Interest and dividend income increased by \$71.8 million, or 7.4%, to \$1.04 billion and non-interest income, excluding losses on securities sales, increased \$17 million for the year ended December 31, 2019. We were mindful of expenses and noted that, with absent one time events such as the settlement of the shareholders litigation expenses and branch rationalization as well as increases to support the overall initiatives of improving our operating environment, we were able to maintain discipline in our spending.

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Prudent capital management has always been a key component of our strategic plan. During 2019, we paid dividends of \$0.44 compared to \$0.25 in 2015. Additionally, we accelerated our share repurchases by repurchasing the 27 million shares that Blue Harbour, a significant shareholder, had amassed. Although this had reduced our overall capital position, we remain well capitalized.

We are also pleased that in April 2020, we were able to complete the Gold Coast Bank acquisition. Gold Coast operated six branches in Nassau and Suffolk counties on Long Island and one branch in Brooklyn, New York. At December 31, 2019, Gold Coast had assets of \$560 million, loans of \$463 million, and deposits of \$465 million. Under Investors' ownership, Gold Coast customers will benefit from the strength and enhanced lending capabilities afforded by Investors' larger balance sheet.

As demonstrated in recent days, we have the capital position and liquidity to meet the current demands. We believe that we have a purpose and legacy that will have a lasting impact on our shareholders, employees, customers and communities we serve.

On behalf of the Board of Directors, I thank Peter H. Carlin, Blue Harbour's former representative on our Board, for his service to our Company. Blue Harbour was a great partner and both Blue Harbour and Peter Carlin were committed to the best interests of our company and its shareholders.

Please know that as a strong and very well-capitalized bank, we are positioned to weather the recent financial stress caused by necessary actions taken by local, state and federal governments in response to the COVID-19 pandemic.

We are grateful for the opportunity to serve you. On behalf of the Board of Directors, the management team, and our employees, we appreciate your confidence, trust and commitment.



Kevin Cummings  
Chairman and Chief Executive Officer

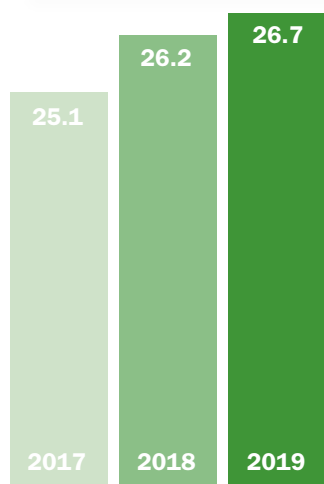


# SELECTED FINANCIAL DATA

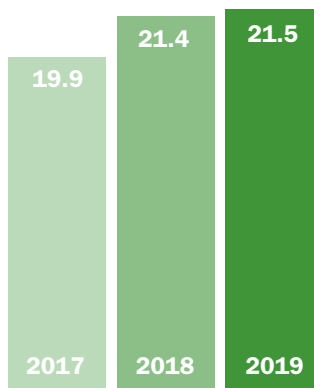
(In thousands, except branch data and percent data)

	2019	2018	2017
Total Assets	\$26,698,766	\$26,229,008	\$25,129,244
Net Loans Outstanding	21,505,853	21,382,210	19,857,286
Securities	3,850,244	3,683,092	3,784,348
Deposits	17,860,338	17,580,269	17,357,697
Borrowed Funds	5,827,111	5,435,681	4,461,533
Stockholders' Equity	2,621,950	3,005,330	3,125,451
Number of Full Service Offices	147	151	156

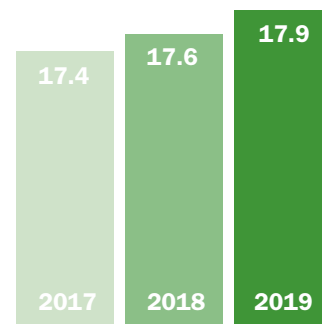
	2019	2018	2017
Net Interest Income	\$655,073	\$680,017	\$679,776
Net Income	195,484	202,576	126,744
Return on Average Assets	0.73%	0.80%	0.52%
Return on Average Equity	6.64%	6.57%	4.00%
Interest Rate Spread	2.19%	2.46%	2.67%
Net Interest Margin	2.54%	2.76%	2.89%
Non-performing Assets to Total Assets	0.46%	0.55%	0.61%
Average Equity to Average Assets	11.00%	12.15%	13.06%



At December 31  
**Total Assets**  
(dollars in billions)



At December 31  
**Net Loans Outstanding**  
(dollars in billions)



At December 31  
**Deposits**  
(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, 2019**

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:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	ISBC	The NASDAQ Stock Market

**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 every Interactive Data File required to be submitted 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 such files). Yes  No

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  Accelerated filer   
 Non-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 21, 2020, the registrant had 359,070,852 shares of common stock, par value \$0.01 per share, issued and 247,401,585 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, 2019, as reported by the NASDAQ Global Select Market, was approximately \$2.84 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Proxy Statement for the 2020 Annual Meeting of Stockholders of the registrant (Part III).

FORM 10-K

**INVESTORS BANCORP, INC.**  
**2019 ANNUAL REPORT ON FORM 10-K**  
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FORM 10-K



## 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; 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.investorsbank.com](http://www.investorsbank.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. At December 31, 2019, the Company had 359,070,852 common stock issued and 247,439,902 outstanding.

The Company is subject to regulation as a bank holding company by the Federal Reserve Board. The Company neither owns nor leases any property, but instead uses the premises, equipment and furniture of the Bank. The Company currently 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 the Company. The Company may hire additional employees, as appropriate, to the extent it expands its business in the future.

The Bank is a New Jersey-chartered commercial 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. In 2019, the charter was converted to a New Jersey-chartered commercial bank.

The Bank is in the business of attracting deposits from the public through its branch network and a secure online channel 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 cash surrender value lending on life insurance contracts, home equity loans and home equity lines of credit. Securities, primarily mortgage-backed securities, U.S. Government and Federal Agency obligations, and other securities represented 14.4% of consolidated assets at December 31, 2019. The Bank is subject to comprehensive regulation and examination by the New Jersey Department of Banking and Insurance (“NJDOBI”), 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 area, will continue to provide us with growth opportunities. In addition, the Bank has national exposure through our Investors eAccess online deposit platform and our equipment finance, healthcare and leveraged lending portfolios. 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 primary markets in which we have a retail presence 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 retail 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, the Bank is the largest bank headquartered in the state of New Jersey as measured by New Jersey deposits as of June 30, 2019. 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 2025. 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, insurance companies and new technology-driven market entrants. 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, 2019, 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 for all institutions.

### ***Diversifying the Loan Portfolio***

To further diversify our loan portfolio, we have increased C&I lending by building relationships with small to medium sized companies. In recent years, we have hired a number of experienced C&I lending teams, including a team specializing in the healthcare industry, and in 2018, we acquired an equipment finance team and portfolio. For the year ended December 31, 2019, we originated \$1.27 billion 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. Our Equipment Finance Group originates equipment finance loans and leases which are primarily secured by critical use assets. We have diversified our loan portfolio, as evidenced by the fact that C&I loans represent approximately 14% of our loan portfolio at December 31, 2019 as compared to December 31, 2015, when C&I loans were approximately 6% of total loans. 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.

### ***Deposit Strategy***

We are focused on generating relationship-based core deposits (savings, checking and money market accounts). As of December 31, 2019, we had core deposits of \$13.85 billion, representing approximately 78% of total deposits. Core deposits 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. The percent of non-interest bearing deposits to total deposits has grown to 14% at December 31, 2019. Despite intense competition for deposits, we will continue to pursue a customer-centric model to meeting their financial needs and 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 treasury management products, designed to appeal to small and mid-sized businesses and non-profit organizations including electronic deposit services such as mobile and remote deposit capture.

Our deposit business has become more commercial oriented over the past few years as we attract more deposits from commercial entities, including businesses that borrow from us. The Bank is 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.

### ***Digital Capabilities and Strategy***

In addition to our branch network, we offer online banking capabilities for consumers and small businesses. During 2019, we launched Investors eAccess, a secure online channel to attract consumer deposits nationwide, and enhanced our mobile and online banking services which allow us to serve our customers' needs in an omnichannel environment. Several improvements were made throughout the year, including the launch of Zelle® for real-time person to person payments, the ability to view personal credit scores, and enhancements to online alerts. We also deployed Small Business Online Banking along with improvements to our Commercial Online Banking experience, including more robust online treasury management services.

In addition to our deposit-related digital capabilities, we continue to enhance our digital capabilities related to originating and servicing loans. We have partnered with ODX, a leading digital small business originations platform, to streamline our small business lending process. We continue to enhance our digital capabilities as a way to enhance the customer experience and deliver our products and services in a safe and secure manner.

### ***Acquisitions***

A significant portion of our historic growth can be attributed to our acquisition strategy. 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.

On February 2, 2018, we completed the acquisition of a \$345.8 million equipment finance portfolio. The acquisition included a seven-person team of financing professionals to lead our Equipment Finance Group, which is a part of our commercial lending group and is classified within our C&I loan portfolio.

On July 24, 2019, we signed a definitive merger agreement with Gold Coast Bancorp, Inc. ("Gold Coast Bancorp") under which we will acquire Gold Coast Bancorp. Gold Coast Bancorp, through its wholly-owned subsidiary, Gold Coast Bank, operates six branches in Nassau and Suffolk counties in suburban Long Island and one branch in Brooklyn, NY. The merger was approved by shareholders of Gold Coast Bancorp on December 16, 2019. Completion of the merger is awaiting receipt of all regulatory approvals.

### ***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, 2019, our tangible equity to asset ratio was 9.49%. Since our second step, we have managed our capital through a combination of organic growth, stock repurchases and dividends.

In December 2019, we entered into a purchase and sale agreement with Blue Harbour Group, L.P. (“Blue Harbour”), pursuant to which we repurchased from Blue Harbour the 27,318,628 shares of our common stock beneficially owned by Blue Harbour, at a purchase price of \$12.29 per share, representing aggregate cost of approximately \$335.7 million. Blue Harbour had been our largest shareholder for several years prior to this share repurchase. This share repurchase was outside of, and did not count toward, our existing share repurchase program.

Since commencing our first share repurchase program in March 2015, we have repurchased 127.1 million shares totaling \$1.54 billion at an average price per share of \$12.11, inclusive of the Blue Harbour transaction.

Beginning in September of 2012, we began to pay a quarterly cash dividend of \$0.02 per share. For the year ended December 31, 2019, our dividend payout ratio per share was approximately 59%. We have recently increased our quarterly dividend to \$0.12 per share.

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

The 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 the 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, the Bank has contributed or committed \$39.7 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, financial education, and health and human services.

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

### ***Lending Activities***

Our loan portfolio is comprised of multi-family loans, commercial real estate loans, C&I loans, construction loans, residential mortgage loans and consumer and other loans. At December 31, 2019, multi-family loans totaled \$7.81 billion, or 36.0% of our total loan portfolio, commercial real estate loans totaled \$4.83 billion, or 22.3% of our total loan portfolio, C&I loans totaled \$2.95 billion, or 13.6% of our total loan portfolio, and construction loans totaled \$262.9 million, or 1.2% of our total loan portfolio. Residential mortgage loans represented \$5.14 billion, or 23.7% of our total loans at December 31, 2019. We also offer consumer loans, which consist primarily of cash surrender value lending on life insurance contracts, home equity loans and home equity lines of credit. At December 31, 2019, consumer and other loans totaled \$699.8 million, or 3.2% 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, C&I loans and construction loans. Our primary focus over recent years has been on the origination of commercial loans.

	December 31,									
	2019		2018		2017		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Commercial loans:										
Multi-family loans	\$ 7,813,236	36.0%	\$ 8,165,187	37.7%	\$ 7,802,835	38.8%	\$ 7,459,131	39.6%	\$ 6,255,904	37.0%
Commercial real estate loans	4,831,347	22.3	4,786,825	22.1	4,548,101	22.6	4,452,300	23.7	3,829,099	22.7
Commercial and industrial loans	2,951,306	13.6	2,389,756	11.1	1,625,375	8.1	1,275,283	6.8	1,044,385	6.2
Construction loans	262,866	1.2	227,015	1.1	416,883	2.1	314,843	1.7	225,843	1.3
Total commercial loans	<u>15,858,755</u>	<u>73.1</u>	<u>15,568,783</u>	<u>72.0</u>	<u>14,393,194</u>	<u>71.6</u>	<u>13,501,557</u>	<u>71.8</u>	<u>11,355,231</u>	<u>67.2</u>
Residential mortgage loans	5,144,718	23.7	5,351,115	24.8	5,026,517	25.0	4,711,880	25.0	5,039,543	29.8
Consumer and other loans:										
Cash surrender value	370,245	1.7	344,628	1.6	279,355	1.4	191,949	1.0	75,136	0.5
Home equity credit lines	226,136	1.0	246,198	1.1	251,654	1.3	240,518	1.3	220,357	1.3
Home equity loans	101,332	0.5	114,207	0.5	137,964	0.7	161,356	0.9	201,063	1.2
Other	2,083	0.0	2,833	0.0	2,164	0.0	3,442	0.0	—	0.0
Total consumer and other loans	<u>699,796</u>	<u>3.2</u>	<u>707,866</u>	<u>3.2</u>	<u>671,137</u>	<u>3.4</u>	<u>597,265</u>	<u>3.2</u>	<u>496,556</u>	<u>3.0</u>
Total loans	<u>\$21,703,269</u>	<u>100.0%</u>	<u>\$21,627,764</u>	<u>100.0%</u>	<u>\$20,090,848</u>	<u>100.0%</u>	<u>\$18,810,702</u>	<u>100.0%</u>	<u>\$16,891,330</u>	<u>100.0%</u>
Deferred fees, premiums and other, net <sup>(1)</sup>	907		(13,811)		(7,778)		(12,474)		(11,692)	
Allowance for loan losses	(228,120)		(235,817)		(230,969)		(228,373)		(218,505)	
Net loans	<u>\$21,476,056</u>		<u>\$21,378,136</u>		<u>\$19,852,101</u>		<u>\$18,569,855</u>		<u>\$16,661,133</u>	

<sup>(1)</sup> Included in deferred fees and premiums are accretable purchase accounting adjustments in connection with loans acquired and an adjustment to the carrying amount of the residential loans hedged.

**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, 2019. Overdraft loans are reported as being due in one year or less.

	At December 31, 2019						
	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	\$ 595,561	\$ 513,044	\$ 760,984	\$ 247,595	\$ 309,036	\$ 139,429	\$ 2,565,649
After one year:							
One to three years	2,014,823	1,107,274	411,147	15,271	248,569	175,311	3,972,395
Three to five years	2,528,273	1,538,109	599,243	—	343,463	123,557	5,132,645
Five to ten years	2,512,883	1,393,851	882,788	—	903,161	49,157	5,741,840
Ten to twenty years	161,696	279,069	260,152	—	759,411	68,020	1,528,348
Over twenty years	—	—	36,992	—	2,581,078	144,322	2,762,392
Total due after one year	<u>7,217,675</u>	<u>4,318,303</u>	<u>2,190,322</u>	<u>15,271</u>	<u>4,835,682</u>	<u>560,367</u>	<u>19,137,620</u>
Total loans	<u>\$7,813,236</u>	<u>\$4,831,347</u>	<u>\$2,951,306</u>	<u>\$262,866</u>	<u>\$5,144,718</u>	<u>\$699,796</u>	<u>\$21,703,269</u>
Deferred fees, premiums and other, net							907
Allowance for loan losses							(228,120)
Net loans							<u>\$21,476,056</u>

The following table sets forth fixed- and adjustable-rate loans at December 31, 2019 that are contractually due after December 31, 2020.

	Due After December 31, 2020		
	Fixed	Adjustable (In thousands)	Total
Commercial loans:			
Multi-family loans	\$2,646,908	\$4,570,767	\$ 7,217,675
Commercial real estate loans	1,489,308	2,828,995	4,318,303
Commercial and industrial loans	1,655,724	534,598	2,190,322
Construction loans	15,271	—	15,271
Total commercial loans	5,807,211	7,934,360	13,741,571
Residential mortgage loans	3,677,154	1,158,528	4,835,682
Consumer and other loans:			
Cash surrender value	—	281,272	281,272
Home equity credit lines	—	180,278	180,278
Home equity loans	97,905	—	97,905
Other	912	—	912
Total consumer and other loans	98,817	461,550	560,367
Total loans	<u>\$9,583,182</u>	<u>\$9,554,438</u>	<u>\$19,137,620</u>

**Multi-family Loans.** At December 31, 2019, \$7.81 billion, or 36.0%, 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, 2019, \$4.83 billion, or 22.3%, 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, 2019, \$2.95 billion, or 13.6%, of our total loan portfolio were classified as C&I loans. We offer a wide range of credit facilities to C&I clients throughout our geographic footprint and nationally. Our credit offerings are lines of credit, fixed-rate and adjustable-rate term loans, lease financing and letters of credit. A significant portion of our C&I loans are secured by commercial real estate and are primarily properties and businesses located in New Jersey and New York. Other collateral for these types of loans can be comprised of real estate, equipment and/or a lien on the general assets, including inventory and receivables of the underlying business, and in many cases are further supported by a personal guarantee of the owner. As the Company has grown, we have broadened our product offerings to create certain C&I lending subspecialties that originate loans both locally and nationally, including leveraged lending and expanded lending to the healthcare industry. In addition, in February 2018, we completed the acquisition of a \$345.8 million equipment finance portfolio, comprised of both loans and leases throughout the U.S., which is classified within our C&I portfolio and are primarily secured by critical use assets. In connection with the acquisition, we launched an Equipment Finance Group within our C&I team. Our equipment finance portfolio totaled \$644.7 million, or 22% of our C&I portfolio at December 31, 2019. At December 31, 2019, approximately 31% of our C&I loans were to borrowers outside of New Jersey and New York.

**Construction Loans.** At December 31, 2019, we held \$262.9 million in construction loans representing 1.2% of our total loan portfolio. We offer loans directly to owners 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 a maximum up to the 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, 2019, \$5.14 billion, or 23.7%, of our loan portfolio consisted of residential mortgage loans. We originate residential mortgage loans for our loan portfolio and for sale to third parties. We have also purchased mortgage loans from correspondent entities including other banks and mortgage brokers but no longer purchase such loans. Our agreements called for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases, we acquired 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, 2019, consumer loans totaled \$699.8 million, or 3.2% of our total loan portfolio. We offer consumer loans, most of which consist of cash surrender value lending on life insurance contracts, home equity loans and home equity lines of credit. At December 31, 2019, cash surrender value loans totaled \$370.2 million, or 53% 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. 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, with terms generally up to 20 years and to a maximum of \$750,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate.



**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,		
	2019	2018	2017
	(In thousands)		
<b>Loan originations and purchases</b>			
<b>Loan originations:</b>			
Commercial loans:			
Multi-family loans	\$ 793,611	\$ 1,583,196	\$ 1,164,910
Commercial real estate loans	861,040	801,784	705,107
Commercial and industrial loans	1,271,773	957,722	663,433
Construction loans	69,790	104,530	414,183
Total commercial loans	2,996,214	3,447,232	2,947,633
Residential mortgage loans	462,618	593,642	516,532
Consumer and other loans:			
Cash surrender value	41,692	69,277	79,717
Home equity credit lines	22,704	31,184	36,505
Home equity loans	11,772	9,993	16,781
Total consumer and other loans	76,168	110,454	133,003
Total loan originations	3,535,000	4,151,328	3,597,168
<b>Loan purchases:</b>			
Commercial loans:			
Commercial real estate loans	19,681	—	—
Commercial and industrial loans	113,308	66,072	—
Total commercial loans	132,989	66,072	—
Residential mortgage loans	294,064	447,968	540,898
Total loan purchases	427,053	514,040	540,898
Loans sold	(220,069)	—	(48,099)
Principal repayments	(3,658,317)	(3,472,097)	(2,809,630)
Other items, net <sup>(1)</sup>	14,254	2,017	1,909
Net loans acquired in acquisition	—	330,747	—
Net increase in loan portfolio	\$ 97,921	\$ 1,526,035	\$ 1,282,246

<sup>(1)</sup> Other items include charge-offs and recoveries, impairment write-downs, loan loss provisions, loans transferred to other real estate owned, amortization and accretion of deferred fees and costs, discounts and premiums, purchase accounting adjustments, and an adjustment to the carrying amount of the residential loans hedged.

## 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 according to the Bank's credit policies. All commercial 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. Consumer and small business transactions are underwritten according to guidelines and policy approved by the Credit Risk Committee. Any exceptions are approved by a credit risk officer. 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. 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, 2019, the regulatory lending limit was \$363.9 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, 2019, there were two relationships that exceeded the internal limit totaling \$326.4 million. Both were communicated to the Board of Directors and were performing in accordance with their contractual terms as of December 31, 2019.

**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. Our portfolio contains interest-only and no income verification residential mortgage loans. At December 31, 2019, interest-only residential and consumer loans totaled \$28.3 million, which represented less than 1% of the residential and consumer portfolio. We no longer originate residential mortgage loans without verifying income. At December 31, 2019, these loans totaled \$143.1 million. From time to time and for competitive purposes, we originate interest-only commercial real estate and multi-family loans. At December 31, 2019, these loans totaled \$1.23 billion. As part of its underwriting, these loans are evaluated as fully amortizing for risk classification purposes, with the interest-only period ranging from one to ten years. In addition, the Company evaluates its policy limits on a regular basis. We believe these criteria adequately control the potential risks of such loans and that adequate provisions for loan losses are provided for all known and inherent risks.

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 Standards 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, 2019 and December 31, 2018, PCI loans totaled \$4.1 million and \$4.5 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)
<b>At December 31, 2019</b>						
Commercial loans:						
Multi-family loans	1	\$ 1,946	6	\$22,055	7	\$24,001
Commercial real estate loans	1	525	6	3,787	7	4,312
Commercial and industrial loans	7	2,767	11	5,053	18	7,820
Construction loans	—	—	—	—	—	—
Total commercial loans	9	5,238	23	30,895	32	36,133
Residential mortgage loans	28	6,195	118	27,628	146	33,823
Consumer and other loans	10	1,174	25	1,299	35	2,473
Total	47	\$12,607	166	\$59,822	213	\$72,429
<b>At December 31, 2018</b>						
Commercial loans:						
Multi-family loans	1	\$ 2,572	13	\$33,683	14	\$36,255
Commercial real estate loans	2	3,511	13	2,415	15	5,926
Commercial and industrial loans	5	867	7	4,560	12	5,427
Construction loans	—	—	1	227	1	227
Total commercial loans	8	6,950	34	40,885	42	47,835
Residential mortgage loans	31	7,712	168	39,255	199	46,967
Consumer and other loans	8	1,650	43	2,830	51	4,480
Total	47	\$16,312	245	\$82,970	292	\$99,282

**Non-Performing Assets.** Non-performing assets include loans delinquent 90 days or more, non-accrual loans, performing troubled debt restructurings and real estate owned, 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, 2019 and 2018. Non-accrual loans decreased by \$29.7 million to \$95.2 million at December 31, 2019 from \$124.9 million at December 31, 2018. Included in the amount of non-accrual loans at December 31, 2019 were \$4.1 million of commercial real estate loans, \$3.8 million of C&I loans and \$1.3 million of multi-family loans that were classified as non-accrual which were performing in accordance with their contractual terms. Included in the amount of non-accrual loans at December 31, 2018 were \$7.1 million of commercial real estate loans and \$4.2 million of commercial and industrial loans that were classified as non-accrual which were performing in accordance with their contractual terms. During 2019, the Company sold \$173,000 of non-performing commercial real estate loans, resulting in \$29,000 of additional charge-offs. There were no sales of non-performing loans during 2018.

The ratio of non-accrual loans to total loans decreased to 0.44% at December 31, 2019 from 0.58% at December 31, 2018. Our ratio of non-performing assets to total assets decreased to 0.46% at December 31, 2019 from 0.55% at December 31, 2018. The allowance for loan losses as a percentage of total non-accrual loans increased to 239.66% at December 31, 2019 from 188.78% at December 31, 2018. 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Non-accrual loans:					
Multi-family loans	\$ 23,322	\$ 33,940	\$ 14,978	\$ 482	\$ 3,467
Commercial real estate loans	11,945	12,391	34,043	9,205	10,820
Commercial and industrial loans	12,481	19,394	9,989	4,659	9,225
Construction loans	—	227	295	—	792
Total commercial loans	47,748	65,952	59,305	14,346	24,304
Residential mortgage loans	45,526	55,612	70,220	72,593	81,816
Consumer and other loans	1,909	3,349	6,202	7,335	9,306
Total non-accrual loans	95,183	124,913	135,727	94,274	115,426
Real estate owned and other repossessed assets	13,538	6,911	5,830	4,492	6,283
Performing troubled debt restructurings	13,084	13,620	10,957	9,445	22,489
Total non-performing assets	<u>\$121,805</u>	<u>\$145,444</u>	<u>\$152,514</u>	<u>\$108,211</u>	<u>\$144,198</u>
Total non-accrual loans to total loans	0.44%	0.58%	0.68%	0.50%	0.68%
Total non-performing assets to total assets	0.46%	0.55%	0.61%	0.47%	0.69%

At December 31, 2019, there were \$36.6 million of loans deemed troubled debt restructured loans, of which \$13.1 million were classified as accruing and \$23.5 million were classified as non-accrual. For the year ended December 31, 2019, interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to \$3.6 million. We recognized interest income of \$1.5 million on such loans for the year ended December 31, 2019.

**Other Real Estate Owned and Other Repossessed Assets.** Real estate and other assets we acquire as a result of foreclosure, by deed in lieu of foreclosure or repossession are classified as other real estate owned and other repossessed assets until sold. When property is acquired it is recorded at fair value at the date of foreclosure or repossession less estimated costs to sell the property. Holding costs and declines in fair value result in charges to expense after acquisition. At December 31, 2019, we had other real estate owned and other repossessed assets of \$13.5 million consisting of 23 residential properties and 99 pieces of industrial equipment.

**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 by 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. An asset classified as “doubtful” has all the weaknesses inherent in one classified substandard with the added characteristic the weaknesses present make collection or liquidation in full highly questionable and improbable. An asset classified as “loss” is considered uncollectible and of such little value that its continuance on the institution’s books as an asset, without the establishment of a specific valuation allowance or charge-off, is not warranted. We classify an asset as “special mention” if the 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.

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 NJDOBI and the FDIC, 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, 2019, loans meeting the Company's definition of an impaired loan totaled \$69.5 million. The allowance for loan losses related to loans classified as impaired at December 31, 2019, amounted to \$1.8 million. Interest income received during the year ended December 31, 2019 on loans classified as impaired totaled \$1.0 million. For further detail on our impaired loans, see Note 1 and Note 5 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, 2019 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 NJDOBI and the FDIC 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Allowance balance (beginning of period)	\$ 235,817	\$ 230,969	\$ 228,373	\$ 218,505	\$ 200,284
Provision for loan losses	(1,000)	12,000	16,250	19,750	26,000
Charge-offs:					
Multi-family loans	(2,973)	(2,603)	(6)	(161)	(284)
Commercial real estate loans	(151)	(7,200)	(8,072)	(455)	(1,021)
Commercial and industrial loans	(6,833)	(7,078)	(5,656)	(4,485)	(516)
Construction loans	—	—	(100)	(52)	(466)
Residential mortgage loans	(2,241)	(5,246)	(4,875)	(9,425)	(9,526)
Consumer and other loans	(934)	(1,963)	(500)	(419)	(403)
Total charge-offs	<u>(13,132)</u>	<u>(24,090)</u>	<u>(19,209)</u>	<u>(14,997)</u>	<u>(12,216)</u>
Recoveries:					
Multi-family loans	1,244	17	1,677	1,885	445
Commercial real estate loans	2,204	5,213	549	689	807
Commercial and industrial loans	1,203	9,478	200	541	295
Construction loans	—	—	—	267	317
Residential mortgage loans	1,448	2,193	2,816	1,631	2,295
Consumer and other loans	336	37	313	102	278
Total recoveries	<u>6,435</u>	<u>16,938</u>	<u>5,555</u>	<u>5,115</u>	<u>4,437</u>
Net charge-offs	<u>(6,697)</u>	<u>(7,152)</u>	<u>(13,654)</u>	<u>(9,882)</u>	<u>(7,779)</u>
Allowance balance (end of period)	<u>\$ 228,120</u>	<u>\$ 235,817</u>	<u>\$ 230,969</u>	<u>\$ 228,373</u>	<u>\$ 218,505</u>
Total loans outstanding	\$21,703,269	\$21,627,764	\$20,090,848	\$18,810,702	\$16,891,330
Average loans outstanding	21,576,829	20,498,857	19,414,842	17,479,932	15,716,010
Allowance for loan losses as a percent of total loans outstanding	1.05%	1.09%	1.15%	1.21%	1.29%
Net loans charged off as a percent of average loans outstanding	0.03%	0.03%	0.07%	0.06%	0.05%
Allowance for loan losses to non-performing loans <sup>(1)</sup>	210.70%	170.22%	157.46%	220.18%	158.43%

<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,									
	2019		2018		2017		2016		2015	
	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	\$ 74,099	36.0%	\$ 82,876	37.7%	\$ 81,469	38.9%	\$ 95,561	39.6%	\$ 88,223	37.0%
Commercial real estate loans	50,925	22.3	48,449	22.1	56,137	22.6	52,796	23.7	46,999	22.7
Commercial and industrial loans	74,396	13.6	71,084	11.1	54,563	8.1	43,492	6.8	40,585	6.2
Construction loans	6,816	1.2	7,486	1.1	11,609	2.1	11,653	1.7	6,794	1.3
Residential mortgage loans	17,391	23.7	20,776	24.7	21,835	25.0	19,831	25.0	31,443	29.8
Consumer and other loans	2,548	3.2	3,102	3.3	3,099	3.3	2,850	3.2	3,155	2.9
Unallocated	1,945		2,044		2,257		2,190		1,306	
Total allowance	<u>\$228,120</u>	100.0%	<u>\$235,817</u>	100.0%	<u>\$230,969</u>	100.0%	<u>\$228,373</u>	100.0%	<u>\$218,505</u>	100.0%

## Securities

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 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.

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 instrument 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.

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, 2019, none of our securities were deemed to be a covered fund under the Volcker Rule.

At December 31, 2019, our securities portfolio totaled \$3.85 billion representing 14.4% of our total assets. At December 31, 2019, equity securities totaled \$6.0 million and reported at fair value. Debt securities are classified as held-to-maturity or available-for-sale when purchased. At December 31, 2019, \$1.15 billion of our debt securities were classified as held-to-maturity and reported at amortized cost and \$2.70 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, 2019, agency-issued mortgage-backed securities including CMOs, totaled \$3.57 billion, or 92.7%, of our total securities portfolio. During the second quarter of 2019, the Company early adopted ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments” and reclassified \$393.1 million of debt securities held-to-maturity to debt securities available-for-sale. For the year ended December 31, 2019, the Company received proceeds of \$399.4 million on the sale of mortgage-backed securities from the available-for-sale portfolio resulting in gross realized losses of \$5.7 million. Proceeds from the sale were reinvested in higher yielding mortgage-backed securities.

Actual cash flows on mortgage-backed securities may differ from estimated cash flows 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 2.69% for the year ended December 31, 2019. The estimated fair value of our mortgage-backed securities at December 31, 2019 was \$3.58 billion, which is \$50.4 million more than the carrying value. The increase to the fair value is attributed to a decrease in interest rates during 2019.

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 and real estate investment trusts. The interest rates on these securities are indexed to the 3-month LIBOR rate and reset quarterly. These securities have been classified in the held-to-maturity portfolio since their purchase. In addition, our corporate and other debt securities portfolio contains subordinated debt issued by other financial institutions. At December 31, 2019, corporate and other debt securities totaled \$72.5 million, or 1.88%, of our total securities portfolio.

At December 31, 2019, the TruPs portfolio had a carrying value of \$47.5 million, or 1.23% of our total securities portfolio, and a fair value of \$73.3 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 the related other-than temporary impairment, or OTTI, analysis. At December 31, 2019, 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, 2019, 2018, and 2017. For the year ended December 31, 2018, the Company received proceeds of \$7.3 million from the payoff and paydown of TruPs which resulted in \$3.2 million of interest income from securities, as well as a gain of \$1.2 million recognized as



non-interest income. For the year ended December 31, 2017, the Company received 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.

We continue to closely monitor the performance of our CDO portfolio as well as the events surrounding this segment of the market.

***Municipal Bonds.*** At December 31, 2019, we had \$143.2 million in municipal bonds which represents 3.72% of our total securities portfolio. These bonds are comprised of \$10.6 million in short-term Bond Anticipation or Tax Anticipation notes and \$132.6 million of longer term Revenue Bonds.

***Government Sponsored Enterprises.*** At December 31, 2019, debt securities issued by Government Sponsored Enterprises held in our security portfolio totaled \$58.6 million representing 1.52% of our total securities portfolio.

***Equity Securities.*** At December 31, 2019, we had \$6.0 million in equity securities representing 0.16% 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 carried at their fair value with fluctuations in the fair value of such investments, including temporary declines in value, reflected in the consolidated income statement.

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

	At December 31,					
	2019		2018		2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)					
<b>Equity securities</b>	\$ 5,096	6,039	5,001	5,793	4,911	5,701
<b>Available-for-sale:</b>						
Mortgage-backed securities:						
Federal National Mortgage Association	\$1,159,446	1,178,049	980,546	968,556	1,322,255	1,303,576
Federal Home Loan Mortgage Corporation	1,223,587	1,240,379	988,348	986,650	649,060	640,242
Government National Mortgage Association	273,676	276,962	165,211	166,956	39,577	38,208
Total mortgage-backed securities available-for-sale	2,656,709	2,695,390	2,134,105	2,122,162	2,010,892	1,982,026
Total debt securities available-for-sale	\$2,656,709	2,695,390	2,134,105	2,122,162	2,010,892	1,982,026
<b>Held-to-maturity:</b>						
Debt securities:						
Government sponsored enterprises	\$ 58,624	58,312	41,258	40,022	43,281	42,596
Municipal bonds	143,151	146,905	25,513	26,455	40,595	41,846
Corporate and other debt securities	72,537	98,695	50,441	87,033	48,087	86,294
Total debt securities	274,312	303,912	117,212	153,510	131,963	170,736
Mortgage-backed securities:						
Federal National Mortgage Association	542,210	549,862	954,548	932,396	1,101,093	1,091,600
Federal Home Loan Mortgage Corporation	261,945	265,349	401,636	392,335	473,345	468,436
Government National Mortgage Association	70,348	70,981	81,741	80,323	90,220	89,353
Total mortgage-backed securities held-to-maturity	874,503	886,192	1,437,925	1,405,054	1,664,658	1,649,389
Total debt securities held-to-maturity	\$1,148,815	1,190,104	1,555,137	1,558,564	1,796,621	1,820,125
<b>Total securities</b>	\$3,810,620	3,891,533	3,694,243	3,686,519	3,812,424	3,807,852

At December 31, 2019, except for our investments in Fannie Mae, Freddie Mac and Ginnie Mae 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 weighted average coupon rate of the securities portfolio at December 31, 2019 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>Equity securities</b>	\$ —	— %	\$ —	— %	\$ —	— %	\$ 5,096	— %	\$ 5,096	\$ 6,039	— %
<b>Available-for-Sale:</b>											
Mortgage-backed securities:											
Federal Home Loan Mortgage Corporation	—	—	3,991	2.75	338,648	2.41	880,948	2.92	1,223,587	1,240,379	2.77
Federal National Mortgage Association	5,297	2.82	5,140	2.66	78,680	2.56	1,070,329	2.73	1,159,446	1,178,049	2.72
Government National Mortgage Association	—	—	—	—	—	—	273,676	2.95	273,676	276,962	2.95
Total mortgage-backed securities	5,297	2.82	9,131	2.70	417,328	2.44	2,224,953	2.83	2,656,709	2,695,390	2.77
Total available-for-sale debt securities	\$ 5,297	2.82%	\$ 9,131	2.70%	\$ 417,328	2.44%	\$ 2,224,953	2.83%	\$ 2,656,709	\$ 2,695,390	2.77%
<b>Held-to-Maturity:</b>											
Debt securities:											
Government sponsored enterprises	\$ —	— %	\$ —	— %	\$ 26,428	2.43%	\$ 32,196	2.16%	\$ 58,624	\$ 58,312	2.28%
Municipal bonds	10,579	3.12	—	—	3,715	9.13	128,857	2.84	143,151	146,905	3.02
Corporate and other debt securities	—	—	—	—	25,000	4.33	47,537	3.41	72,537	98,695	3.73
Total debt securities	10,579	3.12	—	—	55,143	3.74	208,590	2.87	274,312	303,912	3.05
Mortgage-backed securities:											
Federal Home Loan Mortgage Corporation	—	—	209	5.08	197,870	2.64	63,866	2.54	261,945	265,349	2.61
Federal National Mortgage Association	—	—	—	—	254,362	2.40	287,848	2.98	542,210	549,862	2.71
Government National Mortgage Association	—	—	—	—	7,240	2.36	63,108	2.68	70,348	70,981	2.65
Total mortgage-backed securities	—	—	209	5.08	459,472	2.50	414,822	2.87	874,503	886,192	2.68
Total held-to-maturity debt securities	\$ 10,579	3.12%	\$ 209	5.08%	\$ 514,615	2.64%	\$ 623,412	2.87%	\$ 1,148,815	\$ 1,190,104	2.77%

## 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, 2019, we held \$17.86 billion in total deposits, representing 74.2% of our total liabilities. Our long-term 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, 2019, we held \$13.85 billion in core deposits, representing 77.6% of total deposits, of which \$266.4 million are brokered money market deposits. At December 31, 2019, \$4.01 billion, or 22.4%, of our total deposit balances were certificates of deposit, which included \$1.31 billion of brokered certificates of deposit. Municipal deposits are a significant source of funds. At December 31, 2019, \$4.89 billion, or 27.4%, of our total deposits consisted of public fund deposits from local government entities, predominately domiciled in the state of New Jersey.

We have a suite of commercial deposit products, designed to appeal to small and mid-sized businesses and non-profit organizations. Interest rates, 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, competitive forces 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 Bank also utilizes Investors eAccess, a secure online channel, to attract deposits nationwide.

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

	At December 31,								
	2019			2018			2017		
	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	\$ 2,472,232	13.8%	— %	\$ 2,535,848	14.4%	— %	\$ 2,424,608	14.0%	— %
<b>Interest-bearing:</b>									
Checking accounts	5,512,979	30.9	1.36	4,783,563	27.2	1.53	4,909,054	28.3	0.91
Money market deposits	3,817,718	21.4	1.50	3,641,070	20.7	1.55	4,243,545	24.4	0.90
Savings	2,050,101	11.5	0.86	2,048,941	11.7	0.64	2,320,228	13.4	0.48
Certificates of deposit	4,007,308	22.4	1.67	4,570,847	26.0	1.35	3,460,262	19.9	1.13
Total deposits	<u>\$17,860,338</u>	<u>100.0%</u>	<u>1.21%</u>	<u>\$17,580,269</u>	<u>100.0%</u>	<u>1.16%</u>	<u>\$17,357,697</u>	<u>100.0%</u>	<u>0.77%</u>

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

Certificates of Deposit	At December 31,		
	2019	2018	2017
	(Dollars in thousands)		
0.00% - 0.25%	\$ 238,369	\$ 355,822	\$ 527,836
0.26% - 0.50%	77,234	107,088	141,253
0.51% - 1.00%	116,783	157,646	396,098
1.01% - 2.00%	1,921,656	942,149	2,355,997
2.01% - 3.00%	1,651,388	3,006,347	37,808
Over 3.00%	1,878	1,795	1,270
Total	<u>\$4,007,308</u>	<u>\$4,570,847</u>	<u>\$3,460,262</u>

The following table sets forth, by rate category, the remaining period to maturity of certificates of deposit outstanding at December 31, 2019.

	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%	\$ 100,916	\$ 59,711	\$ 67,881	\$ 6,623	\$ 1,686	\$ 1,552	\$ 238,369
0.26% - 0.50%	16,981	17,284	14,208	28,761	—	—	77,234
0.51% - 1.00%	9,630	7,571	11,537	41,946	29,891	16,208	116,783
1.01% - 2.00%	428,054	356,793	1,017,569	102,344	9,407	7,489	1,921,656
2.01% - 3.00%	575,503	513,821	428,791	129,703	937	2,633	1,651,388
Over 3.00%	—	—	979	557	249	93	1,878
<b>Total</b>	<b>\$1,131,084</b>	<b>\$955,180</b>	<b>\$1,540,965</b>	<b>\$309,934</b>	<b>\$42,170</b>	<b>\$27,975</b>	<b>\$4,007,308</b>

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, 2019.

	At December 31, 2019 (In thousands)
Three months or less	\$ 924,396
Over three months through six months	706,050
Over six months through one year	1,066,160
Over one year	229,168
<b>Total</b>	<b>\$2,925,774</b>

**Borrowings.** We borrow directly from the FHLB. All of our FHLB borrowings are advances 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance at end of period	\$4,979,201	\$4,930,681	\$4,331,052	\$4,391,420	\$3,106,783
Average balance during period	5,205,066	4,655,757	4,526,596	3,663,087	2,997,873
Maximum outstanding at any month end	5,723,556	5,080,960	5,355,298	4,391,420	3,548,000
Weighted average interest rate at end of period	2.06%	2.16%	1.96%	1.79%	2.12%
Average interest rate during period	2.18%	2.01%	1.88%	1.86%	2.06%

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 unsecured overnight borrowing lines with other institutions totaling \$750.0 million, of which \$400.0 million was outstanding at December 31, 2019.

	At or for the Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance at end of period	\$447,910	\$250,000	\$130,481	\$154,831	\$156,307
Average balance during period	369,046	202,027	149,030	153,000	159,438
Maximum outstanding at any month end	447,910	280,000	153,000	154,831	163,000
Weighted average interest rate at end of period	2.16%	2.67%	1.87%	2.19%	2.21%
Average interest rate during period	2.45%	2.68%	2.11%	2.16%	2.25%

### Subsidiary Activities

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

**Investors Bank.** Investors Bank is a New Jersey-chartered commercial 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 Investors eAccess, 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 Investment Corp., Investors Commercial, Inc., Investors Financial Group, Inc., Investors Financial Group Insurance Agency, Inc., MNBNY Holdings Inc. and Marathon Realty Investors Inc. Investors Bank also has several additional subsidiaries which are inactive: My Way Development LLC, Investors Financial Services, Inc. and Investors Real Estate Corporation. In 2019, after receiving required regulatory approval, Investors Home Mortgage, a then subsidiary, was merged into Investors Bank.

- **Investors Investment Corp.** Investors Investment Corp. is a New Jersey corporation that was formed in 2004 as an investment company subsidiary. The purpose of this subsidiary is to manage and 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 C&I 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.
- **Investors Financial Group Insurance Agency, Inc.** Investors Financial Group Insurance Agency, Inc. is a New Jersey licensed insurance agency formed in 2016 as an operating subsidiary of Investors Financial Group, Inc. 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.

- **MNBNY Holdings Inc.** MNBNY Holdings Inc. is a New York corporation that was formed in 2006 and acquired in the merger with Marathon Banking Corporation in October 2012. MNBNY Holdings Inc. serves as a holding company and is the 100% owner of Marathon Realty Investors Inc.
- **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. engages in the business of a real estate investment trust (“REIT”) for the purpose of acquiring mortgage loans and other real estate related assets from Investors Bank.

## **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 and Benefits 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.

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 Bank employees, a risk appetite framework with defined risk tolerance limits, and risk governance with a three lines of defense model to manage and oversee risk. In a three lines of defense structure, each line of business and corporate function serves as the first line of defense and has 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, 2019, we had 1,735 full-time employees and 58 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**

The Bank is a New Jersey-chartered commercial bank, and its deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund (“DIF”). The Bank is subject to extensive regulation, examination and supervision by the Commissioner of the NJDOBI (the “Commissioner”) as the issuer of its charter, and, as a non-member state chartered commercial bank, by the FDIC as the deposit insurer and its primary federal regulator. The 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 the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a commercial 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 the Bank, the Company 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. The Company 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. The Company 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. In addition, on May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCP Act") was enacted. This legislation includes targeted amendments to the Dodd-Frank Act and other financial services laws. While there have been some changes to the post-financial crisis framework applicable to the Company, primarily relating to stress testing, the Company expects that its business will remain subject to extensive regulation and supervision.

### **Stress Tests**

Prior to the enactment of the EGRRCP Act, the Dodd-Frank Act required banks with total consolidated assets of more than \$10 billion to conduct annual stress tests. The Dodd-Frank Act also required 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 required banks to publish a summary of the results of the stress tests. The EGRRCP Act has eliminated the annual mandated stress test requirement for banks like us with total consolidated assets of less than \$100 billion.

While we are no longer required to conduct annual stress tests, we have advised our regulators that we will continue to conduct stress testing of our loan portfolio and advise our Board of Directors and our regulators of the results of such testing.

### **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 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. In 2019, the U.S. banking agencies adopted changes to the regulations implementing the Volcker Rule designed to establish a more risk-based approach to compliance and reduce the complexity of the regulations. The changes were effective January 1, 2020.

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

The Dodd-Frank Act also established the 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. The 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 and the Fair Credit Reporting Act.

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. 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.** The 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, commercial banks, including the 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 commercial 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 commercial bank may also exercise trust powers upon approval of the Commissioner. Lastly, New Jersey commercial 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 commercial 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 commercial 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 commercial 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. The Bank currently complies with applicable loans-to-one-borrower limitations.

**Dividends.** Under the New Jersey Banking Act, a commercial 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 commercial bank. In addition, a commercial bank may not pay a dividend unless the commercial 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 the Bank. See “— Federal Banking Regulation — Prompt Corrective Action” below.

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

**Examination and Enforcement.** The NJDOBI may examine the Bank whenever it deems an examination advisable. The NJDOBI engages in routine annual examinations of the Bank. The Commissioner may order any commercial bank to discontinue any violation of law or unsafe or unsound business practice, and may direct any director, officer, attorney or employee of a commercial 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 commercial 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 as of 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

commenced on January 1, 2016 at 0.625% and increased in annual increments to 2.5% on January 1, 2019, which is the fully phased in Conservation Buffer. 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, 2019, the Company and the Bank met the required Conservation Buffer of 2.5%.

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, 2019, the Bank and the Company were considered "well capitalized" under applicable regulations and exceeded all regulatory capital requirements as follows:

	As of December 31, 2019 <sup>(1)</sup>					
	Actual		Minimum Capital Requirement with Conservation Buffer		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	\$2,197,188	8.22%	\$1,069,276	4.000%	\$1,336,595	5.00%
Common Equity Tier 1 Risk-Based Capital	2,197,188	11.03%	1,394,527	7.000%	1,294,918	6.50%
Tier 1 Risk-Based Capital	2,197,188	11.03%	1,693,355	8.500%	1,593,746	8.00%
Total Risk-Based Capital	2,426,233	12.18%	2,091,791	10.500%	1,992,182	10.00%
Investors Bancorp, Inc.:						
Tier 1 Leverage Ratio	\$2,553,447	9.53%	\$1,072,095	4.000%	n/a	n/a
Common Equity Tier 1 Risk-Based Capital	2,553,447	12.78%	1,399,008	7.000%	n/a	n/a
Tier 1 Risk-Based Capital	2,553,447	12.78%	1,698,795	8.500%	n/a	n/a
Total Risk-Based Capital	2,782,493	13.92%	2,098,512	10.500%	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 commercial 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 commercial banks may retain subsidiaries in existence as of March 11, 2000 and may engage in activities that are not authorized under federal law. Although the 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.** The 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. 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 commercial 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 commercial 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 commercial 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 commercial banks, including the 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 commercial 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.

The Bank was classified as “well-capitalized” under the prompt corrective action framework as of December 31, 2019.

**Liquidity.** The 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.** The Bank is a member of the DIF, which is administered by the FDIC. Deposit accounts in the 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 the Bank. Large institutions (i.e., \$10 billion or more in assets) such as the 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 DIF reserve ratio from 1.15% to 1.35%. On September 30, 2018, the DIF reached 1.36%, ahead of the September 30, 2020 deadline required under the Dodd-Frank Act. FDIC regulations provide that surcharges on insured depository institutions with total consolidated assets of \$10 billion or more will cease upon DIF reserve ratio reaching the statutorily required minimum. Assessments on large banks for periods subsequent to September 30, 2018 no longer include a quarterly surcharge.

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 was 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 fully matured in 2019. Consequently, insured banks are no longer paying a FICO assessment.

**Transactions with Affiliates of Investors Bank.** Transactions between an insured bank, such as the 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.

Pursuant to Federal Reserve Board Regulation O, we are also subject to quantitative restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. In general, such extensions of credit (i) may not exceed certain dollar limitations, (ii) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (iii) must not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit also require the approval of our Board of Directors.

**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 the 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.

The Bank is also required to provide its customers with the ability to “opt-out” of having the 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, the Bank must provide its customers with the ability to “opt-out” of having the 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 commercial 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. The Bank received a “satisfactory” CRA rating in our most recent publicly-available federal evaluation, which was conducted by the FDIC in October 2017.

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.

In April 2018, the U.S. Department of Treasury issued a memorandum to the Federal banking regulators with recommended changes to the CRA’s implementing regulations to reduce their complexity and associated burden on banks. In December 2019, the FDIC, along with the Office of the Comptroller of the Currency, the agency that regulates national banks, issued a proposed rule that would significantly amend the CRA regulations. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

### **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 the 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. 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.

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.

**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 commercial 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 commercial 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, the Bank is required to maintain reserves against its transaction accounts. For 2020, the Federal Reserve Board regulations generally require that reserves of 3% must be maintained against aggregate transaction accounts over \$16.9 million and up to \$127.5 million, and 10% against that portion of total transaction accounts in excess of up to \$127.5 million. The first \$16.9 million of otherwise reservable balances are exempted from the reserve requirements. The 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**

The 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 ("AML") requirements. By way of amendments to the Bank Secrecy Act ("BSA"), 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 AML compliance programs that includes policies, procedures, and internal controls; the appointment of an AML 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 BSA and AML 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. The Bank has adopted policies and procedures to comply with these requirements.

### **Holding Company Regulation**

**Federal Regulation.** Bank holding companies, including the Company, 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 impose 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, the Company 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 the Company 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; and
- making investments in corporations or projects designed primarily to promote community welfare.

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. The Company 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 the Company if it ever acquired as a separate subsidiary a depository institution in addition to the 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, the 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 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 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 the Company or the Bank without first obtaining approval of such acquisition of control by the Federal Reserve Board and the Commissioner.

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

The Company’s common stock held by persons who are affiliates (generally officers, directors and principal stockholders) of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. If the Company meets specified current public information requirements, each affiliate of the Company 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.** The Company and its subsidiary are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The Company and its subsidiary file a consolidated federal income tax return. On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted. The legislation reduced the federal corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017 and has impacted the manner in which the Company is taxed, including but not limited to, the repeal of the alternative minimum tax on corporations for tax years beginning after December 31, 2017. The Company’s 2014 and 2015 federal tax returns are currently under examination with respect to amended returns filed by the Company.

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 the Company or its subsidiary.

**Method of Accounting.** For federal income tax purposes, the Company 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, the 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. The Bank has fully recaptured its post-1987 reserve balance. Currently, the 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 the 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 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. At December 31, 2019, the Bank’s total federal pre-base year reserve was approximately \$45.2 million.

**Net Operating Loss Carryovers.** A corporation may carry forward net operating losses arising in tax years ending after December 31, 2017 indefinitely, subject to a deduction limitation of 80% of taxable income in a given year. However, net operating losses arising in tax years on or before December 31, 2017 are not subject to the 80% limitation deduction. As of December 31, 2019, the Company had total federal net operating loss carryforwards of \$5.1 million related to prior acquisitions, arising in tax years prior to December 31, 2017.

**Corporate Dividends-Received Deduction.** The Company may exclude from its federal taxable income 100% of dividends received from the Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 65% when the dividend is received from a corporation having at least 20% of its stock owned by the recipient corporation. A 50% dividends-received deduction is available for dividends received from a corporation having less than 20% of its stock owned by the recipient corporation.

## State Taxation

**New Jersey State Taxation.** Generally, the income of corporations and savings institutions in New Jersey, which is calculated based on federal taxable income, subject to certain adjustments, and allocable to New Jersey is subject to New Jersey tax at a rate of 9.0%. On July 1, 2018, Assembly Bill 4202 was signed into law, providing significant revisions to New Jersey’s Corporation Business Tax laws. Among the changes provided for in the new legislation was a surtax, an additional imposition of tax, on corporate taxpayers that have allocated New Jersey net income in excess of \$1 million. For tax years 2018 and 2019, the surtax was imposed at a rate of 2.5%; and for tax years 2020 and 2021, the surtax rate will be 1.5%.

In addition, the law mandated combined reporting for tax years ending on or after July 31, 2019. In December 2019, a technical bulletin was issued by the State of New Jersey providing clarification on mandatory combined reporting, excluding investment companies and real estate investment trusts. The Company and two of its indirect subsidiaries meet the definition of these entity types and therefore are excluded from combined filing with the Company’s other affiliates and are required to file standalone returns.

Prior to the issuance of the technical bulletin, the Company believed it would file a combined tax return for 2019 and therefore fully utilize its charitable contributions carried over from prior years as the recently reformed New Jersey tax law allows for charitable contributions of a member entity to be subtracted from the combined group’s entire net income. However, due to the clarification, the Company will be excluded from the combined group, and therefore it is unable to fully deduct the charitable contributions. At December 31, 2019, the Company did not establish another valuation allowance and instead wrote off the state tax effect of the \$9.7 million charitable contribution as it expired in 2019.

**New York State Taxation.** The New York State corporate franchise tax is based on the federal consolidated taxable 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 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 2019 was 28.9% of a recomputed New York State franchise tax, calculated using a 6.5% tax rate on allocated and apportioned entire net income. The Bank is currently under audit with respect to its New York State combined franchise tax return for tax years 2015 through 2017.

**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.

**Pennsylvania Taxation.** Considered a mutual thrift institution conducting business in Pennsylvania, the 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, the Company 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.

**Other State Taxation.** To a lesser extent, the Company receives income from customers in other states. The Company’s filing obligations with respect to the receipts vary from state to state and depend upon the reporting requirements in the various jurisdictions.

## **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.**

The Bank is subject to extensive regulation, supervision and examination by the NJDOBI, 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, the Company 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, BSA and AML 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 the Bank, the Company 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 legal and 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 544% of Bank total risk-based capital at December 31, 2019, however our commercial real estate loan portfolio increased by only 16% 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. Bank regulators also periodically review our loan portfolio, the allowance for loan losses, and our assumptions underlying the determinations we have made regarding the allowance for loan losses, and as a result can require us to increase our provision for loan losses or recognize further loan charge-offs.

**The FASB has issued an accounting standard update that will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.**

In June 2016, the FASB issued an accounting standard update, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” which replaces the current “incurred loss” model for recognizing credit losses with an “expected loss” model referred to as the CECL model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of

expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model required under current GAAP, which delays recognition until it is probable a loss has been incurred. The CECL model may create more volatility in the provision as well as the level of our allowance for loan losses.

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

At December 31, 2019, our portfolio of multi-family, commercial real estate, C&I and construction loans totaled \$15.86 billion, or 73.1% 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 \$7.81 billion at December 31, 2019 from \$6.26 billion at December 31, 2015. Our commercial real estate portfolio has increased to \$4.83 billion at December 31, 2019 from \$3.83 billion at December 31, 2015. Our C&I loan portfolio has increased to \$2.95 billion at December 31, 2019 from \$1.04 billion at December 31, 2015. 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 2015. These loans may experience higher delinquency or charge-off levels than our historical loan portfolio experience, which could adversely affect our future performance.

**We continue to expand our commercial lending efforts and footprint, 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 commercial lending team to include leveraged lending and equipment finance teams, as well as a healthcare lending team that originate loans nationally. We will continue to explore other markets within commercial 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, some of our equipment finance portfolio relies on the residual values of the underlying equipment and therefore could be negatively impacted by a change in valuation. Because we are not as experienced with these new loan products and areas, we may incur losses or require additional time and resources for offering and managing such products effectively.

**We will be required to transition from the use of LIBOR in the future.**

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of

LIBOR to the administrator of LIBOR after 2021. The continuation of LIBOR cannot be guaranteed after 2021. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans and securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings. The Company has approximately \$5.00 billion in financial instruments which are indexed to USD-LIBOR. If LIBOR rates are no longer available and we are required to implement substitute indices for the calculation of interest rates, we may incur expenses in effecting the transition, and may be subject to disputes or litigation with customers and security holders over the appropriateness or comparability to LIBOR of the substitute indices, which could have an adverse effect on our results of operations. In the interim, we have established a cross-functional team to develop initial transition plans to address potential revisions to documentation, as well as customer management and communication, internal training, financial, operational and risk management implications, and legal and contract management. In addition, we have engaged with our regulators and with industry working groups and trade associations to develop strategies for transitioning away from LIBOR.

**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 periods of rising and/or flattening 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. An increase in interest rates can also result in decreased prepayment of loans and mortgage-backed and related securities. Conversely, a decrease in interest rates may cause 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, 2019, the fair value of our total securities portfolio was \$3.89 billion. Unrealized net losses on debt 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 net interest income sensitivity and the change in our economic value of equity 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, 2019, 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 5.1% or \$34.2 million decrease in net interest



income. In a 200 basis point instantaneous increase in interest rates scenario, the model projects a 10.8% or \$400.1 million decrease in economic value of equity.

**A flat or inverted yield curve 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 historically lower levels. A flat yield curve combined with low interest rates generally leads to lower revenue and reduced margins because it tends to limit our ability to increase the spread between asset yields and funding costs. Sustained periods of time with a flat yield curve coupled with low interest rates, or an inversion of the yield curve, could have a material adverse effect on our net interest margin and earnings.

**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 \$20.89 billion at December 31, 2015 to \$26.70 billion at December 31, 2019. 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 and liquidity position.**

Public funds deposits are a significant source of funds for our lending and investment activities. At December 31, 2019, \$4.89 billion, or 27.4% of our total deposits, consisted of public funds deposits from local government entities, predominately 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, 2019, we had \$4.89 billion in municipal deposits from various municipalities and other governmental entities. Such deposits are generally used to fund our loans and investments. In addition, 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 first introduced in 2018, and in 2019, the Governor of New Jersey signed an executive order establishing an implementation board to develop criteria for establishing a State Bank. At this time, there is no assurance that a State Bank will be established or what its powers or authority may be.

**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. 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, 2019, we had approximately \$82.5 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.

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

Deteriorating economic or business 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, particularly in New York and New Jersey given our concentration in this region, 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. The majority of our loan portfolio is secured by real estate in New York and New Jersey.

**The performance of our multi-family and commercial real estate loan portfolios could be adversely impacted by recent or proposed changes in laws and regulation.**

On June 14, 2019, the State of New York enacted legislation increasing restrictions on rent increases in a rent-regulated apartment building, including, among other provisions, (i) repealing the “vacancy bonus” and “longevity bonus”, which allowed a property owner to raise rents as much as 20% each time a rental unit became vacant, (ii) eliminating high rent vacancy deregulation and high-income deregulation, which allowed a rental unit to be removed from rent stabilization once it crossed a statutory high-rent threshold and became vacant, or the tenant’s income exceeded the statutory amount in the preceding two years, and (iii) eliminating an exception that allowed a property owner who offered preferential rents to tenants to raise the rent to the full legal rent upon renewal. As a result of this new legislation as well as previously existing laws and regulations, which are outside the control of the borrower or the Bank, the value of the collateral for our multi-family loans or the future cash flow of such properties could be impaired. It is possible that rental income might not rise sufficiently over time to satisfy increases in the loan rate at repricing or increases in overhead expenses (e.g., utilities, taxes, etc.). In addition, if the cash flow from a collateral property is reduced or constrained, the borrower’s ability to repay the loan and the value of the collateral for the loan may be impaired.

**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 the 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.

**Capital requirements for financial institutions have increased in recent years, 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 the Bank and the Company. 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 increased in annual increments to 2.5% on January 1, 2019, which is the fully phased in conservation buffer. 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 these more stringent capital requirements for the Bank and the Company 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.

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

The Tax Act had both positive and negative effects on our financial performance. The new legislation resulted in a reduction in our federal corporate tax rate from 35% to 21% beginning in 2018, which had 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 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.**

The 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), the 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.

**Our failure to effectively deploy capital may have an adverse effect on our financial performance.**

We invested 50% of the net proceeds from our second step conversion offering in the 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.

In December 2019, we entered into a purchase and sale agreement with Blue Harbour, pursuant to which we repurchased from Blue Harbour the 27,318,628 shares of our common stock beneficially owned by Blue Harbour, at a purchase price of \$12.29 per share, representing aggregate cost of approximately \$335.7 million.

**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.

**A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.**

The 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 operational and

security systems, infrastructure, including our computer systems, data management, and internal processes, as well as those of third parties, are integral to our business. We rely on our employees and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct or malfeasance, or failure or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and other safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with our own systems.

We handle a substantial volume of customer and other financial transactions every day. Our financial, accounting, data processing, check processing, electronic funds transfer, loan processing, online and mobile banking, automated teller machines, or ATMs, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. This could adversely affect our ability to process these transactions or provide these services. There could be sudden increases in customer transaction volume, electrical, telecommunications or other major physical infrastructure outages, natural disasters, events arising from local or larger scale political or social matters, including terrorist acts, and cyber attacks. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, liquidity and financial condition, and cause reputational harm.

**A cyber attack, information or security breach, or a technology failure of ours or of a third-party could adversely affect our ability to conduct our business or manage our exposure to risk, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.**

Our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software, and networks to conduct our operations. In addition, to access our network, products and services, our customers and third parties may use personal mobile devices or computing devices that are outside of our network environment.

Financial services institutions have been subject to, and are likely to continue to be the target of, cyber attacks, including computer viruses, malicious or destructive code, phishing attacks, denial of service or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the institution, its employees or customers or of third parties, or otherwise materially disrupt network access or business operations. For example, denial of service attacks have been launched against a number of large financial institutions and several large retailers have disclosed substantial cyber security breaches affecting debit and credit card accounts of their customers. We have experienced cyber security incidents in the past, although not material, and we anticipate that, as a larger bank, we could experience further incidents. There can be no assurance that we will not suffer material losses or other material consequences relating to technology failure, cyber attacks or other information or security breaches.

Misconduct by employees could also result in 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.

As cyber threats and other fraudulent activity continues to evolve, we may be required to expend significant additional resources to continue to modify and enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Any of these matters could result in our loss of customers and business opportunities, significant disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, and additional compliance costs. In addition, any of the matters described above could adversely impact our results of operations and financial condition.

**We rely on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third-party could have a material adverse effect on our business.**

We are dependent for the majority of our technology, including our core operating system, on third-party providers. If these companies were to discontinue providing services to us, we may experience significant disruption to our business. In addition, each of these third parties faces the risk of cyber attack, information breach or loss, or technology failure. If any of our third-party service providers experience such difficulties, or if there is any other disruption in our relationships with them, we may be required to find alternative sources of such services. We are dependent on these third-party providers securing their information systems, over which we have limited control, and a breach of their information systems could adversely affect our ability to process transactions, service our clients or manage our exposure to risk and could result in the disclosure of sensitive, personal customer information, which could have a material adverse impact on our business through damage to our reputation, loss of business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Assurance cannot be provided that we could negotiate terms with alternative service sources that are as favorable or could obtain services with similar functionality as found in existing systems without the need to expend substantial resources, if at all, thereby resulting in a material adverse impact on our business and results of operations.

**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.

Additionally, global markets may be adversely affected by natural disasters, the emergence of widespread health emergencies or pandemics, cyber attacks or campaigns, military conflict, terrorism or other geopolitical events. Global market fluctuations may affect our business liquidity. Also, any sudden or prolonged market downturn in the U.S. or abroad, as a result of the above factors or otherwise could result in a decline in revenue and adversely affect our results of operations and financial condition, including capital and liquidity levels.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

At December 31, 2019, the Company and the Bank conducted business from their corporate headquarters in Short Hills, New Jersey, with operation centers located in Iselin, Robbinsville, Dunellen and Millburn, New Jersey as well as lending offices within our primary market areas in Short Hills, Iselin, Robbinsville, Mount Laurel, Spring Lake, Newark, Manhattan, Queens, Brooklyn, Melville, as well as a full-service branch network of 147 offices. We also have lending offices in Danbury, Connecticut and Charlotte, North Carolina.

**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.



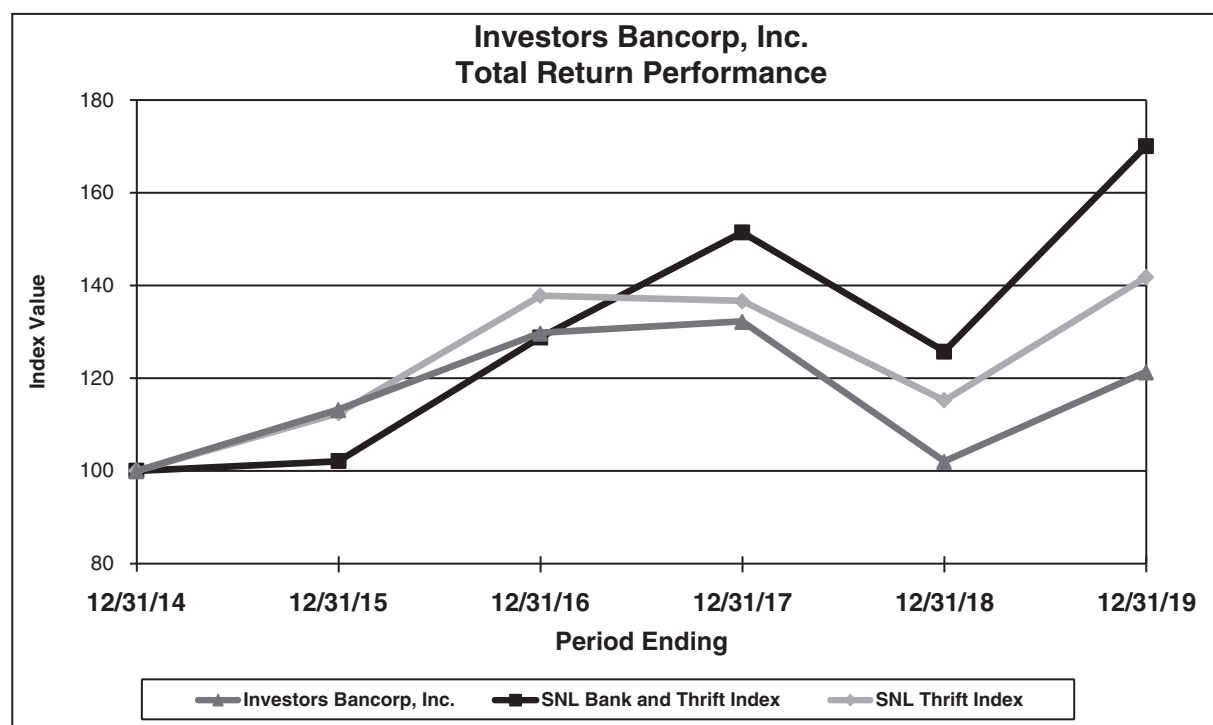
## Part II

### **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 21, 2020 was approximately 8,000. 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.

#### **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, 2014 through December 31, 2019, (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	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Investors Bancorp, Inc.	100.00	113.15	129.74	132.26	102.05	121.36
SNL U.S. Bank and Thrift	100.00	102.02	128.80	151.45	125.81	170.04
SNL U.S. Thrift	100.00	112.45	137.74	136.74	115.17	141.80

Source: S&P Global Market Intelligence

## Stock Repurchases

The following table reports information regarding repurchases of our common stock during the quarter ended December 31, 2019 and the stock repurchase plans approved by our Board of Directors.

Period	Total Number of Shares Purchased <sup>(1)(2)(3)</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, 2019 through October 31, 2019	2,719	\$11.86	—	14,607,794
November 1, 2019 through November 30, 2019	679	\$12.17	—	14,607,794
December 1, 2019 through December 31, 2019	<u>27,318,871</u>	\$12.29	<u>—</u>	14,607,794
Total	<u>27,322,269</u>	\$12.29	<u>—</u>	

<sup>(1)</sup> On October 25, 2018, the Company announced its fourth share repurchase program, which authorized the purchase of 10% of its publicly-held outstanding shares of common stock, or 28,886,780 shares. The plan commenced upon the completion of the third repurchase plan on December 10, 2018. This program has no expiration date and has 14,607,794 shares yet to be repurchased as of December 31, 2019.

<sup>(2)</sup> 3,641 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.

<sup>(3)</sup> In December 2019, we entered into a purchase and sale agreement with Blue Harbour, pursuant to which we repurchased from Blue Harbour the 27,318,628 shares of our common stock beneficially owned by Blue Harbour, at a purchase price of \$12.29 per share, representing aggregate cost of approximately \$335.7 million. These shares were not repurchased 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. 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. Certain reclassifications have been made to conform with current year classifications.

	At December 31,				
	2019	2018	2017	2016	2015
	(In thousands)				
<b>Selected Financial Condition Data:</b>					
Total assets	\$26,698,766	\$26,229,008	\$25,129,244	\$23,174,675	\$20,888,684
Loans receivable, net	21,476,056	21,378,136	19,852,101	18,569,855	16,661,133
Loans held-for-sale	29,797	4,074	5,185	38,298	7,431
Equity securities	6,039	5,793	5,701	6,660	6,495
Debt securities held-to-maturity	1,148,815	1,555,137	1,796,621	1,755,556	1,844,223
Debt securities available-for-sale, at estimated fair value	2,695,390	2,122,162	1,982,026	1,653,773	1,298,202
Bank owned life insurance	218,517	211,914	155,635	161,940	159,152
Deposits	17,860,338	17,580,269	17,357,697	15,280,833	14,063,656
Borrowed funds	5,827,111	5,435,681	4,461,533	4,546,251	3,263,090
Goodwill	82,546	82,546	77,571	77,571	77,571
Stockholders’ equity	2,621,950	3,005,330	3,125,451	3,123,245	3,311,647
<b>Year Ended December 31,</b>					
	2019	2018	2017	2016	2015
	(In thousands)				
<b>Selected Operating Data:</b>					
Interest and dividend income	\$ 1,040,219	\$ 968,416	\$ 881,683	\$ 793,521	\$ 731,723
Interest expense	385,146	288,399	201,907	153,336	136,639
Net interest income	655,073	680,017	679,776	640,185	595,084
Provision for loan losses	(1,000)	12,000	16,250	19,750	26,000
Net interest income after provision for loan losses	656,073	668,017	663,526	620,435	569,084
Non-interest income	53,413	10,081	35,637	37,201	40,125
Non-interest expenses	422,754	407,680	418,574	358,564	328,332
Income before income tax expense	286,732	270,418	280,589	299,072	280,877
Income tax expense	91,248	67,842	153,845	106,947	99,372
Net income	\$ 195,484	\$ 202,576	\$ 126,744	\$ 192,125	\$ 181,505
Earnings per share — basic	\$ 0.75	\$ 0.72	\$ 0.44	\$ 0.65	\$ 0.55
Earnings per share — diluted	\$ 0.74	\$ 0.72	\$ 0.43	\$ 0.64	\$ 0.55

## At or for the Year Ended December 31,

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

	2019	2018	2017	2016	2015
Return on assets (ratio of net income to average total assets)	0.73%	0.80%	0.52%	0.88%	0.92%
Return on equity (ratio of net income to average equity)	6.64%	6.57%	4.00%	6.06%	5.26%
Net interest rate spread <sup>(1)</sup>	2.19%	2.46%	2.67%	2.83%	2.91%
Net interest margin <sup>(2)</sup>	2.54%	2.76%	2.89%	3.04%	3.12%
Efficiency ratio <sup>(3)</sup>	59.67%	59.08%	58.51%	52.93%	51.69%
Non-interest expenses to average total assets	1.58%	1.61%	1.73%	1.64%	1.66%
Average interest-earning assets to average interest-bearing liabilities	1.23x	1.25x	1.26x	1.29x	1.30x
Dividend payout ratio <sup>(4)</sup>	58.67%	52.78%	75.00%	40.00%	45.45%
Cash dividends paid	\$ 0.44	\$ 0.38	\$ 0.33	\$ 0.26	\$ 0.25

**Asset Quality Ratios:**

Non-performing assets to total assets	0.46%	0.55%	0.61%	0.47%	0.69%
Non-accrual loans to total loans	0.44%	0.58%	0.68%	0.50%	0.68%
Allowance for loan losses to non-performing loans <sup>(5)</sup>	210.70%	170.22%	157.46%	220.18%	158.43%
Allowance for loan losses to total loans	1.05%	1.09%	1.15%	1.21%	1.29%

**Capital Ratios:**

Tier 1 leverage ratio <sup>(6)</sup>	8.22%	10.28%	11.00%	12.03%	12.41%
Common equity tier 1 risk-based <sup>(6)</sup>	11.03%	13.41%	13.94%	14.75%	15.87%
Tier 1 risk-based capital <sup>(6)</sup>	11.03%	13.41%	13.94%	14.75%	15.87%
Total-risk-based capital <sup>(6)</sup>	12.18%	14.60%	15.13%	15.99%	17.12%
Equity to total assets	9.82%	11.46%	12.44%	13.48%	15.85%
Tangible equity to tangible assets <sup>(7)</sup>	9.49%	11.12%	12.10%	13.10%	15.43%
Average equity to average assets	11.00%	12.15%	13.06%	14.52%	17.41%

**Other Data:**

Book value per common share <sup>(7)</sup>	\$ 11.11	\$ 10.95	\$ 10.64	\$ 10.53	\$ 10.30
Tangible book value per common share <sup>(7)</sup>	\$ 10.69	\$ 10.59	\$ 10.31	\$ 10.18	\$ 9.97
Number of full service offices	147	151	156	151	140
Full time equivalent employees	1,761	1,928	1,931	1,829	1,734

<sup>(1)</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>(2)</sup> The net interest margin represents net interest income as a percent of average interest-earning assets for the period.

<sup>(3)</sup> The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

<sup>(4)</sup> The dividend payout ratio represents dividends paid per share divided by net income per share.

<sup>(5)</sup> Non-performing loans include non-accrual loans and performing troubled debt restructured loans.

<sup>(6)</sup> Ratios are for Investors Bank and do not include capital retained at the holding company level.

<sup>(7)</sup> Excludes goodwill and intangible assets for the calculation of tangible book value and tangible equity. The 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. In addition, we have national exposure through our Investors eAccess online deposit platform and our equipment finance, healthcare and leveraged lending portfolios. 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 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 rate of prepayments on our loans and mortgage-related assets.

A flat yield curve, caused primarily by rising short-term interest rates and lower long-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 manage our interest rate risk against a backdrop of interest rate uncertainty. Should the yield curve steepen, we may experience an improvement in net interest income, particularly if short-term interest rates do not increase. If the yield curve stays flat, inverts or deposit competition increases, we may be subject to net interest margin compression.

Our results of operations are also significantly affected by general economic conditions. While the domestic consumer continues to generally benefit from improved housing and employment metrics, the velocity of economic growth, domestically and internationally, is challenged by global trade discord and pockets of socioeconomic and political unrest. In addition, our tax rate was negatively impacted by the State of New Jersey tax legislation enacted on July 1, 2018. In December 2019, the State of New Jersey provided clarification in regard to the previously enacted tax law changes and as a result, we expect that our state tax rate will be lower going forward.

Total assets increased \$469.8 million, or 1.8%, to \$26.70 billion at December 31, 2019 from \$26.23 billion at December 31, 2018. Net loans increased \$97.9 million, or 0.5%, to \$21.48 billion at December 31, 2019 from \$21.38 billion at December 31, 2018. Securities increased \$167.2 million, or 4.5%, to \$3.85 billion at December 31, 2019 from \$3.68 billion at December 31, 2018. During the year ended December 31, 2019, we originated or funded \$1.27 billion in commercial and industrial loans, \$861.0 million in commercial real estate loans, \$793.6 million in multi-family loans, \$462.6 million in residential loans, \$76.2 million in consumer and other loans and \$69.8 million in construction loans. Our ongoing strategy is to continue to enhance our commercial banking capabilities and maintain a well-diversified loan portfolio. We have shifted focus to C&I originations while maintaining our commercial real estate and multi-family portfolio 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.

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 9.82% at

December 31, 2019 from 11.46% at December 31, 2018. Since the commencement of our first stock repurchase plan post second step stock offering, the Company has repurchased a total of 127.1 million shares at an average cost of \$12.11 per share totaling \$1.54 billion. Stockholders' equity was impacted for the year ended December 31, 2019 by the repurchase of 39.4 million shares of common stock for \$475.9 million as well as cash dividends of \$0.44 per share totaling \$122.2 million. In December 2019, we entered into a purchase and sale agreement with Blue Harbour, pursuant to which we repurchased from Blue Harbour the 27,318,628 shares of our common stock beneficially owned by Blue Harbour, at a purchase price of \$12.29 per share, representing aggregate cost of approximately \$335.7 million.

In addition to its branch network, the Bank offers online banking capabilities for consumers as well as small business, working to provide more robust treasury capabilities to its customers. During 2019, the company launched Investors eAccess, a secure online channel to attract deposits nationwide. Mobile and online banking services allow the Bank to serve our customers' needs and adapt to a changing environment. In addition to our deposit-related digital capabilities, the Bank continues to enhance its digital capabilities related to originating and servicing loans. The Bank has partnered with ODX, a leading digital small business originations platform, to streamline its small business lending process. We continue to enhance our digital capabilities as a way to enhance the customer experience and deliver our services in a safe and secure manner. 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 to invest in our people.

### 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. As of December 31, 2019, 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 should be 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 elements: loans collectively evaluated for impairment and loans individually evaluated for impairment. 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 allowance for loans collectively evaluated for impairment consists of both quantitative and qualitative loss components. The Company determines the quantitative component by applying quantitative loss factors to the loans collectively evaluated for impairment segregated 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. Quantitative loss factors for each loan segment are generally determined based on the Company's historical loss experience over a look-back period. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each quantitative 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 quantitative loss factors may also be adjusted to account for qualitative factors, both internal and external to the Company, which are made to reflect risks inherent in the portfolio not captured by the quantitative component. 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. 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 consumer loans are cash surrender value lending on life insurance contracts, 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 impaired 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. Updated appraisals are generally obtained for substandard loans \$1.0 million or greater and special mention loans

with a balance of \$2.0 million or greater in the process of collection by the Company's special assets department. 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 based on the growth and composition of the loan portfolio, the level of loan delinquency and the economic conditions in our lending area. 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.

**Derivative Financial Instruments.** As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

#### **Comparison of Financial Condition at December 31, 2019 and December 31, 2018**

**Total Assets.** Total assets increased by \$469.8 million, or 1.8%, to \$26.70 billion at December 31, 2019 from \$26.23 billion at December 31, 2018. Net loans increased by \$97.9 million, or 0.5%, to \$21.48 billion at December 31, 2019. Securities increased by \$167.2 million, or 4.5%, to \$3.85 billion at December 31, 2019 from \$3.68 billion at December 31, 2018.



**Net Loans.** Net loans increased by \$97.9 million, or 0.5%, to \$21.48 billion at December 31, 2019 from \$21.38 billion at December 31, 2018. The detail of the loan portfolio (including PCI loans) is below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	<i>(Dollars in thousands)</i>	
Commercial Loans:		
Multi-family loans	\$ 7,813,236	8,165,187
Commercial real estate loans	4,831,347	4,786,825
Commercial and industrial loans	2,951,306	2,389,756
Construction loans	262,866	227,015
Total commercial loans	<u>15,858,755</u>	<u>15,568,783</u>
Residential mortgage loans	5,144,718	5,351,115
Consumer and other	699,796	707,866
Total Loans	<u>21,703,269</u>	<u>21,627,764</u>
Deferred fees, premiums and other, net	907	(13,811)
Allowance for loan losses	(228,120)	(235,817)
Net loans	<u><u>\$21,476,056</u></u>	<u><u>\$21,378,136</u></u>

During the year ended December 31, 2019, we originated or funded \$1.27 billion in commercial and industrial loans, \$861.0 million in commercial real estate loans, \$793.6 million in multi-family loans, \$462.6 million in residential loans, \$76.2 million in consumer and other loans and \$69.8 million in construction loans. The growth in the loan portfolio reflects our continued focus on growing and diversifying our loan portfolio. 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, we originated residential mortgage loans for sale to third parties totaling \$269.8 million for the year ended December 31, 2019. We also purchased mortgage loans from correspondent entities including other banks and mortgage bankers. During the year ended December 31, 2019, we purchased loans totaling \$294.1 million from these entities but no longer purchase such loans.

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, 2019		September 30, 2019		June 30, 2019		March 31, 2019		December 31, 2018	
	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
	(Dollars in millions)									
Multi-family	8	\$ 23.3	6	\$ 19.6	14	\$ 34.1	14	\$ 34.1	15	\$ 33.9
Commercial real estate	22	12.0	30	12.3	27	8.1	32	9.8	35	12.4
Commercial and industrial	18	12.5	16	12.0	13	18.0	14	17.2	14	19.4
Construction	—	—	—	—	1	0.2	1	0.2	1	0.2
Total commercial loans	48	47.8	52	43.9	55	60.4	61	61.3	65	65.9
Residential and consumer	255	47.4	261	48.2	275	51.2	296	56.4	320	59.0
Total non-accrual loans	303	\$ 95.2	313	\$ 92.1	330	\$ 111.6	357	\$ 117.7	385	\$ 124.9
Accruing troubled debt restructured loans	57	\$ 13.1	58	\$ 12.5	56	\$ 12.2	54	\$ 13.6	54	\$ 13.6
Non-accrual loans to total loans		0.44%		0.42%		0.51%		0.54%		0.58%
Allowance for loan losses as a percent of non-accrual loans		239.66%		247.62%		207.83%		199.44%		188.78%
Allowance for loan losses as a percent of total loans		1.05%		1.05%		1.05%		1.08%		1.09%

Total non-accrual loans decreased to \$95.2 million at December 31, 2019 compared to \$124.9 million at December 31, 2018. At December 31, 2019, there were \$3.9 million of commercial real estate loans and \$3.8 million of commercial and industrial loans that were classified as non-accrual which were performing in accordance with their contractual terms. During the year ended December 31, 2019, we sold \$173,000 of non-performing commercial real estate loans. There were no sales of non-performing loans during the year ended December 31, 2018. Criticized and classified loans as a percent of total loans decreased to 5.36% at December 31, 2019 from 5.72% at December 31, 2018. In assessing and classifying our commercial loan portfolio, the Company places significant emphasis on the borrower's ability to service its debt. At December 31, 2019, our allowance for loan losses as a percent of total loans was 1.05%. At December 31, 2019, there were \$36.6 million of loans deemed as TDRs, of which \$27.0 million were residential and consumer loans, \$7.2 million were commercial and industrial loans and \$2.4 million were commercial real estate loans. TDRs of \$13.1 million were classified as accruing and \$23.5 million were classified as non-accrual at December 31, 2019. We continue to proactively and diligently work to resolve our troubled loans.

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, 2019, the Company has deemed potential problem loans totaling \$68.1 million, which is comprised of 6 multi-family loans totaling \$47.6 million, 24 commercial and industrial loans totaling \$13.7 million and 9 commercial real estate loans totaling \$6.8 million. Management is actively monitoring all of these loans.

The allowance for loan losses decreased by \$7.7 million to \$228.1 million at December 31, 2019 from \$235.8 million at December 31, 2018. Our allowance for loan losses was positively impacted by improved credit quality, including the level of non-accrual loans and charge-offs/recoveries, and modest loan growth. 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, 2019, our allowance for loan losses as a percent of total loans was 1.05%.

**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 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. Debt securities are classified as held-to-maturity or available-for-sale when purchased.

At December 31, 2019, our securities portfolio represented 14.4% of our total assets. Securities, in the aggregate, increased by \$167.2 million, or 4.5%, to \$3.85 billion at December 31, 2019 from \$3.68 billion at December 31, 2018. This increase was a result of purchases, partially offset by sales and paydowns.

**Stock in the Federal Home Loan Bank, Bank Owned Life Insurance and Other Assets.** The amount of stock we own in the FHLB increased by \$7.0 million, or 2.7% to \$267.2 million at December 31, 2019 from \$260.2 million at December 31, 2018. 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 \$218.5 million at December 31, 2019 and \$211.9 million at December 31, 2018. Other assets were \$82.3 million at December 31, 2019 and \$29.3 million at December 31, 2018.

**Deposits.** At December 31, 2019, deposits totaled \$17.86 billion, representing 74.2% 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 \$280.1 million, or 1.6%, from \$17.58 billion at December 31, 2018 to \$17.86 billion at December 31, 2019. Total checking accounts increased \$665.8 million to \$7.99 billion at December 31, 2019 from \$7.32 billion at December 31, 2018. At December 31, 2019, we held \$13.85 billion in core deposits, representing 77.6% of total deposits, of which \$266.4 million are brokered money market deposits. At December 31, 2019, \$4.01 billion, or 22.4%, of our total deposit balances were certificates of deposit, of which included \$1.31 billion of brokered certificates of deposit. At December 31, 2019, \$4.89 billion, or 27.4%, of our total deposits consisted of public fund deposits from local government entities, predominately domiciled in the state of New Jersey. Core deposits 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.

**Borrowed Funds.** Borrowings are primarily with the FHLB which are collateralized by our residential and commercial mortgage portfolios. Borrowed funds increased by \$391.4 million, or 7.2%, to \$5.83 billion at December 31, 2019 from \$5.44 billion at December 31, 2018 to help fund the growth of the security and loan portfolios and our share repurchases. In June 2019, we prepaid \$200.0 million of FHLB advances and a \$150.0 million repurchase agreement with a total average interest rate of 3.00% and maturity dates in 2020 and 2021. The prepaid borrowings were replaced with \$200.0 million of FHLB advances and a \$150.0 million repurchase agreement with a total average interest rate of 2.55% and maturity dates averaging 4 years. Included in the interest rate is a prepayment penalty of 0.47%. In August 2019, we prepaid \$275.0 million of FHLB advances with a total average interest rate of 2.46% and maturity dates in 2021. The prepaid borrowings were replaced with \$275.0 million of FHLB advances with a total average interest rate of 2.16% and maturity dates of 5 years. Included in the interest rate is a prepayment penalty of 0.27%. The prepayment penalties are amortized

over the life of the new debt instruments in accordance with ASC 470-50, *Debt—Modifications and Extinguishments*.

**Stockholders' Equity.** Stockholders' equity decreased by \$383.4 million to \$2.62 billion at December 31, 2019 from \$3.01 billion at December 31, 2018. The decrease was primarily attributed to the repurchase of 39.4 million shares of common stock for \$475.9 million and cash dividends of \$0.44 per share totaling \$122.2 million for the year ended December 31, 2019. As previously noted, in December 2019, we repurchased 27,318,628 shares beneficially owned by Blue Harbour for approximately \$335.7 million. These decreases were partially offset by net income of \$195.5 million and share-based plan activity of \$26.3 million for the year ended December 31, 2019.

### **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,									
	2019			2018			2017		
	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	\$ 215,447	2,805	1.30%	\$ 212,980	\$ 2,435	1.14%	272,382	\$ 2,164	0.79%
Equity securities	5,938	143	2.41	5,754	134	2.33	5,699	139	2.44
Debt securities									
available-for-sale	2,395,047	67,822	2.83	2,042,129	46,057	2.26	1,844,887	37,152	2.01
Debt securities									
held-to-maturity	1,317,322	40,017	3.04	1,668,106	48,989	2.94	1,704,333	44,923	2.64
Net loans	21,576,829	912,091	4.23	20,498,857	854,595	4.17	19,414,842	783,938	4.04
Stock in FHLB	274,661	17,341	6.31	247,513	16,206	6.55	243,409	13,367	5.49
Total interest-earning assets	25,785,244	1,040,219	4.03	24,675,339	968,416	3.92	23,485,552	881,683	3.75
Non-interest-earning assets	975,585			707,370			758,134		
Total assets	<u>\$26,760,829</u>			<u>\$25,382,709</u>			<u>\$24,243,686</u>		
<b>Interest-bearing liabilities:</b>									
Savings deposits	\$ 1,985,145	17,148	0.86%	\$ 2,170,510	\$ 13,240	0.61%	\$ 2,107,363	\$ 8,395	0.40%
Interest-bearing checking	5,020,991	84,698	1.69	4,651,313	62,447	1.34	4,383,110	37,091	0.85
Money market accounts	3,703,413	60,896	1.64	3,837,174	46,394	1.21	4,240,775	34,366	0.81
Certificates of deposit	4,609,274	99,115	2.15	4,149,438	66,564	1.60	3,202,312	33,691	1.05
Total interest-bearing deposits	15,318,820	261,857	1.71	14,808,435	188,645	1.27	13,933,560	113,543	0.81
Borrowed funds	5,611,206	123,289	2.20	4,898,867	99,754	2.04	4,675,626	88,364	1.89
Total interest-bearing liabilities	20,930,026	385,146	1.84	19,707,302	288,399	1.46	18,609,186	201,907	1.08
Non-interest-bearing liabilities	2,887,601			2,590,675			2,468,005		
Total liabilities	23,817,627			22,297,977			21,077,191		
Stockholders' equity	2,943,202			3,084,732			3,166,495		
Total liabilities and stockholders' equity	<u>\$26,760,829</u>			<u>\$25,382,709</u>			<u>\$24,243,686</u>		
Net interest income		<u>\$ 655,073</u>			<u>\$680,017</u>			<u>\$679,776</u>	
Net interest rate spread <sup>(1)</sup>			<u>2.19%</u>			<u>2.46%</u>			<u>2.67%</u>
Net interest-earning assets <sup>(2)</sup>	<u>\$ 4,855,218</u>			<u>\$ 4,968,037</u>			<u>\$ 4,876,366</u>		
Net interest margin <sup>(3)</sup>			<u>2.54%</u>			<u>2.76%</u>			<u>2.89%</u>
Ratio of interest-earning assets to total interest-bearing liabilities	<u>1.23</u>			<u>1.25</u>			<u>1.26</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, 2019 vs. 2018			Years Ended December 31, 2018 vs. 2017		
	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-earning cash accounts	\$ 28	342	370	\$ (471)	742	271
Equities	4	5	9	1	(6)	(5)
Debt securities available-for-sale	8,027	13,738	21,765	3,892	5,013	8,905
Debt securities held-to-maturity	(5,724)	(3,248)	(8,972)	(28)	4,094	4,066
Net loans	46,098	11,398	57,496	44,129	26,528	70,657
Federal Home Loan Bank stock	1,790	(655)	1,135	225	2,614	2,839
Total interest-earning assets	<u>50,223</u>	<u>21,580</u>	<u>71,803</u>	<u>47,748</u>	<u>38,985</u>	<u>86,733</u>
<b>Interest-bearing liabilities:</b>						
Savings	(1,117)	5,025	3,908	254	4,591	4,845
Interest-bearing checking	4,893	17,358	22,251	2,306	23,050	25,356
Money market accounts	(1,600)	16,102	14,502	(3,278)	15,306	12,028
Certificates of deposit	7,322	25,229	32,551	9,977	22,896	32,873
Total deposits	9,498	63,714	73,212	9,259	65,843	75,102
Borrowed funds	15,450	8,085	23,535	4,257	7,133	11,390
Total interest-bearing liabilities	<u>24,948</u>	<u>71,799</u>	<u>96,747</u>	<u>13,516</u>	<u>72,976</u>	<u>86,492</u>
(Decrease) increase in net interest income	<u>\$25,275</u>	<u>(50,219)</u>	<u>(24,944)</u>	<u>\$34,232</u>	<u>(33,991)</u>	<u>241</u>

## Comparison of Operating Results for the Year Ended December 31, 2019 and 2018

**Net Income.** Net income for the year ended December 31, 2019 was \$195.5 million compared to net income of \$202.6 million for the year ended December 31, 2018. Included for the year ended December 31, 2019 is \$7.8 million of additional income tax expense resulting from the revaluation of our net deferred tax asset as the State of New Jersey provided clarification in December 2019 relating to previously enacted tax law changes. Included in net income for the year ended December 31, 2018 was a \$32.8 million loss on the sale of debt securities available-for-sale.

**Net Interest Income.** Net interest income decreased by \$24.9 million to \$655.1 million for the year ended December 31, 2019 from \$680.0 million for the year ended December 31, 2018. The net interest margin decreased 22 basis points to 2.54% for the year ended December 31, 2019 from 2.76% for the year ended December 31, 2018.

**Interest and Dividend Income.** Total interest and dividend income increased by \$71.8 million, or 7.4%, to \$1.04 billion for the year ended December 31, 2019. Interest income on loans increased by \$57.5 million, or 6.7%, to \$912.1 million for the year ended December 31, 2019, as a result of a \$1.08 billion, or 5.3%, increase in the average balance of net loans to \$21.58 billion for the year ended December 31, 2019, primarily attributed to

loan originations, offset by paydowns and payoffs. In addition, the weighted average yield on net loans increased 6 basis points to 4.23%. Prepayment penalties, which are included in interest income, totaled \$16.8 million for the year ended December 31, 2019 compared to \$20.6 million for the year ended December 31, 2018. Interest income on all other interest-earning assets, excluding loans, increased by \$14.3 million, or 12.6%, to \$128.1 million for the year ended December 31, 2019 which is attributable to an increase of 31 basis points to 3.04% in the weighted average yield on interest-earning assets, excluding loans. In addition, the average balance of all other interest earning assets, excluding loans, increased \$31.9 million to \$4.21 billion for the year ended December 31, 2019.

**Interest Expense.** Total interest expense increased by \$96.7 million, or 33.5%, to \$385.1 million for the year ended December 31, 2019. Interest expense on interest-bearing deposits increased \$73.2 million, or 38.8%, to \$261.9 million for the year ended December 31, 2019. The weighted average cost of interest-bearing deposits increased 44 basis points to 1.71% for the year ended December 31, 2019. In addition, the average balance of total interest-bearing deposits increased \$510.4 million, or 3.5%, to \$15.32 billion for the year ended December 31, 2019. Interest expense on borrowed funds increased by \$23.5 million, or 23.6%, to \$123.3 million for the year ended December 31, 2019. The weighted average cost of borrowings increased 16 basis points to 2.20% for the year ended December 31, 2019. In addition, the average balance of borrowed funds increased \$712.3 million, or 14.5%, to \$5.61 billion for the year ended December 31, 2019.

**Non-Interest Income.** Total non-interest income increased by \$43.3 million to \$53.4 million for the year ended December 31, 2019. The increase was primarily due to an increase of \$26.1 million in non-interest income on securities predominately resulting from a \$5.7 million loss on the sale of securities during 2019 as compared to a \$32.8 million loss on the sale of securities during 2018. In addition, other income increased \$11.8 million primarily attributed to customer swap fee income, gains on our equipment finance portfolio, non-depository investment products and a sale-leaseback transaction.

**Non-Interest Expense.** Total non-interest expenses were \$422.8 million for the year ended December 31, 2019, an increase of \$15.1 million, or 3.7%, as compared to the year ended December 31, 2018. This increase was due to an increase of \$7.9 million in compensation and fringe benefit expense, an increase of \$4.8 million in other non-interest expense, an increase of \$4.2 million in data processing and communication expense, and an increase of \$2.0 million in professional fees for the year ended December 31, 2019. These increases were partially offset by a decrease of \$4.6 million in federal insurance premiums.

**Income Taxes.** Income tax expense was \$91.2 million and \$67.8 million for the years ended December 31, 2019 and December 31, 2018, respectively. The effective tax rate was 31.8% for the year ended December 31, 2019 and 25.1% for the year ended December 31, 2018. The increase in the tax rate primarily resulted from the State of New Jersey providing clarification on mandatory combined reporting, causing a remeasurement of the Company's deferred tax balances.

### **Comparison of Operating Results for the Year Ended December 31, 2018 and 2017**

Refer to “Item 7.—Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of 2018 results as compared to 2017 results.

### **Management of Market Risk**

**Qualitative Analysis.** 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; potential differences in the behavior of lending and funding rates arising from the use of different indices; and “yield curve risk” arising from changes in 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 to manage that risk in a manner consistent with that risk appetite. Our Asset Liability Committee, which consists of senior management and executives, evaluates the interest rate risk inherent in our balance sheet, the 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 various Asset Liability Committee reports that estimate the sensitivity of the economic value of equity and net interest income under various interest rate scenarios.

Our tactics and strategies may include the use of 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). Hedged items can be either assets or liabilities. As of December 31, 2019 and December 31, 2018, the Company had cash flow and fair value hedges with aggregate notional amounts of \$2.68 billion and \$2.61 billion, respectively. Included in the fair value hedges are \$475.0 million in asset swap transactions where fixed rate loan payments are exchanged for variable rate payments. These transactions were executed in an effort to reduce the Company's exposure to rising rates. During the year ended December 31, 2019, the Company terminated three interest rate swaps with an aggregate notional amount of \$1.00 billion which had been included in asset swap transactions.

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities and our off-balance sheet positions. At December 31, 2019, 23.7% of our total loan portfolio was comprised of residential mortgages, of which approximately 28.5% was in variable rate products, while 71.5% 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 loans, particularly commercial and industrial loans, commercial real estate loans and multi-family 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, liabilities and off-balance sheet positions 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 experience. 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 immediate rate shock 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.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. The ARRC has proposed a paced market transition plan to SOFR from



USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. The Company has approximately \$5.00 billion in financial instruments which are indexed to USD-LIBOR for which it is monitoring the activity and evaluating the related risks.

**Quantitative Analysis.** The table below sets forth, as of December 31, 2019, 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	\$3,300,884	(400,120)	(10.8)%	\$639,962	(34,198)	(5.1)%
0bp	\$3,701,004	—	—	\$674,160	—	—
-100bp	\$3,915,477	214,473	5.8%	\$690,721	16,561	2.5%

(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 above indicates that at December 31, 2019, in the event of a 200 basis point increase in interest rates, we would be expected to experience a 10.8% decrease in EVE and a \$34.2 million, or 5.1%, decrease in net interest income. In the event of a 100 basis point decrease in interest rates, we would be expected to experience a 5.8% increase in EVE and a \$16.6 million, or 2.5%, 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 EVE and net interest income sensitivity requires 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 balance sheet growth and that generally the composition of our interest-rate sensitive assets and liabilities existing at the beginning of the analysis 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. The Company's 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, including unsecured overnight lines of credit, brokered deposits and other borrowings from 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, 2019, 2018 and 2017 were \$3.66 billion, \$3.47 billion and \$2.81 billion, respectively. Principal repayments on securities for the years ended December 31, 2019, 2018 and 2017 were \$744.0 million, \$685.5 million and \$660.3 million, respectively. There were sales of securities during years ended December 31, 2019, 2018 and 2017 of \$399.4 million, \$632.4 million and \$102.1 million, respectively. There were no unusual payoffs or paydowns of TruPs for the year ended December 31, 2019. For the year ended December 31, 2018, the Company received proceeds of \$7.3 million from the payoff and paydown of TruPs which resulted in \$3.2 million of interest income from securities, as well as a gain of \$1.2 million recognized as non-interest income. For the year ended December 31, 2017, the Company received 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 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, 2019, 2018 and 2017 totaled \$160.7 million, \$275.6 million and \$302.4 million, respectively. For the years ended December 31, 2019, 2018 and 2017 deposits increased \$280.1 million, \$222.6 million and \$2.08 billion, respectively. Deposit flows are affected by the overall level of and direction of changes in market interest rates, the pricing of products offered by us and our local competitors, and other factors.

For the year ended December 31, 2019, net borrowed funds increased \$391.4 million to help fund the growth of the security and loan portfolios and our share repurchases. For the year ended December 31, 2018, net borrowed funds increased \$974.1 million. For the year ended December 31, 2017 net borrowed funds decreased \$84.7 million.

Our primary use of funds is for the origination and purchase of loans and the purchase of securities. During the years ended December 31, 2019, 2018 and 2017, we originated loans of \$3.53 billion, \$4.15 billion and \$3.60 billion, respectively. During the year ended December 31, 2019 we purchased loans of \$427.1 million. During the year ended December 31, 2018, excluding loans and leases acquired in the acquisition of the equipment finance portfolio, we purchased loans of \$514.0 million. During the year ended December 31, 2017, we purchased loans of \$540.9 million. During the year ended December 31, 2019, 2018 and 2017 we purchased securities of \$1.27 billion, \$1.24 billion and \$1.15 billion, respectively. In addition, we utilized \$475.9 million, \$258.2 million and \$59.1 million during the years ended December 31, 2019, 2018 and 2017, respectively, to repurchase shares of our common stock. Included in the shares repurchased during the year ended December 31, 2019 is the Blue Harbour transaction.

At December 31, 2019, we had commitments to originate commercial loans of \$407.3 million. Additionally, we had commitments to originate residential loans of approximately \$36.5 million. While we purchased residential loans from correspondent banks during 2019, we no longer purchase such loans and have no purchase commitments as of December 31, 2019. Unused home equity lines of credit and undisbursed business and constructions loans totaled approximately \$1.62 billion at December 31, 2019. Certificates of deposit due within one year of December 31, 2019 totaled \$3.63 billion, or 20.3% 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 retail and commercial deposits 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.

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, 2019, cash and cash equivalents totaled \$174.9 million. Securities, which provide an additional source of liquidity, totaled \$3.85 billion at December 31, 2019, of which \$920.5 million are pledged to secure borrowings and municipal deposits. 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, 2019, our borrowing capacity at the FHLB was \$12.45 billion, of which we had outstanding borrowings of \$9.01 billion, which included letters of credit totaling \$4.02 billion. In addition, the Bank had unsecured overnight borrowings (Fed Funds) with other financial institutions totaling \$750.0 million, of which \$400.0 million was outstanding at December 31, 2019.

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, 2019, 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 potential 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, 2019. 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.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				<u>Total</u>
	<u>Less than One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>More than Five Years</u>	
	(In thousands)				
Other borrowed funds	\$1,436,000	1,724,958	1,918,243	300,000	5,379,201
Repurchase agreements	100,000	—	347,910	—	447,910
Operating leases	24,013	67,384	59,503	62,322	213,222
Total	<u>\$1,560,013</u>	<u>1,792,342</u>	<u>2,325,656</u>	<u>362,322</u>	<u>6,040,333</u>

During the year ended December 31, 2019, the Company invested in a low income housing tax credit program that qualifies for community reinvestment tax credits. These commitments are payable on demand and are recorded in other liabilities on our Consolidated Balance Sheets. Total commitments entered into in 2019 equal \$10.0 million, of which the remaining commitment outstanding equals \$9.2 million as of December 31, 2019.

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 and loans. During the year ended December 31, 2019, such derivatives were used (i) to hedge the variability in cash flows associated with

borrowings and (ii) to hedge changes in the fair value of certain pools of prepayable fixed- and adjustable-rate assets. These derivatives had an aggregate notional amount of \$2.68 billion as of December 31, 2019. The fair value of derivatives designated as hedging activities as of December 31, 2019 was an asset of \$559,000, inclusive of accrued interest and variation margin posted in accordance with the Chicago Mercantile Exchange. The Company has also entered into derivatives not designated as hedging activities resulting from participations in interest rate swaps provided to external lenders as part of loan participation arrangements and interest rate risk management services to commercial customers utilizing interest rate swaps. The fair value of the derivatives resulting from participations in interest rate swaps provided to lenders was a liability of \$125,000 and the fair value of the derivatives resulting from customer interest rate risk management services was an asset of \$5.4 million, respectively, as of December 31, 2019. Interest rate swaps with customers under interest rate risk management services are offset by interest rate swaps that the Company executes with a third party, which minimizes the Company's net risk in these transactions.

### **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**

See Note 22 in the notes to our Consolidated Financial Statements in "Item 15 — Exhibits and Financial Statement Schedules" for a description of recent accounting pronouncements already adopted.

### **New Accounting Pronouncements Issued But Not Yet Adopted**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL"), further amended by ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. Topic 326 pertains to the measurement of credit losses on financial instruments. This update requires the measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. This update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2019.

Subsequent to year-end, the Company adopted the above mentioned ASUs related to Financial Instruments - Credit Losses (Topic 326) as of January 1, 2020, using a modified retrospective approach. Our implementation process included scoping, segmentation and the design of a methodology appropriate for each respective financial instrument. The process also included the development of loss forecasting models as well as the incorporation of qualitative adjustments. Evaluation of technical accounting topics, updates to our allowance policy documentation, model validation, governance and reporting, processes and related internal controls, as well as overall operational readiness were significant activities completed throughout 2019 in preparation for adoption.

The Company's CECL methodology for loans and leases involves the following key factors and assumptions:

- an estimation method utilizing probability of default and loss given default modeled results which are conditioned by macroeconomic scenarios;

- a reasonable and supportable forecast period determined based on management’s current review of macroeconomic factors and economic scenarios;
- a reversion period after the reasonable and supportable forecast period;
- expected prepayment rates based on the Company’s historical experience; and
- incorporation of qualitative factors not captured within the modeled results.

Based on several analyses performed in the third and fourth quarter of 2019, as well as an implementation analysis utilizing exposures and forecasts of macroeconomic conditions as of year-end, the Company currently expects the adoption of ASU 2016-13 will result in an allowance for credit losses amount at January 1, 2020 in the range of \$215 million to \$245 million, which includes unfunded commitments and held to maturity debt securities. The impact will be reflected as a cumulative effect adjustment, net of taxes. At December 31, 2019, the allowance for loan losses totaled \$228 million. As the Company is currently finalizing the execution of its implementation controls and processes, the review of the most recent model run and assumptions including qualitative factors, the ultimate impact of the adoption of ASU 2016-13 as of January 1, 2020 could differ from our current expectation.

The cumulative-effect adjustment to retained earnings for the change in the allowance for credit losses upon adoption will not have a material effect on the Company’s capital and regulatory capital amounts and ratios. Federal banking regulatory agencies have provided relief for an initial capital decrease at transition by allowing a phased-in adoption which the Company will not elect.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes”. The amendments simplify the accounting for income taxes by removing certain exceptions to general principles in Topic 740 and also clarify and amend existing guidance. This update will be effective for the Company January 1, 2021 with early adoption permitted. The Company does not expect ASU No. 2019-12 to have a material impact on the Company’s Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)”. This new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Specifically, where a cloud computing arrangement includes a license to internal-use software, the software license is accounted for by the customer in accordance with Subtopic 350-40, “Intangibles- Goodwill and Other-Internal-Use Software”. The Company adopted ASU 2018-15 on January 1, 2020. The amendments in this update will be applied prospectively to all implementation costs incurred after the date of adoption. The Company does not expect ASU No. 2018-15 to have a material impact on the Company’s Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, “Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans”. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing disclosures that no longer are considered cost beneficial, clarifying the specific requirements of disclosures, and adding disclosure requirements identified as relevant. This update will be effective for the Company January 1, 2021 with early adoption permitted. The Company does not expect ASU 2018-14 to have a material impact on the Company’s Consolidated Financial Statements. This update will be applied on a retrospective basis. The Company will evaluate the effect of ASU 2018-14 on disclosures with regard to employee benefit plans but does not expect a material impact on the Company’s Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments remove the

requirement to disclose the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of such transfers and the valuation processes for Level 3 fair value measurements. The update modifies the disclosure requirements for investments in certain entities that calculate net asset value and clarify the purpose of the measurement uncertainty disclosure. The update adds disclosure requirements about the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company adopted this update on January 1, 2020. Changes will be applied retrospectively to all periods presented upon the effective date with the exception of the following, which will be applied prospectively: disclosures relating to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the disclosures for uncertainty measurement. The adoption of ASU 2018-13 will 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. The Company adopted this update on January 1, 2020. The update will be applied prospectively. The Company does not expect ASU No. 2017-04 to have a material impact on the Company's Consolidated Financial Statements.

**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, 2019. 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, 2019 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, 2019. 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, 2019, 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, 2019. This report appears on page 75.

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 19, 2020.

#### **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 19, 2020.

**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 19, 2020. 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 19, 2020.

**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 19, 2020.

**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 19, 2020.

**Part IV**

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

- (a) (1) Financial Statements



## Report of Independent Registered Public Accounting Firm

To 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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, 2019, 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 February 28, 2020 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.

### *Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Assessment of the allowance for loan losses related to loans collectively evaluated for impairment*

As discussed in Notes 1 and 5 to the consolidated financial statements, the Company's allowance for loan losses related to loans collectively evaluated for impairment (ALLL) was \$226.4 million of a total

allowance for loan losses of \$228.1 million as of December 31, 2019. The ALLL estimate consists of both quantitative and qualitative loss components. The Company determines the ALLL by applying quantitative loss factors to the loans collectively evaluated for impairment for each segment based upon type of loan, risk rating (if applicable) and payment history. Quantitative loss factors for each loan segment are generally determined based on the Company's historical loss experience over a look-back period. Additionally, the Company adjusts each quantitative loss factor for the loss emergence period of each loan segment. The quantitative loss factors may also be adjusted for qualitative factors, both internal and external to the Company which are made to reflect risks inherent in the portfolio not captured by the quantitative component.

We identified the assessment of ALLL as a critical audit matter because of the complex and significant auditor judgment that was involved. Specifically, complex and subjective auditor judgment was required to assess (1) the methodology and data used to derive the quantitative loss factors developed from the historical loss experience, (2) key assumptions, such as the segmenting of the loan portfolio with similar characteristics, the look-back period and the loss emergence period, (3) individual risk ratings assigned to commercial loans, and (4) development and evaluation of the qualitative factor framework.

The primary procedures we performed to address the critical audit matter included the following. We tested certain internal controls over the Company's ALLL process, including controls related to the (1) development of the ALLL methodology, (2) determination of the key factors and assumptions used to estimate the quantitative loss factors, (3) periodic testing of individual risk ratings for commercial loans, (4) determination of the framework used to assess the qualitative factors and (5) analysis of the ALLL results, trends and ratios. We evaluated the segmenting of loans with similar characteristics by assessing the relevant characteristics of the loan portfolio, including the loan type, risk rating and payment status. We tested the relevance of sources of internal and external data and key assumptions, including the look-back period, by evaluating (1) if loss data in the look-back period is representative of the credit characteristics of the current portfolio and (2) the sufficiency of loss data within the look-back period. We assessed the loss emergence period assumptions by considering the Company's credit risk policies and testing the relevance and reliability of the sources of data and assumptions of the Company's observable loss experience study. We evaluated the metrics, including the relevance and reliability of the sources of data and assumptions, used to allocate the qualitative factor adjustments.

We involved credit risk professionals with specialized industry knowledge and experience who assisted in evaluating:

- the Company's allowance for loan losses methodology for compliance with U.S. generally accepted accounting principles,
- the look-back period assumptions to evaluate the length of that period,
- the methodology used to develop the loss emergence periods,
- the individual risk ratings for a selection of commercial loans,
- the qualitative factor framework used to determine the relevant incremental risks not captured by the quantitative estimate, and
- the framework used to develop the resulting qualitative factors and the effect of those factors on the ALLL compared with relevant credit risk factors and credit trends.

/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  
February 28, 2020

## Report of Independent Registered Public Accounting Firm

To 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, 2019, 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, 2019, 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, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2020 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  
February 28, 2020

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Consolidated Balance Sheets

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
(In thousands except share data)		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 174,915	196,891
Equity securities	6,039	5,793
Debt securities available-for-sale, at estimated fair value	2,695,390	2,122,162
Debt securities held-to-maturity, net (estimated fair value of \$1,190,104 and \$1,558,564 at December 31, 2019 and 2018, respectively)	1,148,815	1,555,137
Loans receivable, net	21,476,056	21,378,136
Loans held-for-sale	29,797	4,074
Federal Home Loan Bank stock	267,219	260,234
Accrued interest receivable	79,313	77,501
Other real estate owned and other repossessed assets	13,538	6,911
Office properties and equipment, net	169,614	177,432
Operating lease right-of-use assets	175,143	—
Net deferred tax asset	64,220	104,411
Bank owned life insurance	218,517	211,914
Goodwill and intangible assets	97,869	99,063
Other assets	82,321	29,349
Total assets	<u>\$26,698,766</u>	<u>26,229,008</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits	\$17,860,338	17,580,269
Borrowed funds	5,827,111	5,435,681
Advance payments by borrowers for taxes and insurance	121,719	129,891
Operating lease liabilities	185,827	—
Other liabilities	81,821	77,837
Total liabilities	<u>24,076,816</u>	<u>23,223,678</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, 2019 and 2018; 247,439,902 and 286,273,114 outstanding at December 31, 2019 and 2018, respectively	3,591	3,591
Additional paid-in capital	2,822,364	2,805,423
Retained earnings	1,245,793	1,173,897
Treasury stock, at cost; 111,630,950 and 72,797,738 shares at December 31, 2019 and 2018, respectively	(1,352,910)	(884,750)
Unallocated common stock held by the employee stock ownership plan	(78,266)	(81,262)
Accumulated other comprehensive loss	(18,622)	(11,569)
Total stockholders' equity	<u>2,621,950</u>	<u>3,005,330</u>
Total liabilities and stockholders' equity	<u>\$26,698,766</u>	<u>26,229,008</u>

See accompanying notes to consolidated financial statements.

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Consolidated Statements of Income

	For the Years Ended December 31,		
	2019	2018	2017
	(Dollars in thousands, except per share data)		
Interest and dividend income:			
Loans receivable and loans held-for-sale	\$ 912,091	854,595	783,938
Securities:			
Equity	143	134	139
Government-sponsored enterprise obligations	1,212	1,080	486
Mortgage-backed securities	95,133	80,906	70,827
Municipal bonds and other debt	11,494	13,060	10,762
Interest-bearing deposits	2,805	2,435	2,164
Federal Home Loan Bank stock	17,341	16,206	13,367
Total interest and dividend income	1,040,219	968,416	881,683
Interest expense:			
Deposits	261,857	188,645	113,543
Borrowed Funds	123,289	99,754	88,364
Total interest expense	385,146	288,399	201,907
Net interest income	655,073	680,017	679,776
Provision for loan losses	(1,000)	12,000	16,250
Net interest income after provision for loan losses	656,073	668,017	663,526
Non-interest income			
Fees and service charges	23,604	22,142	20,326
Income on bank owned life insurance	6,542	5,926	3,742
Gain on loans, net	5,345	2,144	3,187
(Loss) gain on securities, net	(5,536)	(31,604)	1,275
Gain on sale of other real estate owned, net	1,145	923	591
Other income	22,313	10,550	6,516
Total non-interest income	53,413	10,081	35,637
Non-interest expense			
Compensation and fringe benefits	243,782	235,928	227,177
Advertising and promotional expense	13,893	13,054	14,411
Office occupancy and equipment expense	63,996	63,539	61,509
Federal deposit insurance premiums	13,200	17,760	16,610
General and administrative	2,222	2,328	3,030
Professional fees	17,308	15,278	38,853
Data processing and communication	31,987	27,810	24,364
Other operating expenses	36,366	31,983	32,620
Total non-interest expenses	422,754	407,680	418,574
Income before income tax expense	286,732	270,418	280,589
Income tax expense	91,248	67,842	153,845
Net income	\$ 195,484	202,576	126,744
Basic earnings per share	\$ 0.75	0.72	0.44
Diluted earnings per share	\$ 0.74	0.72	0.43
Weighted average shares outstanding			
Basic	262,202,598	281,925,219	290,183,952
Diluted	262,519,788	282,791,859	291,966,475

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>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Net income	\$195,484	202,576	126,744
Other comprehensive (loss) income, net of tax:			
Change in funded status of retirement obligations	(3,672)	2,622	(745)
Unrealized gains (losses) on debt securities available-for-sale	34,119	(11,296)	(8,148)
Accretion of loss on debt securities reclassified to held to maturity	535	599	468
Reclassification adjustment for security losses (gains) included in net income	4,221	24,202	(765)
Other-than-temporary impairment accretion on debt securities	768	3,085	(1,612)
Net (losses) gains on derivatives arising during the period	(43,024)	(836)	6,063
Total other comprehensive (loss) income	(7,053)	18,376	(4,739)
Total comprehensive income	\$188,431	220,952	122,005

See accompanying notes to consolidated financial statements.

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Consolidated Statements of Stockholders' Equity Year ended December 31, 2019, 2018 and 2017

	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, 2016	\$ 3,591	2,765,732	1,053,750	(587,974)	(87,254)	(24,600)	3,123,245
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
Exercise of stock options	—	(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>
Net income	—	—	202,576	—	—	—	202,576
Effect of adopting ASU No. 2016-01	—	—	606	—	—	(606)	—
Other comprehensive income, net of tax	—	—	—	—	—	18,376	18,376
Purchase of treasury stock (20,380,355 shares)	—	—	—	(258,175)	—	—	(258,175)
Treasury stock allocated to restricted stock plan (91,982 shares)	—	(1,178)	57	1,121	—	—	—
Compensation cost for stock options and restricted stock	—	18,437	—	—	—	—	18,437
Exercise of stock options	—	(4,280)	—	10,023	—	—	5,743
Restricted stock forfeitures (392,946 shares)	—	4,942	(333)	(4,609)	—	—	—
Cash dividend paid (\$0.38 per common share)	—	—	(113,186)	—	—	—	(113,186)
ESOP shares allocated or committed to be released	—	3,112	—	—	2,996	—	6,108
Balance at December 31, 2018	<u>3,591</u>	<u>2,805,423</u>	<u>1,173,897</u>	<u>(884,750)</u>	<u>(81,262)</u>	<u>(11,569)</u>	<u>3,005,330</u>
Net income	—	—	195,484	—	—	—	195,484
Other comprehensive loss, net of tax	—	—	—	—	—	(7,053)	(7,053)
Purchase of treasury stock (39,365,145 shares)	—	—	—	(475,946)	—	—	(475,946)
Treasury stock allocated to restricted stock plan (2,360,919 shares)	—	(29,321)	31	29,290	—	—	—
Compensation cost for stock options and restricted stock	—	19,968	—	—	—	—	19,968
Exercise of stock options	—	(573)	—	1,387	—	—	814
Restricted stock forfeitures (1,940,788 shares)	—	24,347	(1,456)	(22,891)	—	—	—
Cash dividend paid (\$0.44 per common share)	—	—	(122,163)	—	—	—	(122,163)
ESOP shares allocated or committed to be released	—	2,520	—	—	2,996	—	5,516
Balance at December 31, 2019	<u><u>\$3,591</u></u>	<u><u>2,822,364</u></u>	<u><u>1,245,793</u></u>	<u><u>(1,352,910)</u></u>	<u><u>(78,266)</u></u>	<u><u>(18,622)</u></u>	<u><u>2,621,950</u></u>

See accompanying notes to consolidated financial statements.



# INVESTORS BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

	For the Years Ended		
	December 31,		
	2019	2018	2017
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 195,484	202,576	126,744
Adjustments to reconcile net income to net cash provided by operating activities:			
ESOP and stock-based compensation expense	25,484	24,545	27,071
Amortization of premiums and accretion of discounts on securities, net	9,251	10,728	15,077
Amortization of premiums and accretion of fees and costs on loans, net	(3,730)	(6,571)	(4,506)
Amortization of other intangible assets	1,520	1,974	2,427
Amortization of debt modification costs	1,186	—	—
Provision for loan losses	(1,000)	12,000	16,250
Depreciation and amortization of office properties and equipment	19,579	17,104	17,421
Loss (gain) on securities, net	5,536	31,604	(1,275)
Mortgage loans originated for sale	(269,773)	(65,525)	(140,171)
Proceeds from mortgage loan sales	247,640	68,202	175,669
Gain on sales of mortgage loans, net	(3,590)	(1,566)	(2,384)
Gain on sale of other real estate owned	(1,145)	(923)	(591)
Income on bank owned life insurance	(6,542)	(5,926)	(3,742)
Amortization of operating lease right-of-use assets	17,608	—	—
Increase in accrued interest receivable	(1,812)	(4,646)	(6,886)
Deferred tax expense	45,624	15,513	100,008
(Increase) decrease in other assets	(42,170)	(23,085)	19,840
Decrease in other liabilities	(78,496)	(429)	(38,542)
Total adjustments	(34,830)	72,999	175,666
Net cash provided by operating activities	160,654	275,575	302,410
Cash flows from investing activities:			
Purchases of loans receivable	(427,053)	(514,040)	(540,898)
Net payoffs (originations) of loans receivable	101,227	(703,577)	(807,105)
Proceeds from disposition of loans receivable	227,522	11,477	48,902
Gain on disposition of loans receivable	(1,755)	(1,251)	(803)
Gain on disposition of leased equipment	(5,698)	—	—
Net proceeds from sale of other real estate owned	6,498	6,187	4,751
Proceeds from sales/calls of equity securities	—	—	1,000
Proceeds from principal repayments/calls/maturities of debt securities available for sale	492,419	384,181	338,049
Proceeds from sales of debt securities available for sale	399,435	632,444	102,120
Proceeds from principal repayments/calls/maturities of debt securities held to maturity	251,574	301,309	321,294
Purchases of equity securities	(96)	(90)	(86)
Purchases of debt securities available for sale	(1,034,131)	(1,182,036)	(785,831)
Purchases of debt securities held to maturity	(238,670)	(54,836)	(364,837)
Proceeds from redemptions of Federal Home Loan Bank stock	303,245	252,176	180,599
Purchases of Federal Home Loan Bank stock	(310,230)	(280,866)	(174,265)
Purchases of office properties and equipment	(11,761)	(14,305)	(20,235)
Death benefit proceeds from bank owned life insurance	—	3,618	10,047
Purchases of bank owned life insurance	—	(125,000)	—
Proceeds from surrender of bank owned life insurance contract	—	71,029	—
Cash paid for acquisition	—	(340,183)	—
Net cash used in investing activities	(247,474)	(1,553,763)	(1,687,298)
Cash flows from financing activities:			
Net increase in deposits	280,069	222,572	2,076,864
Repayments of principal under finance leases	(2)	—	—
Net increase (decrease) in funds borrowed under other repurchase agreements	197,584	120,000	(23,000)
Net increase (decrease) in borrowed funds	192,660	854,148	(61,718)
Net (decrease) increase in advance payments by borrowers for taxes and insurance	(8,172)	25,583	(1,543)
Dividends paid	(122,163)	(113,186)	(101,550)
Exercise of stock options	814	5,743	9,141
Purchase of treasury stock	(475,946)	(258,175)	(59,090)
Net cash provided by financing activities	64,844	856,685	1,839,104
Net (decrease) increase in cash and cash equivalents	(21,976)	(421,503)	454,216
Cash and cash equivalents at beginning of period	196,891	618,394	164,178
Cash and cash equivalents at end of period	\$ 174,915	196,891	618,394
Supplemental cash flow information:			
Non-cash investing activities:			
Real estate acquired through foreclosure and other assets repossessed	\$ 12,567	6,674	5,913
Cash paid during the year for:			
Interest	\$ 390,359	275,525	197,810
Income taxes	\$ 36,146	69,271	101,948
Significant non-cash transactions			
Debt securities transferred from held-to-maturity to available-for-sale	\$ 393,359	—	—
Loans transferred to held-for-sale portfolio	\$ 28,373	—	—
Investment in low income housing tax credit	\$ 10,000	—	—
Right-of-use assets obtained in exchange for new lease liabilities	\$ 2,996	—	—
Acquisitions:			
Non-cash assets acquired:			
Loans	\$ —	330,747	—
Goodwill and other intangible assets, net	\$ —	4,975	—
Total non-cash assets acquired	\$ —	335,722	—

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, 2019, 2018 and 2017 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 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 \$67.7 million at December 31, 2019 and \$67.5 million at December 31, 2018.

**(c) Securities**

The Company’s securities portfolio includes equity securities, debt securities held-to-maturity and debt 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 a debt

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
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security prior to maturity, it is classified as held-to-maturity. Such securities are stated at amortized cost, adjusted for unamortized purchase premiums and discounts. Securities in the available-for-sale category are securities which the Company may sell prior to maturity. 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 debt 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. Unrealized gains and losses on equity securities are recognized in the Consolidated Statements of Income.

The Company periodically evaluates the securities 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 Standards Codification ("ASC") Topic 320, "*Investments — Debt 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 debt security for which a determination has been made that a debt security is other-than-temporarily impaired, an other-than-temporary impairment loss is recognized in the Consolidated Statements of Income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a debt 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 non-interest income as a component of gain (loss) on securities, net in the Consolidated Statements of Income, while the amount related to other factors is recorded as an adjustment to accumulated other comprehensive income, net of tax. 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 for unamortized premiums, unearned discounts, deferred origination fees and costs, net purchase accounting adjustments, hedged items 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.

Also included in loans receivable are direct finance leases which are stated as the sum of remaining minimum lease payments from lessees plus estimated residual values less unearned lease income. At the inception of each lease, the Company records a residual value for the leased equipment based on its estimate of

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
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the future value of the equipment at the end of the lease term or end of the equipment's estimated useful life. On an annual basis, the Company reviews the lease residuals for potential impairment.

The allowance for loan losses is impacted 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 (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. 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

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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.

**(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) *Right-of-Use Assets***

The determination of the presence of a lease in a contract is performed at the inception date. At the lease commencement date, the Company recognizes a right-of-use asset and a related lease liability for leases with an original term longer than twelve months. Right-of-use assets represent the Corporation’s right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease initially measured at the present value of future lease payments. The Company has operating leases for corporate offices, branch location and certain equipment. Operating leases are capitalized at commencement and are discounted using the rate implicit in the lease unless that amount cannot be readily determined, in which case the Company is required to use its FHLB borrowing rate, which reflects the rates a lender would charge the Company to obtain a collateralized loan. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

**(i) *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. At December 31, 2019 and 2018, the carrying value is the cash surrender value of \$218.5 million and \$211.9 million, respectively. During the year ended December 31, 2018, the Company purchased \$125.0 million of bank owned life insurance and surrendered the policies with the claims stabilization reserve and deferred acquisition costs for full settlement of \$71.0 million. The Company’s current policies do not contain a claims stabilization reserve or any deferred acquisition costs.

**(j) *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.

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At December 31, 2019, the carrying amount of our goodwill totaled \$82.5 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, 2019, 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, 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 20 years. The Company periodically evaluates the value of core deposit premiums to ensure the carrying amount exceeds its implied fair value.

**(k) *Other Real Estate Owned and Other Repossessed Assets***

Properties and other assets acquired through foreclosure, deed in lieu of foreclosure or repossession are carried at estimated fair value, less estimated selling costs. The estimated fair value of real property is based on independent appraisals. The estimated fair value of repossessed assets is based on cost where market comparable values are not available. 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.

**(l) *Borrowed Funds***

Our FHLB borrowings are advances collateralized by our residential and commercial mortgage portfolios. In addition, the Bank had uncommitted unsecured overnight borrowing lines with other institutions totaling \$750.0 million, of which \$400.0 million was outstanding at December 31, 2019.

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.

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(m) ***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.

(n) ***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 (“SERP II”) and the Supplemental ESOP and Retirement Plan (“SERP I”) (collectively, the “SERPs”). The SERP II is a nonqualified, defined benefit plan which provides benefits to certain executives as designated by the Compensation and Benefits Committee of the Board of Directors. More specifically, the SERP II 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 SERP II was amended to freeze future benefit accruals subsequent to the 2016 year of service.

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-*

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*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.

(o) *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.

(p) *Derivative Financial Instruments*

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.



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## **2. Stock Transactions**

### ***Stock Repurchase Programs***

On October 25, 2018, the Company announced its fourth share repurchase program, which authorized the purchase of 10% of its publicly-held outstanding shares of common stock, or 28,886,780 shares. The fourth program commenced immediately upon completion of the third program on December 10, 2018 and remains the Company's current program as of December 31, 2019.

During the year ended December 31, 2019, the Company purchased 39,365,145 shares at a cost of \$475.9 million, or approximately \$12.09 per share. During December 2019, we entered into a purchase and sale agreement with Blue Harbour Group, L.P. ("Blue Harbour"), pursuant to which we repurchased from Blue Harbour the 27,318,628 shares of our common stock beneficially owned by Blue Harbour, at a purchase price of \$12.29 per share, representing aggregate consideration of approximately \$335.7 million. This share repurchase was outside of, and did not count toward, our existing share repurchase program. During the year ended December 31, 2018, the Company purchased 20,380,355 shares at a cost of \$258.2 million, or approximately \$12.67 per share. 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.

For the years ended December 31, 2019, 2018 and 2017, shares repurchased include 387,477, 395,233 and 313,269 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. Dividends paid for the years ended December 31, 2019, 2018 and 2017 were \$0.44, \$0.38 and \$0.33, resulting in dividend payout ratios of 59%, 53% and 75%, respectively.

## **3. Business Combinations**

### ***Gold Coast Bancorp***

On July 24, 2019, the Company and Gold Coast Bancorp, Inc. ("Gold Coast") signed a definitive merger agreement under which the Company will acquire Gold Coast. Consideration will be paid to Gold Coast stockholders in a combination of stock and cash. Under the terms of the merger agreement, 50% of the common shares of Gold Coast will be converted into Investors Bancorp common stock and the remaining 50% will be exchanged for cash. For each share of Gold Coast Bancorp common stock, Gold Coast shareholders will have the option to receive either (i) 1.422 shares of Investors Bancorp common stock, \$0.01 par value per share, (ii) a cash payment of \$15.75, or (iii) a combination of Investors Bancorp common stock and cash. The foregoing is subject to proration to ensure that, in the aggregate, 50% of Gold Coast's shares will be converted into Investors Bancorp common stock. Completion of the merger is awaiting receipt of all regulatory approvals. The transaction is not reflected in the Consolidated Financial Statements.

### ***Equipment Finance Portfolio***

On February 2, 2018, the Company completed the acquisition of a \$345.8 million equipment finance portfolio. The acquisition included a seven-person team of financing professionals to lead the Company's Equipment Finance Group. This group is part of the Company's commercial lending group and the loan and lease balances are included within our commercial and industrial loan portfolio. The purchase price of \$340.2 million was paid using available cash.

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

The acquisition was accounted for under the acquisition method of accounting as prescribed by FASB ASC 805 “*Business Combinations*”, as amended. Under this method of accounting, the purchase price has been allocated to the respective assets acquired based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of assets acquired, or \$5.0 million, has been recorded as goodwill.

The acquired portfolio was fair valued on the date of acquisition based on guidance from ASC 820-10 which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The valuation methods utilized took into consideration adjustments for interest rate risk, funding cost, servicing cost, residual risk, credit and liquidity risk. The accounting for the acquisition of the equipment finance portfolio is complete and is reflected in our Consolidated Financial Statements.

#### 4. Securities

##### *Equity Securities*

Equity securities are reported at fair value on the Company’s Consolidated Balance Sheets. The Company’s portfolio of equity securities had an estimated fair value of \$6.0 million and \$5.8 million as of December 31, 2019 and December 31, 2018, respectively. Realized gains and losses from sales of equity securities, as well as changes in fair value of equity securities still held at the reporting date are recognized in the Consolidated Statements of Income.

The following table presents the disaggregated net gains on equity securities reported in the Consolidated Statements of Income:

	For the Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
Net gains recognized on equity securities	\$150	2	—
Less: Net gains recognized on equity securities sold	—	—	—
Unrealized gains recognized on equity securities	<u>\$150</u>	<u>2</u>	<u>—</u>

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**Debt Securities**

The following tables present the carrying value, gross unrealized gains and losses and estimated fair value for available-for-sale debt securities and the amortized cost, net unrealized losses, carrying value, gross unrecognized gains and losses and estimated fair value for held-to-maturity debt securities as of the dates indicated. During the second quarter of 2019, the Company early adopted ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments” and reclassified \$393.1 million of debt securities held-to-maturity to debt securities available-for-sale. See Note 22, Recent Accounting Pronouncements, for further details regarding the adoption of ASU 2019-04.

At December 31, 2019				
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
(In thousands)				
Available-for-sale:				
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	\$1,223,587	17,528	736	1,240,379
Federal National Mortgage Association	1,159,446	18,917	314	1,178,049
Government National Mortgage Association	273,676	3,333	47	276,962
Total debt securities available-for-sale	\$2,656,709	39,778	1,097	2,695,390

At December 31, 2019						
	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	\$ 58,624	—	58,624	188	500	58,312
Municipal bonds	143,151	—	143,151	3,797	43	146,905
Corporate and other debt securities	87,322	14,785	72,537	26,158	—	98,695
Total debt securities held-to-maturity	289,097	14,785	274,312	30,143	543	303,912
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	262,079	134	261,945	3,533	129	265,349
Federal National Mortgage Association	542,583	373	542,210	7,959	307	549,862
Government National Mortgage Association	70,348	—	70,348	633	—	70,981
Total mortgage-backed securities held-to-maturity	875,010	507	874,503	12,125	436	886,192
Total debt securities held-to-maturity	\$1,164,107	15,292	1,148,815	42,268	979	1,190,104

<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 over the remaining life of the

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

securities. For mortgage-backed securities, it represents the net loss on previously designated available-for sale debt securities transferred to held-to-maturity at fair value and is being amortized through accumulated other comprehensive income over the remaining life of the securities.

- (2) Unrecognized gains and losses of held-to-maturity debt 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, 2018				
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
(In thousands)				
Available-for-sale:				
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	\$ 988,348	6,492	8,190	986,650
Federal National Mortgage Association	980,546	3,560	15,550	968,556
Government National Mortgage Association	165,211	1,745	—	166,956
Total debt securities available-for-sale	\$2,134,105	11,797	23,740	2,122,162

At December 31, 2018						
	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	\$ 41,258	—	41,258	—	1,236	40,022
Municipal bonds	25,513	—	25,513	942	—	26,455
Corporate and other debt securities	66,295	15,854	50,441	36,592	—	87,033
Total debt securities held-to-maturity	133,066	15,854	117,212	37,534	1,236	153,510
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	402,231	595	401,636	112	9,413	392,335
Federal National Mortgage Association	955,237	689	954,548	535	22,687	932,396
Government National Mortgage Association	81,741	—	81,741	—	1,418	80,323
Total mortgage-backed securities held-to-maturity	1,439,209	1,284	1,437,925	647	33,518	1,405,054
Total held-to-maturity securities	\$1,572,275	17,138	1,555,137	38,181	34,754	1,558,564

(1) 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 over the remaining life of the securities. For mortgage-backed securities, it represents the net loss on previously designated available-for sale debt securities transferred to held-to-maturity at fair value and is being amortized through accumulated other comprehensive income over the remaining life of the securities.

(2) Unrecognized gains and losses of held-to-maturity debt 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.

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At December 31, 2019, 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 and real estate investment trusts. At December 31, 2019 the TruPs had a carrying value and estimated fair value of \$47.5 million and \$73.3 million, respectively. While all were investment grade at purchase, securities classified as non-investment grade at December 31, 2019 had a carrying value and estimated fair value of \$45.8 million and \$69.0 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.

Debt securities with a carrying value of \$920.5 million and an estimated fair value of \$932.9 million 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 other than mortgage-backed securities at December 31, 2019, by contractual maturity, are shown below.

	December 31, 2019	
	Carrying Value	Estimated fair value
	(In thousands)	
Due in one year or less	\$ 10,579	10,579
Due after one year through five years	—	—
Due after five years through ten years	55,143	56,690
Due after ten years	208,590	236,643
Total	\$274,312	303,912

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Gross unrealized losses on debt 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, 2019 and December 31, 2018, were as follows:

	December 31, 2019					
	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:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	\$215,160	736	—	—	215,160	736
Federal National Mortgage Association	80,298	297	12,972	17	93,270	314
Government National Mortgage Association	20,078	47	—	—	20,078	47
Total debt securities available-for-sale	<u>315,536</u>	<u>1,080</u>	<u>12,972</u>	<u>17</u>	<u>328,508</u>	<u>1,097</u>
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	31,696	500	—	—	31,696	500
Municipal bonds	23,596	43	—	—	23,596	43
Total debt securities held-to-maturity	<u>55,292</u>	<u>543</u>	<u>—</u>	<u>—</u>	<u>55,292</u>	<u>543</u>
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	20,860	64	11,065	65	31,925	129
Federal National Mortgage Association	7,911	52	37,316	255	45,227	307
Total mortgage-backed securities held-to-maturity	<u>28,771</u>	<u>116</u>	<u>48,381</u>	<u>320</u>	<u>77,152</u>	<u>436</u>
Total debt securities held-to-maturity	<u>84,063</u>	<u>659</u>	<u>48,381</u>	<u>320</u>	<u>132,444</u>	<u>979</u>
Total	<u>\$399,599</u>	<u>1,739</u>	<u>61,353</u>	<u>337</u>	<u>460,952</u>	<u>2,076</u>

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	December 31, 2018					
	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:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	\$ 97,137	994	288,916	7,196	386,053	8,190
Federal National Mortgage Association	<u>125,389</u>	<u>2,098</u>	<u>489,337</u>	<u>13,452</u>	<u>614,726</u>	<u>15,550</u>
Total debt securities available-for-sale	<u>222,526</u>	<u>3,092</u>	<u>778,253</u>	<u>20,648</u>	<u>1,000,779</u>	<u>23,740</u>
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	—	—	40,022	1,236	40,022	1,236
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	51,045	553	339,534	8,860	390,579	9,413
Federal National Mortgage Association	214,400	2,449	663,671	20,238	878,071	22,687
Government National Mortgage Association	<u>35,499</u>	<u>492</u>	<u>44,824</u>	<u>926</u>	<u>80,323</u>	<u>1,418</u>
Total mortgage-backed securities held-to-maturity	<u>300,944</u>	<u>3,494</u>	<u>1,048,029</u>	<u>30,024</u>	<u>1,348,973</u>	<u>33,518</u>
Total debt securities held-to-maturity	<u>300,944</u>	<u>3,494</u>	<u>1,088,051</u>	<u>31,260</u>	<u>1,388,995</u>	<u>34,754</u>
Total	<u>\$523,470</u>	<u>6,586</u>	<u>1,866,304</u>	<u>51,908</u>	<u>2,389,774</u>	<u>58,494</u>

At December 31, 2019, the majority of gross unrealized losses relate to our mortgage-backed-security portfolio, which is comprised of debt securities issued by U.S. Government Sponsored Enterprises. The fair value of these securities has been positively impacted by changes in interest rates as compared to December 31, 2018. The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the debt securities in an unrealized loss position before the recovery of its amortized cost basis or maturity.

***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 TruPs. Cash flows for each security are forecasted using assumptions for defaults, recoveries, pre-payments and amortization. At December 31, 2019, 2018 and 2017 management deemed that the present value of projected cash flows for each security was greater than the book value and did not recognize any

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additional OTTI charges for the years ended December 31, 2019, 2018 and 2017. At December 31, 2019, non-credit related OTTI recorded on the previously impaired TruPs was \$14.8 million (\$10.6 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>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(In thousands)</b>		
Balance of credit related OTTI, beginning of period	\$80,595	85,768	95,743
Additions:			
Initial credit impairments	—	—	—
Subsequent credit impairments	—	—	—
Reductions:			
Accretion of credit loss impairment due to an increase in expected cash flows	(3,530)	(4,703)	(6,164)
Reductions for securities sold or paid off during the period	—	(470)	(3,811)
Balance of credit related OTTI, end of period	<u>\$ 77,065</u>	<u>80,595</u>	<u>85,768</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, 2019, the Company received proceeds of \$399.4 million on securities sold from the debt securities available-for-sale portfolio resulting in gross realized losses of \$5.7 million recognized in non-interest income. Proceeds from the sale were reinvested in higher yielding debt securities. There were no sales of equity securities or debt securities held-to-maturity for the year ended December 31, 2019. The Company recognized unrealized gains on equity securities of \$150,000 for the year ended December 31, 2019.

For the year ended December 31, 2018, the Company received proceeds of \$632.4 million on its lower yielding mortgage-backed securities sold from the debt securities available-for-sale portfolio resulting in gross realized losses of \$32.8 million. Proceeds from the sale were reinvested in higher yielding debt securities. There were no sales of equity securities or debt securities held-to-maturity for the year ended December 31, 2018; however, the Company received proceeds of \$7.3 million from the payoff and paydown of TruPs which resulted in \$3.2 million of interest income from securities, as well as a gain of \$1.2 million recognized as non-interest income. The Company recognized unrealized gains on equity securities of \$2,000 for the year ended December 31, 2018.



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For the year ended December 31, 2017, the Company received proceeds of \$102.1 million on pools of mortgage-backed securities sold from the debt securities available-for-sale portfolio resulting in gross realized gains of \$1.3 million and gross realized losses of \$69,000. There were no sales of equity securities or debt securities held-to-maturity for the year ended December 31, 2017; however, the Company received 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.

**5. Loans Receivable, Net**

The detail of the loan portfolio as of December 31, 2019 and December 31, 2018 was as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Multi-family loans	\$ 7,813,236	8,165,187
Commercial real estate loans	4,827,848	4,783,095
Commercial and industrial loans	2,951,306	2,389,756
Construction loans	262,866	227,015
Total commercial loans	15,855,256	15,565,053
Residential mortgage loans	5,144,229	5,350,504
Consumer and other loans	699,729	707,746
Total loans excluding PCI loans	21,699,214	21,623,303
PCI loans	4,055	4,461
Deferred fees, premiums and other, net <sup>(1)</sup>	907	(13,811)
Allowance for loan losses	(228,120)	(235,817)
Net loans	\$21,476,056	21,378,136

(1) Included in deferred fees and premiums are accretable purchase accounting adjustments in connection with loans acquired and an adjustment to the carrying amount of the residential loans hedged.

**Allowance for Loan Losses**

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

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Balance at beginning of the period	\$235,817	230,969	228,373
Loans charged off	(13,132)	(24,090)	(19,209)
Recoveries	6,435	16,938	5,555
Net charge-offs	(6,697)	(7,152)	(13,654)
Provision for loan losses	(1,000)	12,000	16,250
Balance at end of the period	\$228,120	235,817	230,969

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

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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. PCI loans are loans acquired at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with 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 years ended December 31, 2019 and 2018, the Company recorded charge-offs of \$3,000 and \$379,000, 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 elements: loans collectively evaluated for impairment and loans individually evaluated for impairment. 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 allowance for loans collectively evaluated for impairment consists of both quantitative and qualitative loss components. The Company determines the qualitative component by applying quantitative loss factors to the loans collectively evaluated for impairment segregated 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. Quantitative loss factors for each loan segment are generally determined based on the Company’s historical loss experience over a look-back period. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each quantitative 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 quantitative loss factors may also be adjusted to account for qualitative factors, both internal and external to the Company, which are made to reflect risks inherent in the portfolio not captured by the quantitative component. 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

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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 consumer loans are cash surrender value lending on life insurance contracts, 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 impaired 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. Updated appraisals are generally obtained for substandard loans \$1.0 or greater and special mention loans \$2.0 million or greater in the process of collection by the Company's special assets department. 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.

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Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions 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. 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, 2019 and 2018:

	December 31, 2019							Unallocated	Total
	Multi-Family Loans	Commercial Real Estate Loans	Commercial and Industrial Loans	Construction Loans	Residential Mortgage Loans	Consumer and Other Loans	Total		
	(Dollars in thousands)								
Allowance for loan losses:									
Beginning balance-December 31, 2018	\$ 82,876	48,449	71,084	7,486	20,776	3,102	2,044	235,817	
Charge-offs	(2,973)	(151)	(6,833)	—	(2,241)	(934)	—	(13,132)	
Recoveries	1,244	2,204	1,203	—	1,448	336	—	6,435	
Provision	(7,048)	423	8,942	(670)	(2,592)	44	(99)	(1,000)	
Ending balance-December 31, 2019	<u>\$ 74,099</u>	<u>50,925</u>	<u>74,396</u>	<u>6,816</u>	<u>17,391</u>	<u>2,548</u>	<u>1,945</u>	<u>228,120</u>	
Individually evaluated for impairment	\$ —	—	—	—	1,686	77	—	1,763	
Collectively evaluated for impairment	74,099	50,925	74,396	6,816	15,705	2,471	1,945	226,357	
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	
Balance at December 31, 2019	<u>\$ 74,099</u>	<u>50,925</u>	<u>74,396</u>	<u>6,816</u>	<u>17,391</u>	<u>2,548</u>	<u>1,945</u>	<u>228,120</u>	
Loans:									
Individually evaluated for impairment	\$ 22,169	7,875	12,476	—	26,147	856	—	69,523	
Collectively evaluated for impairment	7,791,067	4,819,973	2,938,830	262,866	5,118,082	698,873	—	21,629,691	
Loans acquired with deteriorated credit quality	—	3,499	—	—	489	67	—	4,055	
Balance at December 31, 2019	<u>\$7,813,236</u>	<u>4,831,347</u>	<u>2,951,306</u>	<u>262,866</u>	<u>5,144,718</u>	<u>699,796</u>	<u>—</u>	<u>21,703,269</u>	

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December 31, 2018

	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, 2017	\$ 81,469	56,137	54,563	11,609	21,835	3,099	2,257	230,969
Charge-offs	(2,603)	(7,200)	(7,078)	—	(5,246)	(1,963)	—	(24,090)
Recoveries	17	5,213	9,478	—	2,193	37	—	16,938
Provision	3,993	(5,701)	14,121	(4,123)	1,994	1,929	(213)	12,000
Ending balance-								
December 31, 2018	<u>\$ 82,876</u>	<u>48,449</u>	<u>71,084</u>	<u>7,486</u>	<u>20,776</u>	<u>3,102</u>	<u>2,044</u>	<u>235,817</u>
Individually evaluated for impairment	\$ —	—	—	—	2,082	72	—	2,154
Collectively evaluated for impairment	82,876	48,449	71,084	7,486	18,694	3,030	2,044	233,663
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Balance at December 31, 2018	<u>\$ 82,876</u>	<u>48,449</u>	<u>71,084</u>	<u>7,486</u>	<u>20,776</u>	<u>3,102</u>	<u>2,044</u>	<u>235,817</u>
Loans:								
Individually evaluated for impairment	\$ 32,046	6,623	19,624	—	27,884	570	—	86,747
Collectively evaluated for impairment	8,133,141	4,776,472	2,370,132	227,015	5,322,620	707,176	—	21,536,556
Loans acquired with deteriorated credit quality	—	3,730	—	—	611	120	—	4,461
Balance at December 31, 2018	<u>\$8,165,187</u>	<u>4,786,825</u>	<u>2,389,756</u>	<u>227,015</u>	<u>5,351,115</u>	<u>707,866</u>	<u>—</u>	<u>21,627,764</u>

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. In assessing and classifying our commercial loan portfolio, the Company places significant emphasis on the borrower's ability to service its debt. 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

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### Notes to Consolidated Financial Statements

may not conform to policy or adverse events may have affected or could affect the cash flow or 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, 2019 and December 31, 2018 by class of loans excluding PCI loans:

	December 31, 2019						
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)						
Commercial loans:							
Multi-family	\$ 6,326,412	942,438	167,748	376,638	—	—	7,813,236
Commercial real estate	4,023,642	489,514	118,426	196,266	—	—	4,827,848
Commercial and industrial	2,031,148	693,397	111,389	115,372	—	—	2,951,306
Construction	169,236	75,319	—	18,311	—	—	262,866
Total commercial loans	12,550,438	2,200,668	397,563	706,587	—	—	15,855,256
Residential mortgage	5,073,971	14,388	5,429	50,441	—	—	5,144,229
Consumer and other	687,266	9,157	1,174	2,132	—	—	699,729
Total	\$18,311,675	2,224,213	404,166	759,160	—	—	21,699,214

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	December 31, 2018						
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)						
Commercial loans:							
Multi-family	\$ 6,462,056	1,061,168	313,498	328,465	—	—	8,165,187
Commercial real estate	3,910,282	552,080	162,488	158,245	—	—	4,783,095
Commercial and industrial	1,647,130	571,620	53,861	117,145	—	—	2,389,756
Construction	163,503	35,774	9,200	18,538	—	—	227,015
Total commercial loans	12,182,971	2,220,642	539,047	622,393	—	—	15,565,053
Residential mortgage	5,268,234	12,082	7,712	62,476	—	—	5,350,504
Consumer and other	694,432	8,443	1,650	3,221	—	—	707,746
Total	\$18,145,637	2,241,167	548,409	688,090	—	—	21,623,303

The following tables present the payment status of the recorded investment in past due loans as of December 31, 2019 and December 31, 2018 by class of loans, excluding PCI loans:

	December 31, 2019					
	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
	(In thousands)					
Commercial loans:						
Multi-family	\$45,606	1,946	22,055	69,607	7,743,629	7,813,236
Commercial real estate	7,958	525	3,787	12,270	4,815,578	4,827,848
Commercial and industrial	7,774	2,767	5,053	15,594	2,935,712	2,951,306
Construction	—	—	—	—	262,866	262,866
Total commercial loans	61,338	5,238	30,895	97,471	15,757,785	15,855,256
Residential mortgage	16,954	6,195	27,628	50,777	5,093,452	5,144,229
Consumer and other	9,157	1,174	1,299	11,630	688,099	699,729
Total	\$87,449	12,607	59,822	159,878	21,539,336	21,699,214

	December 31, 2018					
	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
	(In thousands)					
Commercial loans:						
Multi-family	\$23,098	2,572	33,683	59,353	8,105,834	8,165,187
Commercial real estate	5,491	3,511	2,415	11,417	4,771,678	4,783,095
Commercial and industrial	2,988	867	4,560	8,415	2,381,341	2,389,756
Construction	9,200	—	227	9,427	217,588	227,015
Total commercial loans	40,777	6,950	40,885	88,612	15,476,441	15,565,053
Residential mortgage	13,811	7,712	39,255	60,778	5,289,726	5,350,504
Consumer and other	8,524	1,650	2,830	13,004	694,742	707,746
Total	\$63,112	16,312	82,970	162,394	21,460,909	21,623,303

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

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u># of loans</u>	<u>Amount</u>	<u># of loans</u>	<u>Amount</u>
	(Dollars in thousands)			
Non-accrual:				
Multi-family	8	\$23,322	15	\$ 33,940
Commercial real estate	22	11,945	35	12,391
Commercial and industrial	18	12,481	14	19,394
Construction	—	—	1	227
Total commercial loans	48	47,748	65	65,952
Residential mortgage and consumer	255	47,435	320	58,961
Total non-accrual loans	<u>303</u>	<u>\$95,183</u>	<u>385</u>	<u>\$124,913</u>

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, 2019 and December 31, 2018, these loans are comprised of the following:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u># of loans</u>	<u>Amount</u>	<u># of loans</u>	<u>Amount</u>
	(Dollars in thousands)			
TDR with payment status current classified as non-accrual:				
Commercial real estate	2	\$2,360	2	\$ 2,817
Commercial and industrial	—	—	2	9,762
Total commercial loans	2	2,360	4	12,579
Residential mortgage and consumer	25	4,218	26	4,006
Total TDR with payment status current classified as non-accrual	<u>27</u>	<u>\$6,578</u>	<u>30</u>	<u>\$16,585</u>

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, 2019</u>		<u>December 31, 2018</u>	
	<u># of loans</u>	<u>Amount</u>	<u># of loans</u>	<u>Amount</u>
	(Dollars in thousands)			
TDR 30-89 days delinquent classified as non-accrual:				
Residential mortgage and consumer	18	\$3,331	11	\$1,810
Total TDR 30-89 days delinquent classified as non-accrual	<u>18</u>	<u>\$3,331</u>	<u>11</u>	<u>\$1,810</u>

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, 2019, PCI loans with a carrying value of \$4.1 million included \$3.9 million of which were current, \$26,000 of which were 30-89 days delinquent and \$132,000 of which were 90 days or more delinquent. As of December 31, 2018, PCI loans with a carrying value of \$4.5 million included \$4.1 million of which were current, \$229,000 of which were 30-89 days delinquent and \$248,000 of which were 90 days or more delinquent.



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At December 31, 2019 and 2018, loans meeting the Company's definition of an impaired loan were primarily collateral dependent loans which totaled \$69.5 million and \$86.7 million, respectively, with allocations of the allowance for loan losses of \$1.8 million and \$2.2 million as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, interest income received and recognized on these loans totaled \$1.0 million and \$904,000, respectively.

Direct finance leases are stated as the sum of remaining minimum lease payments from lessees plus estimated residual values less unearned lease income. On an annual basis, the Company reviews the lease residuals for potential impairment. For the year ended December 31, 2019, the Company reviewed the lease residual under its lease portfolio and recorded an impairment charge of \$2.6 million on leased equipment as the fair value of the equipment decreased at a rate greater than originally projected.

The following tables present loans individually evaluated for impairment by portfolio segment as of December 31, 2019 and December 31, 2018:

	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
<b>With no related allowance:</b>					
Multi-family	\$22,169	23,581	—	23,298	47
Commercial real estate	7,875	10,913	—	8,127	199
Commercial and industrial	12,476	21,090	—	14,860	351
Construction	—	—	—	—	—
Total commercial loans	42,520	55,584	—	46,285	597
Residential mortgage and consumer	13,783	18,066	—	13,811	267
<b>With an allowance recorded:</b>					
Multi-family	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Construction	—	—	—	—	—
Total commercial loans	—	—	—	—	—
Residential mortgage and consumer	13,220	13,881	1,763	13,321	153
<b>Total:</b>					
Multi-family	22,169	23,581	—	23,298	47
Commercial real estate	7,875	10,913	—	8,127	199
Commercial and industrial	12,476	21,090	—	14,860	351
Construction	—	—	—	—	—
Total commercial loans	42,520	55,584	—	46,285	597
Residential mortgage and consumer	27,003	31,947	1,763	27,132	420
Total impaired loans	<u>\$69,523</u>	<u>87,531</u>	<u>1,763</u>	<u>73,417</u>	<u>1,017</u>

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December 31, 2018

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(In thousands)				
<b>With no related allowance:</b>					
Multi-family	\$32,046	34,199	—	33,656	146
Commercial real estate	6,623	11,896	—	6,611	79
Commercial and industrial	19,624	26,323	—	20,218	232
Construction	—	—	—	—	—
Total commercial loans	58,293	72,418	—	60,485	457
Residential mortgage and consumer	12,626	17,130	—	11,907	167
<b>With an allowance recorded:</b>					
Multi-family	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Construction	—	—	—	—	—
Total commercial loans	—	—	—	—	—
Residential mortgage and consumer	15,828	16,498	2,154	15,627	280
<b>Total:</b>					
Multi-family	32,046	34,199	—	33,656	146
Commercial real estate	6,623	11,896	—	6,611	79
Commercial and industrial	19,624	26,323	—	20,218	232
Construction	—	—	—	—	—
Total commercial loans	58,293	72,418	—	60,485	457
Residential mortgage and consumer	28,454	33,628	2,154	27,534	447
Total impaired loans	<u>\$86,747</u>	<u>106,046</u>	<u>2,154</u>	<u>88,019</u>	<u>904</u>

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, 2019 and December 31, 2018. There were five residential PCI loans that were previously designated as PCI classified as TDRs at December 31, 2019 and 2018.

	December 31, 2019					
	Accrual		Non-accrual		Total	
	# of loans	Amount	# of loans	Amount	# of loans	Amount
	(Dollars in thousands)					
Commercial loans:						
Commercial real estate	—	\$ —	3	\$ 2,362	3	\$ 2,362
Commercial and industrial	3	2,535	2	4,682	5	7,217
Total commercial loans	3	2,535	5	7,044	8	9,579
Residential mortgage and consumer	54	10,549	78	16,458	132	27,007
Total	<u>57</u>	<u>\$13,084</u>	<u>83</u>	<u>\$23,502</u>	<u>140</u>	<u>\$36,586</u>

	December 31, 2018					
	Accrual		Non-accrual		Total	
	# of loans	Amount	# of loans	Amount	# of loans	Amount
	(Dollars in thousands)					
Commercial loans:						
Multi-family	—	\$ —	1	\$ 892	1	\$ 892
Commercial real estate	—	—	3	2,859	3	2,859
Commercial and industrial	2	2,070	4	13,479	6	15,549
Total commercial loans	2	2,070	8	17,230	10	19,300
Residential mortgage and consumer	52	11,550	79	16,908	131	28,458
Total	<u>54</u>	<u>\$13,620</u>	<u>87</u>	<u>\$34,138</u>	<u>141</u>	<u>\$47,758</u>

The following tables present information about TDRs that occurred during the years ended December 31, 2019 and 2018:

	Years Ended December 31,					
	2019			2018		
	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:						
Commercial real estate	2	\$2,440	\$2,440	4	\$ 3,664	\$ 3,492
Commercial and industrial	2	1,270	1,270	5	14,682	14,682
Residential mortgage and consumer	14	2,850	2,850	23	4,813	4,813

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 \$729,000 in charge-offs for TDRs of unsecured commercial and industrial loans during the year ended December 31, 2019. There were \$214,000 of charge-offs for collateral dependent TDRs during the year ended December 31, 2018. Of the amount charged off during the year ended December 31, 2018, one

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borrower subsequently repaid the full amount of outstanding loan principal which resulted in a recovery of \$172,000. The allowance for loan losses associated with the TDRs presented in the above tables totaled \$1.8 million and \$2.2 million at December 31, 2019 and 2018, respectively.

Loan modifications generally involve the reduction in loan interest rate and/or 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 in the year ended December 31, 2019 had their maturity extended and/or interest rate reduced to current market terms. The commercial loan modifications which qualified as TDRs in the year ended December 31, 2018 had their maturity extended.

The following tables present information about pre and post modification interest yield for TDRs which occurred during the years ended December 31, 2019 and 2018:

	Years Ended December 31,					
	2019			2018		
	Number of Loans	Pre- modification Interest Yield	Post- modification Interest Yield	Number of Loans	Pre- modification Interest Yield	Post- modification Interest Yield
Commercial real estate	2	6.30%	4.67%	4	4.42%	4.42%
Commercial and industrial	2	5.66%	5.66%	5	5.96%	5.96%
Residential mortgage and consumer	14	5.07%	4.96%	23	5.10%	4.26%

Payment defaults for loans modified as a TDR in the previous 12 months to December 31, 2019 consisted of 2 residential loans with a recorded investment of \$152,000. Payment defaults for loans modified as a TDR in the previous 12 months to December 31, 2018 consisted of 3 residential loans, 2 commercial real estate loans and 1 multi-family loan with a recorded investment of \$584,000, \$568,000 and \$892,000, respectively, at December 31, 2018.

***Loan Sales***

For the year ended December 31, 2019, the Company sold \$147.2 million of performing commercial loans and \$49.2 million of residential performing loans resulting in a gain on sale of \$1.8 million. In addition, the Company sold \$173,000 of non-performing commercial real estate loans resulting in \$29,000 of additional charge offs recorded through the allowance. For the year ended December 31, 2018, there were no sales of loans.

The Company also sold its interest in \$23.6 million of leased equipment resulting in a gain on sale of \$5.7 million, which is included in other income in the Consolidated Statements of Income for the year ended December 31, 2019. There were no such sales for the year ended December 31, 2018.

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**6. Office Properties and Equipment, Net**

Office properties and equipment are summarized as follows:

	December 31,	
	2019	2018
	(In thousands)	
Land	\$ 18,048	18,364
Office buildings	70,887	73,960
Leasehold improvements	131,129	130,803
Furniture, fixtures and equipment	108,125	105,118
Construction in process	3,192	3,786
	331,381	332,031
Less accumulated depreciation and amortization	161,767	154,599
	\$169,614	177,432

Depreciation and amortization expense for the years ended December 31, 2019, 2018 and 2017 was \$19.6 million, \$17.1 million and \$17.4 million, respectively.

**7. Leases**

The Company adopted ASU 2016-02, “*Leases (Topic 842)*” and all subsequent ASUs that modified Topic 842 on January 1, 2019. Topic 842 requires 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. We have operating leases for corporate offices, branch locations and certain equipment. Our leases have remaining lease terms of up to 16 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year. Certain of our operating leases for branch locations contain variable lease payments related to consumer price index adjustments.

The following table presents the balance sheet information related to our leases:

	December 31, 2019
	(Dollars in thousands)
Operating lease right-of-use assets	\$175,143
Operating lease liabilities	185,827
Weighted average remaining lease term	9.7 years
Weighted average discount rate	2.74%

In determining the present value of lease payments, the discount rate used for each individual lease is the rate implicit in the lease, unless that rate cannot be readily determined, in which case the Company is required to use its incremental borrowing rate based on the information available at commencement date. For leases that existed at adoption, the Company used the remaining lease term as of January 1, 2019. For its incremental borrowing rate, the Company uses the borrowing rates offered to the Company by the Federal Home Loan Bank, which reflects the rates a lender would charge the Company to obtain a collateralized loan.

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The following table presents the components of total lease cost recognized in the Consolidated Statements of Income:

	<b>Year Ended December 31,</b>
	<b>2019</b>
	<b>(In thousands)</b>
<i>Included in office occupancy and equipment expense:</i>	
Operating lease cost	\$25,245
Short-term lease cost	306
Variable lease cost	(1)
<i>Included in other income:</i>	
Sublease income	268

Rental expense under these leases aggregated approximately \$24.4 million and \$23.7 million for the years ended December 31, 2018 and 2017, respectively.

The following table presents supplemental cash flow information related to leases:

	<b>Year Ended December 31,</b>
	<b>2019</b>
	<b>(In thousands)</b>
<i>Cash paid for amounts included in the measurement of operating lease liabilities:</i>	
Operating cash flows from operating leases	\$24,497
<i>Operating lease liabilities arising from obtaining right-of-use assets (non-cash):</i>	
Operating leases	2,996

Future minimum operating lease payments and reconciliation to operating lease liabilities at December 31, 2019:

	<b>December 31, 2019</b>
	<b>(In thousands)</b>
2020	\$ 24,013
2021	23,888
2022	22,270
2023	21,227
2024	21,162
Thereafter	100,662
Total lease payments	213,222
Less: Imputed interest	(27,395)
Total operating lease liabilities	<b>\$185,827</b>

At December 31, 2018, the Company's minimum operating lease payments for non-cancelable operating leases were \$24.4 million, \$23.8 million, \$23.4 million, \$21.7 million and \$20.7 million for 2019 through 2023, respectively, and \$119.9 million in the aggregate for all years thereafter.

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**8. Goodwill and Other Intangible Assets**

The following table summarizes goodwill and intangible assets at December 31, 2019 and 2018:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
	<b>(In thousands)</b>	
Mortgage servicing rights	\$12,125	11,712
Core deposit premiums	2,530	4,050
Other	668	755
Total other intangible assets	15,323	16,517
Goodwill	82,546	82,546
Goodwill and intangible assets	\$97,869	99,063

The following table summarizes other intangible assets as of December 31, 2019 and December 31, 2018:

	<b>Gross Intangible Asset</b>	<b>Accumulated Amortization</b>	<b>Valuation Allowance</b>	<b>Net Intangible Assets</b>
	<b>(In thousands)</b>			
<b>December 31, 2019</b>				
Mortgage Servicing Rights	\$19,368	(7,140)	(103)	12,125
Core Deposit Premiums	20,561	(18,031)	—	2,530
Other	1,150	(482)	—	668
Total other intangible assets	\$41,079	(25,653)	(103)	15,323
<b>December 31, 2018</b>				
Mortgage Servicing Rights	\$19,808	(7,921)	(175)	11,712
Core Deposit Premiums	25,058	(21,008)	—	4,050
Other	1,150	(395)	—	755
Total other intangible assets	\$46,016	(29,324)	(175)	16,517

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 \$1.67 billion and \$1.62 billion at December 31, 2019 and 2018, respectively, all of which relate to mortgage loans. At December 31, 2019 and 2018, the servicing asset, included in intangible assets, had an estimated fair value of \$14.1 million and \$14.9 million, respectively. For the year ended December 31, 2019, fair value was based on expected future cash flows considering a weighted average discount rate of 12.05%, a weighted average constant prepayment rate on mortgages of 11.04% and a weighted average life of 6.2 years.

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

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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>	<u>Other</u>
		(In thousands)	
2020	\$425	\$1,112	\$87
2021	442	756	67
2022	456	466	57
2023	470	195	57
2024	486	—	57

## 9. Deposits

Deposits are summarized as follows:

	<u>December 31,</u>					
	<u>2019</u>		<u>2018</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	— %	\$ 2,472,232	13.84%	— %	\$ 2,535,848	14.42%
<b>Interest-bearing:</b>						
Checking accounts	1.36%	5,512,979	30.87%	1.53%	4,783,563	27.21%
Money market deposits	1.50%	3,817,718	21.37%	1.55%	3,641,070	20.71%
Savings	0.86%	2,050,101	11.48%	0.64%	2,048,941	11.66%
Certificates of deposit	1.67%	4,007,308	22.44%	1.35%	4,570,847	26.00%
Total Deposits	1.21%	<u>\$17,860,338</u>	<u>100.00%</u>	1.16%	<u>\$17,580,269</u>	<u>100.00%</u>

Included in the above balances for the years ended December 31, 2019 and December 31, 2018 are money market deposits of \$266.4 million and \$311.0 million, respectively, obtained through brokers and certificates of deposit of \$1.31 billion and \$1.53 billion, respectively, obtained through brokers.

Scheduled maturities of certificates of deposit are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(In thousands)	
Within one year	\$3,627,229	3,724,359
One to two years	309,934	631,928
Two to three years	42,170	148,773
Three to four years	14,435	41,953
After four years	13,540	23,834
	<u>\$4,007,308</u>	<u>4,570,847</u>

The aggregate amount of certificates of deposit in denominations of \$100,000 or more totaled approximately \$2.93 billion and \$1.87 billion at December 31, 2019 and December 31, 2018, respectively.



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Interest expense on deposits consists of the following:

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Checking accounts	\$ 84,698	62,447	37,091
Money market deposits	60,896	46,394	34,366
Savings	17,148	13,240	8,395
Certificates of deposit	99,115	66,564	33,691
Total	<u>\$261,857</u>	<u>188,645</u>	<u>113,543</u>

**10. Borrowed Funds**

Borrowed funds are summarized as follows:

	December 31,			
	2019		2018	
	Principal	Weighted Average Rate	Principal	Weighted Average Rate
	(Dollars in thousands)			
Funds borrowed under repurchase agreements:				
Other brokers	\$ 447,910	2.16%	\$ 250,000	2.67%
Other borrowed funds:				
FHLB advances	4,979,201	2.06%	4,930,681	2.16%
Other	400,000	1.63%	255,000	2.60%
Total other borrowed funds:	<u>5,379,201</u>	2.02%	<u>5,185,681</u>	2.18%
Total borrowed funds	<u>\$5,827,111</u>	2.03%	<u>\$5,435,681</u>	2.20%

Borrowed funds had scheduled maturities as follows:

	December 31,			
	2019		2018	
	Principal	Weighted Average Rate	Principal	Weighted Average Rate
	(Dollars in thousands)			
Within one year	\$1,536,000	1.81%	\$1,405,130	2.24%
One to two years	525,000	1.82%	1,175,000	2.06%
Two to three years	1,199,958	2.06%	950,000	2.26%
Three to four years	1,694,526	2.20%	700,551	1.98%
Four to five years	571,627	2.10%	900,000	2.19%
After five years	300,000	2.36%	305,000	2.90%
Total borrowed funds	<u>\$5,827,111</u>	2.03%	<u>\$5,435,681</u>	2.20%

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.

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

	December 31,	
	2019	2018
	(Dollars in thousands)	
Amortized cost of collateral:		
Mortgage-backed securities	\$480,501	280,356
Total amortized cost of collateral	\$480,501	280,356
Fair value of collateral:		
Mortgage-backed securities	\$487,322	273,884
Total fair value of collateral	\$487,322	273,884

During the years ended December 31, 2019, 2018 and 2017, the maximum month-end balance of the repurchase agreements was \$447.9 million, \$280.0 million and \$153.0 million, respectively. The average amount of repurchase agreements outstanding during the years ended December 31, 2019, 2018 and 2017 was \$369.0 million, \$202.0 million and \$149.0 million, respectively, and the average interest rate was 2.45%, 2.68% and 2.11%, respectively.

At December 31, 2019, our borrowing capacity at the FHLB was \$12.45 billion, of which the Company had outstanding borrowings of \$9.01 billion, which included letters of credit totaling \$4.02 billion. In addition, the Bank had access to unsecured overnight borrowings (Fed Funds) with other financial institutions totaling \$750.0 million, of which \$400.0 million was outstanding at December 31, 2019.

In June 2019, we prepaid \$200.0 million of FHLB advances and a \$150.0 million repurchase agreement with a total average interest rate of 3.00% and maturity dates in 2020 and 2021. The prepaid borrowings were replaced with \$200.0 million of FHLB advances and a \$150.0 million repurchase agreement with a total average interest rate of 2.55% and maturity dates averaging 4 years. Included in the interest rate is a prepayment penalty of 0.47%. In August 2019, we prepaid \$275.0 million of FHLB advances with a total average interest rate of 2.46% and maturity dates in 2021. The prepaid borrowings were replaced with \$275.0 million of FHLB advances with a total average interest rate of 2.16% and maturity dates of 5 years. Included in the interest rate is a prepayment penalty of 0.27%. The prepayment penalties are amortized over the life of the new debt instruments in accordance with ASC 470-50, *Debt—Modifications and Extinguishments*.

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**11. Income Taxes**

The components of income tax expense are as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Current tax expense:			
Federal	\$32,881	34,668	47,101
State	12,743	17,661	6,736
	45,624	52,329	53,837
Deferred tax expense (benefit):			
Federal	28,784	16,979	105,044
State	16,840	(1,466)	(5,036)
	45,624	15,513	100,008
Total income tax expense	\$91,248	67,842	153,845

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 21% for the years ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
“Expected” federal income tax expense	\$60,214	56,788	98,206
State tax, net	19,075	12,487	6,051
Impact of tax law changes	7,823	(2,284)	49,164
Tax exempt interest	(1,519)	(974)	(1,094)
Non-deductible FDIC premiums	1,229	1,636	—
Bank owned life insurance	(1,374)	(1,242)	(1,310)
Excess tax deficiencies (benefits) from employee share-based payments	362	(1,073)	(1,722)
ESOP fair market value adjustment	529	653	1,237
Non-deductible compensation	4,538	2,187	1,451
Other	371	(336)	1,862
Total income tax expense	\$91,248	67,842	153,845

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

	December 31,	
	2019	2018
	(In thousands)	
Deferred tax asset:		
Employee benefits	\$ 17,934	27,315
Deferred compensation	562	845
Allowance for loan losses	60,869	67,079
Net unrealized loss on debt securities available-for-sale	—	7,880
Net unrealized loss on hedging activities	11,877	—
ESOP	3,826	3,623
Fair value adjustments related to acquisitions	11,436	15,189
Charitable contribution carryforward	—	888
Loan origination costs	7,510	8,325
State NOL	815	3,604
Other	958	1,775
Gross deferred tax asset	115,787	136,523
Deferred tax liability:		
Mortgage servicing rights	3,308	3,555
Premises and equipment	5,686	4,161
Net unrealized gain on debt securities available-for-sale	4,947	—
Net unrealized gain on hedging activities	—	4,946
Equipment financing	37,201	19,124
Other	425	326
Gross deferred tax liability	51,567	32,112
Net deferred tax asset	\$ 64,220	104,411

A deferred tax asset or liability is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of such deferred tax items is reduced by the amount that is more likely than not to be realized based on available evidence. 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. At December 31, 2019 and 2018, there was no valuation allowance.

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-measures 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. On July 1, 2018, New Jersey Assembly Bill 4202 was signed into law, providing significant revisions to New Jersey's Corporation Business Tax laws. The new legislation provided for temporary increases to the corporate income tax rate for tax years beginning on or after January 1, 2018, as well as mandatory combined reporting effective for tax years beginning after 2018. As of the date of enactment, the resulting impact of the re-measurement of the Company's deferred tax balances was an increase of \$2.3 million. In December 2019, a technical bulletin was issued by the State of New Jersey providing clarification on mandatory combined reporting, causing a remeasurement of the Company's deferred tax balances. This remeasurement resulted in a decrease of \$7.8 million to the deferred tax

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asset. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act. The new law reduced the federal corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. As of the date of enactment, the resulting impact of the re-measurement of the Company's deferred tax balances was a decrease of \$49.2 million.

At December 31, 2018, a valuation allowance that was previously established for the portion of the state tax benefit related to a prior year charitable contribution was reversed due to the enactment of the New Jersey tax reform, which allowed for charitable contributions at the Company's standalone entity level to be subtracted from the combined group's entire net income in future years. Due to the recent clarification, the Company will not be filing as part of the combined group, and therefore the state tax effect of the \$9.7 million charitable contribution was written off as of December 31, 2019.

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, 2019 included approximately \$45.2 million for which deferred income taxes of approximately \$12.4 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, 2019 and 2018.

The Company files income tax returns in the United States federal jurisdiction, New Jersey, New York and various other state jurisdictions. As of December 31, 2019, 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 2015 through 2017. Neither the Company nor its subsidiaries are currently under audit by any other state jurisdiction.

## **12. 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.

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 eliminated all future benefit accruals and each participant's frozen accrued benefit was determined as of December 31, 2016 with no further benefits accrued subsequent to December 31, 2016.

## INVESTORS BANCORP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

The funded status (fair value of plan assets divided by funding target) as of July 1, 2019 and 2018 was 88.08% and 90.00%, respectively. The fair value of plan assets reflects any contributions received through June 30, 2019.

The Company's required contribution and pension cost was \$4.8 million, \$3.8 million and \$1.6 million for the years ended December 31, 2019, 2018 and 2017, respectively. The accrued pension liability was \$686,000 and \$751,000 at December 31, 2019 and 2018, 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 2020 plan year is approximately \$5.0 million.

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

The Company has an Executive Supplemental Retirement Wage Replacement Plan ("SERP II") and the Supplemental ESOP and Retirement Plan ("SERP I") (collectively, the "SERPs"). The SERP II is a nonqualified, defined benefit plan which provides benefits to certain executives as designated by the Compensation and Benefits Committee of the Board of Directors. More specifically, the SERP II 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 the SERP I.

Effective as of the close of business of December 31, 2016, the SERP II was amended to freeze future benefit accruals subsequent to the 2016 year of service.

The SERP I compensates certain executives (as designated by the Compensation and Benefits 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 SERPs and the Directors' Plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The following table sets forth information regarding the SERP II and the Directors' Plan:

	December 31,	
	2019	2018
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 40,224	42,901
Interest cost	1,588	1,419
Gain due to change in mortality assumption	(423)	(100)
Loss (gain) due to change in discount rate	4,785	(2,822)
Loss due to demographic changes	133	122
Actuarial loss (gain)	591	(435)
Benefits paid	(889)	(861)
Benefit obligation at end of year	46,009	40,224
Funded status	\$(46,009)	(40,224)

The unfunded pension benefits of \$46.0 million and \$40.2 million at December 31, 2019 and 2018, respectively, are included in other liabilities in the consolidated balance sheets. The components of accumulated

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other comprehensive loss related to pension plans, on a pre-tax basis, at December 31, 2019 and 2018, are summarized in the following table.

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(In thousands)	
Net actuarial loss	<u>\$8,083</u>	<u>2,997</u>
Total amounts recognized in accumulated other comprehensive loss	<u>\$8,083</u>	<u>2,997</u>

The accumulated benefit obligation for the SERP II and the Directors' Plan was \$37.9 million and \$37.2 million at December 31, 2019 and 2018, respectively. The measurement date for our SERP II and Directors' Plan is December 31 for the years ended December 31, 2019 and 2018.

The weighted-average actuarial assumptions used in the plan determinations at December 31, 2019 and 2018 were as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Discount rate	2.88%	3.99%
Rate of compensation increase	— %	— %

The components of net periodic benefit cost are as follows:

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(In thousands)		
Service cost	\$ —	—	1,486
Interest cost	1,588	1,419	1,513
Amortization of:			
Net loss	<u>—</u>	<u>506</u>	<u>458</u>
Total net periodic benefit cost	<u>\$1,588</u>	<u>1,925</u>	<u>3,457</u>

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate	3.99%	3.34%	3.80%
Rate of compensation increase	— %	— %	— %

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

	<b>Amount</b>
	<b>(In thousands)</b>
2020	\$ 2,101
2021	2,744
2022	2,721
2023	2,933
2024	2,903
2025 through 2029	14,677

***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 years ended December 31, 2019, 2018 and 2017, the Company matched 50% of the first 8% contributed by the participants to the 401(k) plan. For the year ended December 31, 2019, the 401(k) plan included no discretionary profit sharing contribution. For the years ended December 31, 2018 and 2017, the 401(k) plan included a discretionary profit sharing contribution of 1% of eligible earnings for eligible employees. The Company's aggregate contributions to the 401(k) plan for the years ended December 31, 2019, 2018 and 2017 were \$3.6 million, \$4.8 million and \$4.9 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 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, 2019 was \$87.1 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, 2019, shares allocated to participants were 6,096,554 since the plan inception. ESOP shares that were unallocated or not yet committed to be released totaled 11,368,750 at December 31, 2019 and had a fair value of \$135.5 million. ESOP compensation expense recognized in the Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017 was \$5.1 million, \$5.5 million and \$5.8 million, respectively, representing the fair value of shares allocated or committed to be released during the year.

The SERP I also provides supplemental benefits to certain executives as designated by the Compensation and Benefits 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, 2019 and 2017, compensation expenses related to this plan amounted to \$827,000 and \$262,000. During the year ended December 31, 2018, the decline in our stock price resulted in a compensation benefit related to this plan of \$672,000.



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***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, 2019, the Company granted 2,360,919 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, 2019, the Company granted 995,216 stock options under the 2015 Plan.

During the year ended December 31, 2018, the Compensation and Benefits Committee approved the issuance of 91,982 restricted stock awards and 50,000 stock options to certain officers under the 2015 Plan. During the year ended December 31, 2018, it was determined that the performance-based stock awards granted during 2015 were achieved at 70% of target based upon the performance criteria. This resulted in 70% of these performance-based stock awards being earned and converted to time-based stock awards that vest over a service period and the balance being forfeited. During the year ended December 31, 2017, the Compensation and Benefits Committee approved the issuance of 440,000 restricted stock awards and 93,800 stock options to certain officers under the 2015 Plan.

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:

	<b>For the Year Ended December 31,</b>		
	<b>2019<sup>(1)</sup></b>	<b>2018</b>	<b>2017</b>
Weighted average expected life (in years)	4.83	6.50	6.50
Weighted average risk-free rate of return	1.86%	2.80%	2.05%
Weighted average volatility	19.92%	17.71%	24.12%
Dividend yield	3.96%	2.78%	2.45%
Weighted average fair value of options granted	\$ 0.89	\$ 1.94	\$ 2.91
Total stock options granted	995,216	50,000	93,800

<sup>(1)</sup> Includes assumptions for the Replacement Award granted in 2019.

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

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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, 2019, 2018 and 2017:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Stock option expense	\$ 5,935	5,554	5,994
Restricted stock expense	14,026	12,799	14,548
Total share-based compensation expense	\$19,961	18,353	20,542

The following is a summary of the status of the Company's restricted shares as of December 31, 2019 and changes therein during the year then ended:

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2018	3,477,747	\$12.69
Granted <sup>(1)</sup>	2,360,919	12.42
Vested	(1,022,664)	12.67
Forfeited <sup>(1)(2)</sup>	(1,921,650)	12.54
Outstanding and non-vested at December 31, 2019	2,894,352	\$12.57

<sup>(1)</sup> Reflects the impact of the shareholder litigation settlement as noted below.

<sup>(2)</sup> Excludes 19,138 shares forfeited in connection with the shareholder litigation settlement which had vested prior to December 31, 2018.

Expected future expenses relating to the non-vested restricted shares outstanding as of December 31, 2019 is \$27.6 million over a weighted average period of 2.85 years.

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, 2019:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	10,216,047	\$12.43	6.5	\$522
Granted <sup>(1)</sup>	995,216	12.53	5.7	
Exercised	(111,802)	7.28	3.0	
Forfeited <sup>(1)</sup>	(5,182,431)	12.53		
Expired	(262,569)	12.46		
Outstanding at December 31, 2019	5,654,461	\$12.46	5.5	\$363
Exercisable at December 31, 2019	2,955,780	\$12.39	5.5	\$356

<sup>(1)</sup> Reflects the impact of the shareholder litigation settlement as noted below.

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The weighted average grant date fair value of options granted during the years ended December 31, 2019, 2018 and 2017 were \$0.89, \$1.94 and \$2.91 per share, respectively. Expected future expense relating to the non-vested options outstanding as of December 31, 2019 is \$9.4 million over a weighted average period of 2.04 years.

***Shareholder Litigation Settlement***

On March 6, 2019, a Stipulation and Agreement of Compromise, Settlement and Release was filed in the Court of Chancery of the State of Delaware (the “Court”) in relation to a lawsuit involving the Company and certain of its current and former directors entitled *In re Investors Bancorp Inc. Stockholder Litigation*, C.A. No. 12327-VCS (the “Settlement”). The Settlement resolves a lawsuit challenging the equity compensation granted on or about June 23, 2015 to persons who were then-directors of the Company.

On June 21, 2019, the Court entered an order approving the Settlement. Following the expiration of a thirty-day appeal period, the Settlement became effective. Accordingly, pursuant to the Settlement (i) all of the stock options granted to non-employee directors (excluding Brendan J. Dugan who is deceased) and stock options granted to Paul Stathouloupoulos (who was not a director of the Company at the time of the equity grant on or about June 23, 2015), have been surrendered; (ii) a total of 95,694 shares of the restricted stock granted to the then non-employee directors of the Company (excluding Brendan J. Dugan) and to then non-director Paul Stathouloupoulos scheduled to vest in 2020 have been surrendered; and (iii) 925,000 shares of restricted stock and 1,333,333 stock options granted to the Company’s Chief Executive Officer and 740,000 shares of restricted stock and 1,066,667 stock options granted to the Company’s President have been surrendered. As a result of the Settlement, the Company recorded \$2.0 million of accelerated stock compensation expense during the third quarter of 2019.

The Compensation and Benefits Committee, with the assistance of its independent legal advisor and compensation consultant, considered the issuance of equity grants to both the Company’s Chief Executive Officer and President to replace those being surrendered pursuant to the Settlement. On May 20, 2019, the Compensation and Benefits Committee authorized and approved, and recommended to the Board of Directors (the “Board”), the issuance of (i) 925,000 shares of restricted stock and 525,120 stock options to the Company’s Chief Executive Officer, and (ii) 740,000 shares of restricted stock and 420,096 stock options to the Company’s President (the “Replacement Awards”). The Board, excluding both the Company’s Chief Executive Officer and President, determined that it was advisable and in the best interests of the Company to approve and issue the Replacement Awards, subject to the surrender of awards pursuant to the Settlement.

The Replacement Awards were subsequently issued to both the Company’s Chief Executive Officer and President on July 22, 2019. The Replacement Awards were issued from the 2015 Equity Incentive Plan and were accounted for as a modification of the original awards, which resulted in no incremental expense as the compensation cost of the Replacement Awards was less than the compensation cost of the original awards. The stock options have an exercise price of \$12.54 per share and vested 25% on July 22, 2019 with the remaining to vest ratably over a three-year period. Approximately 59% of the restricted shares vested on July 22, 2019 with the remainder to vest on the same vesting schedule as applicable to the June 23, 2015 award.

On September 26, 2019, a related shareholder derivative action was filed in the Delaware Chancery Court. The complaint claims breach of fiduciary duty on the part of the Company’s Board of Directors in the issuance of the replacement awards to both the Company’s Chief Executive Officer and President in connection with the settlement of the case referenced above.

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**13. 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, 2019, 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. See Note 7, Leases, for further details on rental commitments.

***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.

At December 31, 2019, the Company had commitments to originate total commercial loans of \$407.3 million. Additionally, the Company had commitments to originate residential loans of approximately \$36.5 million. While we purchased residential loans from correspondent banks during 2019, we no longer purchase such loans and have no such commitment as of December 31, 2019. Unused home equity lines of credit and undisbursed business and construction lines totaled approximately \$1.62 billion at December 31, 2019. 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.

Our portfolio contains interest-only and no income verification mortgage loans. At December 31, 2019 and 2018, interest-only residential and consumer loans totaled \$28.3 million and \$43.7 million, respectively, which represented less than 1% of the residential and consumer portfolio. We no longer originate residential mortgage loans without verifying income. At December 31, 2019 and 2018, these loans totaled \$143.1 million and

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\$172.4 million. From time to time and for competitive purposes, we originate interest-only commercial real estate and multi-family loans. As of December 31, 2019 and 2018, these loans totaled \$1.23 billion and \$1.19 billion, respectively. As part of its underwriting, these loans are evaluated as fully amortizing for risk classification purposes, with the interest-only period ranging from one to ten years. In addition, the Company evaluates its policy limits on a regular basis. We believe these criteria adequately control the potential risks of such loans 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 and loans. During the year ended December 31, 2019, such derivatives were used (i) to hedge the variability in cash flows associated with borrowings and (ii) to hedge changes in the fair value of certain pools of prepayable fixed-rate assets. These derivatives had an aggregate notional amount of \$2.68 billion as of December 31, 2019. The fair value of derivatives designated as hedging activities as of December 31, 2019 was an asset of \$559,000, inclusive of accrued interest and variation margin posted in accordance with the Chicago Mercantile Exchange. The Company has also entered into derivatives not designated as hedging activities resulting from participations in interest rate swaps provided to external lenders as part of loan participation arrangements and interest rate risk management services to commercial customers utilizing interest rate swaps. The fair value of the derivatives resulting from participations in interest rate swaps provided to lenders was a liability of \$125,000 as of December 31, 2019. The fair value of the derivatives resulting from customer interest rate risk management services was an asset of \$5.4 million as of December 31, 2019.

In connection with its mortgage banking activities, the Company has certain freestanding derivative instruments. At December 31, 2019, the Company had commitments of approximately \$62.6 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 \$43.9 million to sell loans at December 31, 2019. 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 \$30.8 million at December 31, 2019. The fair values of these obligations were immaterial at December 31, 2019. At December 31, 2019, the Company had no commercial letters of credit outstanding.

***Other Commitments***

During the year ended December 31, 2019, the Company invested in a low income housing tax credit program that qualifies for community reinvestment tax credits. These commitments are payable on demand and are recorded in other liabilities on our Consolidated Balance Sheets. Total commitments entered into in 2019 equal \$10.0 million, of which the remaining commitment outstanding equals \$9.2 million as of December 31, 2019.

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**14. Derivatives and Hedging Activities**

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters 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 floating rate borrowings and pools of fixed-rate assets.

***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. Changes in the fair value of derivatives designated and that qualify as cash flow hedges are initially recorded in other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Such derivatives were used to hedge the variability in cash flows associated with borrowings.

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 \$10.2 million will be reclassified as an increase to interest expense.

***Fair Value Hedges of Interest Rate Risk***

The Company is exposed to changes in the fair value of certain of its fixed- and adjustable-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Such derivatives were used to hedge the changes in fair value of certain of its pools of prepayable fixed- and adjustable-rate assets.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

The Company terminated three interest rate swaps with an aggregate notional amount of \$1.00 billion during the year ended December 31, 2019. The terminated swaps were due to mature in February 2020.

***Derivatives Not Designated as Hedges***

The Company has credit derivatives resulting from participations in interest rate swaps provided to external lenders as part of loan participation arrangements which are, therefore, not used to manage interest rate risk in the

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Company's assets or liabilities. Additionally, the Company provides interest rate risk management services to commercial customers, primarily interest rate swaps. The Company's market risk from unfavorable movements in interest rates related to these derivative contracts is economically hedged by concurrently entering into offsetting derivative contracts that have identical notional values, terms and indices.

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain lenders which participate in loans and commercial customers.

***Fair Values of Derivative Instruments on the Balance Sheet***

	Asset Derivatives						Liability Derivatives					
	At December 31, 2019			At December 31, 2018			At December 31, 2019			At December 31, 2018		
	Balance Sheet		Notional amount	Balance Sheet		Notional amount	Balance Sheet		Notional amount	Balance Sheet		Notional amount
	Location	Fair Value		Location	Fair Value		Location	Fair Value		Location	Fair Value	
(In millions)	(In thousands)	(In millions)	(In thousands)	(In millions)	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)		
Derivatives designated as hedging instruments:												
Interest												
Rate Swaps	\$2,675	Other assets	\$ 559	\$—	Other assets	\$—	\$—	Other liabilities	\$—	\$2,605	Other liabilities	\$432
Total derivatives designated as hedging instruments			\$ 559			\$—			\$—			\$432
Derivatives not designated as hedging instruments:												
Interest												
Rate Swaps	\$652	Other assets	\$5,430	\$—	Other assets	\$—	\$—	Other liabilities	\$—	\$ —	Other liabilities	\$—
Other Contracts	—	Other assets	—	—	Other assets	—	22	Other liabilities	125	18	Other liabilities	66
Total derivatives not designated as hedging instruments			\$5,430			\$—			\$125			\$ 66

The Chicago Mercantile Exchange ("CME") legally characterizes the variation margin posted between counterparties as settlements of the outstanding derivative contracts instead of cash collateral.

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***Effect of Derivative Instruments on Accumulated Other Comprehensive Income (Loss)***

The following table presents the effect of the Company's derivative financial instruments on the Accumulated Comprehensive Income (Loss) as of December 31, 2019 and 2018.

	Years Ended December 31,	
	2019	2018
	(In thousands)	
<b>Cash Flow Hedges — Interest rate swaps</b>		
Amount of (loss) gain recognized in other comprehensive income (loss)	\$(56,448)	\$ 893
Amount of gain reclassified from accumulated other comprehensive income (loss) to interest expense	3,399	2,056

***Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships***

The following table presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income as of December 31, 2019 and 2018.

	Income statement location	Years Ended December 31,	
		2019	2018
		(In thousands)	
<b>The effects of fair value and cash flow hedging:</b>			
<b>Gain or (loss) on fair value hedging relationships in Subtopic 815-20</b>			
Interest contracts			
Hedged items	Interest income on loans	\$ 6,287	\$ 294
Derivatives designated as hedging instruments <sup>(1)</sup>	Interest income on loans	(6,712)	(366)
<b>Gain or (loss) on cash flow hedging relationships in Subtopic 815-20</b>			
Interest contracts			
Amount of gain reclassified from accumulated other comprehensive income (loss)	Interest expense on borrowings	3,399	2,056
Amount of gain or (loss) reclassified from accumulated other comprehensive income (loss) as a result that a forecasted transaction is no longer probable of occurring	Interest expense on borrowings	—	—
Total amounts of income and expense line items presented in the income statement in which the effects of fair value are recorded		\$ 2,974	\$1,984

<sup>(1)</sup> The amount includes gains on both active fair value hedging relationships and relationships which have been terminated.



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As of December 31, 2019 and 2018, the following amounts were recorded on the Consolidated Balance Sheets related to cumulative basis adjustment for fair value hedges:

<u>Balance sheet location</u>	<u>Carrying Amount of the Hedged Assets/(Liabilities)</u>		<u>Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities)</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	(In thousands)			
Loans receivable, net <sup>(1)</sup>	\$478,120	\$1,005,294	\$6,426	\$294

- <sup>(1)</sup> At December 31, 2019, the amortized cost basis of the closed portfolios used in these hedging relationships was \$1.41 billion; the cumulative basis adjustments associated with these hedging relationships was \$6.4 million; and the amounts of the designated hedged items were \$478.1 million.
- <sup>(2)</sup> The balance of Cumulative Amount of Fair Value Hedging Adjustment included in the Carrying Amount of the Hedged Assets/(Liabilities) as of December 31, 2019 includes \$3.3 million of hedging adjustment on discontinued hedging relationships.

***Location and Amount of Gain or (Loss) Recognized in Income on Derivatives Not Designated as Hedging Instruments***

The table below presents the effect of the Company's derivative financial instruments that are not designated as hedging instruments on the Consolidated Statements of Income as of December 31, 2019:

	<u>Consolidated Statements of Income location</u>	<u>Amount of Gain or (Loss) Recognized in Income on Derivative</u>	
		<u>Years Ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
		(In thousands)	
Other Contracts	Other income / (expense)	\$(5)	211
Total		<u>\$(5)</u>	<u>211</u>

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**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, 2019 and December 31, 2018. The net amounts of derivative liabilities and assets can be reconciled to the tabular disclosure of the fair value hierarchy, see Note 15, 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.

	<u>Gross Amounts Recognized</u>	<u>Gross Amounts Offset</u>	<u>Net Amounts Presented</u>	<u>Gross Amounts Not Offset</u>		<u>Net Amount</u>
				<u>Financial Instruments</u>	<u>Cash Collateral Posted</u>	
(In thousands)						
<b>December 31, 2019</b>						
<b>Assets:</b>						
Derivative contracts	\$821	\$—	\$821	\$—	\$—	\$821
<b>Liabilities:</b>						
Derivative contracts	\$125	\$—	\$125	\$—	\$—	\$125
<b>December 31, 2018</b>						
<b>Liabilities:</b>						
Derivative contracts	\$498	\$—	\$498	\$—	\$—	\$498

**15. Fair Value Measurements**

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our debt 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 debt 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.

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures", we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- 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.
- 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.

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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***

**Equity securities**

Our equity securities portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses recognized in the Consolidated Statements of Income. The fair values of equity securities are based on quoted market prices (Level 1).

**Debt securities available-for-sale**

Our debt securities 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 debt securities available-for-sale are based upon quoted prices for similar instruments in active markets (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 and risk participation 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, 2019 and December 31, 2018.

	Carrying Value at December 31, 2019			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets:</b>				
Equity securities	\$ 6,039	6,039	—	—
Debt securities available for sale:				
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	1,240,379	—	1,240,379	—
Federal National Mortgage Association	1,178,049	—	1,178,049	—
Government National Mortgage Association	276,962	—	276,962	—
Total debt securities available-for-sale	<u>\$2,695,390</u>	<u>—</u>	<u>2,695,390</u>	<u>—</u>
Interest rate swaps	<u>\$ 5,989</u>	<u>—</u>	<u>5,989</u>	<u>—</u>
<b>Liabilities:</b>				
Derivatives:				
Other contracts	125	—	125	—
Total derivatives	<u>\$ 125</u>	<u>—</u>	<u>125</u>	<u>—</u>

	Carrying Value at December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets:</b>				
Equity securities	\$ 5,793	5,793	—	—
Debt securities available for sale:				
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	\$ 986,650	—	986,650	—
Federal National Mortgage Association	968,556	—	968,556	—
Government National Mortgage Association	166,956	—	166,956	—
Total debt securities available-for-sale	<u>\$2,122,162</u>	<u>—</u>	<u>2,122,162</u>	<u>—</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swaps	\$ 432	—	432	—
Other contracts	66	—	66	—
Total derivatives	<u>\$ 498</u>	<u>—</u>	<u>498</u>	<u>—</u>

There have been no changes in the methodologies used at December 31, 2019 from December 31, 2018, and there were no transfers between Level 1 and Level 2 during the year ended December 31, 2019.

There were no Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2019 and December 31, 2018.

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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, 2019, the fair value model used prepayment speeds ranging from 6.60% to 29.10% and a discount rate of 12.05% for the valuation of the mortgage servicing rights. At December 31, 2018, the fair value model used prepayment speeds ranging from 4.98% to 27.30% and a discount rate of 12.50% 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 individually evaluated 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 appraiser 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. Appraisals were generally discounted in a range of 0% to 25%. 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 and Other Repossessed Assets**

Other Real Estate Owned and Other Repossessed Assets are recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value of foreclosed real estate property 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% to 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 and repossessed 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.

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### Notes to Consolidated Financial Statements

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, 2019 and December 31, 2018. For the three months ended December 31, 2019 there was no change to the carrying value of impaired loans or loans held for sale. For the three months ended December 31, 2018, there was no change to the carrying value of MSR or loans held for sale.

Security Type	Valuation Technique	Unobservable Input	Range		Weighted Average Input	Carrying Value at December 31, 2019			
			Minimum	Maximum		Total	Level 1	Level 2	Level 3
			(In thousands)						
MSR, net	Estimated cash flow	Prepayment speeds	6.6%	29.1%	11.04%	\$10,409	—	—	10,409
Other real estate owned	Market comparable	Lack of marketability	0.0%	25.0%	2.70%	262	—	—	262
						<u>\$10,671</u>	<u>—</u>	<u>—</u>	<u>10,671</u>

Security Type	Valuation Technique	Unobservable Input	Range		Weighted Average Input	Carrying Value at December 31, 2018			
			Minimum	Maximum		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%	83.0%	11.20%	\$15,148	—	—	15,148
Other real estate owned	Market comparable	Lack of marketability	0.0%	25.0%	10.50%	241	—	—	241
						<u>\$15,389</u>	<u>—</u>	<u>—</u>	<u>15,389</u>

#### **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.

#### **Debt Securities Held-to-Maturity**

Our debt securities 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 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

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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 estimates are made at a specific point in time based on relevant market information. They do not reflect any premium or discount that could result from offering for sale a particular financial instrument. Fair value estimates are based on judgments regarding future expected loss experience, risk characteristics and economic conditions. These estimates are subjective, involve uncertainties, and cannot be determined with precision.

**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.

**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

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### Notes to Consolidated Financial Statements

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, 2019				
	Carrying value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
(In thousands)					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 174,915	174,915	174,915	—	—
Equities	6,039	6,039	6,039	—	—
Debt securities available-for-sale	2,695,390	2,695,390	—	2,695,390	—
Debt securities held-to-maturity	1,148,815	1,190,104	—	1,116,771	73,333
FHLB stock	267,219	267,219	267,219	—	—
Loans held for sale	29,797	29,797	—	29,797	—
Net loans	21,476,056	21,563,627	—	—	21,563,627
Derivative financial instruments	5,989	5,989	—	5,989	—
<b>Financial liabilities:</b>					
Deposits, other than time deposits	\$13,853,030	13,853,030	13,853,030	—	—
Time deposits	4,007,308	4,007,342	—	4,007,342	—
Borrowed funds	5,827,111	5,834,895	—	5,834,895	—
Derivative financial instruments	125	125	—	125	—
<b>December 31, 2018</b>					
	Carrying value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
(In thousands)					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 196,891	196,891	196,891	—	—
Equities	5,793	5,793	5,793	—	—
Debt securities available-for-sale	2,122,162	2,122,162	—	2,122,162	—
Debt securities held-to-maturity	1,555,137	1,558,564	—	1,476,565	81,999
FHLB stock	260,234	260,234	260,234	—	—
Loans held for sale	4,074	4,074	—	4,074	—
Net loans	21,378,136	21,085,185	—	—	21,085,185
<b>Financial liabilities:</b>					
Deposits, other than time deposits	\$13,009,422	13,009,422	13,009,422	—	—
Time deposits	4,570,847	4,546,991	—	4,546,991	—
Borrowed funds	5,435,681	5,398,553	—	5,398,553	—
Derivative financial instruments	498	498	—	498	—

### 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



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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.

### **16. 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 commenced on January 1, 2016 at 0.625% and increased in annual increments 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, 2019, the Company and the Bank met the currently applicable Conservation Buffer of 2.5%.

As of December 31, 2019, 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 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.

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The following is a summary of the Bank and the Company's actual capital amounts and ratios as of December 31, 2019 compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution.

	Actual		Minimum Capital Requirement with Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Provisions <sup>(2)</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>As of December 31, 2019<sup>(1)</sup></b>						
Bank:						
Tier 1 Leverage Ratio	\$2,197,188	8.22%	\$1,069,276	4.000%	\$1,336,595	5.00%
Common equity tier 1 risk-based	2,197,188	11.03%	1,394,527	7.000%	1,294,918	6.50%
Tier 1 Risk-Based Capital	2,197,188	11.03%	1,693,355	8.500%	1,593,746	8.00%
Total Risk-Based Capital	2,426,233	12.18%	2,091,791	10.500%	1,992,182	10.00%
Investors Bancorp, Inc:						
Tier 1 Leverage Ratio	\$2,553,447	9.53%	\$1,072,095	4.000%	n/a	n/a
Common equity tier 1 risk-based	2,553,447	12.78%	1,399,008	7.000%	n/a	n/a
Tier 1 Risk-Based Capital	2,553,447	12.78%	1,698,795	8.500%	n/a	n/a
Total Risk-Based Capital	2,782,493	13.92%	2,098,512	10.500%	n/a	n/a

	Actual		Minimum Capital Requirement with Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Provisions <sup>(2)</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>As of December 31, 2018<sup>(1)</sup></b>						
Bank:						
Tier 1 Leverage Ratio	\$2,660,183	10.28%	\$1,034,893	4.000%	\$1,293,616	5.00%
Common equity tier 1 risk-based	2,660,183	13.41%	1,264,973	6.375%	1,289,776	6.50%
Tier 1 Risk-Based Capital	2,660,183	13.41%	1,562,613	7.875%	1,587,417	8.00%
Total Risk-Based Capital	2,896,998	14.60%	1,959,467	9.875%	1,984,271	10.00%
Investors Bancorp, Inc:						
Tier 1 Leverage Ratio	\$2,925,743	11.29%	\$1,036,821	4.000%	n/a	n/a
Common equity tier 1 risk-based	2,925,743	14.71%	1,267,950	6.375%	n/a	n/a
Tier 1 Risk-Based Capital	2,925,743	14.71%	1,566,291	7.875%	n/a	n/a
Total Risk-Based Capital	3,162,558	15.90%	1,964,080	9.875%	n/a	n/a

(1) 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.

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

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**17. 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.

**Balance Sheets**

	December 31,	
	2019	2018
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 209,879	145,570
Equity securities	1,033	1,033
Debt securities held-to-maturity (estimated fair value of \$25,362 and \$5,034 at December 31, 2019 and 2018, respectively)	25,000	5,000
Investment in subsidiary	2,265,690	2,739,770
ESOP loan receivable	87,148	88,885
Other assets	37,973	38,604
Total Assets	\$2,626,723	3,018,862
Liabilities and Stockholders' Equity:		
Total liabilities	\$ 4,773	13,531
Total stockholders' equity	2,621,950	3,005,331
Total Liabilities and Stockholders' Equity	\$2,626,723	3,018,862

**Statements of Operations**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Income:			
Interest on ESOP loan receivable	\$ 4,889	4,086	3,481
Dividend from subsidiary	675,000	289,200	131,400
Interest on deposit with subsidiary	2	2	2
Interest and dividends on investments	424	256	277
Gain on securities, net	—	130	—
Other income	12	11	2
	680,327	293,685	135,162
Expenses:			
Interest expense	193	193	144
Other expenses	2,265	2,671	2,578
Income before income tax expense	677,869	290,821	132,440
Income tax expense	1,457	43	276
Income before undistributed earnings of subsidiary	676,412	290,778	132,164
(Dividend in excess of earnings) equity in undistributed earnings of subsidiary	(480,928)	(88,202)	(5,420)
Net income	\$ 195,484	202,576	126,744

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**Other Comprehensive Income**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Net income	\$195,484	202,576	126,744
Other comprehensive income, net of tax:			
Unrealized gain on securities	—	—	534
Total other comprehensive income	—	—	534
Total comprehensive income	<u>\$195,484</u>	<u>202,576</u>	<u>127,278</u>

**Statements of Cash Flows**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 195,484	202,576	126,744
Adjustments to reconcile net income to net cash provided by operating activities:			
Dividend in excess of earnings (equity in undistributed earnings of subsidiary)	480,928	88,202	5,420
Gain on securities transactions, net	—	(130)	—
Decrease in other assets	11,362	19,409	14,678
(Decrease) Increase in other liabilities	(2,906)	4,374	1,346
Net cash provided by operating activities	<u>684,868</u>	<u>314,431</u>	<u>148,188</u>
Cash flows from investing activities:			
Purchases of debt securities held-to-maturity	(20,000)	—	—
Proceeds from principal repayments on equity securities	—	—	1,000
Principal collected on ESOP loan	1,737	1,909	2,045
Net cash (used in) provided by investing activities	<u>(18,263)</u>	<u>1,909</u>	<u>3,045</u>
Cash flows from financing activities:			
Loan to ESOP	(5,000)	—	—
Purchase of treasury stock	(475,946)	(258,175)	(59,090)
Exercise of stock options	813	5,743	9,141
Dividends paid	(122,163)	(113,186)	(101,550)
Net cash used in financing activities	<u>(602,296)</u>	<u>(365,618)</u>	<u>(151,499)</u>
Net increase (decrease) in cash and cash equivalents	64,309	(49,278)	(266)
Cash and cash equivalents at beginning of year	<u>145,570</u>	<u>194,848</u>	<u>195,114</u>
Cash and cash equivalents at end of year	<u>\$ 209,879</u>	<u>145,570</u>	<u>194,848</u>

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**18. Selected Quarterly Financial Data (Unaudited)**

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2019 and 2018.

	<b>2019 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	(In thousands, except per share data)			
Interest and dividend income	\$256,217	259,068	264,554	260,380
Interest expense	93,539	99,900	100,102	91,605
Net interest income	162,678	159,168	164,452	168,775
Provision for loan losses	3,000	(3,000)	(2,500)	1,500
Net interest income after provision for loan losses	159,678	162,168	166,952	167,275
Non-interest income	11,194	6,981	14,780	20,458
Non-interest expenses	103,409	103,804	108,718	106,823
Income before income tax expense	67,463	65,345	73,014	80,910
Income tax expense	19,305	18,721	21,042	32,180
Net income	\$ 48,158	46,624	51,972	48,730
Basic earnings per common share	\$ 0.18	0.18	0.20	0.19
Diluted earnings per common share	\$ 0.18	0.18	0.20	0.19

	<b>2018 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	(In thousands, except per share data)			
Interest and dividend income	\$231,567	238,402	244,026	254,421
Interest expense	59,083	67,101	77,100	85,115
Net interest income	172,484	171,301	166,926	169,306
Provision for loan losses	2,500	4,000	2,000	3,500
Net interest income after provision for loan losses	169,984	167,301	164,926	165,806
Non-interest income	9,110	11,478	10,287	(20,794)
Non-interest expenses	101,085	102,584	101,788	102,223
Income before income tax expense	78,009	76,195	73,425	42,789
Income tax expense	20,084	19,098	19,201	9,459
Net income	\$ 57,925	57,097	54,224	33,330
Basic earnings per common share	\$ 0.20	0.20	0.19	0.12
Diluted earnings per common share	\$ 0.20	0.20	0.19	0.12

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**19. 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,		
	2019	2018	2017
	(Dollars in thousands, except per share data)		
<b>Earnings for basic and diluted earnings per common share</b>			
Earnings applicable to common stockholders	\$ 195,484	\$ 202,576	\$ 126,744
<b>Shares</b>			
Weighted-average common shares outstanding — basic	262,202,598	281,925,219	290,183,952
Effect of dilutive common stock equivalents <sup>(1)</sup>	317,190	866,640	1,782,523
Weighted-average common shares outstanding — diluted	262,519,788	282,791,859	291,966,475
<b>Earnings per common share</b>			
Basic	\$ 0.75	\$ 0.72	\$ 0.44
Diluted	\$ 0.74	\$ 0.72	\$ 0.43

<sup>(1)</sup> For the years ended December 31, 2019, 2018 and 2017, there were 6,468,307, 9,761,548, and 10,246,677 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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**20. Comprehensive Income**

The components of comprehensive income, gross and net of tax, are as follows:

	Year Ended December 31, 2019			Year Ended December 31, 2018			Year Ended December 31, 2017		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
	(Dollars in thousands)								
Net income	\$286,732	(91,248)	195,484	270,418	(67,842)	202,576	280,589	(153,845)	126,744
Other comprehensive (loss) income:									
Change in funded status of retirement obligations	(5,108)	1,436	(3,672)	3,647	(1,025)	2,622	313	(1,058)	(745)
Unrealized gains (losses) on debt securities available-for-sale	44,934	(10,815)	34,119	(15,925)	4,629	(11,296)	(7,714)	(434)	(8,148)
Accretion of loss on debt securities reclassified to held-to-maturity from available-for-sale	777	(242)	535	834	(235)	599	1,243	(775)	468
Reclassification adjustment for security losses (gains) included in net income	5,690	(1,469)	4,221	32,848	(8,646)	24,202	(1,275)	510	(765)
Other-than-temporary impairment accretion on debt securities	1,068	(300)	768	4,291	(1,206)	3,085	1,614	(3,226)	(1,612)
Net (losses) gains on derivatives arising during the period	(59,847)	16,823	(43,024)	(1,163)	327	(836)	6,209	(146)	6,063
Total other comprehensive (loss) income	(12,486)	5,433	(7,053)	24,532	(6,156)	18,376	390	(5,129)	(4,739)
Total comprehensive income	<u>\$274,246</u>	<u>(85,815)</u>	<u>188,431</u>	<u>294,950</u>	<u>(73,998)</u>	<u>220,952</u>	<u>280,979</u>	<u>(158,974)</u>	<u>122,005</u>

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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, 2019 and 2018:

	Change in funded status of retirement obligations	Accretion of loss on debt securities reclassified to held-to- maturity	Unrealized (losses) gains on debt securities available- for-sale and gains included in net income	Other-than- temporary impairment accretion on debt securities	Unrealized gains (losses) on derivatives	Total accumulated other comprehensive loss
	(Dollars in thousands)					
Balance — December 31, 2018	\$(3,018)	(921)	(8,884)	(11,397)	12,651	(11,569)
Net change	(3,672)	535	38,340	768	(43,024)	(7,053)
Balance — December 31, 2019	<u>\$(6,690)</u>	<u>(386)</u>	<u>29,456</u>	<u>(10,629)</u>	<u>(30,373)</u>	<u>(18,622)</u>
Balance — December 31, 2017	\$(5,640)	(1,520)	(21,184)	(14,482)	13,487	(29,339)
Net change	2,622	599	12,906	3,085	(836)	18,376
Reclassification due to the adoption of ASU No. 2016-01	—	—	(606)	—	—	(606)
Balance — December 31, 2018	<u>\$(3,018)</u>	<u>\$(921)</u>	<u>\$(8,884)</u>	<u>\$(11,397)</u>	<u>\$12,651</u>	<u>\$(11,569)</u>

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.

	Year Ended December 31,	
	2019	2018
	(In thousands)	
<i>Reclassification adjustment for losses included in net income</i>		
Loss on securities, net	\$ 5,690	32,848
<i>Change in funded status of retirement obligations</i>		
Adjustment of net obligation	56	(137)
Amortization of net (gain) loss	(8)	517
Compensation and fringe benefits	48	380
<i>Reclassification adjustment for unrealized gains on derivatives</i>		
Interest expense	(3,399)	(2,056)
Total before tax	2,339	31,172
Income tax expense	(403)	(8,226)
Net of tax	<u>\$ 1,936</u>	<u>22,946</u>

## 21. Revenue Recognition

The Company's contracts with customers in the scope of Topic 606, *Revenue from Contracts with Customers*, are contracts for deposit accounts and contracts for non-deposit investment accounts through a third-party service provider. Both types of contracts result in non-interest income being recognized. The revenue



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resulting from deposit accounts, which includes fees such as insufficient funds fees, wire transfer fees and out-of-network ATM transaction fees, is included as a component of fees and service charges on the consolidated statements of income. The revenue resulting from non-deposit investment accounts is included as a component of other income on the Consolidated Statements of Income.

Revenue from contracts with customers included in fees and service charges and other income was as follows:

	<b>For the Year Ended December 31,</b>		
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
	<b>(In thousands)</b>		
<i>Revenue from contracts with customers included in:</i>			
Fees and service charges	\$15,780	13,394	12,868
Other income	<u>9,520</u>	<u>8,321</u>	<u>4,929</u>
Total revenue from contracts with customers	<u><u>\$25,300</u></u>	<u><u>21,715</u></u>	<u><u>17,797</u></u>

For our contracts with customers, we satisfy our performance obligations each day as services are rendered. For our deposit account revenue, we receive payment on a daily basis as services are rendered and for our non-deposit investment account revenue, we receive payment on a monthly basis from our third-party service provider as services are rendered.

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**22. Recent Accounting Pronouncements**

**Standards Adopted in 2019**

<u>Standard</u>	<u>Description</u>	<u>Required date of adoption</u>	<u>Effect on Consolidated Financial Statements</u>
Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments	This ASU makes clarifications and corrections to the application of the guidance contained in each of the amended topics. Regarding Topic 815, ASU 2019-04 amends guidance pertaining to partial-term fair value hedges of interest rate risk, disclosure of fair value hedge basis adjustments, and scope for not-for-profit entities. For Topic 825, the amendments provide scope clarifications for Subtopics 320-10, Investments-Debt and Equity Securities-Overall, and 321-10, Investments-Equity Securities-Overall, held-to-maturity debt securities fair value disclosures, and remeasurement of equity securities at historical exchange rates. Improvements to Topic 326 include, among others, conforming amendments to Subtopics 310-40, Receivables-Troubled Debt Restructurings by Creditors, and 323-10, Investments-Equity Method and Joint Ventures-Overall, clarification that reinsurance recoverables are within the scope of Subtopic 326-20, Financial Instruments-Credit Losses-Measured at Amortized Cost, and consideration of estimated costs to sell when foreclosure is probable.	January 1, 2020 Early adoption permitted	The Company early adopted ASU 2019-04 on June 13, 2019. Since the Company has already adopted ASUs 2016-01 and 2017-12, the related amendments were effective for the Company as of June 13, 2019. As part of the adoption, the Company reclassified \$393.1 million of debt securities held-to-maturity to debt securities available-for-sale. The Company did not reclassify debt securities from held-to-maturity to available-for-sale upon adoption of the amendments in ASU 2017-12. Entities that did not reclassify debt securities from held-to-maturity to available-for-sale upon adoption of the amendments in ASU 2017-12 and elect to reclassify debt securities upon adoption of the amendments in this update are required to reflect the reclassification as of the date of adoption of this update. Entities that reclassified debt securities from held to-maturity to available-for-sale upon adoption of the amendments in ASU 2017-12 are not permitted to make any additional reclassifications.

FORM 10-K

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

<u>Standard</u>	<u>Description</u>	<u>Required date of adoption</u>	<u>Effect on Consolidated Financial Statements</u>
Leases (Topic 842)	The amendment 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. ASU 2018-01 provides an optional practical expedient to not evaluate land easements which were existing or expired before the adoption of Topic 842 that were not accounted for as leases under Topic 840. ASU 2018-10 provides an optional transition method under which comparative periods presented in the financial statements will continue to be in accordance with current Topic 840, Leases, and a practical expedient to not separate non-lease components from the associated lease component. ASU 2018-20 provides an accounting policy election for lessors related to sales and other similar taxes collected from lessees and addresses lessor accounting for variable payments. ASU 2019-01 addresses three issues related to (i) determination of the fair value of the underlying assets by lessors, (ii) presentation of sales-type and direct financing leases in the statement of cash flows and (iii) transition disclosures related to accounting changes and error corrections.	January 1, 2019	Upon adoption, the Company recognized operating lease right-of-use assets and related operating lease liabilities totaling \$193.3 million and \$200.7 million, respectively. The Company adopted this amendment utilizing a modified retrospective approach and the optional transition method under which we use the effective date as the date of initial application of the amendments. The modified retrospective approach includes practical expedients such that we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. See Note 7 for expanded disclosures.

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

<u>Standard</u>	<u>Description</u>	<u>Required date of adoption</u>	<u>Effect on Consolidated Financial Statements</u>
Derivatives and Hedging (Topic 815)-Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	The amendment permits the use of the Overnight Index Swap (OIS) Rate based on the Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes.	January 1, 2019	The Company is applying the amendments in this update prospectively for qualifying new or redesignated hedging relationships entered into on or after the effective date.
Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting	The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees and to apply the guidance therein except for specific guidance on inputs to an option pricing model and the attribution of cost; i.e., the period of time over which share based payment awards vest and the pattern of cost recognition over that period. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide financing to the issuer or awards granted in conjunction with selling goods and services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. Upon adoption, an entity should remeasure liability-classified awards that have not been settled at date of adoption and equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of the first day of the fiscal year of adoption. Upon transition, an entity should measure these nonemployee awards at fair value as of the adoption date but must not remeasure assets that are completed.	January 1, 2019	The Company had applied the guidance of Topic 718 to its accounting for share-based payment awards to its Board of Directors prior to adoption of the amendments, and, therefore, this update did not have an impact on the Company's Consolidated Financial Statements.

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

<u>Standard</u>	<u>Description</u>	<u>Required date of adoption</u>	<u>Effect on Consolidated Financial Statements</u>
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.	January 1, 2019	The adoption of the amendments did not have an impact on the Company's Consolidated Financial Statements.

**23. 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 U.S. GAAP.

On January 29, 2020, the Company declared a cash dividend of \$0.12 per share. The \$0.12 dividend per share was paid to stockholders on February 25, 2020, with a record date of February 10, 2020.

**(a)(3) Exhibits**

The following exhibits are either filed as part of this report or are incorporated herein by reference:

- 2.1 Agreement and Plan of Merger by and among Investors Bancorp, Inc. and Gold Coast Bancorp, Inc. dated as of July 24, 2019<sup>(15)</sup>
- 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>
- 4.2 Description of Registrant's Securities
- 10.1 Amended and Restated Employment Agreement between Investors Bancorp, Inc. and Kevin Cummings<sup>(1)</sup>
- 10.2 Acknowledgement and Consent Agreement between Kevin Cummings and Investors Bancorp, Inc.<sup>(12)</sup>
- 10.3 Amended and Restated Employment Agreement between Investors Bancorp, Inc. and Domenick A. Cama<sup>(1)</sup>
- 10.4 Acknowledgement and Consent Agreement between Domenick Cama and Investors Bancorp, Inc.<sup>(12)</sup>
- 10.5 Amended and Restated Employment Agreement Investors Bancorp, Inc. and Richard S. Spengler<sup>(2)</sup>
- 10.6 Amendment to Amended and Restated Employment Agreement with Richard S. Spengler<sup>(3)</sup>
- 10.7 Amended and Restated Employment Agreement Investors Bancorp, Inc. and Paul Kalamaras<sup>(4)</sup>
- 10.8 Amendment to Amended and Restated Employment Agreement with Paul Kalamaras<sup>(3)</sup>
- 10.9 Acknowledgement and Consent Agreement between Paul Kalamaras and Investors Bancorp, Inc.<sup>(13)</sup>
- 10.10 Employment Agreement Investors Bancorp, Inc. and Sean Burke<sup>(5)</sup>
- 10.11 Amendment to Employment Agreement with Sean Burke<sup>(3)</sup>
- 10.12 Investors Bancorp, Inc. 2015 Equity Incentive Plan<sup>(6)</sup>
- 10.13 First Amendment to the Investors Bancorp, Inc. 2015 Equity Incentive Plan<sup>(11)</sup>
- 10.14 Investors Bancorp, Inc. 2006 Equity Incentive Plan<sup>(7)</sup>
- 10.15 Investors Bank Executive Officer Annual Incentive Plan<sup>(8)</sup>
- 10.16 Investors Bank Amended and Restated Supplemental ESOP and Retirement Plan<sup>(1)</sup>
- 10.17 Amended and Restated Investors Bank Executive Supplemental Retirement Wage Replacement Plan<sup>(1)</sup>
- 10.18 Amendment to Amended and Restated Investors Bank Executive Supplemental Retirement Wage Replacement Plan dated December 19, 2016<sup>(10)</sup>
- 10.19 Investors Bank Amended and Restated Supplemental ESOP and Retirement Plan dated February 29, 2016<sup>(10)</sup>
- 10.20 Investors Bank Amended and Restated Director Retirement Plan<sup>(1)</sup>
- 10.21 Investors Bancorp, Inc. Deferred Directors Fee Plan<sup>(1)</sup>
- 10.22 Investors Bank Deferred Directors Fee Plan<sup>(1)</sup>
- 10.23 Split Dollar Life Insurance Agreement between Roma Bank and Robert C. Albanese, as assumed by Investors Bank<sup>(9)</sup>

- 10.24 Split Dollar Life Insurance Agreement between Roma Bank and Dennis M. Bone, assumed by Investors Bank<sup>(9)</sup>
- 10.25 Split Dollar Life Insurance Agreement between Roma Bank and Michele N. Siekerka, as assumed by Investors Bank<sup>(9)</sup>
- 10.26 Split Dollar Life Insurance Agreement between Marathon National Bank of New York and Paul Stathoulopoulos, as assumed by Investors Bank<sup>(14)</sup>
- 10.27 Agreement between Investors Bancorp, Inc. and Blue Harbour Group, L.P.<sup>(11)</sup>
- 10.28 Purchase Agreement dated December 17, 2019 between Investors Bancorp, Inc. and Blue Harbour Group, L.P.<sup>(16)</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
- 104 Cover Page Interactive Data File (embedded in the cover page formatted in Inline XBRL)

- <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 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>(9)</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>(10)</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>(11)</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.
- <sup>(12)</sup> Incorporated by reference to Exhibits 10.1 and 10.2 to the Current Report on Form 8-K of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on July 10, 2018.
- <sup>(13)</sup> Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on December 7, 2018.
- <sup>(14)</sup> Incorporated by reference to Exhibit 10.1 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, 2019.
- <sup>(15)</sup> Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on July 30, 2019.
- <sup>(16)</sup> Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Investors Bancorp, Inc. (Commission File No. 001-36441) filed with the Securities and Exchange Commission on December 18, 2019.

**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: February 28, 2020

By: /s/ Kevin Cummings

Kevin Cummings  
Chief Executive Officer  
(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, Chairman and Chief Executive Officer (Principal Executive Officer)	February 28, 2020
<u>/s/ Domenick Cama</u> Domenick Cama	Director, President and Chief Operating Officer	February 28, 2020
<u>/s/ Sean Burke</u> Sean Burke	Chief Financial Officer and Executive Vice President (Principal Financial and Accounting Officer)	February 28, 2020
<u>/s/ Robert C. Albanese</u> Robert C. Albanese	Director	February 28, 2020
<u>/s/ Dennis M. Bone</u> Dennis M. Bone	Director	February 28, 2020
<u>/s/ Doreen R. Byrnes</u> Doreen R. Byrnes	Director	February 28, 2020
<u>/s/ William Cosgrove</u> William Cosgrove	Director	February 28, 2020
<u>/s/ James Garibaldi</u> James Garibaldi	Director	February 28, 2020
<u>/s/ Michele N. Siekerka</u> Michele N. Siekerka	Director	February 28, 2020
<u>/s/ Paul N. Stathoulopoulos</u> Paul N. Stathoulopoulos	Director	February 28, 2020
<u>/s/ James H. Ward III</u> James H. Ward III	Director	February 28, 2020



101 JFK Parkway  
Short Hills, New Jersey 07078

April 9, 2020

Dear Fellow Stockholder:

You are cordially invited to attend the 2020 Annual Meeting of Stockholders of Investors Bancorp, Inc., which will be held on May 19, 2020, at 9:00 a.m., local time. Please be advised that, due to the outbreak of Coronavirus Disease 19 (COVID-19), the Annual Meeting will be held exclusively as a virtual meeting accessible at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC).

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, 2020. 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, 2020.

In light of ongoing developments related to COVID-19 and after careful consideration, your Board of Directors has determined to hold a virtual Annual Meeting in order to facilitate stockholder attendance and participation by enabling stockholders to participate from any location, at no cost and in compliance with governmental social distancing requirements. We believe that this is the right choice for Investors Bancorp at this time, as it enables engagement with our stockholders, regardless of size, resources or location, while safeguarding the health of our stockholders, Board of Directors and management. We are committed to ensuring that stockholders will be afforded the same rights and opportunities to participate as they would at an in-person meeting. You will be able to attend the meeting online, vote your shares electronically and submit questions before and during the meeting by visiting [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC).

**To attend the virtual Annual Meeting, please register in advance at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). The deadline to register to attend the virtual Annual Meeting is Friday, May 15, 2020 at 5:00 p.m., Eastern Time.**

Your Board of Directors believes that the determination to hold a virtual Annual Meeting at this time of uncertainty due to COVID-19 is the right decision for our stockholders. Conditions permitting, we fully anticipate returning to an in-person format for our 2021 Annual Meeting.

Your vote is very important. Whether or not you plan to attend the virtual 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.

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 black ink that reads "Kevin Cummings". The signature is written in a cursive style.

Kevin Cummings  
Chairman 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 19, 2020**

NOTICE IS HEREBY GIVEN THAT the 2020 Annual Meeting of Stockholders of Investors Bancorp, Inc. will be held on May 19, 2020, at 9:00 a.m., local time. Please be advised that, due to the outbreak of Coronavirus Disease 19 (COVID-19), the Annual Meeting will be held exclusively as a virtual meeting accessible at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). The Annual Meeting will be held 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, 2020.
4. The transaction of such other business as may properly come before the Annual Meeting, and any adjournment or postponement of the Annual Meeting.

In light of ongoing developments related to COVID-19 and after careful consideration, your Board of Directors has determined to hold a virtual Annual Meeting in order to facilitate stockholder attendance and participation by enabling stockholders to participate from any location, at no cost and in compliance with governmental social distancing requirements. We believe that this is the right choice for Investors Bancorp at this time, as it enables engagement with our stockholders, regardless of size, resources or location, while safeguarding the health of our stockholders, Board of Directors and management. We are committed to ensuring that stockholders will be afforded the same rights and opportunities to participate as they would at an in-person meeting. You will be able to attend the meeting online, vote your shares electronically and submit questions before and during the meeting by visiting [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC).

**To attend the virtual Annual Meeting, please register in advance at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). The deadline to register to attend the virtual Annual Meeting is Friday, May 15, 2020 at 5:00 p.m., Eastern Time.**

Your Board of Directors believes that the determination to hold a virtual Annual Meeting at this time of uncertainty due to COVID-19 is the right decision for our stockholders. Conditions permitting, we fully anticipate returning to an in-person format for our 2021 Annual Meeting.

The Board of Directors of Investors Bancorp, Inc. has fixed March 23, 2020 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, 2020.

Whether or not you plan to attend the virtual 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.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal line extending to the right.

Brian F. Doran, Esq.  
Corporate Secretary

Short Hills, New Jersey  
April 9, 2020

## **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 9, 2020, 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 2019 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 commercial bank. Investors Bancorp had \$26.70 billion in total assets and 147 full-service banking offices in New Jersey and New York at December 31, 2019. 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 2020 Annual Meeting of Stockholders, and any adjournment or postponement of the meeting (“Annual Meeting”). The Annual Meeting will be held on May 19, 2020 at 9:00 a.m., local time. Due to the outbreak of Coronavirus Disease 19 (COVID-19), the Annual Meeting will be held exclusively as a virtual meeting accessible at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). To attend the virtual Annual Meeting, please register in advance at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). The deadline to register to attend the virtual Annual Meeting is Friday, May 15, 2020 at 5:00 P.M., Eastern Time. Upon completing your registration, you will receive further instructions via email, including your unique links that will allow you access to the meeting, to vote online, and will also permit you to submit questions. The Company intends to return to an in-person Annual Meeting of Stockholders in 2021.

A Notice Regarding the Availability of Proxy Materials is first being sent to stockholders of Investors Bancorp on or about April 9, 2020.

## **Questions and Answers about the Annual Meeting and Voting**

### **When and where is the annual meeting?**

The Annual Meeting will be held on May 19, 2020 at 9:00 a.m., local time. Due to the outbreak of Coronavirus Disease 19 (COVID-19), the Annual Meeting will be held exclusively as a virtual meeting accessible at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). To attend the virtual Annual Meeting, please register in advance at [www.proxydocs.com/ISBC](http://www.proxydocs.com/ISBC). The deadline to register to attend the virtual Annual Meeting is Friday, May 15, 2020 at 5:00 P.M., Eastern Time. Upon completing your registration, you will receive further instructions via email, including your unique links that will allow you access to the meeting, to vote online, and will also permit you to submit questions. The Company intends to return to an in-person Annual Meeting of Stockholders in 2021.

### **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, 2020.

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 23, 2020 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 23, 2020, 247,427,343 shares of Investors Bancorp common stock were outstanding and held by approximately 15,700 holders of record.

Each holder of shares of Investors Bancorp common stock outstanding on March 23, 2020 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, via attendance at the virtual Annual Meeting 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.

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, 2020.

### **How do I vote shares held of record?**

- **During the virtual Annual Meeting.** All stockholders of record may vote during the virtual Annual Meeting. Beneficial owners may vote during the virtual Annual Meeting 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 Bank's Employee Stock Ownership Plan or 401(k) Plan?**

If you are a participant in our Employee Stock Ownership Plan or 401(k) Plan 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 votes all shares held by the plan, but each participant may direct the trustee 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 14, 2020, the respective plan trustees 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 during the virtual 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. EQ Proxy Services will assist us in soliciting proxies and we have agreed to pay them a fee of \$7,000 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 23, 2020, 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 23, 2020. 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 23, 2020.

### 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>
Fuller & Thaler Asset Management, Inc. 411 Borel Avenue, Suite 300 San Mateo, CA 94402	21,712,847 <sup>(2)</sup>	8.78%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	20,956,177 <sup>(3)</sup>	8.47%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	18,414,109 <sup>(4)</sup>	7.44%
Investors Bank Employee Stock Ownership Plan Trust Trustee: TI-Trust, Inc. 2900 North 23rd Street Quincy, IL 62305	15,302,849 <sup>(5)</sup>	6.18%
Dimensional Fund Advisors LP 6300 Bee Cave Road, Building One Austin, TX 78746	12,678,271 <sup>(6)</sup>	5.12%

(1) Based on 247,427,343 shares of Investors Bancorp common stock outstanding as of March 23, 2020.

(2) Based on a Schedule 13G/A filed with the SEC on February 14, 2020 by Fuller & Thaler Asset Management, Inc.

(3) Based on a Schedule 13G/A filed with the SEC on February 12, 2020 by The Vanguard Group.

(4) Based on a Schedule 13G/A filed with the SEC on February 5, 2020 by BlackRock, Inc.

(5) Based on a Schedule 13G/A filed with the SEC on February 11, 2020 by TI-Trust, Inc.

(6) Based on a Form 13F filed with the SEC on February 14, 2020 by Dimensional Fund Advisors LP.

## 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 23, 2020.

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>						
Dennis M. Bone	Lead Independent Director	155,674	—	155,674	*	10,430
Doreen R. Byrnes	Director	116,694	—	116,694	*	10,431
William V. Cosgrove	Director	147,880	—	147,880	*	10,430
<b>INCUMBENT DIRECTORS</b>						
Kevin Cummings	Chairman and Chief Executive Officer	1,846,131	131,280	1,977,411	*	379,762
Michele N. Sickerka	Director	172,699	—	172,699	*	10,431
Paul N. Stathoulopoulos	Director	215,430	—	215,430	*	10,430
Robert C. Albanese	Director	107,419	—	107,419	*	10,431
Domenick A. Cama	Director, President and Chief Operating Officer	1,421,209	105,024	1,526,233	*	303,810
James J. Garibaldi	Director	91,980	—	91,980	*	10,430
James H. Ward III	Director	436,400	—	436,400	*	10,431
<b>EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS</b>						
Richard S. Spengler	Executive Vice President and Chief Lending Officer	693,713	407,618	1,101,331	*	195,428
Paul Kalamaras	Executive Vice President and Chief Risk Officer	629,801	407,618	1,037,419	*	207,428
Sean Burke	Executive Vice President and Chief Financial Officer	249,412	358,094	607,506	*	166,000
All directors and executive officers as a group (13 persons) <sup>(2)</sup>		6,284,442	1,409,634	7,694,076	3.11%	1,335,872

\* Less than 1%

(1) Unless otherwise indicated, each person effectively exercises sole, or shared with spouse, voting and/or dispositive power as to the shares reported.

(2) Includes 139,877 shares of common stock allocated to the accounts of executive officers under the Investors Bank Employee Stock Ownership Plan (“ESOP”) and excludes the remaining 15,162,972 shares of common stock of which 11,368,750 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 Investors Bank 401(k) Plan (the “401(k) Plan”).

## Proposal I–Election of Directors

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### General

Investors Bancorp’s Board of Directors currently consists of 10 members and is divided into three classes, with one class of directors elected each year. Each of the 10 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 Dennis Bone, Doreen Byrnes and William Cosgrove 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.

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.**

If 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 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 23, 2020, and the years when they began serving as directors of Investors Bancorp and when their current term expires.

<u>Name</u>	<u>Position(s) Held With Investors Bancorp</u>	<u>Age</u>	<u>Director Since</u>	<u>Current Term Expires</u>
<b>DIRECTORS</b>				
Dennis M. Bone	Lead Independent Director	68	2013	2020
Doreen R. Byrnes	Director	70	2002	2020
William V. Cosgrove	Director	72	2011	2020
Kevin Cummings	Chairman and Chief Executive Officer	65	2008	2021
Michele N. Siekerka	Director	55	2013	2021
Paul N. Stathouloupoulos	Director	72	2018	2021
Robert C. Albanese	Director	72	2013	2022
Domenick A. Cama	Director, President and Chief Operating Officer	63	2011	2022
James J. Garibaldi	Director	68	2012	2022
James H. Ward III	Director	71	2009	2022

The following information describes the business experience for each of Investors Bancorp's directors and executive officers.

## Nominees for Director

### *Term to Expire 2023*



**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 has served as Investors Bancorp's Lead Independent Director since May 2018. Mr. Bone is the Executive in Residence and an Advisory Board Member of the Feliciano School of Business at Montclair State University. Previously, Mr. Bone served as President of Verizon New Jersey for 12 years (until July 2012) 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 Center for Teaching and Learning where he is also the Treasurer, the Citizens Campaign and 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 is also a member of Governor Murphy's Future of Work Task Force, a member of the National Advisory Committee of the Heldrich Center for Workforce Development and is on the Advisory Board of the Feliciano Center for Entrepreneurship. 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). Mr. Bone has a Bachelor's degree from West Virginia University Institute of Technology, a Master's degree from The John Hopkins University and an MBA from Rutgers University.

The Nominating and Corporate Governance Committee believes that Mr. Bone's experience, which brings a broader corporate perspective, as well as 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.



*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 50 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.

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## Continuing Directors

### *Term to Expire 2021*



**Kevin Cummings** was appointed Chairman of the Board of Directors and Chief Executive Officer of Investors Bancorp and Investors Bank effective May 22, 2018. He previously served as President and Chief Executive Officer of Investors Bancorp and Investors Bank since January 1, 2008 and was also appointed to serve on the Board of Directors of Investors Bancorp and Investors Bank at that time. He served as Executive Vice President and Chief Operating Officer of Investors Bank from July 2003 to January 2008. 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 the Board of Trustees at St. Benedict's Preparatory School. In addition, Mr. Cummings is a member of the Board of the Federal Home Loan Bank of New York 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 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 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 N. Stathoulopoulos* was elected to the Board of Directors of Investors Bancorp in May 2018 and has been serving on the Board of Directors of Investors Bank since October 2012. Prior to this appointment, Mr. Stathoulopoulos 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 in 2012. From early 1987 to November 1989, Mr. Stathoulopoulos served as the principal organizer and spokesperson of Marathon National Bank of New York, which commenced operations in November 1989. In January 1985, Mr. Stathoulopoulos organized Whitehouse Associates, LLC, a real estate investment company, in operation to-date. Starting in 1969, Mr. Stathoulopoulos 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. Stathoulopoulos 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. Stathoulopoulos has extensive knowledge of the banking industry and local markets served by Investors Bank. The Nominating and Corporate Governance Committee considers Mr. Stathoulopoulos's experience and leadership to be assets to the Board of Directors.

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## *Term to Expire 2022*



**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 was appointed President of Investors Bancorp and Investors Bank effective May 22, 2018 and has been Chief Operating Officer of Investors Bancorp and Investors Bank since January 1, 2008. Mr. Cama served as Chief Financial Officer from April 2003 to January 2008. 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 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., where he served as a director. 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 National Association of Corporate Directors ("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.

## Executive Officers of the Bank Who Are Not Also Directors



**Richard S. Spengler**, age 58, was appointed Executive Vice President and Chief Lending Officer of Investors Bancorp and 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 61, was appointed Executive Vice President and Chief Risk Officer of Investors Bancorp and Investors Bank in January 2019. He previously served as Executive Vice President and Chief Retail Banking Officer of Investors Bank since 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. Earlier, Mr. Kalamaras was Executive Vice President at Summit Bank, where he was responsible for the retail network and business banking. Mr. Kalamaras is a member of, among other organizations, the Board of Directors of New Jersey State Chamber of Commerce and Board of Directors of the New Jersey Region of the American Red Cross. Mr. Kalamaras holds a Bachelor's degree in Finance from the University of Notre Dame.



**Sean Burke**, age 48, was appointed Executive Vice President and Chief Financial Officer of Investors Bancorp and Investors Bank effective January 1, 2019. He previously served as Senior Vice President and Chief Financial Officer of Investors Bancorp and Investors Bank since 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 10 Directors, seven 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.
- ✓ We have regular and constructive engagement with our stockholders and evaluate and respond to their views and requests.
- ✓ The Board held 12 meetings in 2019 and the Board's Committees each held three to nine meetings in 2019. The Board met in executive sessions 12 times, seven of which were presided over by the Board's Lead Independent Director.
- ✓ Our Director attendance for Board and Committee meetings averaged 97% in 2019, and each Director attended at least 75% 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; changes in the financial services industry; and enhancements in technology and platforms relating to the financial services industry and the delivery and availability of banking products and services.
- ✓ Robust stock ownership guidelines for directors and Named 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 and appropriately revised by the Compensation and Benefits Committee in conjunction with an independent compensation consultant.
- ✓ We have a clawback policy that applies to the performance-based incentive compensation paid to our Named Executive Officers.
- ✓ The Board reviews management talent and succession planning at least annually.
- ✓ The Company makes ongoing 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, cybersecurity, reputational, and strategic risks.
- ✓ We have guidelines governing the use of pre-established trading plans for transactions in our securities.
- ✓ The Board actively utilizes internal and external experts in the matters of audit, governance, compensation, stockholder interests and risk management.

### 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.

## Board of Directors Meetings and Committees

The Board of Directors of Investors Bancorp and Investors Bank each met 12 times during 2019. The Board of Directors of Investors Bank 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 2019. In addition, all of Investors Bancorp's directors attended the annual meeting of stockholders held on May 21, 2019.

## Board and Committee Composition

The table below indicates the members and Chairs of the Board of Directors and each of its Committees as of December 31, 2019 as well as the number of meetings for each Committee in 2019.

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 <sup>(1)</sup>	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				
William V. Cosgrove	Director	Member	Member		Member
Kevin Cummings	Chairman and Chief Executive Officer				
James J. Garibaldi	Director				Member
Michele N. Sickerka	Director	Member		Chair	Member
Paul N. Stathoulopoulos	Director		Member	Member	Member
James H. Ward III	Director		Member	Member	Chair
<b>Number of Meetings</b>		<b>3</b>	<b>6</b>	<b>9</b>	<b>5</b>

(1) The Board considers Messrs. Albanese and Stathoulopoulos each an "audit committee financial expert".

## Director Independence

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 January 2019, the Board of Directors determined, based upon the recommendation of the Nominating and Corporate Governance Committee, that eight of the then 11 members of the Board of Directors, and each member of the Compensation and Benefits, Nominating and Corporate Governance and Audit Committees were independent, as affirmatively determined by the Board of Directors consistent with the Nasdaq corporate governance listing rules.

At the time of the annual review of director independence conducted by the Board of Directors in January 2019, Peter H. Carlin was a member of the Board of Directors and was deemed to be independent in accordance with the provisions of the Corporate Governance Guidelines. On December 18, 2019, Mr. Carlin resigned from the Board of Directors of the Company and the Board of Directors of Investors Bank. Please see the "Transactions With Certain Related Persons" discussion herein for further discussion relating to Mr. Carlin's resignation.

On December 18, 2019, the Board of Directors, pursuant to the Company's Bylaws, reduced the size of the Board of Directors from 11 to 10.

As a result of a review performed in January 2020, the Board of Directors determined, based upon the recommendation of the Nominating and Corporate Governance Committee, that seven of the 10 current members of the Board of Directors, and each member of the Compensation and Benefits, Nominating and Corporate Governance and Audit Committee are independent, as affirmatively determined by the Board of Directors consistent with the Nasdaq corporate governance listing rules.

In connection with these reviews, 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. Albanese, Bone, Cosgrove, Stathoulopoulos, Ward 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 2018.

## **Board Leadership Structure and Lead Independent Director**

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Prior to May 2018, the positions of Chairman of the Board and Chief Executive Officer were 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.

The Board continues to believe that the current Board leadership structure, with Mr. Cummings in the combined Chairman and CEO position, and with a separate Lead Independent Director who is independent under the Nasdaq listing rules and has the principal duties specified in our Corporate Governance Guidelines, is most appropriate for our Company at this time. We believe that continuing to combine the roles of Chairman and CEO facilitates the day-to-day management of the Company. Holding both roles best positions Mr. Cummings 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 role also provides a single point of leadership for the Company in order for the Company to maintain a unified message and strategic direction.

The combined Chairman and CEO position continues to be counterbalanced by our strong Lead Independent Director position, which is currently held by Dennis M. Bone. 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, who has the responsibilities described below, provides an independent voice on issues facing the Company and ensures that key issues are brought to the Board's attention. The Board and its committees also regularly hold executive sessions with no members of management present, thereby providing an opportunity for the independent directors to discuss their views freely. The executive sessions of the Board are presided over by the Lead Independent Director. During 2019, 12 executive sessions were held, of which seven were conducted by the independent directors.

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;
- Consult with the Chairman of the Board to assure that appropriate topics are being discussed with sufficient time allocated for each;
- 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 seven of the eight non-employee Directors qualifying as independent under Nasdaq corporate governance listing rules.

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.

## **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 2019, provide for the independent directors of the Board of Directors to meet in regularly scheduled executive sessions. During 2019, 12 executive sessions were held, of which seven were 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 and does not apply to employees who are not executive officers.

### **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 years of either the implementation of the Ownership Guidelines or the starting date of the individual, whichever is later. Stock ownership for Named Executive Officers 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 is not 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 stockholder 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 corporate governance listing rules 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.

Each nominee for election as a director at the Annual Meeting currently serves as a director of the Company.

The Nominating and Corporate Governance Committee and the Board recognize that it is important for the Company's directors to possess a diverse array of backgrounds and skills, including executive management experience, financial services experience, and educational and professional achievement. When considering new candidates, the Nominating and Corporate Governance Committee, with input from the Board, will seek to ensure that the Board reflects a range of talents, ages, skills, diversity and expertise, particularly in the areas of accounting and finance, management, regulatory and risk management and leadership sufficient to provide sound and prudent guidance with respect to our operations and interests. In addition, the Nominating and Corporate Governance Committee considers diversity in demographic and professional backgrounds among the factors used to identify nominees for directors. The goal of the Nominating and Corporate Governance Committee is to assemble and maintain a Board comprised of individuals with a broad spectrum of skills, experience and expertise combined with a reputation for integrity to carry out the Board's responsibilities with respect to oversight of the Company's operations.

## **Criteria for Election**

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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. 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 continuous, constructive and meaningful communications with our stockholders.

Throughout the course of 2019, management met with stockholders primarily through individual conversations, investor conferences, investor roadshows, through our investor relations channel and at our annual stockholder meeting. The Company's Lead Independent Director also participated in certain meetings and conversations with stockholders. During 2019, management reached out to stockholders representing or holding approximately 55% of outstanding shares and interacted with stockholders representing or holding approximately 30% of outstanding shares. Our engagement with stockholders included regular and continuous interactions, meetings and discussions with representatives of Blue Harbour Group, L.P. ("Blue Harbour"), which was our largest stockholder from 2014 through December 18, 2019. Please see the "Transactions With Certain Related Persons" discussion herein for further discussion relating to Blue Harbour. Over the course of the interactions and meetings with stockholders, management discussed a number of topics which investors wanted to gain more insight on. The management team discussed the nature of our balance sheet, the competitiveness of the markets we operate in, and the effects of pricing on loans. For our deposit growth, investors asked about our ability to raise non-interest bearing deposits, again with the emphasis on the competitive environment we operate in. Investors were interested in credit trends within our loan portfolio, what potential losses we see over time and the preparation for a potential downturn in the economy. Capital management is paramount to our strategy; as such we discussed with investors how decisions are made regarding our allocation of capital to growth, dividends and share repurchases. Finally, investors are interested to hear what type of merger activity we are considering, as well as understanding the metrics we look at to determine if we have interest in pursuing a particular acquisition target.

We also engage in ongoing discussions with stockholders to express our intent to continue to evaluate potential opportunities to enhance long-term stockholder value. In addition, we had discussions around our current initiatives regarding diversity and inclusion, as well as business practices and policies which promote social responsibility.

We continued to emphasize to stockholders the commitment of our Compensation and Benefits Committee to 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 2019. As mentioned above, we have a structure in place to allow stockholders to communicate directly with our Board. 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 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 (the "Code") to be followed by Investors Bancorp's employees, officers (including its CEO, COO, 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 requires annual training for all directors and employees. All employees and directors 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. Investors Bancorp will post on its website any amendments to the Code and any waivers granted to its directors or executive officers. During 2019, the Board of Directors did not receive nor grant any request for directors or executive officers for waivers under the provisions of the Code.

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. During 2019 we enhanced the Code to further encourage our employees to report any behavior that concerns them or may represent a violation of the Code. We also referred within the Code to specific reference to our Stand Up and Speak Policy, which was adopted in February 2019. Please see the “Stand Up and Speak Policy” discussion herein for further discussion relating to our Stand Up and Speak Policy.

The Code was last modified in November 2019 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).

### **Respect in the Workplace and Our Policy Against Unlawful Harassment and Discrimination**

We are confident that we have a strong, positive culture of respect at the Company that is the product of sound policies and practices. However, we recognize that we must remain vigilant in maintaining a culture of respect.

Our Policy Against Unlawful Harassment and Discrimination applies to all employees, customers and vendors and prohibits any form of harassment or discrimination based on legally protected characteristics including race, color, creed, religion, sex (including pregnancy and pregnancy-related conditions), national origin, ancestry, age, disability, sexual orientation, marital status, domestic partner status, military or veteran status, genetic information, or any other legally protected characteristic under applicable federal, state or local law. It also clearly defines “sexual harassment” and types of conduct that are prohibited. Our policy states that our employees have a duty to immediately report instances of harassment or discrimination in any form. It also confirms our commitment to providing a work environment that is free from harassment or discrimination. Our policy indicates that complaints or concerns relating to harassment or discrimination can be submitted anonymously through EthicsPoint. It also contains clear language strictly prohibiting any form of retaliation against anyone who makes a good faith report of potential harassment or discrimination. To ensure that employees are comfortable reporting potential instances of harassment or discrimination, we protect the confidentiality of complaints to the extent possible and in accordance with applicable law. We require all employees to take annual training regarding respect in the workplace and all employees must certify annually that they have read the policy and agree to abide by it.

Our Policy Against Unlawful Harassment and Discrimination was last modified in November 2019.

### **Stand Up and Speak Policy**

We want our employees to understand the purpose of our Code of Business Conduct and Ethics and Policy Against Unlawful Harassment and Discrimination and the importance of speaking up and reporting possible violations or potentially suspicious or improper behavior by other employees, customers or vendors.

In February 2019, the Company adopted a Stand Up and Speak Policy. This policy complements our Code of Business Conduct and Ethics and our Policy Against Unlawful Harassment and Discrimination and affirms our commitment to providing a workplace culture where all employees are treated with dignity and respect. This policy encourages our employees, at all levels, to speak up and report conduct that they in good faith believe is improper or potentially improper, raises an integrity issue, or violates or could violate a law, regulation or Company policy or procedure, including, without limitation, our Code of Business Conduct and Ethics or our Policy Against Unlawful Harassment and Discrimination. It provides that complaints or concerns may be submitted anonymously through EthicsPoint. Consistent with our Code of Business Conduct and Ethics and our Policy Against Unlawful Harassment and Discrimination, this policy provides that all complaints and reports will be taken seriously and will be promptly and fairly investigated, and we will protect the confidentiality of complaints and reports to the extent possible and in accordance with applicable law.

Our policy also strictly prohibits any form of retaliation against employees who make good faith reports of possible unethical, unlawful or illegal conduct.

### **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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We are committed to our corporate responsibility mission of bringing value to all our stakeholders—our employees, our customers, our communities and our stockholders. We endeavor to be a good corporate citizen, focusing on prudent business practices, ethical and sustainable resource utilization, transparent governance, and diversity and inclusion. We care about our employees, our communities and the environment. We closely analyze how we do business, and who we do business with, through the lens of environmental, social and governance considerations. With our core values of Cooperation, Character, Community and Commitment, we categorize our corporate responsibility efforts under the following strategic pillars:

**Our Employees**—We strive to create and maintain an employment environment that attracts and rewards the best talent available and reflects the diversity of the communities in which we do business. We provide competitive compensation and benefits to our employees and we offer opportunities through training and development. We are committed to maintaining a workplace where all employees feel valued for their contributions and fully engaged with our business.

**Our Communities**—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, Investors Bank has contributed or committed \$39.7 million in donations to enrich the lives of New Jersey and New York citizens by supporting initiatives in the arts, education, financial education, youth development, affordable housing, and health and human services. We also support our employees volunteering their time and talents in the communities where they live and work. This community involvement and team orientation are incorporated into our annual performance reviews.

**Environmental Sustainability**—We are committed to pursuing initiatives that are smart for our business and good for the environment. We have continually focused on meaningful initiatives that are aligned with our business goals to help reduce our environmental impact, drive operational cost reductions and demonstrate our ongoing commitment to environmental sustainability. Our Facilities management team continuously researches and reviews opportunities for space efficiency, energy efficiency, construction and renovation standards, and other ways in which we can utilize our properties to add further value to our customers and our communities. Some of our key initiatives include increasing energy efficiency, reducing carbon waste, recycling, and reduction in paper usage and storage.

**Governance**—We are committed to assuring and maintaining transparent governance through best board governance practices, which are subject to continuous review as such practices evolve. We maintain strong risk oversight in management and at the Board level. We have ongoing dialogue with our stockholders, regulators, customers and employees.

We believe that operating our business responsibly and ethically puts us in position to address the interests of our stakeholders while also creating long-term value for our stockholders. We remain focused on continuing to advance these programs and making a positive, sustainable impact on the communities in which we live and conduct our business.

## **Diversity and Inclusion**

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Investors Bancorp engenders a committed, caring and inclusive environment that celebrates various backgrounds, cultures and lifestyles. We recognize that maintaining a diverse workforce is essential to our Company's growth. It is also central to our mission and values, which are built on our four core values of Cooperation, Character, Community and Commitment.

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. 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. (Women, Opportunity, Mentoring, Empowering and Nurturing) 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 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 well-being. 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 2019, we expanded our Diversity and Inclusion efforts through our "iBelong" Initiative. This Company-wide strategic initiative will build on and strengthen our internal and external recruiting efforts, our internal policies, the education of our employees, and procurement and supplier diversity. As part of iBelong, many strategic programs will be launched in 2020 including establishing a Diversity and Inclusion Committee. This Committee will be responsible for building upon diversity awareness and inclusion within our workforce and culture.

Our commitment to diversity and inclusion is fully supported by our directors, executive management and employees. 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.

## **Delinquent Section 16(a) Reports**

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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 2019, its officers, directors and beneficial owners of greater than 10% of its common stock timely filed all required reports.

## 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 an Agreement with Blue Harbour, which at the time was our largest stockholder. Under the terms of such agreement (the “Blue Harbour Agreement”), for so long as Blue Harbour and the investment funds managed by it owned at least four percent (4%) of the outstanding shares of Investors Bancorp’s common stock, it would 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 should fall below four percent (4%) of the outstanding shares, Investors Bancorp could require that the designee of Blue Harbour then serving on the Boards of Directors of Investors Bancorp and Investors Bank resign from the Boards of Directors.

Effective as of March 27, 2017, Blue Harbour proposed, and the Company’s Board of Directors appointed, Peter H. Carlin to the Company’s Board of Directors as a director with a term expiring at the 2020 Annual Meeting of Stockholders of the Company. The Board of Directors of Investors Bank also appointed Mr. Carlin as a director of such Board at its March 2017 meeting.

In accordance with the terms of the Blue Harbour 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.

As of December 13, 2019, the aggregate shares of the common stock of the Company beneficially owned by funds managed by Blue Harbour totaled 27,318,628 (the “Blue Harbour Position”), which represented approximately 9.94% of the total issued and outstanding shares of the Company.

On December 13, 2019, Blue Harbour advised the Company that Blue Harbour had determined to exit the Blue Harbour Position and to simultaneously relinquish its director seats on the Investors Bancorp and Investors Bank Boards of Directors. On December 17, 2019, the Company and Blue Harbour entered into an agreement pursuant to which Blue Harbour agreed to sell the Blue Harbour Position to the Company, and the Company agreed to repurchase the Blue Harbour Position. In connection with such agreement, Mr. Carlin submitted his



resignations from the Company's Board of Directors and the Board of Directors of Investors Bank, with such resignations to be effective as of the completion of the repurchase transaction. The repurchase transaction was completed on December 18, 2019 at a purchase price of \$12.29 per share representing aggregate consideration of approximately \$335.7 million. Simultaneous with the closing of the repurchase transaction: (i) Mr. Carlin's resignation from the Board of Directors of the Company and the Board of Directors of Investors Bank became effective; and (ii) the Blue Harbour Agreement was terminated.

In announcing the transaction, the Company expressed appreciation for Blue Harbour's tenure as lead stockholder of the Company and for the leadership and guidance that Mr. Carlin had provided as a director of the Company and Investors Bank. We had engaged in regular and continuous dialogue with members of Blue Harbour, which had been one of our largest stockholders since 2014. Our discussions with Blue Harbour included the areas of Company strategy, financial performance, macro and market challenges and opportunities, and executive compensation. Mr. Carlin's strong financial background and operational expertise enhanced our Boards as we continued to grow our franchise and to align with our stockholders in strategy and practices that deliver stockholder value.

In connection with the announcement of the repurchase transaction, Mr. Carlin expressed his great respect for the Company and its management team, employees and directors, as well as the Company's financial performance and capital management and development.

On February 28, 2020, Clifton Robbins, the founder and CEO of Blue Harbour, advised Blue Harbour's clients that Blue Harbour would be closing the firm within the year.

## **Risk Oversight Matters**

### **The Board's Role in Cybersecurity Oversight**

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As a financial services company entrusted with the safeguarding of sensitive information, our Board of Directors believes that a strong enterprise cybersecurity program is vital to effective cybersecurity risk management. The Board of Directors is committed to engaging in robust oversight of the Company's cybersecurity program on an ongoing basis. The Board of Directors provides oversight of management's efforts to address cybersecurity risk through the delivery of reports and presentations at meetings of the Risk Oversight Committee and the Board. The reports and presentations that the Board and the Risk Oversight Committee receive focus on the threat environment and vulnerability assessments, as well as specific cyber incidents and management's efforts to monitor, detect and prevent cyber threats to the Company. These reports include descriptions of (i) management's implementation of backup systems and other safeguards to support our operations; (ii) our establishment and regular testing of disaster recovery procedures; and (iii) regular review and assessment of our third-party service providers' information systems safeguards against cyber-attacks, information breach or loss of information.

### **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, cybersecurity, strategic and reputational risks.

## Audit Committee Matters

### Audit Committee

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The Board has determined that each member of the Audit Committee is 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. Stathoulopoulos 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 the 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 control 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**

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*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, 2019;
- discussed with the independent registered public accounting firm the matters required to be discussed by the applicable requirements of the PCAOB and the SEC; 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, 2019 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, 2020, subject to the ratification of this appointment by the stockholders of Investors Bancorp.

### **Audit Committee of Investors Bancorp, Inc.**

Robert C. Albanese, *Chair*

Dennis M. Bone, *Member*

William V. Cosgrove, *Member*

Paul N. Stathoulopoulos, *Member*

James H. Ward III, *Member*

## Compensation and Benefits Committee Matters

### Compensation and Benefits Committee

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The Board has determined that each member of the Compensation and Benefits Committee is 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 independent directors of the Board for approval the Chief Executive Officer's annual compensation, including salary, cash 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 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 401(k) Plan and the financial statements of the ESOP.

In addition to these duties this 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 Named Executive Officers. The Compensation and Benefits Committee utilizes information and benchmarks from an independent compensation consulting firm, industry trends, practices among our peer groups, 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, this Committee takes into consideration methods to avoid encouraging the taking of excessive risk by executive management or by any other employees. This 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. In furtherance of the Committee's ongoing oversight of the Company's executive incentive compensation program, the Board in 2018 adopted the Executive Incentive Compensation Approval Policy. The purpose of this policy is to provide enhanced oversight, review, assessment and approval processes for this Committee, the Risk Oversight Committee and the Audit Committee in the setting of incentive compensation goals for the CEO, COO, the other NEOs, and other designated executive officers of the Company, to ensure that our incentive compensation arrangements appropriately balance risk and financial results in a manner that do not pose undue risk to the Company.

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 CEO and other NEOs, 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 the 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 CEO, COO and other members of executive management, 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**

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During 2019, Messrs. Albanese, Bone, Stathoulopoulos and Ward served as members of the Compensation and Benefits Committee and Ms. Siekerka served as chairperson. 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 2019 requiring specific disclosures under SEC rules or Nasdaq listing standards. Ms. Byrnes, who also served as a member of the Compensation and Benefits Committee during 2019, is 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 2019 requiring specific disclosures under SEC rules. Ms. Byrnes was an officer of Investors Bank prior to her retirement in 2007.

## Compensation Discussion and Analysis

In this section, we describe the Company’s executive compensation program. Our intent is to help stockholders understand the framework of our overall program, its objectives, and the rationale for the Compensation and Benefits Committee’s compensation decisions. 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” (“NEOs”).

Name	Title
Kevin Cummings	Chairman and Chief Executive Officer
Domenick A. Cama	President and Chief Operating Officer
Richard S. Spengler	Executive Vice President and Chief Lending Officer
Paul Kalamaras	Executive Vice President and Chief Risk Officer
Sean Burke	Executive Vice President and Chief Financial Officer

### 2019 Say on Pay Vote and Changes to 2019 Executive Compensation

At our 2019 Annual Meeting, Proposal II—Advisory Vote to Approve Executive Compensation—commonly known as “Say on Pay”—received a FOR vote of 93.6% of the shares voted. For comparison, at our 2018 Annual Meeting the Say on Pay proposal had received a FOR vote of 68.7%.

We continue to engage with stockholders regarding our executive compensation philosophy and to ensure that our executive compensation program aligns the interests of our stockholders with our NEOs. For 2018, the Compensation and Benefits Committee adjusted the weighting of the CEO’s and COO’s annual incentive opportunity to 85% for corporate goals and 15% for individual goals from the previous weighting of 60% for corporate goals and 40% for individual goals. For 2019, the Compensation and Benefits Committee continued to focus on enhancing its compensation philosophy with the assistance of Pearl Meyer & Partners, LLC (“Pearl Meyer”), a leading provider of compensation consulting services. The Compensation and Benefits Committee, with the assistance of Pearl Meyer, conducted a comprehensive assessment of the Company’s executive compensation programs and practices, including annual incentive opportunity, against Company peers and stockholder expectations. As a result of this assessment, the Compensation and Benefits Committee made the following adjustments to the 2019 annual incentive program for the CEO and COO:

#### 2019 Executive Compensation Changes

- The incentive award opportunity at the target and maximum achievement levels was reduced for the CEO and COO, which resulted in a reduction of incentive compensation.
- The corporate goal was based solely on the Company’s net income achievement.
- The 2019 maximum corporate goal amount was set to exceed 2018 achievement.
- The values between threshold to target and target to maximum necessary for achieving the corporate goal were widened.

## **Executive Summary**

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### **2019 Compensation Highlights**

- There were no base salary increases in 2019 for our CEO and COO.
- There were no restricted stock awards or stock options granted in 2019 to our CEO, COO and other NEOs, with the exception of the Replacement Awards to our CEO and COO as discussed in the “Implementation of Settlement of Stockholder Litigation” section beginning on page 42 of this proxy statement.
- Based on the achievement of the corporate financial target and individual goals, the annual cash incentive awards were paid, between 68% and 128% of base salary, to our NEOs.
- The incentive compensation paid to our CEO and COO for 2019 was 36% lower than the incentive compensation paid for 2018.
- Potential awards at target and maximum levels were lower than prior year levels for our CEO and COO.
- Potential awards at maximum achievement level as a percentage of salary were lower than prior year for all of our NEOs.
- The CEO’s and COO’s individual goal is measurable, quantifiable and tied to the financial results of the Company. Refer to the “2019 Incentive Opportunity” section in this proxy statement for a description of the individual goal for the CEO and COO.

### **2020 Executive Compensation Enhancements**

In further assessing the Company’s executive compensation programs and practices, the Compensation and Benefits Committee has made the following additional adjustments to the 2020 annual incentive program for the CEO and COO:

- The CEO’s and COO’s incentive goals will be measured exclusively by specific corporate goals.
- The CEO’s and COO’s incentive opportunity will no longer include individual goals.
- If the Company does not exceed the net income threshold, no incentive will be paid to the CEO or COO.
- In the event the threshold for the Company’s net income is achieved, the CEO’s and COO’s incentive opportunity will be based on a balanced scorecard for the following Company financial components:
  - Earnings per share
  - Return on average assets
  - Loan quality
  - Growth of core deposits
- The 2020 target and maximum corporate goal amounts have been set to exceed 2019 achievement.
- All components of the CEO’s and COO’s goals are specifically tied to the financial results of the Company.

#### *COVID-19 Considerations for 2020 Incentive Compensation*

The Compensation and Benefits Committee is actively monitoring the effects of the COVID-19 pandemic on the economy, our operations and future financial results. In light of these developments, the Compensation and Benefits Committee may re-evaluate the incentive goals and performance measurements associated with incentive compensation during 2020 and exercise its discretion to adjust performance targets as appropriate to take into account the impact of the COVID-19 pandemic on the Company’s results of operations. Any material changes to the 2020 annual incentive program will be communicated in accordance with applicable disclosure requirements.

## Compensation Governance Best Practices and Policies

We continually evaluate our executive compensation practices and policies. We believe the following practices and policies promote sound compensation governance and are in the best interests of our stockholders and executives:

<u>What We Do</u>	<u>What We Don't Do</u>
<ul style="list-style-type: none"><li>✓ We design our incentive compensation arrangements to appropriately balance risk and financial results in a manner that does not pose undue risk to the Company.</li><li>✓ We utilize an independent compensation consultant to annually evaluate NEO cash and stock compensation based on the pay levels of comparable executives in fifteen-to-twenty peer comparator banking companies.</li><li>✓ We pay incentive compensation based on measurable and verifiable corporate performance objectives.</li><li>✓ We consider multi-year financial performance when awarding long-term stock compensation.</li><li>✓ We conservatively vest stock compensation (generally five years).</li><li>✓ We require each of our NEOs 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 require the base salaries and total cash compensation of our NEOs 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 don't enter into new 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>

## What Guides Our Program

### 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 NEOs is linked to financial and individual performance and is dependent on quantifiable achievement of goals; (2) the interests of our NEOs 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 designed to be competitive to attract, retain and motivate our NEOs.

The Compensation and Benefits Committee regularly evaluates the level of annual incentive compensation, including the annual incentive compensation opportunity available to each of our NEOs based on the Company's growth and financial performance, as well as peer competitive compensation practices, and overall marketplace conditions.

For 2019, our CEO's cash compensation was 44% fixed and 56% variable. For our other NEOs, cash compensation for 2019 averaged 53% fixed and 47% variable.



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 NEO 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 NEO's total compensation is performance-based as each executive is in a leadership role that can significantly impact corporate performance.

## **The Decision-Making Process**

### ***Role of the Compensation and Benefits Committee***

The Compensation and Benefits Committee oversees the executive compensation program for our NEOs. The Committee is comprised of non-employee directors determined by the Board to be 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 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. The Compensation and Benefits Committee makes all final compensation and equity award decisions regarding our NEOs, except for the CEO, whose compensation is determined by the independent members of the full Board, based upon recommendations of the Committee.

### ***Role of Executive Officers***

The Compensation and Benefits Committee is responsible for designing and approving our executive compensation program. When appropriate, the CEO and COO will provide the Committee with the information it needs to make well-informed and appropriate decisions. The CEO and COO participate in Committee meetings purely in an informational and advisory capacity and have no votes in the Committee's decision-making process. The CEO and COO 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.

The Compensation and Benefits Committee will meet with the CEO and COO before establishing the 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 CEO and COO to provide the Committee with performance assessments and compensation recommendations for each of the other NEOs, which are considered by the Compensation and Benefits Committee in arriving at its compensation determinations.

### ***Role of Compensation Consultant***

For 2019, the Compensation and Benefits Committee engaged Pearl Meyer as 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 NEOs. Pearl Meyer reports directly to the Compensation and Benefits Committee, and does not perform any other services to Investors Bancorp or Investors Bank. Pearl Meyer 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.

Before engaging a compensation consultant, the Compensation and Benefits Committee considers the independence of the compensation consultant, taking into account the following factors: (1) other services provided to Investors Bancorp by the compensation consultant; (2) fees paid by Investors Bancorp as a percentage of the compensation consultant's total revenue; (3) policies or procedures maintained by the compensation consultant that are designed to prevent a conflict of interest; (4) any business or personal relationship of the compensation consultant or the individual compensation advisors employed by the firm with any member of the Compensation and Benefits Committee; (5) any Investors Bancorp common stock owned by the compensation consultant or the individual compensation advisors employed by the firm; and (6) any business or personal relationship of the compensation consultant or the individual compensation advisors employed by the firm with any executive officer of Investors Bancorp. In this regard, prior to an engagement, the Compensation and Benefits Committee requests and receives a report from a compensation consultant regarding its independence. The Compensation and Benefits Committee concluded that Pearl Meyer was independent and had no conflicts of interest with respect to its engagement.

## Market Comparison

For 2019, Pearl Meyer compared Investors Bancorp's executive compensation program to peer group compensation data. Pearl Meyer 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 2019 compensation. These included banking institutions with assets of \$20.4 billion to \$45.9 billion at September 30, 2018, 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 reviewed and 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.

## 2019 Peer Group

The group of companies approved by the Compensation and Benefits Committee for the evaluation of 2019 Named Executive Officer compensation consisted of the 17 peer banking institutions identified below:

BankUnited, Inc. - FL	People's United Financial, Inc. - CT	Umpqua Holdings Corporation - OR
Chemical Financial Corporation - MI	Prosperity Bancshares, Inc. - TX	Valley National Bancorp - NJ
Commerce Bancshares Inc. - MO	Signature Bank - NY	Webster Financial Corporation - CT
F.N.B. Corporation - PA	Sterling Bancorp - NY	Western Alliance Bancorporation - AZ
Fulton Financial Corporation - PA	TCF Financial Corporation - MN	Wintrust Financial Corporation - IL
IBERIABANK Corporation - LA	UMB Financial Corporation - MO	

While our executive compensation program is designed such that each NEO's base salary, annual cash incentives and long-term equity compensation are commensurate with corporate and personal performance, Investors Bancorp has no formal policy that requires the compensation of the NEOs 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 NEO, which included (i) a detailed comparative study of the cash and stock compensation of the NEOs of the selected peer companies on a functionally position-matched basis and (ii) statistical median and average value of the detailed array of comparative executive compensation data for each element of NEO 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.

## Elements of Executive Compensation for 2019

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 NEOs. Base salary levels for the NEOs 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 NEO based on the competitive executive salary information furnished to the Compensation and Benefits Committee by its compensation consultant. Specifically, each NEO's base salary level is determined by his sustained individual performance, leadership, operational effectiveness, tenure in office, experience in the industry and the employment market conditions in our geographical area.

For 2019, there were no base salary increases for our NEOs except for our Chief Financial Officer. The Compensation and Benefits Committee considered Investors Bancorp's financial performance, and peer group and market-based industry salary data provided by the Committee's compensation consultant for 2019, as well as the individual factors identified above.

The following table sets forth the salary earned by our NEOs for the calendar years ended December 31, 2019 and 2018:

<u>Executive Officer</u>	<u>2019 Salary (\$)</u>	<u>2018 Salary (\$)</u>
Kevin Cummings	1,075,000	1,075,000
Domenick A. Cama	725,000	725,000
Richard S. Spengler	465,000	465,000
Paul Kalamaras	450,000	450,000
Sean Burke	450,000	425,000

### Executive Officer Annual Incentive Plan

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Each of the NEOs participated in the Executive Officer Annual Incentive Plan in 2019. Each NEO's annual cash incentive award opportunity is defined as a percentage of base salary. Award opportunities are linked to specific targets and range of performance results for both annual corporate financial performance and individual goals.

The Compensation and Benefits Committee believes that executive annual incentive compensation should be formally tied to the attainment of certain corporate financial targets and individual performance goals to align the executive's performance with providing value for our stockholders. The corporate financial target for 2019 was based on net income. Individual goals represent 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 NEOs. 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 NEO (including the CEO) for critical performance with respect to standard banking industry and other public company metrics (e.g., deposit growth, efficiency ratio, loan delinquency and other such goals). In our view, individual goals have served to strengthen the effectiveness of our executive compensation program and continue to have a significant positive impact on our managerial performance. We believe that this incentive plan structure allows our NEOs 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.

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 NEO'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.

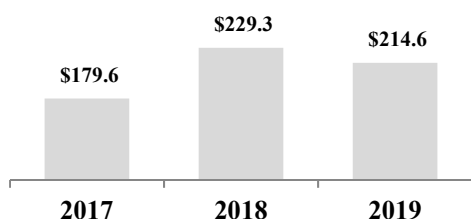
### **2019 Financial Performance – Incentive Achievement**

Total assets increased \$469.8 million, or 2%, for the year ended December 31, 2019, driven primarily by increases of \$167.2 million and \$97.9 million to securities and net loans, respectively. Additionally, new lease accounting guidance that was effective January 1, 2019 resulted in the Company recording operating lease right-of-use assets of \$175.1 million on our balance sheet at December 31, 2019. Our ongoing strategy is to continue to diversify our loan portfolio while maintaining a high level of asset quality. Net income decreased by \$7.1 million to \$195.5 million for the year ended December 31, 2019. Net income for the year ended December 31, 2019 was negatively impacted by \$7.8 million of additional income tax expense resulting from the revaluation of our net deferred tax asset as the State of New Jersey provided clarification in December 2019 relating to previously enacted tax law changes.

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

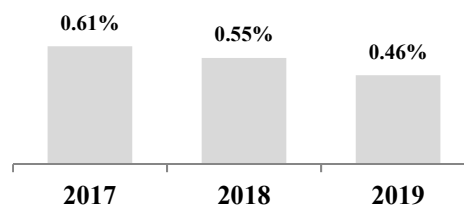
Our total shareholder return for the year ended December 31, 2019 was strong after the year ended December 31, 2018 was negatively impacted by a market-wide decline in stock prices. During 2019, the Company paid cash dividends to stockholders of \$0.44 per share totaling \$122.2 million and repurchased \$475.9 million of stock as part of our capital management strategy to manage capital through organic growth, stock repurchases, cash dividends and acquisitions. In December 2019, we repurchased \$335.7 million of stock from Blue Harbour Group, L.P. (“Blue Harbour”). Blue Harbour was previously our largest stockholder.

### Net Income<sup>(1)</sup> (in millions)



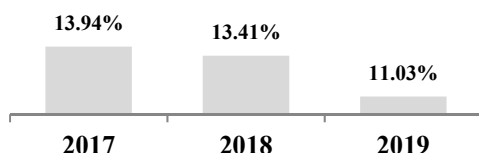
### Credit Quality

*Non-Performing Assets / Assets*



### Capital Levels

*Common Equity Tier 1 Ratio*

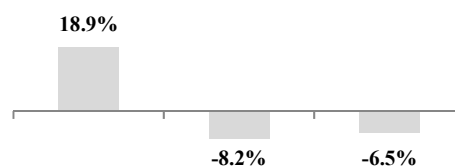


### Total Shareholder

**Return**

*period ending December 31, 2019*

**One year    Two year    Three year**



- (1) Net income for the year ended December 31, 2019 is adjusted to exclude \$7.8 million of income tax expense resulting from the revaluation of the net deferred tax assets related to the clarification of New Jersey state tax law changes, \$5.8 million of expenses related to the settlement of shareholder litigation, \$4.1 million loss on the sale of debt securities as part of a restructuring and \$1.4 million of severance costs related to a workforce reduction. Net income for the year ended December 31, 2018 is adjusted to exclude a \$24.6 million loss on the sale of debt securities available-for-sale, net of tax, and branch closure costs of \$2.1 million, net of tax, announced in December 2018. 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 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.

## 2019 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 NEOs 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 NEO’s personal contribution to those results.

For 2019, 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:

<u>Executive Officer</u>	<u>Threshold<sup>(1)</sup></u>	<u>Target<sup>(1)</sup></u>	<u>Maximum<sup>(1)</sup></u>
Kevin Cummings	87.5%	131.3%	175.0%
Domenick A. Cama	70.0%	105.0%	140.0%
Richard S. Spengler	52.5%	78.8%	105.0%
Paul Kalamaras	52.5%	78.8%	105.0%
Sean Burke	52.5%	78.8%	105.0%

(1) Assumed 50%, 75% and 100% achievement of all individual goals at Threshold, Target and Maximum, respectively.

For 2019, the Compensation and Benefits Committee weighted each NEO's annual cash incentive award opportunity (as a percentage of the total award opportunity) with respect to the corporate financial target and individual goals as follows:

<u>Executive Officer</u>	<u>Corporate Financial Target</u>	<u>Individual Goals</u>
Kevin Cummings	85%	15%
Domenick A. Cama	85%	15%
Richard S. Spengler	40%	60%
Paul Kalamaras	40%	60%
Sean Burke	40%	60%

### ***Corporate Financial Target***

The Company's corporate financial target for 2019 was net income.

### **Net Income**

The Compensation and Benefits Committee established the following Threshold, Target and Maximum Achievements for net income:

<u>Metric</u>	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>
Net Income ( <i>\$ in millions</i> )	\$200	\$220	\$240

The net income goals at target and maximum were 2% and 7% higher, respectively, than the corresponding net income goals for 2018. The net income goal at threshold was 2% lower than the corresponding net income goal for 2018. While the net income goal at threshold was slightly lower in 2019 than 2018, the ranges between threshold and target and target to maximum were widened for 2019. After reviewing the 2019 net income results, the Committee concluded that this goal was achieved between Threshold and Target.

### Individual Goals

The individual goals established by the Compensation and Benefits Committee were aligned with each NEO's area of responsibility at Investors Bancorp and related to the successful implementation of our strategic initiatives. For 2019, each NEO's individual goals were related to the following:

- Messrs. Cummings' and Cama's individual goal was related to maintaining credit quality versus peers. In establishing the individual goal of both Messrs. Cummings and Cama, the Compensation and Benefits Committee set the goal for commercial loan delinquencies to remain within a 5% range variance compared to our peer group.
- Mr. Spengler's individual goals included implementation of a loan origination platform and loan delinquencies to remain within a 5% range variance to our peer group. In addition, specific metrics were established with a range of attainment between minimum and maximum for cash management fees and total deposit balances and checking account balances for deposit accounts originated through lending.
- Mr. Kalamaras' individual goals included ensuring that no regulatory enforcement actions result from the 2019 BSA exam, implementing an approved BSA transformation plan, implementing a PD/LGD risk rating system and improving the first line/second line communication and process.
- Mr. Burke's individual goals were related to CECL implementation, an operational efficiency analysis, fee waiver analysis/dashboard and process enhancements for accounts payable and deposit tracking.

### 2019 Incentive Achievement

For 2019, the net income utilized for evaluation of the corporate goal achievement was \$214.6 million, which was between the Threshold and Target achievement levels. In determining net income for 2019, the Compensation and Benefits Committee made adjustments due to events that were considered extraordinary, unusual or non-recurring, as contemplated by our Incentive Plan. Specifically, these adjustments were due to the revaluation of the net deferred tax asset related to the clarification of New Jersey state tax law changes, expenses related to the settlement of shareholder litigation, loss on the sale of debt securities as part of a restructuring and severance costs related to a workforce reduction. The adjustments were as follows:

	2019
Net income	\$ 195.5
Revaluation of net deferred tax asset	7.8
Settlement of shareholder litigation	5.8
Loss on sale of securities	4.1
Workforce reduction costs	1.4
Adjusted net income	<u>\$ 214.6</u>

Based upon the foregoing and the assessment of the NEO's individual performance relative to his pre-established individual goals, the Compensation and Benefits Committee approved the following annual cash incentive awards on February 24, 2020:

### 2019 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	175%	85%	15%	68.25%	100%	1,373,548	128%
Domenick A. Cama	725,000	140%	85%	15%	68.25%	100%	741,077	102%
Richard S. Spengler	465,000	105%	40%	60%	68.25%	62.75%	317,118	68%
Paul Kalamaras	450,000	105%	40%	60%	68.25%	100%	412,493	92%
Sean Burke	450,000	105%	40%	60%	68.25%	100%	412,493	92%

## 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 the 2015 Equity Plan, individuals including officers and directors are eligible to receive awards of restricted stock and stock options to purchase shares of Investors Bancorp common stock (at an exercise price of no less than the market price of the common stock at the time of grant). A total of 30,881,296 shares (13,234,841 restricted stock awards and 17,646,455 stock options) of Investors Bancorp common stock were authorized for issuance under the 2015 Equity Incentive Plan. Awards to non-management Directors were limited to 30% of the shares reserved under the 2015 Equity Incentive Plan.

During the year ended December 31, 2019, excluding the Replacement Awards granted to our CEO and COO as discussed below, the Company awarded 695,919 restricted stock awards and 50,000 options under the 2015 Equity Plan. None of these grants were issued to directors or NEOs.

## Performance-Based Equity Awards

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On June 23, 2015, Investors Bancorp granted performance-based restricted stock awards to our NEOs. The selected performance metrics were (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. Our performance on these metrics was measured over a three-year period ended December 31, 2017. At the end of the performance-period, if all or any portion of these performance-based stock awards were earned by participating executives, the vesting and payout of any earned shares would 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).

During 2018, 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 and converted to time-based vesting. As a result, 1/3 of such earned shares vested on each of February 15, 2018, February 15, 2019 and February 15, 2020.

## Implementation of Settlement of Stockholder Litigation

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Following the approval of the 2015 Equity Plan, 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 this 2015 grant, a total of 3,333,333 restricted stock awards and 4,453,331 stock options were awarded to NEOs. Mr. Cummings was awarded 1,000,000 restricted stock shares, vesting in equal installments over a seven-year period, of which 250,000 shares were subject to the Company’s satisfaction of certain performance criteria. Mr. Cummings was also awarded 1,333,333 stock options exercisable at the then-market price, vesting in equal installments over a seven-year period. Mr. Cama was granted 800,000 restricted stock awards, vesting equally over seven years, with 200,000 shares being conditioned upon the Company meeting certain performance criteria, and 1,066,666 stock options, vesting equally over seven years, exercisable at the then-current market price. The performance shares awarded to Messrs. Cummings and Cama were ultimately determined to be earned at 70% of target, and the shares so earned were vested in three annual installments through February 2020.

Also on June 23, 2015, each non-executive director was awarded (i) 250,000 stock options exercisable at the then-current market price, and (ii) 100,000 shares of restricted stock, in each case vesting in equal installments over five years, except for former directors Robert Cashill and Brian Dittenhafer, who were each awarded 150,000 shares of restricted stock, vesting in equal installments over three years.



The June 23, 2015 awards were made at an important milestone in the Company’s history, namely, the completion of its conversion from a mutual holding company to a fully public company, and were the result of a review and assessment process conducted by the Compensation and Benefits Committee, in consultation with external compensation and legal advisors, who had provided the Committee with information relating to the grant practices of companies that had converted from the mutual to stock form of organization and, in particular, companies of comparable size that had completed a two-step mutual-to-stock conversion (a “Second Step Conversion”).

Following the filing of the Company’s proxy statement in April 2016, three stockholder complaints were filed in the Court of Chancery of the State of Delaware, purportedly on behalf of the Company, which was named a nominal defendant, against certain current and former directors of the Company, including Messrs. Cummings and Cama (collectively, the “Director Defendants”). The complaints alleged breaches of fiduciary duty and unjust enrichment by the Director Defendants in connection with the equity grants awarded on June 23, 2015. The three complaints were consolidated by the Court of Chancery and captioned *In re Investors Bancorp, Inc. Stockholder Litigation (the “Action”)*, and the Company and the Director Defendants moved to dismiss the Action for failure to state a claim and for failure to make a demand on the board of directors before filing suit. In an opinion issued April 5, 2017, the Court of Chancery granted the motions and dismissed the Action against the non-employee directors because the 2015 Equity Plan contained meaningful, specific limits on awards to all director beneficiaries, and therefore the awards to the non-employee directors were ratified by the stockholders and entitled to business judgment protection. The Court of Chancery also dismissed the claims directed to the directors who were executive officers because the plaintiffs failed to make a pre-suit demand on the board.

The plaintiffs appealed the Court of Chancery dismissal of the Action. In December 2017, the Delaware Supreme Court reversed, overturning existing Court of Chancery precedent regarding the availability of the ratification defense where stockholders have approved an equity plan which provides directors with discretion to grant themselves awards within certain limits, and holding that such awards are subject to entire fairness review. The Supreme Court further held that because the complaint alleged that the awards to Messrs. Cummings and Cama were made nearly contemporaneously with the directors’ own awards, pre-suit demand on the board would have been futile, and the claims pertaining to those awards could not be dismissed at the pleading stage.

During 2018, the Company, the Director Defendants and the plaintiffs engaged in significant discovery, including the production and review of approximately 85,000 pages of documents and the taking of multiple depositions of the directors and other non-parties. The Director Defendants and plaintiffs also engaged in two full-day mediation sessions, at the conclusion of which the parties reached a settlement of the action.

On March 6, 2019, the Company, the directors and the plaintiffs caused to be filed with the Court of Chancery a Stipulation and Agreement of Compromise, Settlement and Release (the “Settlement Agreement”).

A Notice of Pendency of Derivative Action, Proposed Settlement and Settlement Hearing (the “Settlement Notice”) was mailed to all stockholders of record, as well as to other persons or entities who held shares of the Company for the benefit of others, as of March 6, 2019. Among other things, the Settlement Notice described the terms of the settlement and indicated that the hearing to determine whether the Court of Chancery should approve the settlement would take place on May 23, 2019 in Dover, Delaware.

Nothing in the Settlement Agreement authorized, restricted or limited the power and ability of the Board of Directors to make future grants under the 2015 Equity Plan or a successor plan, or to otherwise provide compensation to any of the directors in the ordinary course. The Settlement Notice stated that the Compensation and Benefits Committee intended to consider whether to grant new or replacement awards under the 2015 Equity Plan to Messrs. Cummings and Cama.

In March 2019, the Compensation and Benefits Committee, with the assistance of Pearl Meyer, its independent compensation consultant, and Sullivan & Cromwell LLP, as compensation practices counsel, commenced a process to consider the issuance of equity grants to Messrs. Cummings and Cama to replace those being surrendered pursuant to the terms of the Settlement Agreement. The Compensation and Benefits Committee, with the assistance of its independent advisors, conducted various analyses to determine whether replacement grants should be made, and, if so, at what levels. These analyses included a review of grant practices and total direct compensation for CEOs and COOs at institutions similar to the Company, including the grant practices of companies which had converted from a mutual to stock form of organization, particularly companies of comparable size which had completed a Second Step Conversion.

In its determination of the amount and form of replacement grant levels, the Compensation and Benefits Committee reviewed and evaluated the following:

- (i) valuation of the equity grants issued to Messrs. Cummings and Cama under the 2015 Equity Plan using the following methodologies:
  - grant date fair value
  - current value
  - carried interest value;
- (ii) historical compensation for Messrs. Cummings and Cama as compared to peers for the period 2015 – 2021 (representing the vesting period for the equity grants issued to Messrs. Cummings and Cama under the 2015 Equity Plan), and for the period 2011 – 2017 (representing seven years for which historical information was available), including the following analyses:
  - total direct compensation
  - total direct compensation comparison to peers
  - regression analysis
  - carried interest analysis
  - historical second step mutual conversion practices;
- (iii) the terms of the Settlement Agreement;
- (iv) the unique role that Mr. Cama held within the Company;
- (v) the expectations of Messrs. Cummings and Cama in regard to equity grants as part of their overall compensation;
- (vi) comparison of the analyses performed by the Compensation and Benefits Committee in 2015 relating to traditional post-mutual conversion grant practices and the analysis conducted in 2019 in regard to the evaluation considered by the Compensation and Benefits Committee in determining possible replacement grant levels;
- (vii) the Company’s financial performance for the period 2014 – 2019 year-to-date;
- (viii) the successful Second Step Conversion and capital raise conducted in 2014;
- (ix) assessment of potential levels of restricted shares and options being considered in the replacement awards;
- (x) the lack of annual equity awards granted to Messrs. Cummings and Cama in 2016, 2017, 2018 and 2019;
- (xi) potential vesting periods for the replacement grants being considered; and
- (xii) potential tax and accounting implications to the Company in the grant of replacement awards being considered.

On May 20, 2019, the Compensation and Benefits Committee authorized and approved, and recommended to the Board of Directors, the issuance of replacement awards of (i) 925,000 shares of restricted stock and 525,120 stock options to Mr. Cummings, and (ii) 740,000 shares of restricted stock and 420,096 stock options to Mr. Cama (collectively the “Replacement Awards”). The Board of Directors, excluding Messrs. Cummings and Cama, determined that it was advisable and in the best interests of the Company to approve and issue the Replacement Awards, subject to the surrender of the awards previously made to Messrs. Cummings and Cama in 2015 pursuant to the Settlement Agreement.

In granting the Replacement Awards to Messrs. Cummings and Cama, the Compensation and Benefits Committee and the Board of Directors indicated that the Replacement Awards were intended to modify and replace the awards previously made to Messrs. Cummings and Cama in 2015 and were not new awards. This resulted in the Compensation and Benefits Committee determining to use the same vesting schedule for the Replacement Awards as had been utilized in the awards previously granted to Messrs. Cummings and Cama in 2015.

The Settlement hearing was held on May 23, 2019. On June 21, 2019, the Court entered an order approving the settlement. On July 21, 2019 the settlement became effective. Accordingly, pursuant to the terms of the Settlement Agreement (i) a total of 2.5 million stock options, which constituted all of the stock options granted to non-employee directors (excluding Brendan J. Dugan who is deceased) and stock options granted to Paul Stathoulopoulos (who was not a director of the Company at the time of the equity grant on or about June 23, 2015) were surrendered; (ii) a total of 95,694 shares of restricted stock granted to the then non-employee directors of the Company and to then non-director Paul Stathoulopoulos scheduled to vest in 2020 were surrendered; and (iii) 100% of the stock options and restricted stock granted to Messrs. Cummings and Cama on or about June 23, 2015 were surrendered.

The Replacement Awards were issued to Messrs. Cummings and Cama on July 22, 2019. The Replacement Awards were issued from the 2015 Equity Plan. The stock options have an exercise price of \$12.54 per share; 25% of the stock options vested upon issuance with the remaining to vest ratably on June 23, 2020, June 23, 2021 and June 23, 2022. 545,241 shares of the restricted stock issued to Mr. Cummings and 436,190 shares of the restricted stock issued to Mr. Cama vested on July 22, 2019, with the remainder to vest on the same vesting schedule as was applicable to the June 23, 2015 awards (ratably on June 23, 2020, June 23, 2021 and June 23, 2022). In addition, neither Mr. Cummings nor Mr. Cama had received any other equity grants since 2015.

Below is a summary of the grant date fair value of stock options and stock awards granted to Messrs. Cummings and Cama on June 23, 2015 as well as the Replacement Awards issued to Messrs. Cummings and Cama on July 22, 2019. All stock options and stock awards granted on June 23, 2015 to Messrs. Cummings and Cama were either surrendered pursuant to the Settlement Agreement or forfeited in 2018 due to the level of achievement of the performance-based awards.

<u>Name</u>	<u>Award Type</u>	<u>2015 Original Awards (\$) <sup>(1)</sup></u>	<u>2019 Replacement Awards (\$) <sup>(2)</sup></u>	<u>Change in Fair Value (\$)</u>
Kevin Cummings	Stock Options	4,159,999	467,357	(3,692,642)
	Restricted Stock	12,540,000	10,230,500	(2,309,500)
		<u>16,699,999</u>	<u>10,697,857</u>	<u>(6,002,142)</u>
Domenick A. Cama	Stock Options	3,327,998	373,885	(2,954,113)
	Restricted Stock	10,032,000	8,184,400	(1,847,600)
		<u>13,359,998</u>	<u>8,558,285</u>	<u>(4,801,713)</u>

(1) Represents the grant date fair value of the awards determined in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 11 to the audited financial statements included in the Annual Report on Form 10-K for the calendar year ended December 31, 2015. The fair value of the stock option awards was \$3.12 as computed in accordance with FASB ASC Topic 718. The stock price on June 23, 2015 was \$12.54. In 2018, Messrs. Cummings and Cama forfeited performance-based restricted shares with a grant date fair value of \$940,500 and \$752,400, respectively, as the performance-based restricted shares were deemed earned at 70% of target.

(2) Represents the grant date fair value of the awards determined in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 12 to the audited financial statements included in the Annual Report on Form 10-K for the calendar year ended December 31, 2019. The fair value of the stock option awards was \$0.89 as computed in accordance with FASB ASC Topic 718. The stock price on July 22, 2019 was \$11.06.

On September 26, 2019, one of the plaintiffs who had brought the shareholder derivative action in 2016, which was the subject of the settlement, filed a new complaint in the Delaware Court of Chancery captioned *Elburn v. Albanese, et. al* (the “2019 Action”), alleging that the Replacement Awards described above were excessive, that the directors who approved these awards were not disinterested, and that the Company had not properly disclosed the issuance of the Replacement Awards prior to its 2019 Annual Meeting of Stockholders. Defendants filed a motion to dismiss the 2019 Action and that motion remains pending.

## Other Elements of Compensation

### Benefits

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Investors Bank provides its executives, including the NEOs, with medical, dental and vision insurance, disability insurance and group life insurance coverage consistent with the same benefits provided to all of its full-time employees. The NEOs 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 NEOs have accrued benefits under the Pentegra Defined Benefit Plan for Financial Institutions, formerly known as the Financial Institutions Retirement Fund, which is a tax-qualified multiple employer defined benefit pension plan (the “Defined Benefit Plan”) and the Executive Supplemental Retirement Wage Replacement Plan (“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 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 received from 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 2019, the salary deferral contribution limit is \$19,000. 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 2019 plan year. In addition, during 2019, the 401(k) Plan did not include a discretionary profit sharing contribution. 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**

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As of December 31, 2016, the Defined Benefit Plan was frozen. Freezing the plan eliminated all future benefit accruals and each participant's frozen accrued benefit was determined as of December 31, 2016 with no further benefits accrued subsequent to December 31, 2016.

Investors Bank participates in the Defined Benefit Plan. All employees age 21 or older who had completed one year of employment with Investors Bank were eligible for participation in the Defined Benefit Plan the first of the month following their one-year anniversary; however, only employees who had been credited with 1,000 or more hours of service with Investors Bank were 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 are 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, 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

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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, 2019, 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 subsequent to the 2016 year of service. As a result, each participant is entitled to receive their vested frozen accrued benefit as of December 31, 2016, upon their 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, 2019, Messrs. Cummings, Cama, Kalamaras and Spengler were participants in the SERP II.

## **Perquisites**

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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, 2019, 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 automobile allowance, an annual medical examination and long-term care insurance.

## **Employment Agreements**

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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 Named Executive Officers of Investors Bancorp and all members of the Board of Directors. Under the policy, each Named 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 a Named 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 and does not apply to employees who are not executive officers.

## **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.

## **Clawback Policy**

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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**

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Under Section 162(m) of the Internal Revenue Code, as amended by the Tax Act, 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,” defined as the public company’s principal executive officer, principal financial officer and three additional highest compensated officers during any taxable year of the company beginning after December 31, 2017. The Tax Act provides “grandfathered” treatment for certain compensation in excess of the \$1 million deductibility limitation, including compensation that is “qualified performance-based compensation” within the meaning of Section 162(m) prior to the Tax Act, if payable pursuant to a written binding contract in effect as of November 2, 2017 that is not modified in any material respect thereafter. Our stock option grants and grants of performance-based equity awards made prior to November 2, 2017 are intended to qualify as qualified performance-based compensation that is exempt from the deductibility limitation under Section 162(m).

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.

Ms. Byrnes did not participate in any decisions related to the annual incentive awards issued to the NEOs in 2019 because as a former officer of Investors Bank, she is not an "outside director" as determined under Code Section 162(m).

## **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. 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.

As noted previously, in furtherance of the Compensation and Benefits Committee's ongoing oversight of the Company's Executive Officer Annual Incentive Plan, the Board in 2018 adopted the Executive Incentive Compensation Approval Policy. The purpose of this policy is to provide enhanced oversight, review, assessment and approval processes for this Committee, the Risk Oversight Committee and the Audit Committee in the setting of incentive compensation goals for the CEO, COO, the other NEOs and other designated executive officers of the Company, to ensure that our incentive compensation arrangements appropriately balance risk and financial results in a manner that does not pose undue risk to the Company.

Finally, 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 Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Committee has worked with the assistance of management and our compensation consultants 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 motivated our employees to contribute to the overall success of Investors Bancorp. Each year a participant is assigned individual goals and a share of the overall corporate goals. Each participant is advised of the cash incentive opportunity for meeting his/her goals. Selection of goals in a way that is intended to align 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.**

Michele N. Sickerka, *Chair*  
Robert C. Albanese, *Member*  
Dennis M. Bone, *Member*  
Doreen R. Byrnes, *Member*  
Paul N. Stathouloupoulos, *Member*  
James H. Ward III, *Member*

## Executive Compensation

The following table sets forth for the calendar years ended December 31, 2019, 2018 and 2017 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)(2)</sup>	Option Awards (\$) <sup>(1)(2)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(3)</sup>	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) <sup>(4)</sup>	All Other Compensation (\$) <sup>(5)</sup>	Total (\$)	Total Without Change in Pension Value (\$)
Kevin Cummings, Chairman and Chief Executive Officer	2019	1,075,000	—	—	—	1,373,548	2,755,000	207,804	5,411,352	2,656,352
	2018	1,075,000	—	—	—	2,150,000	—	184,430	3,409,430	3,409,430
Domenick A. Cama, President and Chief Operating Officer	2019	725,000	—	—	—	741,077	1,692,000	161,707	3,319,784	1,627,784
	2018	725,000	—	—	—	1,160,000	—	149,001	2,034,001	2,034,001
Richard S. Spengler, Executive Vice President and Chief Lending Officer	2019	465,000	—	—	—	317,118	852,000	85,282	1,719,400	867,400
	2018	465,000	—	—	—	530,100	—	85,581	1,080,681	1,080,681
	2017	465,000	—	891,600	—	416,547	563,000	87,557	2,423,704	1,860,704
Paul Kalamaras, Executive Vice President and Chief Risk Officer	2019	450,000	—	—	—	412,493	636,000	92,059	1,590,552	954,552
	2018	450,000	—	—	—	459,540	—	77,037	986,577	986,577
	2017	450,000	—	827,400	—	516,510	347,000	82,693	2,223,603	1,876,603
Sean Burke, Executive Vice President and Chief Financial Officer	2019	450,000	—	—	—	412,493	7,000	87,511	957,004	950,004
	2018	425,000	—	—	—	467,500	—	67,355	959,855	959,855
	2017	425,000	—	594,400	—	465,864	4,000	75,998	1,565,262	1,561,262

- As part of the shareholder litigation settlement, Mr. Cummings and Mr. Cama surrendered stock awards with a grant date fair value of \$11.6 million and \$9.3 million, respectively, and stock options with a grant date fair value of \$4.2 million and \$3.3 million, respectively. Mr. Cummings and Mr. Cama received Replacement Awards of stock awards with a grant date fair value of \$10.2 million and \$8.2 million, respectively, and stock options with a grant date fair value of \$467,357 and \$373,885, respectively. These transactions were accounted for as a modification of the original grant and there was no incremental expense to the Company or compensation to the employees as the grant date fair value of the surrendered awards was \$5.1 million and \$4.0 million higher than the grant date fair value of the Replacement Awards for Mr. Cummings and Mr. Cama, respectively.
- 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 per share for the stock awards granted in 2017 was \$14.86 for Messrs. Spengler and Burke and \$13.79 for Mr. Kalamaras. Assumptions used in the calculation of these amounts are included in Note 12 to Investors Bancorp's audited financial statements for the calendar year ended December 31, 2019 included in Investors Bancorp's Annual Report on Form 10-K. The annual financial statement expense that we are required to recognize for these grants will be expensed ratably over the vesting period, but 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.
- The amounts were earned pursuant to the Executive Officer Annual Incentive Plan.
- Effective December 31, 2016, the Defined Benefit Plan and SERP II was frozen. 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 non-qualified 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. For 2019, the change in the pension value was substantially higher than 2018 primarily as a result of the decrease in the discount rate assumption due to market conditions. In particular, 78% of Mr. Cummings's change in pension value in 2019 was due solely to changes in the discount rate. For 2018, the change in pension value was negative for each NEO as a result of the increase in the discount rate assumption due to market conditions. 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.
- 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, 2019.

## 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	2019	22,827	27,387	157,590	207,804
Domenick A. Cama	2019	35,222	29,252	97,233	161,707
Richard S. Spengler	2019	10,395	22,712	52,175	85,282
Paul Kalamaras	2019	32,589	3,447	56,023	92,059
Sean Burke	2019	12,522	22,392	52,597	87,511

(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	2019	8,877	11,793	2,157	—	22,827
Domenick A. Cama	2019	12,590	15,055	4,807	2,770	35,222
Richard S. Spengler	2019	4,121	2,553	3,721	—	10,395
Paul Kalamaras	2019	9,888	12,262	5,644	4,795	32,589
Sean Burke	2019	8,662	—	—	3,860	12,522

## 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 Chief Executive Officer.

For 2019, our median annual total compensation for all employees other than our CEO was \$63,563. The annual total compensation for our CEO for the same period was \$5,411,352. The ratio of our CEO's compensation to the median employee's compensation was 85 to 1.

We identified our median employee using our entire workforce as of December 12, 2019 of approximately 1,800 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 2019. We determined the compensation for our median employee by calculating total compensation for such employee for 2019 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 2019 Summary Compensation Table included in this Proxy Statement.

As the SEC rules for identifying the median employee 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 2019

The following table sets forth certain information as to grants during calendar 2019 of plan-based awards to the Named Executive Officers under the Executive Officer Annual Incentive Plan.

Name	Grant Date <sup>(1)</sup>	Estimated Payouts Under Non-Equity Incentive Plan Awards <sup>(2)</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>(3)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)				
Kevin Cummings	2/25/2019	940,625	1,410,938	1,881,250	—	—	\$ —	
	7/22/2019	—	—	—	925,000	—	\$ —	
	7/22/2019	—	—	—	—	525,120	\$ 12.54	
Domenick A. Cama	2/25/2019	507,500	761,250	1,015,000	—	—	\$ —	
	7/22/2019	—	—	—	740,000	—	\$ —	
	7/22/2019	—	—	—	—	420,096	\$ 12.54	
Richard S. Spengler	2/25/2019	244,125	366,188	488,250	—	—	\$ —	
Paul Kalamaras	2/25/2019	236,250	354,375	472,500	—	—	\$ —	
Sean Burke	2/25/2019	236,250	354,375	472,500	—	—	\$ —	

- (1) The awards with a grant date of July 22, 2019 represent the Replacement Awards. Refer to the “Implementation of Settlement of Stockholder Litigation” section in this proxy statement.
- (2) Amounts shown assume achievement of 50%, 75% and 100% of individual goals and objectives at Threshold, Target and Maximum, respectively. The range of estimated possible payouts reflects payouts under the Executive Officer Annual Incentive Plan.
- (3) Represents the grant date fair value of the Replacement Awards determined in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 12 to the audited financial statements included in the Annual Report on Form 10-K for the calendar year ended December 31, 2019. The fair value of the stock option awards was \$0.89 as computed in accordance with FASB ASC Topic 718. For a discussion of the Replacement Awards, see the “Implementation of Settlement of Stockholder Litigation” section in this proxy statement.

For the year ended December 31, 2019, there were no equity grants to the Named Executive Officers other than the Replacement Awards to our CEO and 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 2019, please see “Compensation Discussion and Analysis” above.

## Outstanding Equity Awards at December 31, 2019

The following table sets forth information with respect to outstanding equity awards as of December 31, 2019 for the Named Executive Officers.

Name	Option Awards					Stock Awards			
	Grant Date <sup>(1)</sup>	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) <sup>(2)</sup> Unexercisable	Option Exercise Price (\$)	Option Expiration Date <sup>(3)</sup>	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup>	Market Value of Stock That Have Not Vested (\$) <sup>(4)</sup>	Equity Incentive Plan Awards: Number of Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Kevin Cummings	7/22/19	131,280	393,840	12.54	6/23/25	379,762	4,526,763	—	—
Domenick A. Cama	7/22/19	105,024	315,072	12.54	6/23/25	303,810	3,621,415	—	—
Richard S. Spengler	6/23/15	407,618	305,715	12.54	6/23/25	202,540	2,414,277	—	—
	2/27/17	—	—	—	—	36,000	429,120	—	—
Paul Kalamaras	6/23/15	407,618	305,715	12.54	6/23/25	202,540	2,414,277	—	—
	3/27/17	—	—	—	—	36,000	429,120	—	—
Sean Burke	6/23/15	358,094	268,572	12.54	6/23/25	177,222	2,112,486	—	—
	2/27/17	—	—	—	—	24,000	286,080	—	—

- (1) The awards with a grant date of July 22, 2019 represent the Replacement Awards. Refer to the “Implementation of Settlement of Stockholder Litigation” section in this proxy statement.
- (2) Stock option and restricted stock awards generally vest over a seven-year period commencing on the first anniversary of the date granted. Includes stock awards that were earned after performance goals were achieved over the three-year period from 2015-2017.
- (3) Stock options generally expire if unexercised 10 years after the grant date.
- (4) Amounts shown are based on the fair market value of Investors Bancorp common stock on December 31, 2019 of \$11.92.

## Option Exercises and Stock Vested in 2019

The following table provides information concerning stock option exercises and the vesting of stock awards for each Named Executive Officer during 2019.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#) <sup>(1)</sup>	Value Realized on Vesting (\$) <sup>(1)</sup>
Kevin Cummings	—	—	710,718	7,927,576
Domenick A. Cama	—	—	568,571	6,342,024
Richard S. Spengler	—	—	100,255	1,163,652
Paul Kalamaras	—	—	100,255	1,153,812
Sean Burke	—	—	85,222	986,558

- (1) For Mr. Cummings and Mr. Cama, stock awards of 165,477 and 132,381, respectively, vested prior to July 22, 2019 with a value realized on vesting of \$1,897,211 and \$1,517,763, respectively. These shares were all surrendered on July 22, 2019. Mr. Cummings and Mr. Cama were granted Replacement Awards on July 22, 2019 and 545,241 and 436,190 of these shares, respectively, vested immediately with a value realized on vesting of \$6,030,365 and \$4,824,261, respectively. For further details, refer to the “Implementation of Settlement of Stockholder Litigation” section in this proxy statement.

## Pension Benefits at or for the year ended December 31, 2019

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	737,000	—
	SERP I and SERP II	12.5	19,925,000	—
Domenick A. Cama	Defined Benefit Plan	26.0	1,372,000	—
	SERP I and SERP II	26.0	10,347,000	—
Richard S. Spengler	Defined Benefit Plan	30.0	1,150,000	—
	SERP I and SERP II	30.0	3,273,000	—
Paul Kalamaras	Defined Benefit Plan	7.3	325,000	—
	SERP I and SERP II	7.3	3,525,000	—
Sean Burke	Defined Benefit Plan	0.9	28,000	—
	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, 2019 for purposes of Investors Bancorp’s audited financial statements. For discount rate and other assumptions used for this purpose, please refer to Note 12 to the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2019.



## Nonqualified Deferred Compensation at or for the year ended December 31, 2019

The following table sets forth information with respect to the Supplemental ESOP portion of SERP I at and for the year ended December 31, 2019 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 (\$) <sup>(2)</sup>	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Year-End (\$) <sup>(3)</sup>
Kevin Cummings	SERP I	—	131,990	243,694	—	2,043,067
Domenick A. Cama	SERP I	—	71,633	122,819	—	1,034,790
Richard S. Spengler	SERP I	—	26,575	45,436	—	382,887
Paul Kalamaras	SERP I	—	30,423	34,475	—	300,780
Sean Burke	SERP I	—	26,997	6,569	—	78,509

- (1) The value of the non-qualified Supplemental ESOP contribution made pursuant to SERP I in calendar 2019 is based on the fair market value of Investors Bancorp common stock on December 31, 2019 of \$11.92. These contributions are included in the Summary Compensation Table.
- (2) The aggregate earnings for the Supplemental ESOP and Retirement Plan reflect the change in value of phantom shares issued prior to 2019, based on the fair market value of Investors Bancorp common stock on December 31, 2019 of \$11.92. This amount is not included in the Summary Compensation Table because the rate of earnings was not “above-market,” as defined by the SEC.
- (3) The aggregate balances reported for the Supplemental ESOP Plan are based on the market value of Investors Bancorp common stock on December 31, 2019 of \$11.92. For Messrs. Cummings, Cama, Spengler, Kalamaras and Burke, \$1,384,447, \$709,700, \$279,915, \$231,782 and \$49,936, 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

As of December 31, 2019, Investors Bancorp had 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, 2019, 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, 2019 of \$11.92 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, 2019 because the present value of the accumulated vested benefits under each of those plans as of December 31, 2019 is set forth in the tables above.

	<u>Mr. Cummings</u>	<u>Mr. Cama</u>	<u>Mr. Spengler</u>	<u>Mr. Kalamaras</u>	<u>Mr. Burke</u>
<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>	2,728,100	1,558,100	1,138,100	1,093,100	813,100
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	4,526,765	3,621,412	2,843,398	2,843,398	2,398,566
Other benefits <sup>(3)</sup>	23,738	25,101	15,767	6,960	12,079
<b>Death</b>					
Salary Continuation <sup>(4)</sup>	1,075,000	725,000	465,000	450,000	450,000
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	4,526,765	3,621,412	2,843,398	2,843,398	2,398,566
Other benefits <sup>(3)</sup>	33,574	33,574	27,328	86	22,585
<b>Discharge without Cause or Resignation with Good Reason (no Change in Control)</b>					
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	—	—	—	—	—
Salary and Cash Incentive <sup>(5)</sup>	9,675,001	5,655,001	2,985,300	2,899,531	2,752,501
Other benefits <sup>(3)</sup>	142,426	150,604	100,603	47,763	76,405
<b>Discharge without Cause or Resignation with Good Reason (Change in Control-related)</b>					
Stock Option Vesting	—	—	—	—	—
Restricted Stock Vesting	4,526,765	3,621,412	2,843,398	2,843,398	2,398,566
Salary and Cash Incentive <sup>(5)</sup>	9,675,001	5,655,001	2,985,300	2,899,531	2,752,501
Other benefits <sup>(3)</sup>	142,426	150,604	100,603	47,763	76,405
Tax Indemnification Payment <sup>(6)</sup>	—	—	—	—	—

(1) As of December 31, 2019, 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) This amount is payable according to normal payroll practices for one year following the Named Executive Officer's date of death.
- (5) This amount is paid in a lump sum following the Named Executive Officer's date of termination.
- (6) 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 2019:

Compensation Element	Director Compensation (\$)
Annual Fee for Investors Bancorp Non-Employee Director	24,000
Annual Fee for Investors Bank Non-Employee Director	73,200
Annual Fee for Lead Independent Director	25,000
Annual Fee for Committee Chair	10,000
Annual Fee for Audit Committee Member	15,000
Annual Fee for Compensation and Benefits Committee Member	15,000
Annual Fee for Nominating and 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. The Compensation and Benefits Committee, on not less than an annual basis, engages the services of a compensation consultant 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 2015 Equity Plan, as described above in "Compensation Discussion and Analysis." Directors are eligible to participate in the 2015 Equity Plan. Under this plan, officers and directors are eligible to receive awards of restricted stock and stock options to purchase shares of Investors Bancorp common stock (at an exercise price of no less than the market price of the common stock at the time of grant).

For the year ended December 31, 2019, there were no grants awarded to the directors.

### Director Benefits

For individuals, who were directors as of 2007, and their spouses or spousal equivalents, Investors Bank sponsors a long-term care program. Individuals who became directors subsequent to 2007 are not eligible for the long-term care program. Directors became 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.

## **Deferred Directors Fee Plans**

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Investors Bancorp maintains the Investors Bancorp, Inc. Deferred Directors Fee Plan and Investors Bank maintains the Investors Bank Deferred Directors Fee Plan. Each non-employee member of the Board of Directors of Investors Bancorp and the Board of Directors of Investors Bank is eligible to participate in the respective 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 or Investors Bank, as applicable. Compensation deferred under the plans 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, 2019, there were no participants in the Investors Bank Deferred Directors Fee Plan or the Investors Bank Deferred Directors Fee Plan.

## **Split Dollar Life Insurance Agreements**

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Mr. Albanese, Mr. Bone and Ms. Siekerka are each party 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.

Mr. Stathouloupoulos is party to a split dollar life insurance agreement with Marathon National Bank of New York, which was assumed by Investors Bank on October 15, 2012 in connection with the merger between Investors Bancorp and Marathon Banking Corporation. Investors Bank owns a life insurance policy on the life of Mr. Stathouloupoulos. 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 \$750,000 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, 2019 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	73,996	73,200	—	—	—	544	147,740
Dennis M. Bone	96,496	73,200	—	—	—	412	170,108
Doreen R. Byrnes	66,496	73,200	—	—	—	15,775	155,471
Peter H. Carlin <sup>(4)</sup>	56,496	73,200	—	—	—	—	129,696
William V. Cosgrove	56,496	73,200	—	—	—	37,542	167,238
James J. Garibaldi	33,996	73,200	—	—	—	—	107,196
Michele N. Siekerka	66,496	73,200	—	—	—	143	139,839
Paul N. Stathoulopoulos	63,996	73,200	—	—	—	4,249	141,445
James H. Ward III	73,996	73,200	—	—	—	—	147,196

- (1) Messrs. Albanese and Ward and Meses. Byrnes and Siekerka each had unvested stock awards of 10,431, respectively, at December 31, 2019. Messrs. Bone, Cosgrove, Garibaldi and Stathoulopoulos each had unvested stock awards of 10,430, respectively, at December 31, 2019. All unvested stock awards were granted June 23, 2015 under the 2015 Equity Incentive Plan. Pursuant to the Settlement Agreement, a total of 95,694 unvested restricted stock awards were surrendered.
- (2) Messrs. Albanese, Bone, Cosgrove, Garibaldi, Stathoulopoulos and Ward and Meses. Byrnes and Siekerka each had no unexercised stock option awards at December 31, 2019. Pursuant to the Settlement Agreement, all of the previously outstanding stock options were surrendered.
- (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 Ms. Byrnes and her spouse. In addition, the amount includes automobile allowance and club dues for Mr. Cosgrove. For Messrs. Albanese, Bone and Stathoulopoulos and Ms. Siekerka, this amount includes imputed income with respect to their split dollar life insurance agreements.
- (4) Mr. Carlin resigned from the Boards of Directors on December 18, 2019.

## 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, 2019 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
Equity compensation plans approved by stockholders	5,654,461	\$ 12.46	17,677,005 <sup>(3)</sup>
Equity compensation plans not approved by stockholders	—	\$ —	—
<b>Total</b>	<b>5,654,461</b>	<b>\$ —</b>	<b>17,677,005</b>

- (1) Includes outstanding stock options to purchase 120,666 shares of common stock granted under the 2006 Equity Incentive Plan.
- (2) With respect to the stock options, the weighted average exercise price reflects an exercise price of \$8.15 for 73,491 stock options granted in 2013; an exercise price of \$10.28 for 47,175 stock options granted in 2014; an exercise price of \$12.54 for 4,324,339 stock options granted in 2015; an exercise price of \$11.83 for 110,600 stock options granted in 2016; an exercise price of \$13.29 for 63,640 stock options granted in 2017; an exercise price of \$12.99 for 40,000 stock options granted in 2018 and an exercise price of \$12.53 for 995,216 stock options granted in 2019 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, 2019 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, 2020, 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 \$1,250,000 and \$1,200,000 during the years ended December 31, 2019 and 2018, 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 \$295,000 and \$86,000 during the years ended December 31, 2019 and 2018, 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 \$190,000 and \$356,597 during the years ended December 31, 2019 and 2018, respectively.

**All Other Fees.** The aggregate fees billed to Investors Bancorp for compliance reviews were \$60,000 and \$60,000 during the years ended December 31, 2019 and 2018, 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 proxy will be deemed to confer authority to the individuals named therein to vote the shares represented by the proxy in accordance with their best judgment as to any such matters.

## Stockholder Proposals

To be eligible for inclusion in the proxy materials for next year's annual meeting of stockholders under SEC Rule 14a-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 10, 2020. 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, 2020, notice must be provided to the Corporate Secretary by January 8, 2021.

**An additional copy of Investors Bancorp's Annual Report on Form 10-K (without exhibits) for the year ended December 31, 2019, 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

**Kevin Cummings**  
Chairman of the Board & Chief  
Executive Officer

**Robert C. Albanese**

**Dennis M. Bone**

**Doreen R. Byrnes**

**Domenick Cama**  
President & Chief  
Operating Officer

**William V. Cosgrove**

**James J. Garibaldi**

**Michele N. Siekerka**

**James H. Ward, III**

**Paul N. Stathoulopoulos**

## Executive Officers

**Kevin Cummings**  
Chairman & Chief Executive Officer

**Domenick Cama**  
President & Chief Operating Officer

**Richard Spengler**  
Executive Vice President  
& Chief Lending Officer

**Paul Kalamaras**  
Executive Vice President  
& Chief Risk Officer

**Sean Burke**  
Executive Vice President  
& Chief Financial Officer

### Independent Auditors

KPMG, LLP  
51 JFK Parkway  
Short Hills, NJ 07078

### Transfer Agent & Registrar

Inquiries regarding stock certificate administration, address changes and other related services should be directed to:

### Computershare Investor Services

PO Box 505000  
Louisville, KY 40233-5000  
800.851.9677

### Corporate Office

101 JFK Parkway  
Short Hills, NJ 07078  
973.924.5100  
[www.investorsbank.com](http://www.investorsbank.com)

### Corporate Counsel

Luse Gorman, PC  
5335 Wisconsin Avenue, NW  
Suite 780  
Washington, DC 20015

### Investor Relations

Stockholders, Investors, and  
Analysts may also contact:

### Marianne Wade

Senior Vice President  
973.924.5100  
[Investorrelations@investorsbank.com](mailto:Investorrelations@investorsbank.com)



101 JFK Parkway • Short Hills, NJ 07078



The Official Bank of Prudential Center  
and the New Jersey Devils



Official Consumer and Business Bank  
of the New York Giants