Investors Bancorp Inc
Form 10-Q
August 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2013
Commission file number: 0-51557

Investors Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3493930 (I.R.S. Employer Identification Number)
101 JFK Parkway, Short Hills, New Jersey (Address of Principal Executive Offices)	07078 Zip Code

(973) 924-5100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all the reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

As of August 1, 2013, the registrant had 118,020,280 shares of common stock, par value $0.01 per share, issued and 111,911,719 shares outstanding, of which 65,396,235 shares, or 58.4%, were held by Investors Bancorp, MHC, the registrant's mutual holding company.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2013 (unaudited) and December 31, 2012

	6/30/2013	December 31, 2012
	(In thousands)	
ASSETS		
Cash and cash equivalents	$155,481	155,153
Securities available-for-sale, at estimated fair value	846,301	1,385,328
Securities held-to-maturity, net (estimated fair value of $707,638 and $198,893 at June 30, 2013 and December 31, 2012, respectively)	690,275	179,922
Loans receivable, net	10,912,805	10,306,786
Loans held-for-sale	22,089	28,233
Stock in the Federal Home Loan Bank	180,149	150,501
Accrued interest receivable	44,253	45,144
Other real estate owned	5,434	8,093
Office properties and equipment, net	99,494	91,408
Net deferred tax asset	167,302	150,006
Bank owned life insurance	115,429	113,941
Intangible assets	99,738	99,222
Other assets	7,628	8,837
Total assets	$13,346,378	12,722,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$8,666,620	8,768,857
Borrowed funds	3,403,125	2,705,652
Advance payments by borrowers for taxes and insurance	64,639	52,707
Other liabilities	115,861	128,541
Total liabilities	12,250,245	11,655,757
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 authorized shares; none issued	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 111,911,719 and 111,915,882 outstanding at June 30, 2013 and December 31, 2012, respectively	532	532
Additional paid-in capital	536,507	533,858
Retained earnings	688,985	644,923
Treasury stock, at cost; 6,108,561 and 6,104,398 shares at June 30, 2013 and December 31, 2012, respectively	(74,057)	(73,692)
Unallocated common stock held by the employee stock ownership plan	(30,488)	(31,197)
Accumulated other comprehensive loss	(25,346)	(7,607)
Total stockholders' equity	1,096,133	1,066,817
Total liabilities and stockholders' equity	$13,346,378	12,722,574

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Loans receivable and loans held-for-sale	$122,636	$112,277	$242,496	222,529
Securities				
Equity	19	6	23	6
Government-sponsored enterprise obligations	1	4	2	11
Mortgage-backed securities	6,636	8,125	13,213	16,419
Municipal bonds and other debt	1,463	1,255	2,995	2,513
Interest-bearing deposits	11	7	21	21
Federal Home Loan Bank stock	1,428	1,263	2,878	2,654
Total interest and dividend income	132,194	122,937	261,628	244,153
Interest expense				
Deposits	12,250	16,406	24,938	34,739
Secured borrowings	15,235	14,971	29,940	30,123
Total interest expense	27,485	31,377	54,878	64,862
Net interest income	104,709	91,560	206,750	179,291
Provision for loan losses	13,750	19,000	27,500	32,000
Net interest income after provision for loan losses	90,959	72,560	179,250	147,291
Non-interest income				
Fees and service charges	4,926	4,217	9,327	9,183
Income on bank owned life insurance	731	550	1,488	1,214
Gain on loan transactions, net	2,002	4,794	5,076	8,683
Gain on securities transactions	7	72	691	30
Gain (loss) on sale of other real estate owned, net	532	(71)	462	(71)
Other income	1,340	1,018	2,583	1,896
Total non-interest income	9,538	10,580	19,627	20,935
Non-interest expense				
Compensation and fringe benefits	29,056	24,609	58,880	51,020
Advertising and promotional expense	2,397	1,929	4,211	3,441
Office occupancy and equipment expense	9,411	7,217	18,640	17,350
Federal deposit insurance premiums	3,600	1,950	7,250	3,900
Stationery, printing, supplies and telephone	991	577	1,578	1,455
Professional fees	2,364	1,442	5,096	5,884
Data processing service fees	4,436	3,436	8,092	8,260
Other operating expenses	4,642	3,716	9,274	8,021
Total non-interest expenses	56,897	44,876	113,021	99,331
Income before income tax expense	43,600	38,264	85,856	68,895
Income tax expense	15,524	14,292	30,613	25,988
Net income	$28,076	$23,972	$55,243	42,907
Basic and diluted earnings per share	$0.26	$0.22	$0.51	$0.40

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Weighted average shares outstanding				
Basic	107,730,576	107,374,863	107,679,844	107,316,336
Diluted	108,957,916	107,573,128	108,828,024	107,491,267

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$28,076	23,972	55,243	42,907
Other comprehensive (loss), income net of tax:				
Change in funded status of retirement obligations	142	71	283	143
Unrealized (loss) gain on securities available-for-sale	(8,723)	2,742	(10,766)	4,249
Net loss on securities reclassified from available-for-sale to held-to-maturity	(7,242)	—	(7,242)	—
Reclassification adjustment for security (gains), losses included in net income	—	22	(405)	22
Other-than-temporary impairment accretion on debt securities	196	219	391	437
Total other comprehensive (loss) income	(15,627)	3,054	(17,739)	4,851
Total comprehensive income	$12,449	27,026	37,504	47,758

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. & SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Six months ended June 30, 2013 and 2012
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unallocated Common Stock Held by ESOP	Accumulated other comprehensive income (loss)	Total stockholders' equity
	(In thousands)						
Balance at December 31, 2011	$532	536,408	561,596	(87,375)	(32,615)	(11,106)	967,440
Net income	—	—	42,907	—	—	—	42,907
Other comprehensive income, net of tax	—	—	—	—	—	4,851	4,851
Purchase of treasury stock (54,673 shares)	—	—	—	(806)	—	—	(806)
Treasury stock allocated to restricted stock plan	—	(6,904)	243	6,661	—	—	—
Common stock issued from treasury to finance acquisition (551,862 shares)	—	—	(142)	7,703	—	—	7,561
Compensation cost for stock options and restricted stock	—	1,899	—	—	—	—	1,899
ESOP shares allocated or committed to be released	—	344	—	—	709	—	1,053
Balance at June 30, 2012	$532	531,747	604,604	(73,817)	(31,906)	(6,255)	1,024,905
Balance at December 31, 2012	$532	533,858	644,923	(73,692)	(31,197)	(7,607)	1,066,817
Net income	—	—	55,243	—	—	—	55,243
Other comprehensive income, net of tax	—	—	—	—	—	(17,739)	(17,739)
Purchase of treasury stock (76,663 shares)	—	—	—	(1,376)	—	—	(1,376)
Treasury stock allocated to restricted stock plan	—	(55)	13	42	—	—	—
Compensation cost for stock options and restricted stock	—	1,697	—	—	—	—	1,697
Net tax benefit from stock-based compensation	—	287	—	—	—	—	287
Exercise of Stock Option	—	86	—	969	—	—	1,055
Cash dividend paid ($0.05 per common share)	—	—	(11,194)	—	—	—	(11,194)

ESOP shares allocated or committed to be released	—	634	—	—	709	—	1,343
Balance at June 30, 2013	$532	536,507	688,985	(74,057)	(30,488)	(25,346)	1,096,133

See accompanying notes to consolidated financial statements

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$55,243	42,907
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	3,040	2,849
Amortization of premiums and accretion of discounts on securities, net	5,945	5,786
Amortization of premiums and accretion of fees and costs on loans, net	6,520	4,139
Amortization of intangible assets	1,090	716
Provision for loan losses	27,500	32,000
Depreciation and amortization of office properties and equipment	3,975	3,249
Gain on securities, net	(691)	(30)
Mortgage loans originated for sale	(273,828)	(404,762)
Proceeds from mortgage loan sales	285,048	397,643
Gain on sales of mortgage loans, net	(5,076)	(7,762)
(Gain) loss on sale of other real estate owned	(462)	71
Income on bank owned life insurance	(1,488)	(1,214)
Decrease in accrued interest receivable	891	1,360
Deferred tax benefit	(5,011)	(2,172)
Decrease in other assets	(397)	(28,909)
(Decrease) increase in other liabilities	(12,202)	58,832
Total adjustments	34,854	61,796
Net cash provided by operating activities	90,097	104,703
Cash flows from investing activities:		
Purchases of loans receivable	(489,514)	(314,308)
Net originations of loans receivable	(176,311)	9,713
Proceeds from sale of loans held for investment	23,123	53,862
Gain on disposition of loans held for investment	—	(921)
Net proceeds from sale of foreclosed real estate	5,784	1,641
Purchases of mortgage-backed securities held to maturity	(29,723)	—
Purchases of debt securities held-to-maturity	(3,169)	—
Purchases of mortgage-backed securities available-for-sale	(265,627)	(481,728)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	31,927	57,024
Proceeds from paydowns on equity securities available-for-sale	108	—
Proceeds from paydowns/maturities on debt securities held-to-maturity	15,235	11,753
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	188,196	144,741

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Proceeds from sale of mortgage-backed securities held-to-maturity	—	680
Proceeds from sales of mortgage-backed securities available-for-sale	55,971	167,443
Redemption of equity securities available-for-sale	—	85
Proceeds from redemptions of Federal Home Loan Bank stock	54,449	56,495
Purchases of Federal Home Loan Bank stock	(84,097)	(69,637)
Purchases of office properties and equipment	(12,061)	(13,212)
Death benefit proceeds from bank owned life insurance	—	3,204
Cash received, net of cash consideration paid for acquisitions	—	27,741
Net cash used in investing activities	(685,709)	(345,424)
Cash flows from financing activities:		
Net increase in deposits	(102,237)	154,786
Repayments of funds borrowed under other repurchase agreements	50,000	(90,000)
Net increase in other borrowings	647,473	192,014
Net increase in advance payments by borrowers for taxes and insurance	11,932	6,754
Dividends paid	(11,194)	—
Exercise of stock options	1,055	—
Purchase of treasury stock	(1,376)	(806)
Net tax benefit from stock-based compensation	287	103
Net cash provided by financing activities	595,940	262,851
Net increase in cash and cash equivalents	328	22,130
Cash and cash equivalents at beginning of period	155,153	90,139
Cash and cash equivalents at end of period	$155,481	112,269
Supplemental cash flow information:		
Non-cash investing activities:		
Reclassification of securities available for sale to held to maturity	$523,958	—
Real estate acquired through foreclosure	$2,663	6,836
Cash paid during the year for:		
Interest	$54,719	65,855
Income taxes	$39,188	32,321
Acquisitions:		
Non-cash assets acquired:		
Investment securities available for sale	$—	170,368
Loans	$—	177,512
Goodwill and other intangible assets, net	$—	16,732
Other assets	$—	15,806
Total non-cash assets acquired	$—	380,418
Liabilities assumed:		
Deposits	$—	385,859
Borrowings	$—	8,200
Other liabilities	$—	6,441
Total liabilities assumed	$—	400,500

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Net non-cash assets acquired	—	(20,082)
Common stock issued for Brooklyn Federal Savings Bank acquisition	—	(7,561)

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1.Basis of Presentation

The consolidated financial statements are comprised of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiaries, including Investors Bank (the “Bank”) and the Bank’s wholly-owned subsidiaries (collectively, the “Company”).

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 unaudited periods presented have been included. The results of operations and other data presented for the three and six months ended June 30, 2013 are not necessarily indicative of the results of operations that may be expected for subsequent periods or the full year results.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with the Company’s audited consolidated financial statements and notes to the consolidated financial statements included in the Company’s December 31, 2012 Annual Report on Form 10-K. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2.Business Combinations

On April 5, 2013, the Company entered into a definitive merger agreement with Gateway Community Financial Corporation, the mid-tier holding company for GCF Bank. Gateway Community Financial Corporation has no public shareholders, and therefore no merger consideration will be paid to third parties. The Company will issue shares of its common stock to Investors MHC as consideration for the transaction. The number of shares to be issued will be based on the pro forma market valuation of Gateway Community Financial Corporation as determined by an independent appraisal. As of December 31 2012, Gateway Community Financial Corporation operated 4 branches in Gloucester County, New Jersey, and had assets of $309.8 million, deposits of $278.6 million and a net worth of $24.6 million. The merger agreement has been approved by the boards of directors of each company and is subject to regulatory approvals and other customary closing conditions. As the merger has not been completed, the transaction is not reflected in the balance sheet or results of operation for the periods presented in this document.

On December 19, 2012, the Company entered into a definitive merger agreement with Roma Financial Corporation, the federally-chartered holding company for Roma Bank and RomAsia Bank. Under the terms of the merger agreement, 100% of the shares of Roma Financial will be converted into Investors Bancorp Inc. common stock. As of December 31, 2012, Roma Financial Corporation operated 26 branches in Burlington, Ocean, Mercer, Camden and Middlesex counties, New Jersey, and had assets of $1.81 billion, deposits of $1.49 billion and stockholders' equity of $215.6 million. The merger agreement has been approved by the boards of directors of each company as well as Investors Bancorp and Roma Financial shareholders. The merger is subject to the requisite regulatory approvals and other customary closing conditions. As the merger has not been completed, the transaction is not reflected in the balance sheet or results of operation for the periods presented in this document.

On October 15, 2012, the Company completed the acquisition of Marathon Banking Corporation and Marathon National Bank of New York, ("Marathon Bank") a federally chartered bank with 13 full-service branches in the New York metropolitan area. The acquisition was accounted for under the acquisition method of accounting as prescribed by “ASC” 805 “Business Combinations”, as amended. After the purchase accounting adjustments, the Company assumed $777.5 million in customer deposits and acquired $558.5 million in loans. This transaction resulted in $38.6 million of goodwill and generated $5.0 million in core deposit intangibles. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired has been recorded as goodwill.

The purchase price of $135.0 million was paid using available cash.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for Marathon, net of cash consideration paid:

	At October 15, 2012 (In millions)
Cash and cash equivalents, net	$113.0
Securities available-for-sale	42.2
Securities held to maturity	4.7
Loans receivable	558.5
Accrued interest receivable	1.5
Other real estate owned	1.0
Office properties and equipment, net	7.5
Goodwill	38.6
Intangible assets	5.0
Other assets	14.7
Total assets acquired	786.7
Deposits	(777.5)
Borrowed funds	(5.2)
Other liabilities	(4.0)
Total liabilities assumed	$(786.7)

For the period ending June 30, 2013 a change in goodwill was recorded due to adjustments to purchase accounting, see footnote 7, “Goodwill and Other Intangible Assets”. The calculation of goodwill is subject to change for up to one year after closing date of the transactions as additional information relative to closing dates estimates and uncertainties becomes available.

On January 6, 2012, the Company completed the acquisition of Brooklyn Federal Bancorp, Inc. (“BFSB”), the holding company of Brooklyn Federal Savings Bank, a federally chartered savings bank with five full-service branches in Brooklyn and Long Island. After the purchase accounting adjustments, the Company assumed $385.9 million in customer deposits and acquired $177.5 million in loans. This transaction resulted in $16.7 million of goodwill and generated $218,000 in core deposit intangibles. Under the acquisition method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired has been recorded as goodwill. The purchase price of $10.3 million was paid through a combination of the Company’s common stock (551,862 shares), issued to Investors Bancorp, MHC, and cash of $2.9 million. Brooklyn Federal Savings Bank was merged into the Bank as of the acquisition date. In a separate transaction the Company sold most of Brooklyn Federal Savings Bank’s commercial real estate loan portfolio to a real estate investment fund on January 10, 2012.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for BFSB, net of cash consideration paid:

	At January 6, 2012 (In millions)
Cash and cash equivalents, net	$27.7
Securities available-for-sale	170.4
Loans receivable	177.5
Accrued interest receivable	1.1
Office properties and equipment, net	5.2
Goodwill	16.7
Intangible assets	0.2
Other assets	9.3
Total assets acquired	408.1
Deposits	(385.9)
Borrowed funds	(8.2)
Other liabilities	(6.4)
Total liabilities assumed	(400.5)
Net assets acquired	$7.6

The purchase accounting for the Brooklyn is complete and reflected in the table above and in our consolidated financial statements.

Fair Value Measurement of Assets Acquired and Liabilities Assumed

Described below are the methods used to determine the fair values of the significant assets acquired and liabilities assumed in the Marathon and BFSB acquisitions:

Securities. The estimated fair values of the investment securities classified as available for sale were calculated utilizing Level 1 inputs. The prices for these instruments are based upon sales of the securities shortly after the acquisition date. Investment securities classified as Held to Maturity were valued using a combination of Level 1and Level 2 inputs. The Company reviewed the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data.

Loans. The acquired loan portfolio was valued 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. Level 3 procedures utilized to value the portfolio included the use of present value techniques employing cash flow estimates and the incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, the Company utilized three separate fair value analyses we believe a market participant might employ in estimating the entire fair value adjustment required under ASC 820-10. The three separate fair valuation methodologies used are: 1) interest rate loan fair value analysis, 2) general credit fair value adjustment and 3) specific credit fair value adjustment.

To prepare the interest rate loan fair value analysis loans were assembled into groupings by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by Company Management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment.

The General Credit Risk fair value adjustment was calculated using a two part general credit fair value analysis; 1) expected lifetime losses and 2) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using an average of historical losses of the Company, Marathon Bank and peer banks. The adjustment related to qualitative factors was impacted by general economic conditions, and the risk related to lack of familiarity with the originator's underwriting process.

To calculate the Specific Credit fair value adjustment the Company reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan as defined by ASC 310-30. Loans meeting this criteria were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value will result in an accretable yield amount. The accretable yield amount will be recognized over the life of the loans on a level yield basis as an adjustment to yield.

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Deposits / Core Deposit Intangibles. Core deposit intangibles (CDI) represent the value assigned to demand, interest checking, money market and savings accounts acquired as part of an acquisition. The CDI value represents the future economic benefit, including the present value of future tax benefits, of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost alternative funding sources.

Certificates of deposit (time deposits) are not considered to be core deposits as they are assumed to have a low expected average life upon acquisition. The fair value of certificates of deposits represents the present value of the certificates' expected contractual payments discounted by market rates for similar CD's.

Borrowed Funds. The present value approach was used to determine the fair value of the borrowed funds acquired during 2012. The fair value of the liability represents the present value of the expected payments using the three year FHLB advance rate.

3. Earnings Per Share

The following is a summary of our earnings per share calculations and reconciliation of basic to diluted earnings per share.

	Three months ended June 30,					
	2013			2012		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)					
Net Income	$28,076			$23,972		
Basic earnings per share:						
Income available to common stockholders	$28,076	107,730,576	$0.26	$23,972	107,374,863	$0.22
Effect of dilutive common stock equivalents	—	1,227,340			198,265	
Diluted earnings per share:						
Income available to common stockholders	$28,076	108,957,916	$0.26	$23,972	107,573,128	$0.22

For the three months ended June 30, 2013 and 2012 there were 4.1 million and 3.7 million 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.

	Six months ended June 30,					
	2013			2012		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)					
Net Income	$55,243			$42,907		
Basic earnings per share:						
Income available to common stockholders	$55,243	107,679,844	$0.51	$42,907	107,316,336	$0.40
Effect of dilutive common stock equivalents	—	1,148,180			174,931	
Diluted earnings per share:						
Income available to common stockholders	$55,243	108,828,024	$0.51	$42,907	107,491,267	$0.40

For both the six months ended June 30, 2013 and 2012 there were 4.3 million equity awards 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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4. Securities

The carrying value, gross unrealized gains and losses and estimated fair value of securities available-for-sale and held-to-maturity for the dates indicated are as follows:

	At June 30, 2013			
	Carrying Value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	$3,205	986	—	4,191
Debt securities:				
Government-sponsored enterprises	3,021	—	—	3,021
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	407,972	4,864	2,623	410,213
Federal National Mortgage Association	424,448	5,312	2,590	427,170
Government National Mortgage Association	1,686	20	—	1,706
Total mortgage-backed securities available-for-sale	834,106	10,196	5,213	839,089
Total available-for-sale	840,332	11,182	5,213	846,301
Held-to-maturity:				
Debt securities:				
Government-sponsored enterprises	134	1	—	135
Municipal bonds	9,538	753	—	10,291
Corporate and other debt securities	31,355	18,066	2,559	46,862
Total debt securities held-to-maturity	41,027	18,820	2,559	57,288
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	271,850	2,122	755	273,217
Federal National Mortgage Association	376,939	3,254	3,519	376,674
Federal housing authorities	459	—	—	459
Total mortgage-backed securities held-to-maturity	649,248	5,376	4,274	650,350
Total held-to-maturity	690,275	24,196	6,833	707,638
Total securities	$1,530,607	35,378	12,046	1,553,939

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	At December 31, 2012			
	Carrying Value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	$3,306	855	—	4,161
Debt securities:				
Government-sponsored enterprises	3,038	—	3	3,035
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	660,095	7,573	151	667,517
Federal National Mortgage Association	689,587	16,735	194	706,128
Government National Mortgage Association	4,414	73	—	4,487
Total mortgage-backed securities available-for-sale	1,354,096	24,381	345	1,378,132
Total available-for-sale	1,360,440	25,236	348	1,385,328
Held-to-maturity:				
Debt securities:				
Government-sponsored enterprises	147	2	—	149
Municipal bonds	21,156	1,138	—	22,294
Corporate and other debt securities	29,503	13,148	3,356	39,295
Total debt securities held-to-maturity	50,806	14,288	3,356	61,738
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	63,033	3,193	3	66,223
Federal National Mortgage Association	64,278	4,843	—	69,121
Federal housing authorities	1,805	6	—	1,811
Total mortgage-backed securities held-to-maturity	129,116	8,042	3	137,155
Total held-to-maturity	179,922	22,330	3,359	198,893
Total securities	$1,540,362	47,566	3,707	1,584,221

Our investment portfolio is comprised primarily of fixed rate mortgage-backed securities guaranteed by a Government Sponsored Enterprise (“GSE”) as issuer. Current market conditions have not significantly impacted the pricing of our portfolio or our ability to obtain reliable prices. See note 11 for further discussion on the valuation of securities.

The changes in held to maturity and available for sale securities for the period ending June 30, 2013 is primarily attributed to a $524.0 million transfer of previously-designated available for sale to a held to maturity designation at fair value. In accordance with ASC 320, Investments - Debt and Equity Securities, the Company is required at each balance sheet date to reassess the classification of each security held. The reclassification for the period ended June 30, 2013 is permitted as the Company has appropriately determined the ability and intent to hold these securities as an investment until maturity or call. The securities transferred had a net loss of $12.2 million that is reflected in accumulated other comprehensive loss on the consolidated balance sheet, net of subsequent amortization, which is being recognized over the life of the securities.

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Gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2013 and December 31, 2012, was as follows:

	June 30, 2013					
	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	98,544	2,623	—	—	98,544	2,623
Federal National Mortgage Association	179,458	2,590	—	—	179,458	2,590
Total mortgage-backed securities available-for-sale	278,002	5,213	—	—	278,002	5,213
Total available-for-sale	278,002	5,213	—	—	278,002	5,213
Held-to-maturity:						
Debt securities:						
Corporate and other debt securities	1,187	142	1,146	2,417	2,333	2,559
Total debt securities held-to-maturity	1,187	142	1,146	2,417	2,333	2,559
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	9,438	755	—	—	9,438	755
Federal National Mortgage Association	136,892	3,519	—	—	136,892	3,519
Total mortgage-backed securities held-to-maturity	146,330	4,274	—	—	146,330	4,274
Total held-to-maturity	147,517	4,416	1,146	2,417	148,663	6,833
Total	$425,519	9,629	1,146	2,417	426,665	12,046

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	December 31, 2012					
	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:						
Debt securities:						
Government-sponsored enterprises	$3,035	3	—	—	3,035	3
Total debt securities available-for-sale	3,035	3	—	—	3,035	3
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	125,707	135	712	16	126,419	151
Federal National Mortgage Association	67,687	194	—	—	67,687	194
Total mortgage-backed securities available-for-sale	193,394	329	712	16	194,106	345
Total available-for-sale	196,429	332	712	16	197,141	348
Held-to-maturity:						
Debt securities:						
Corporate and other debt securities	1,951	171	1,542	3,185	3,493	3,356
Total debt securities held-to-maturity	1,951	171	1,542	3,185	3,493	3,356
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	347	3	—	—	347	3
Total mortgage-backed securities held-to-maturity	347	3	—	—	347	3
Total held-to-maturity	2,298	174	1,542	3,185	3,840	3,359
Total	$198,727	506	2,254	3,201	200,981	3,707

The gross unrealized losses in our corporate and other debt securities accounted for 21.2% of the gross unrealized losses at June 30, 2013. The estimated fair value of our corporate and other debt securities portfolio has been adversely impacted by the current economic environment, current market interest rates, wider credit spreads and credit deterioration subsequent to the purchase of these securities. The portfolio consists of 36 pooled trust preferred securities (“TruPS”), principally issued by banks. At June 30, 2013, the amortized cost, net after previous impairment charges, and estimated fair values of the trust preferred portfolio was $31.4 million and $46.9 million, respectively with 6 of the securities in an unrealized loss position (see "OTTI" for further discussion). The remaining gross unrealized losses have been negatively impacted by the recent increase in long-term market interest rates. The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the securities in an unrealized loss position before the recovery of their amortized cost basis or maturity.

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The following table summarizes the Company's pooled trust preferred securities as of June 30, 2013. The Company does not own any single-issuer trust preferred securities.

(Dollars in 000's)

Description	Class	Book Value	Fair Value	Unrealized Gains (Losses)	Number of Issuers Currently Performing	Current Deferrals and Defaults as a % of Total Collateral (1)	Expected Deferrals and Defaults as % of Remaining Collateral (2)	Excess Subordination as a % of Performing Collateral (3)	Moody's/ Fitch Credit Ratings
Alesco PF II	B1	$271.6	$364.8	$ 93.1	32	8.10 %	10.90 %	— %	Ca / C
Alesco PF III	B1	632.1	1,253.5	621.4	33	10.50 %	10.10 %	— %	Ca / C
Alesco PF III	B2	252.9	501.4	248.4	33	10.50 %	10.10 %	— %	Ca / C
Alesco PF IV	B1	332.0	425.2	93.2	36	3.50 %	13.20 %	— %	C / C
Alesco PF VI	C2	573.7	1,104.5	530.8	42	7.50 %	17.20 %	— %	Ca / C
MM Comm III	B	1,078.1	3,689.9	2,611.7	6	26.70 %	8.10 %	12.80 %	Ba1 / B
MM Comm IX	B1	63.8	40.3	(23.5)	14	34.70 %	15.60 %	— %	Ca / CC
MMCaps XVII	C1	1,349.0	1,907.5	558.5	32	8.50 %	13.20 %	— %	Ca / C
MMCaps XIX	C	470.9	20.5	(450.4)	30	25.40 %	17.20 %	— %	C / C
Tpref I	B	1,328.6	1,186.5	(142.0)	8	49.20 %	9.60 %	— %	Ca / WD
Tpref II	B	3,645.5	4,110.5	465.1	16	33.40 %	15.90 %	— %	Caa3 / C
US Cap I	B2	784.3	1,411.8	627.5	31	11.50 %	9.80 %	— %	Caa1 / C
US Cap I	B1	2,333.8	4,235.4	1,901.6	31	11.50 %	9.80 %	— %	Caa1 / C
US Cap II	B1	1,205.1	1,969.5	764.4	38	14.00 %	8.80 %	— %	Caa1 / C
US Cap III	B1	1,602.3	2,046.8	444.5	28	15.40 %	14.70 %	— %	Ca / C
US Cap IV	B1	929.0	54.0	(874.9)	43	32.30 %	22.00 %	— %	C / D
Trapeza XII	C1	1,520.2	668.2	(852.1)	29	22.70 %	22.40 %	— %	C / C
Trapeza XIII	C1	1,543.8	2,351.0	807.2	41	15.60 %	18.30 %	— %	Ca / C
Pretsl XXIII	A1	558.2	1,366.3	808.1	66	18.40 %	18.00 %	31.40 %	A2 / BBB
Pretsl XXIV	A1	2,164.3	4,228.6	2,064.2	61	23.60 %	20.60 %	24.80 %	Baa3 / BBB
Pretsl IV	Mez	136.0	200.9	65.0	6	18.00 %	8.50 %	19.00 %	Caa2 / CCC
Pretsl V	Mez	15.4	15.9	0.4	—	65.50 %	— %	— %	C / WD
Pretsl VII	Mez	818.4	2,398.6	1,580.2	13	40.30 %	10.60 %	— %	Ca / C
Pretsl XV	B1	915.8	1,537.7	621.9	53	15.40 %	18.70 %	— %	C / C

Pretsl XVII	C	587.9	639.9	52.1	35	18.70	%	23.50	%	—	%	C / C
Pretsl XVIII	C	1,359.7	1,719.6	359.9	53	20.40	%	14.90	%	—	%	Ca / C
Pretsl XIX	C	580.2	598.2	18.0	49	14.90	%	14.10	%	—	%	C / C
Pretsl XX	C	300.2	360.5	60.3	47	18.20	%	16.20	%	—	%	C / C
Pretsl XXI	C1	634.7	1,664.0	1,029.3	52	18.90	%	15.70	%	—	%	C / C
Pretsl XXIII	A-FP	994.1	1,914.1	920.0	95	20.50	%	13.60	%	18.30	%	A1 / BB
Pretsl XXIV	C1	579.2	362.8	(216.3)	61	23.60	%	20.60	%	—	%	C / C
Pretsl XXV	C1	326.5	438.2	111.7	47	26.40	%	15.20	%	—	%	C / C
Pretsl XXVI	C1	382.6	607.7	225.1	50	24.10	%	16.70	%	—	%	C / C
Pref Pretsl IX	B2	405.3	520.4	115.1	32	20.80	%	13.30	%	—	%	Ca/ C
Pretsl II	B1	436.4	628.7	192.3	24	7.50	%	9.80	%	—	%	B
Pretsl X	C2	243.2	318.9	75.7	34	28.00	%	12.30	%	—	%	Ca / C
		$31,354.8	$46,862.3	$ 15,507.5								

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(1) At June 30, 2013, assumed recoveries for current deferrals and defaulted issuers ranged from 3.5% to 65.5%.
(2) At June 30, 2013, assumed recoveries for expected deferrals and defaulted issuers ranged from 8.1% to 23.5%.
(3) Excess subordination represents the amount of remaining performing collateral that is in excess of the amount needed to pay off a specified class of bonds and all classes senior to the specified class. Excess subordination reduces an investor's potential risk of loss on their investment as excess subordination absorbs principal and interest shortfalls in the event underlying issuers are not able to make their contractual payments.

A portion of the Company's securities are pledged to secure borrowings. The contractual maturities of mortgage-backed securities generally exceed 10 years; however, the effective lives are expected to be shorter due to anticipated prepayments. Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer, therefore, mortgage-backed securities are not included in the following table. The amortized cost and estimated fair value of debt securities at June 30, 2013, by contractual maturity, are shown below.

	June 30, 2013	
	Amortized cost	Estimated fair value
	(In thousands)	
Due in one year or less	$4,069	4,069
Due after one year through five years	3,619	3,647
Due after five years through ten years	—	—
Due after ten years	36,360	52,593
Total	$44,048	60,309

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 as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

Through the use of a valuation specialist, we evaluate the credit and performance of each underlying issuer of our trust preferred securities by deriving probabilities and assumptions for default, recovery and prepayment/amortization for the expected cash flows for each security. At June 30, 2013, management deemed that the present value of projected cash flows for each security was greater than the book value and did not recognize any additional OTTI charges for the period ended June 30, 2013. At June 30, 2013, non credit-related OTTI recorded on the previously impaired pooled trust preferred securities was $27.8 million ($16.5 million after-tax).

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.

	Three months ended June 30, 2013		Six months ended June 30, 2013	
	2013	2012	2013	2012
	(In thousands)			
Balance of credit related OTTI, beginning of period	$113,700	116,381	$114,514	117,003
Additions:				
Initial credit impairments	—	—	—	—
Subsequent credit impairments	—	—	—	—
Reductions:				
Accretion of credit loss impairment due to an increase in expected cash flows	(814)	(622)	(1,628)	(1,244)
Balance of credit related OTTI, end of period	$112,886	115,759	$112,886	115,759

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 other-than-temporary impairment occurred prior to the period presented. If other-than-

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temporary impairment is recognized in earnings for credit impaired debt securities, they would be presented as additions in two components 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 three months ended June 30, 2013, the Company realized a $7,000 gain on capital distributions of equity securities from the available-for-sale portfolio. For the three months ended June 30, 2013 there were no losses recognized. For the six months ended June 30, 2013, proceeds from sales of securities from available-for-sale portfolio were $56.0 million, which resulted in gross realized gains of $846,100 and $162,300 gross realized losses as well as a $7,000 gain on capital distributions of equity securities. For the three and six months ended June 30, 2013 there were no sales of securities from held-to-maturity portfolio.

For three months ended June 30, 2012, proceeds from sales of securities from available-for-sale portfolio were $663,000, which resulted in gross realized gains of $38,000 and no gross realized losses. For the three and six months ended June 30, 2012, proceeds from sales of securities from the held-to-maturity portfolio were $680,000, which resulted in gross realized gains of $34,000 and no gross realized losses. During the six months ended June 30, 2012 the Company sold $166.8 million of available-for-sale agency mortgage backed securities that were acquired in the acquisition of Brooklyn Federal Bancorp, Inc. The sales did not result in any gross realized gains or gross realized losses. In addition, the Company realized a $42,000 loss on capital distributions of equity securities during the six months ended June 30, 2012.

5. Loans Receivable, Net

The detail of the loan portfolio as of June 30, 2013 and December 31, 2012 was as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Residential mortgage loans	$4,977,881	4,837,838
Multi-family loans	3,329,561	2,995,052
Commercial real estate loans	2,085,873	1,966,156
Construction loans	237,787	224,816
Consumer and other loans	224,469	238,922
Commercial and industrial loans	191,307	168,943
Total loans excluding PCI loans	11,046,878	10,431,727
PCI loans	6,536	6,744
Total loans	11,053,414	10,438,471
Net unamortized premiums and deferred loan costs	13,858	10,487
Allowance for loan losses	(154,467)	(142,172)
Net loans	$10,912,805	10,306,786

Purchased Credit-Impaired Loans

Purchased Credit-Impaired ("PCI") loans, are loans acquired at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with 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 (i.e., the allowance for loan losses).

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The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the PCI loans acquired in Marathon Bank acquisition as of October 15, 2012:

	October 15, 2012
	(In thousands)
Contractually required principal and interest	$11,774
Contractual cash flows not expected to be collected (non-accretable difference)	(4,163)
Expected cash flows to be collected	7,611
Interest component of expected cash flows (accretable yield)	(1,537)
Fair value of acquired loans	$6,074

The following table presents changes in the accretable yield for PCI loans:

	Three months ended June 30, 2013	Six months ended June 30, 2013
	(In thousands)	
Balance, beginning of period	$1,343	1,457
Acquisitions		
Accretion	(131)	(245)
Net reclassification from non-accretable difference		
Balance, end of period	$1,212	1,212

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of the period	$149,639	123,516	142,172	117,242
Loans charged off	(9,868)	(14,135)	(16,735)	(21,143)
Recoveries	946	93	1,530	375
Net charge-offs	(8,922)	(14,042)	(15,205)	(20,768)
Provision for loan losses	13,750	19,000	27,500	32,000
Balance at end of the period	$154,467	128,474	154,467	128,474

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

The allowance for loan losses has been determined in accordance with U.S. GAAP, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. No allowance has been provided for the loans acquired in the Brooklyn Federal Savings Bank and Marathon Bank transaction as the loans were marked to fair value on the date of acquisition and there has been no significant subsequent credit deterioration.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired.

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A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction 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 loans if management has specific information of a collateral shortfall. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company's definition of an impaired loan, by type of loan, risk rating (if applicable) and payment history. In addition, the Company also considers whether residential loans are fixed or adjustable rate. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation 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 significantly more 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's Allowance for Loan Loss Committee 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. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is 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. This appraised value is then reduced to reflect estimated liquidation expenses.

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances and the methodology employed to determine such allowances is presented to the Board of Directors on a quarterly basis.

Our primary lending emphasis has been the origination of commercial real estate loans, multi-family loans and the origination and purchase of residential mortgage loans. We also originate commercial and industrial loans, home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages, as well as a concentration of loans secured by real estate property located in New Jersey and New York. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a continued decline in the general economy, and a further decline 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. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions and the composition of the portfolio. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to 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 by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously 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 loan workout 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 2 years if the loan remains in non-performing status and the foreclosure process has not been completed. Additionally, management adjusts the appraised value of residential loans to reflect estimated selling costs and declines in the real estate market.

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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.

Our allowance for loan losses reflects probable losses considering, among other things, the continued adverse economic conditions, the actual growth and change in composition of our loan portfolio, the level of our non-performing loans and our charge-off experience. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio.

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 continues or deteriorates. Management uses the best 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.

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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 June 30, 2013 and December 31, 2012:

	June 30, 2013							
	Residential Mortgage	Multi-Family	Commercial Real Estate	Construction Loans	Commercial and Industrial Loans	Consumer and Other Loans	Unallocated	Total
	(In thousands)							
Allowance for loan losses:								
Beginning balance-December 31, 2012	$45,369	29,853	33,347	16,062	4,094	2,086	11,361	142,172
Charge-offs	(11,668)	(1,120)	(447)	(3,059)	—	(441)	—	(16,735)
Recoveries	847	32	9	37	603	2	—	1,530
Provision	17,133	2,059	6,498	(206)	(321)	743	1,594	27,500
Ending balance-June 30, 2013	$51,681	30,824	39,407	12,834	4,376	2,390	12,955	154,467
Individually evaluated for impairment	$2,152	—	—	—	—	—	—	2,152
Collectively evaluated for impairment	49,529	30,824	39,407	12,834	4,376	2,390	12,955	152,315
Loans acquired with deteriorated credit quality		—	—	—	—	—	—	—
Balance at June 30, 2013	$51,681	30,824	39,407	12,834	4,376	2,390	12,955	154,467
Loans:								
Individually evaluated for impairment	$17,590	17,323	11,765	21,230	1,106	—	—	69,014
Collectively evaluated for impairment	4,960,291	3,312,238	2,074,108	216,557	190,201	224,469	—	10,977,864
Loans acquired with deteriorated credit quality	488	438	5,552	—	58	—	—	6,536
Balance at June 30, 2013	$4,978,369	3,329,999	2,091,425	237,787	191,365	224,469	—	11,053,414

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	December 31, 2012							
	Residential Mortgage	Multi-Family	Commercial Real Estate	Construction Loans	Commercial and Industrial Loans	Consumer and Other Loans	Unallocated	Total
	(In thousands)							
Allowance for loan losses:								
Beginning balance-December 31, 2011	$32,447	13,863	30,947	22,839	3,677	1,335	12,134	117,242
Charge-offs	(20,180)	(9,058)	(479)	(13,227)	(99)	(1,107)	—	(44,150)
Recoveries	593	—	43	3,387	23	34	—	4,080
Provision	32,509	25,048	2,836	3,063	493	1,824	(773)	65,000
Ending balance-December 31, 2012	$45,369	29,853	33,347	16,062	4,094	2,086	11,361	142,172
Individually evaluated for impairment	$2,142	—	—	—	—	—	—	2,142
Collectively evaluated for impairment	43,227	29,853	33,347	16,062	4,094	2,086	11,361	140,030
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Balance at December 31, 2012	$45,369	29,853	33,347	16,062	4,094	2,086	11,361	142,172
Loans:								
Individually evaluated for impairment	$12,235	10,574	7,075	26,314	1,208	—	—	57,406
Collectively evaluated for impairment	4,825,603	2,984,478	1,959,081	198,502	167,735	238,922	—	10,374,321
Loans acquired with deteriorated credit quality	477	419	5,533	—	315	—	—	6,744
Balance at December 31, 2012	$4,838,315	2,995,471	1,971,689	224,816	169,258	238,922	—	10,438,471

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

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

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 loans delinquent 30-89 days are considered special mention.

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Substandard - A “Substandard” asset is inadequately protected by the current sound 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 and other loans delinquent 90 days or greater 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 June 30, 2013 and December 31, 2012 by class of loans excluding the PCI loans:

	June 30, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)					
Residential	$4,869,839	27,645	80,397	—	—	4,977,881
Multi-family	3,278,441	30,733	20,387	—	—	3,329,561
Commercial real estate	2,025,889	12,288	47,696	—	—	2,085,873
Construction	206,675	1,087	30,025	—	—	237,787
Commercial and industrial	185,030	944	5,333	—	—	191,307
Consumer and other	221,317	1,021	2,131	—	—	224,469
Total	$10,787,191	73,718	185,969	—	—	11,046,878

	December 31, 2012					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)					
Residential	$4,714,303	45,144	78,266	125	—	4,837,838
Multi-family	2,945,844	31,594	17,614	—	—	2,995,052
Commercial real estate	1,924,655	18,869	22,632	—	—	1,966,156
Construction	160,390	3,315	61,111	—	—	224,816
Commercial and industrial	162,428	3,319	3,196	—	—	168,943
Consumer and other	236,418	1,065	1,238	201	—	238,922
Total	$10,144,038	103,306	184,057	326	—	10,431,727

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The following tables present the payment status of the recorded investment in past due loans as of June 30, 2013 and December 31, 2012 by class of loans excluding the PCI loans:

	June 30, 2013					
	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
	(In thousands)					
Residential mortgage	$17,311	10,036	70,422	97,769	4,880,112	4,977,881
Multi-family	115	—	17,190	17,305	3,312,256	3,329,561
Commercial real estate	—	—	2,045	2,045	2,083,828	2,085,873
Construction	—	—	21,805	21,805	215,982	237,787
Commercial and industrial	58	83	1,447	1,588	189,719	191,307
Consumer and other	617	268	1,592	2,477	221,992	224,469
Total	$18,101	10,387	114,501	142,989	10,903,889	11,046,878

	December 31, 2012					
	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
	(In thousands)					
Residential mortgage	$33,451	11,715	76,088	121,254	4,716,584	4,837,838
Multi-family	191	3,950	11,143	15,284	2,979,768	2,995,052
Commercial real estate	16,469	3,016	753	20,238	1,945,918	1,966,156
Construction	—	—	18,876	18,876	205,940	224,816
Commercial and industrial	631	2,639	375	3,645	165,298	168,943
Consumer and other	881	196	1,238	2,315	236,607	238,922
Total	$51,623	21,516	108,473	181,612	10,250,115	10,431,727

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

	June 30, 2013		December 31, 2012	
	# of loans	Amount	# of loans	Amount
	(Dollars in thousands)			
Non-accrual:				
Residential and consumer	286	$72,014	354	$82,533
Construction	9	21,805	9	25,764
Multi-family	10	17,190	5	11,143
Commercial real estate	3	2,045	4	753
Commercial and industrial	6	1,447	2	375
Total non-accrual loans	314	$114,501	374	$120,568

Based on management's evaluation, at June 30, 2013 the Company classified one commercial TDR loan for $742,000, 3 multifamily TDR loans for $9.4 million, 3 construction TDR loans for $3.7 million and 21 residential and consumer TDR loans totaling $8.2 million that were current as non-accrual. These loans have not maintained current payment status for six consecutive months and therefore do not meet the criteria for accrual status. The Company has no loans past due 90 days or more delinquent that are still accruing interest. As of June 30, 2013, there were $6.5 million of PCI loans, of which 6 PCI loans totaling $3.8 million were current and 6 PCI loans totaling $2.7 million were 90 days or more delinquent. As of December 31, 2012, there were $6.7 million of PCI loans, of which 8 PCI loans totaling

$5.8 million were current and 4 PCI loans totaling $966,000 were 90 days or more delinquent.

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At June 30, 2013 and December 31, 2012, loans meeting the Company's definition of an impaired loan which were primarily collateral dependent totaled $69.0 million and $57.4 million, respectively, with allocations of the allowance for loan losses of $2.2 million and $2.1 million, respectively. During the three months ended June 30, 2013 and 2012, interest income received and recognized on these loans totaled $457,000 and $236,000, respectively.

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2013 and December 31, 2012:

	June 30, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Residential mortgage	$2,571	3,717	—	1,732	22
Multi-family	17,323	30,812	—	13,090	431
Commercial real estate	11,765	12,252	—	9,233	341
Construction loans	21,230	30,517	—	20,905	88
Commercial and industrial	1,106	1,106	—	1,163	40
With an allowance recorded:					
Residential mortgage	15,019	15,178	2,152	12,456	201
Construction loans	—	—	—	4,071	—
Total:					
Residential mortgage	17,590	18,895	2,152	14,188	223
Multi-family	17,323	30,812	—	13,090	431
Commercial real estate	11,765	12,252	—	9,233	341
Construction loans	21,230	30,517	—	24,976	88
Commercial and industrial	1,106	1,106	—	1,163	40
Total impaired loans	$69,014	93,582	2,152	62,650	1,123

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	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Residential mortgage	$1,448	2,176	—	1,375	20
Multi-family	10,574	19,336	—	6,764	310
Commercial real estate	7,075	7,476	—	5,081	492
Construction loans	26,314	43,945	—	25,557	384
Commercial and industrial	1,208	1,208	—	641	90
With an allowance recorded:					
Residential mortgage	10,787	11,075	2,142	9,569	283
Multi-family	—	—	—	2,316	—
Construction loans	—	—	—	17,054	—
Total:					
Residential mortgage	12,235	13,251	2,142	10,944	303
Multi-family	10,574	19,336	—	9,080	310
Commercial real estate	7,075	7,476	—	5,081	492
Construction loans	26,314	43,945	—	42,611	384
Commercial and industrial	1,208	1,208	—	641	90
Total impaired loans	$57,406	85,216	2,142	68,357	1,579

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 troubled debt restructured loan.

Substantially all of our troubled debt restructured 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. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

The following table presents the total troubled debt restructured loans as of June 30, 2013 excluding PCI loans:

	Accrual		Non-accrual		Total	
	# of loans	Amount	# of loans	Amount	# of loans	Amount
	(Dollars in thousands)					
Residential mortgage	21	$7,617	29	$9,973	50	$17,590
Multi-family	—	—	5	12,685	5	12,685
Commercial real estate	7	10,991	2	1,369	9	12,360
Commercial and industrial	1	1,106	—	—	1	1,106

Construction	—	—	3	3,720	3	3,720
	29	$19,714	39	$27,747	68	$47,461

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The following tables present information about troubled debt restructurings for the periods presented:

	Three months ended June 30, 2013		
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
	(Dollars in thousands)		
Troubled Debt Restructings:			
Residential mortgage	6	$2,658	$2,633
Multi-family	1	3,770	3,300
Commercial real estate	1	657	627
Construction	1	2,640	2,640

	Six months ended June 30, 2013		
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
	(Dollars in thousands)		
Troubled Debt Restructings:			
Residential mortgage	11	$5,527	$5,584
Multi-family	3	18,037	10,450
Commercial real estate	4	5,080	4,649
Construction	1	2,640	2,640

	Three months ended June 30, 2012		
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
	(Dollars in thousands)		
Troubled Debt Restructings:			
Residential mortgage	1	$263	$263

	Six Months Ended June 30, 2012		
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
	(Dollars in thousands)		
Troubled Debt Restructings:			
Residential mortgage	9	$2,011	$1,957

Post-modification recorded investment represents the balance immediately following modification. Residential mortgage loan modifications primarily involved the reduction in loan interest rate and extension of loan maturity dates.

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 $667,000 and $2.9 million in charge-offs for collateral dependent TDRs during the three months ended June 30, 2013 and 2012, respectively. There were $1.2 million and $3.4 million in charge-offs for collateral dependent TDRs during the six months ended June 30, 2013 and 2012. The allowance for loan losses associated with the TDRs presented in the above tables totaled $2.2 million and $9.9 million at June 30, 2013 and 2012, respectively.

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For the three months ended June 30, 2013, there were 6 residential TDRs that had a weighted average modified interest rate of approximately 3.43% compared to a rate of 5.17% prior to modification. For the six months ended June 30, 2013, there were 11 residential TDRs that had a weighted average modified interest rate of approximately 3.44% compared to a yield of 5.37% prior to modification. Residential TDRs were modified to reflect a reduction in interest rates to current market rates. Several residential TDRs include step up interest rates in their modified terms which will impact their weighted average rate in the future.

Commercial loan modifications which qualified as a TDR comprised of terms of maturity being extended and reduction in interest rates to current market terms. For the three months ended June 30, 2013, there was 1 commercial real estate TDR that had a weighted average modified interest rate of approximately 2.88% as compared to a rate of 6.38% prior to modification. There were 4 commercial real estate TDRs that had a weighted average modified interest rate of approximately 5.26% compared to a rate of 7.29% for the six months ended June 30, 2013. There was 1 multi-family TDR that had a weighted average modified interest rate of approximately 2.88% as compared to a rate of 6.73% prior to modification for the three months ended June 30, 2013. There were 3 multi-family TDRs that had a weighted average modified interest rate of approximately 3.40% as compared to a rate of 8.61% prior to modification for the six months ended June 30, 2013. For three and six months ended June 30, 2013, there was 1 construction TDR that had a weighted average modified interest rate of approximately 3.75% as compared to a rate of 5.00% prior to modification.

For the three months ended June 30, 2012, there was one residential TDR that had a weighted average modified interest rate of approximately 2.00% compared to a yield of 5.63% prior to modification. For the six months ended June 30, 2012, there were 9 residential TDRs that had a weighted average modified interest rate of approximately 2.94% compared to a yield of 5.78% prior to modification. Several residential TDRs include step up interest rates in their modified terms which will impact their weighted average yield in the future. There were no commercial real estate, multi-family, and construction TDRs for the three and six months ended June 30, 2012.

Loans modified as TDRs in the previous 12 months to June 30, 2013, for which there was a payment default consisted of 2 residential loans with a recorded investment of $1.1 million at June 30, 2013. Loans modified as TDRs in the previous 12 months to June 30, 2012, for which there was a payment default consisted of one construction loan with a recorded investment of $2.9 million at June 30, 2012.

During the three months ended June 30, 2013 the Company sold a pool of non performing residential loans for $9.0 million. For the six months ended June 30, 2013, the Company sold $14.9 million of non performing residential loans and one construction loan for$8.2 million. There was no gain or loss associated with any of the sales, as the loans were previously written down to estimated fair value. There were no non performing loan sales for the corresponding periods in 2012.

6. Deposits

Deposits are summarized as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Savings	$1,756,141	1,718,199
Checking accounts	2,605,110	2,498,829
Money market deposits	1,543,835	1,585,865
Certificates of deposits	2,761,534	2,965,964
Total	$8,666,620	8,768,857

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7. Goodwill and Other Intangible Assets

The carrying amount of goodwill for the period ended June 30, 2013 and December 31, 2012 was approximately $77.3 million and $77.1 million, respectively. The change in goodwill for the period was due to adjustments to purchase accounting associated with the acquisition of Marathon Bank, see footnote 2, “Business Combinations”.

The following table summarizes other intangible assets as of June 30, 2013 and December 31, 2012:

	Gross Intangible Asset (In thousands)	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
June 30, 2013				
Mortgage servicing rights	42,381	(28,415)	(527)	13,439
Core deposit premiums	14,337	(5,544)	—	8,793
Other	300	(65)	—	235
Total other intangible assets	$57,018	$(34,024)	$(527)	$22,467
December 31, 2012				
Mortgage servicing rights	$37,838	$(24,107)	$(1,705)	$12,026
Core deposit premiums	14,338	(4,455)	—	9,883
Other	300	(50)	—	250
Total other intangible assets	$52,476	$(28,612)	$(1,705)	$22,159

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, amounted to $1.47 billion and $1.40 billion at June 30, 2013 and December 31, 2012 respectively, all of which relate to residential mortgage loans. At June 30, 2013 and December 31, 2012, the servicing asset, included in intangible assets, had an estimated fair value of $13.4 million and $12.0 million, respectively. Fair value was based on expected future cash flows considering a weighted average discount rate of 10.2% , a weighted average constant prepayment rate on mortgages of 9.02% and a weighted average life of 6.0 years.
Core deposit premiums are amortized using an accelerated method and having a weighted average amortization period of 10 years.

8. Equity Incentive Plan
During the three and six months ended June 30, 2013, the Company recorded $867,000 and $1.7 million of share-based compensation expense, comprised of stock option expense of $81,600 and $168,700 and restricted stock expense of $785,800 and $1.5 million, respectively. During the three and six months ended June 30, 2012, the Company recorded $926,000 and $1.8 million of share-based compensation expense, comprised of stock option expense of $106,000 and $212,000 and restricted stock expense of $820,000 and $1.6 million, respectively.

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The following is a summary of the Company's stock option activity and related information for its option plan for the six months ended June 30, 2013:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2012	4,320,068	$14.98	4.20	$12,083
Granted	5,920	20.60		
Exercised	(69,500)	15.18		
Forfeited	(3,500)	17.85		
Expired	—	—		
Outstanding at June 30, 2013	4,252,988	$14.99	3.68	$25,920
Exercisable at June 30, 2013	4,158,568	$15.01	3.62	$25,262

There were 5,920 options granted during the six months ended June 30, 2013. Expected future expense relating to the unvested options outstanding as of June 30, 2013 is $238,000 over a weighted average period of 1.80 years.

The following is a summary of the status of the Company's restricted shares as of June 30, 2013 and changes therein during the six months then ended:

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2012	1,292,739	$13.62
Granted	3,000	18.18
Vested	(218,976)	13.51
Forfeited	—	—
Non-vested at June 30, 2013	1,076,763	$13.70

Expected future compensation expense relating to the non-vested restricted shares at June 30, 2013 is $13.1 million over a weighted average period of 4.70 years.

9. Net Periodic Benefit Plan Expense

The Company has a Supplemental Executive Retirement Wage Replacement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to employees as designated by the Compensation Committee of the Board of Directors if their benefits and/or contributions under the pension plan are limited by the Internal Revenue Code. The Company also has a nonqualified, defined benefit plan which provides benefits to certain directors. The SERP and the directors' plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The components of net periodic benefit cost are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
			(In thousands)	
Service cost	$450	$328	$900	657
Interest cost	227	199	454	398
Amortization of:				
Prior service cost	24	24	49	49

Net gain	165	36	330	72
Total net periodic benefit cost	$866	$587	$1,733	1,176

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Due to the unfunded nature of these plans, no contributions have been made or were expected to be made to the SERP and Directors' plans during the six months ended June 30, 2013.

The Company also maintains a defined benefit pension plan. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. We contributed $5.5 million to the defined benefit pension plan during the six months ended June 30, 2013. We anticipate contributing funds to the plan to meet any minimum funding requirements for the remainder of 2013.

10. Comprehensive Income (Loss)

The components of comprehensive income (loss), both gross and net of tax, are presented for the periods below:

	Three months ended June 30, 2013			Three months ended June 30 , 2012		
	Gross	Tax Benefit (Expense)	Net	Gross	Tax Benefit (Expense)	Net
Net income	$43,600	(15,524)	28,076	38,264	(14,292)	23,972
Other comprehensive income (loss):						
Change in funded status of retirement obligations	239	(97)	142	121	(50)	71
Unrealized (loss) gain on securities available-for-sale	(14,760)	6,037	(8,723)	4,396	(1,654)	2,742
Net loss on securities reclassified from available-for-sale to held-to-maturity	(12,243)	5,001	(7,242)	—	—	—
Reclassification adjustment for gains included in net income	—	—	—	37	(15)	22
Other-than-temporary impairment accretion on debt securities	331	(135)	196	370	(151)	219
Total other comprehensive income (loss)	(26,433)	10,806	(15,627)	4,924	(1,870)	3,054
Total comprehensive income (loss)	$17,167	(4,718)	12,449	43,188	(16,162)	27,026

	Six months ended June 30, 2013			Six months ended June 30, 2012		
	Gross	Tax Benefit (Expense)	Net	Gross	Tax Benefit (Expense)	Net
Net income	$85,856	(30,613)	55,243	68,895	(25,988)	42,907
Other comprehensive income (loss):						
Change in funded status of retirement obligations	478	(195)	283	242	(99)	143
Unrealized (loss) gain on securities available-for-sale	(18,236)	7,470	(10,766)	6,780	(2,531)	4,249
Net loss on securities reclassified from available-for-sale to held-to-maturity	(12,243)	5,001	(7,242)	—	—	—
Reclassification adjustment for gains included in net income	(684)	279	(405)	37	(15)	22
Other-than-temporary impairment accretion on debt securities	661	(270)	391	739	(302)	437
Total other comprehensive income (loss)	(30,024)	12,285	(17,739)	7,798	(2,947)	4,851
Total comprehensive income (loss)	$55,832	(18,328)	37,504	76,693	(28,935)	47,758

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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 six months ended June 30, 2013 and 2012:

	Change in funded status of retirement obligations	Unrealized gain on securities available-for-sale	Reclassification adjustment for losses included in net income	Other-than-temporary impairment accretion on debt securities	Loss on Securities reclassified to held-to-maturity	Total accumulated other comprehensive loss
Balance - December 31, 2012	$ (5,879)	15,718	(586)	(16,860)	—	(7,607)
Net change	283	(10,766)	(405)	391	(7,242)	(17,739)
Balance - June 30, 2013	$ (5,596)	4,952	(991)	(16,469)	(7,242)	(25,346)
Balance - December 31, 2011	$ (3,319)	10,638	(691)	(17,734)	—	(11,106)
Net change	143	4,249	22	437	—	4,851
Balance -June 30, 2012	$ (3,176)	14,887	(669)	(17,297)	—	(6,255)

The following table sets for information about amounts reclassified from accumulated other comprehensive loss to the consolidated statement of income and the affected line item in the statement where net income is presented.

	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2013
	(In thousands)	
Reclassification adjustment for gains included in net income		
Gain on security transactions	$—	(684)
Change in funded status of retirement obligations (1)		
Compensation and fringe benefits:		
Amortization of net obligation or asset	8	17
Amortization of prior service cost	37	73
Amortization of net gain	194	388
Compensation and fringe benefits	239	478
Total before tax	239	(206)
Income (tax) benefit	(97)	84
Net of tax	$ 142	(122)

(1) These accumulated other comprehensive loss components are included in the computations of net periodic cost for our defined benefit plans and other postretirement benefit plan. See Note 9 for additional details.

11. 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 securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights (“MSR”), loans receivable and real estate owned (“REO”). 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 Financial Accounting Standards Board ("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.

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- 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.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Assets Measured at Fair Value on a Recurring Basis

Securities available-for-sale

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. The fair values of available-for-sale securities are based on quoted market prices (Level 1), where available. The Company obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded (Level 2), the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service.

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The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis at June 30, 2013 and December 31, 2012, respectively.

	Carrying Value at June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Equity securities	$4,191	—	4,191	—
Debt securities:				
Government-sponsored enterprises	3,021	—	3,021	—
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	410,213	—	410,213	—
Federal National Mortgage Association	427,170	—	427,170	—
Government National Mortgage Association	1,706	—	1,706	—
Total mortgage-backed securities available-for-sale	839,089	—	839,089	—
Total securities available-for-sale	$846,301	—	846,301	—

	Carrying Value at December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Equity securities	$4,161	—	4,161	—
Debt securities:				
Government-sponsored enterprises	3,035	—	3,035	—
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	667,517	—	667,517	—
Federal National Mortgage Association	706,128	—	706,128	—
Government National Mortgage Association	4,487	—	4,487	—
Total mortgage-backed securities available-for-sale	1,378,132	—	1,378,132	—
Total securities available-for-sale	$1,385,328	—	1,385,328	—

There have been no changes in the methodologies used at June 30, 2013 from December 31, 2012, and there were no transfers between Level 1 and Level 2 during the six months ended June 30, 2013.

Assets Measured at Fair Value on a Non-Recurring Basis

Mortgage Servicing Rights, net

Mortgage servicing rights (MSR) 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 estimates of 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 June 30, 2013, the fair value model used prepayment speeds ranging from 3.2% to 22.1% and a discount rate of 10.2% 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.

Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $1.0 million and on non-accrual

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status, loans modified in a troubled debt restructuring, and other loans with $1.0 million in outstanding principal if management has specific information of a collateral shortfall. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. In order to estimate fair value, once interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful an updated appraisal is obtained. Thereafter, in the event the most recent appraisal does not reflect the current market conditions due to the passage of time and other factors, management will obtain an updated appraisal or make downward adjustments to the existing appraised value based on their knowledge of the property, local real estate market conditions, recent real estate transactions, and for estimated selling costs, if applicable. At June 30, 2013 appraisals were discounted in a range of 0%-25%.

Other Real Estate Owned

Other Real Estate Owned is recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are discounted an additional 0%-25% for estimated costs to sell. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a writedown is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Operating costs after acquisition are generally expensed.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at June 30, 2013 and December 31, 2012, respectively.

	Carrying Value at June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
MSR, net	$6,962	—	—	6,962
Impaired loans	4,897	—	—	4,897
Other real estate owned	2,111	—	—	2,111
	$13,970	—	—	13,970

	Carrying Value at December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
MSR, net	$12,025	—	—	12,025
Impaired loans	50,470	—	—	50,470
Other real estate owned	8,093	—	—	8,093
	$70,588	—	—	70,588

Other Fair Value Disclosures

Fair value estimates, methods and assumptions for the Company's financial instruments not recorded at fair value on a recurring or non-recurring basis are set forth below.

Cash and Cash Equivalents

For cash and due from banks, the carrying amount approximates fair value.

Securities held-to-maturity

Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. Management utilizes various inputs to determine the fair value of the portfolio. The Company obtains one price for each security primarily from a third-party pricing service, which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For

securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to,

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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 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 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 unpaid principal of home mortgage loans 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 nonperforming categories.

The fair value of performing loans, except residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources adjusted to reflect differences in servicing and credit costs, if applicable. Fair value for significant nonperforming loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as savings, checking accounts and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates which approximate currently offered for deposits of similar remaining maturities.

Borrowings

The fair value of borrowings are based on securities dealers' estimated fair values, when available, or estimated using discounted contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

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Commitments to Extend Credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For commitments to originate fixed rate loans, fair value also considers the difference between current levels of interest rates and the committed rates. Due to the short-term nature of our outstanding commitments, the fair values of these commitments are immaterial to our financial condition.

The carrying values and estimated fair values of the Company's financial instruments are presented in the following table.

	June 30, 2013				
	Carrying value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$155,481	155,481	155,481	—	—
Securities available-for-sale	846,301	846,301	—	846,301	—
Securities held-to-maturity	690,275	707,638	—	660,776	46,862
Stock in FHLB	180,419	180,419	180,419	—	—
Loans held for sale	22,089	22,089	—	22,089	—
Net loans	10,912,805	10,799,772	—	—	10,799,772
Financial liabilities:					
Deposits, other than time deposits	5,905,086	5,588,058	5,588,058	—	—
Time deposits	2,761,534	2,785,055	—	2,785,055	—
Borrowed funds	3,403,125	3,427,355	—	3,427,355	—

	December 31, 2012				
	Carrying value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$155,153	155,153	155,153	—	—
Securities available-for-sale	1,385,328	1,385,328	—	1,385,328	—
Securities held-to-maturity	179,922	198,893	—	159,599	39,294
Stock in FHLB	150,501	150,501	150,501	—	—
Loans held for sale	28,233	28,233	—	28,233	—
Net loans	10,306,786	10,379,358	—	—	10,379,358
Financial liabilities:					
Deposits, other than time deposits	5,802,893	5,852,821	5,852,821	—	—
Time deposits	2,965,964	3,009,237	—	3,009,237	—
Borrowed funds	2,705,652	2,804,113	—	2,804,113	—

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 significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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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.

12. Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, in conjunction with the IASB's issuance of amendments to Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). While the Boards retained the existing offsetting models under U.S. GAAP and IFRS, the new standards require disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations.

In January 2013, the FASB issued ASU 2013-01, Scope of Disclosures about Offsetting Assets and Liabilities. The main provision of ASU 2013-1 is to clarify the scope of the new offsetting disclosures required under ASU 2011-11 to derivatives, including bifurcated embedded derivatives; repurchase and reverse repurchase agreements and securities borrowing and lending transactions that are either offset in the statement of financial position or subject to an enforceable master netting arrangement regardless of their presentation in the financial statements. The Company does not expect that the adoption of this pronouncement will have a material impact on the Company's financial condition or results of operations.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". This ASU requires entities to disclose the effect of items reclassified out of accumulated other comprehensive income (AOCI) on each affected net income line item. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required US GAAP disclosures. This information may be provided either in the notes or parenthetically on the face of the financials. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2012 and interim periods within those years. The Company has presented comprehensive income in a separate Consolidated Statements of Comprehensive Income and in Note 10 of the Notes to Consolidated Financial Statements.

In July 2013, the FASB issued ASU 2013-11, "Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". The amendments of this update state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect that the adoption of this pronouncement will have a material impact on the Company's financial condition or results of operations.

13. 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 shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP.

On July 25, 2013, the Company declared a cash dividend of $0.05 per share to stockholders of record as of August 9, 2013, payable on August 23, 2013.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

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

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

Critical Accounting Policies

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

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

The allowance for loan losses has been determined in accordance with U.S. 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.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction 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 real estate loans with an outstanding balance greater than $1.0 million if management has specific information of a collateral shortfall. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company's definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic

conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation 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 significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

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Purchased Credit-Impaired ("PCI") loans, are loans acquired at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with 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 (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 result in an increase in yield on a prospective basis. On a quarterly basis, the Company analyzes the actual cash flow versus the forecasts and any adjustments to credit loss expectations are made based on actual loss recognized as well as changes in the probability of default. For period in which cash flows aren't reforecasted, prior period's estimated cash flows are adjusted to reflect the actual cash received and credit events which occurred during the current reporting period.

On a quarterly basis, management's Allowance for Loan Loss Committee 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. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances is presented to the Board of Directors on a quarterly basis.

Our primary lending emphasis has been the origination of commercial real estate loans, multi-family loans and the origination and purchase of residential mortgage loans. We also originate commercial and industrial loans, construction loans, business lending, home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages, as well as a concentration of loans secured by real property located in New Jersey and New York. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to 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 by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously 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 loan workout 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 estimated declines in the real estate market, taking into consideration the estimated length of time to complete the foreclosure process.

In determining the allowance for loan losses, management believes the potential for outdated appraisals has been mitigated for impaired loans and other non-performing loans. As described above, 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. Based on the composition of our loan portfolio, we

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believe the primary risks are increases in interest rates, a continued decline in the general economy, and a further decline 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. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

Our allowance for loan losses reflects probable losses considering, among other things, the continued adverse economic conditions, the actual growth and change in composition of our loan portfolio, the level of our non-performing loans and our charge-off experience. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio.

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 continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Deferred Income Taxes. The Company records income taxes in accordance with ASC 740, “Income Taxes,” as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. 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.

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

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. While the Company does not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before their anticipated recovery of the remaining amortized cost basis, the Company has the ability to sell the securities. Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. 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 (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. Management is required to use a significant degree of judgment when the valuation of investments includes unobservable inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations.

The fair values of our securities portfolio are also affected by changes in interest rates. When significant changes in interest rates occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance.

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

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Goodwill Impairment. 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 a single reporting unit.

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 before applying the two-step goodwill impairment test.

Valuation of Mortgage Servicing Rights (MSR). The initial asset recognized for originated MSR is measured at fair value. The fair value of MSR is estimated by reference to current market values of similar loans sold with servicing released. 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.

We assess impairment of our MSR based on the estimated fair value of those rights with any impairment recognized through a valuation allowance. The estimated fair value of the MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating estimates of 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 allowance is then adjusted in subsequent periods to reflect changes in the measurement of impairment. All assumptions are reviewed for reasonableness on a quarterly basis to ensure they reflect current and anticipated market conditions.

The fair value of MSR is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions and discount rate generally have the most significant impact on the fair value of our MSR. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of MSR. As interest rates rise, mortgage loan prepayments slow down, which results in an increase in the fair value of MSR. Thus, any measurement of the fair value of our MSR is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different point in time.

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

Stock-Based Compensation. We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with ASC 718, "Compensation-Stock Compensation".

We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The 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.

Executive Summary

Investors Bancorp's fundamental business strategy is to be a well capitalized, full service, community bank which provides high quality customer service and competitively priced products and services to individuals and businesses in the communities we serve.

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage 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 of interest rates, the shape

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of the market yield curve, the timing of the placement and the re-pricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rate on our mortgage-related assets.

The continued low interest rate environment has resulted in our earning assets being refinanced at lower yields and new assets being originated at lower yields. The Company has been able to partially offset the yield compression by lowering the interest rates on our interest bearing liabilities. However, a steepening in the treasury curve in the second half of the quarter is likely to result in a reduction in mortgage refinance activity and an improvement in asset yield. The Company continues to actively manage its interest rate risk as the current interest rate environment is forecasted to remain at current levels, with no increase in short-term rates through year end 2013 and likely into 2014. As this interest rate environment continues, the Company will likely be subject to near-term net interest income compression, but then may experience an improvement in net interest income, particularly if short-term interest rates remain unchanged as forecasted, and the Company's rates on interest bearing liabilities do not increase as quickly as interest rates on its earning assets. The Company will continue to manage its interest rate risk.

The Company's results of operations are also significantly affected by general economic conditions. The national and regional unemployment rates remain at elevated levels. This factor coupled with the weakness in the housing and real estate markets have resulted in the Company recognizing higher credit costs on the loan portfolio. Despite these conditions, our overall level of non-performing loans remains low compared to our national and regional peers. We attribute this to our conservative underwriting standards, as well as our diligence in resolving our problem loans.

We continue to grow and transform the composition of our balance sheet. For the six months ended June 30, 2013, loans increased by $606.0 million or 5.9% as loan demand remains strong, especially in the multi-family lending area in New York City. Commercial loans represent approximately 53% of our loan portfolio, which has been a steady transformation since December 2009 when commercial loans were approximately 26% of total loans. Additionally, we remain focused on changing the deposit mix as core deposits of $5.91 billion represent 68% of total deposits as of June 30, 2013.

In order to support our growth and enhance our infrastructure, we executed a contract with Fiserv, a leading global provider of financial services technology solutions, to assist in an enterprise-wide banking solution in July. Using this platform, we will be equipped with a flexible, open platform to meet our business requirements today and into the future. The Company expects to use the total Fiserv solution to deliver products to its current and future customers quickly and efficiently.

The Company is awaiting regulatory approval on the announced acquisitions of Roma Financial Corporation, with approximately $1.8 billion in assets as well as the pending acquisition of Gateway Community Financial Corp, with approximately $310 million in assets. We continue to stay focused to become a premier commercial banking franchise and with the completion of these acquisitions we will have 130 branches spanning from the suburbs of Philadelphia to the boroughs of New York and Long Island. In addition to our acquisition strategy, the Company continues to enhance shareholder value and announced its second quarter $0.05 dividend to shareholders which is payable in August.

Comparison of Financial Condition at June 30, 2013 and December 31, 2012

Total Assets. Total assets increased by $623.8 million, or 4.9%, to $13.35 billion at June 30, 2013 from $12.72 billion at December 31, 2012. This increase was largely the result of net loans, including loans held for sale, increasing $599.9 million to $10.93 billion at June 30, 2013 from $10.34 billion at December 31, 2012. In addition, stock in FHLB increased $29.6 million to $180.1 million at June 30, 2013 from $150.5 million at December 31, 2012.

Net Loans. Net loans, including loans held for sale, increased by $599.9 million, or 5.8%, to $10.93 billion at June 30, 2013 from $10.34 billion at December 31, 2012. At June 30, 2013, total loans were $11.05 billion which included $4.98 billion in residential loans, $3.33 billion in multi-family loans, $2.09 billion in commercial real estate loans, $237.8 million in construction loans, $224.5 million in consumer and other loans and $191.4 million in commercial and industrial loans. For the six months June 30, 2013, we originated $612.9 million in multi-family loans, $226.4 million in commercial real estate loans, $76.8 million in commercial and industrial loans, $38.0 million in consumer and other loans and $42.0 million in construction loans. This increase in loans reflects our continued focus on generating multi-family and commercial real estate loans, which was partially offset by pay downs and payoffs of loans.

We originate residential mortgage loans through our mortgage subsidiary, Investors Home Mortgage Co. For the six months ended June 30, 2013, Investors Home Mortgage Co. originated $832.8 million in residential mortgage loans of which $273.8 million were for sale to third party investors and $559.0 million were added to our portfolio. We also purchased mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the six months ended June 30, 2013 and 2012, we purchased loans totaling $489.5 million and $301.3 million, respectively from these entities. The loans we originate and purchase are on properties located primarily in New Jersey and New York.

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The Company also originates interest-only one- to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower's loan repayment when the contractually required repayments increase due to the required amortization of the principal amount. These payment increases could affect the borrower's ability to repay the loan. The amount of interest-only one- to four-family mortgage loans outstanding at June 30, 2013 was $360.8 million compared to $384.9 million at December 31, 2012. The ability of borrowers to repay their obligations are dependent upon various factors including the borrowers' income and net worth, cash flows generated by the underlying collateral, 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 maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately reduce the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

Our past due loans and non-accrual loans discussed below exclude certain purchased credit impaired (PCI) loans, primarily consisting of loans recorded in the acquisition of Marathon. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are not subject to delinquency classification in the same manner as loans originated by Investors. The following table sets forth non-accrual loans and accruing past due loans (excluding PCI loans of $2.6 million) on the dates indicated as well as certain asset quality ratios.

	June 30, 2013		March 31, 2013		December 31, 2012		September 30, 2012		June 30, 2012	
	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
	(Dollars in millions)									
Residential and consumer	286	$72.0	328	$84.1	354	$82.5	335	$81.2	328	$81.7
Construction	9	21.8	9	24.1	9	25.8	9	26.6	15	51.4
Multi-family	10	17.2	7	14.5	5	11.1	6	12.0	6	13.3
Commercial	3	2.0	6	10.2	4	0.8	1	0.8	1	1.2
Commercial and industrial	6	1.5	6	2.8	2	0.4	1	0.1	2	0.8
Total non-accrual loans	314	$114.5	356	$135.7	374	$120.6	352	$120.7	352	$148.4
Accruing troubled debt restructured loans	29	$19.7	18	$9.0	22	$15.8	18	$14.8	17	$8.9
Non-accrual loans to total loans		1.05 %		1.28 %		1.16 %		1.28 %		1.60 %
Allowance for loan loss as a percent of non-performing loans		134.90 %		110.21 %		117.92 %		108.79 %		86.58 %
Allowance for loan loss as a percent of total loans		1.40 %		1.41 %		1.36 %		1.39 %		1.38 %

Total non-accrual loans decreased by $6.1 million to $114.5 million at June 30, 2013 compared to $120.6 million at December 31, 2012 as we continue to diligently resolve our troubled loans. Our allowance for loan loss as a percent of

total loans is 1.40%. At June 30, 2013, there were $47.4 million of loans deemed troubled debt restructuring, of which $19.7 million were accruing and $27.7 million were on non-accrual.

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 present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of June 30, 2013, there was one commercial real estate loan in the amount of $16.5 million, two multi-family loans in the amount of $1.0 million and 2 commercial and industrial loans totaling $140,000 that the Company has deemed as potential problem loans. Management is actively monitoring these loans.

The ratio of non-accrual loans to total loans was 1.05% at June 30, 2013 compared to 1.16% at December 31, 2012. The allowance for loan losses as a percentage of non-accrual loans was 134.90% at June 30, 2013 compared to 117.92% at December 31,

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2012. At June 30, 2013, our allowance for loan losses as a percentage of total loans was 1.40% compared to 1.36% at December 31, 2012.

At June 30, 2013, loans meeting the Company's definition of an impaired loan were primarily collateral-dependent loans and totaled $69.0 million of which $15.0 million of impaired loans had a specific allowance for credit losses of $2.2 million and $54.0 million of impaired loans had no specific allowance for credit losses. At December 31, 2012, loans meeting the Company's definition of an impaired loan were primarily collateral dependent and totaled $57.4 million, of which $10.8 million of impaired loans had a related allowance for credit losses of $2.1 million and $46.6 million of impaired loans had no related allowance for credit losses.

At June 30, 2013, there were 18 commercial loans totaling $29.9 million and 50 residential loans totaling $17.6 million which are deemed troubled debt restructurings. At June 30, 2013, there were 10 of the commercial loans totaling $17.8 million and 29 of the residential loans totaling $10.0 million included in non-accrual loans.

The following table sets forth the allowance for loan losses at June 30, 2013 and December 31, 2012 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.

	June 30, 2013		December 31, 2012	
	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:				
Residential mortgage loans	$51,681	45.04 %	$45,369	46.35 %
Multi-family	30,824	30.13 %	29,853	28.70 %
Commercial real estate	39,407	18.92 %	33,347	18.89 %
Construction loans	12,834	2.15 %	16,062	2.15 %
Commercial and industrial	4,376	2.03 %	4,094	1.62 %
Consumer and other loans	2,390	1.73 %	2,086	2.29 %
Unallocated	12,955	—	11,361	—
Total allowance	$154,467	100.00 %	$142,172	100.00 %

The allowance for loan losses increased by $12.3 million to $154.5 million at June 30, 2013 from $142.2 million at December 31, 2012. The increase in our allowance for loan losses is due to the growth and change in composition of the loan portfolio and the increased credit risk in our overall portfolio, particularly the inherent credit risk associated with commercial real estate lending. 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 impact of the deterioration of the real estate and economic environments in our lending area.

Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the possible continuation of the current adverse economic environment. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See "Critical Accounting Policies."

Securities. Securities, in the aggregate, decreased by $28.7 million, or 1.8%, to $1.54 billion at June 30, 2013. The decrease in the portfolio was primarily due to normal pay downs or maturities during the six months ended June 30, 2013 and the decrease in market value of available for sale securities of $19.1 million from December 31, 2012. During the period, the Company reclassified $524.0 million of securities available for sale to securities held to maturity as the Company has the intent and ability to hold these securities until maturity.

Goodwill, Stock in the Federal Home Loan Bank, Bank Owned Life Insurance. At June 30, 2013 and December 31, 2012, goodwill was $77.3 million and $77.1 million. The amount of stock we own in the Federal Home Loan Bank (FHLB) increased $29.6 million from $150.5 million at December 31, 2012 to $180.1 million at June 30, 2013. Bank owned life insurance was $115.4 million at June 30, 2013 compared to $113.9 million at December 31, 2012.

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Deposits. Deposits decreased by $102.2 million or 1.2% from $8.77 billion at December 31, 2012 to $8.67 billion at June 30, 2013. This was attributed to an increase in core deposits of $102.2 million or 1.7%, partially offset by a $204.4 million decrease in certificates of deposit. Core deposits represents over 68% of our total deposit portfolio.

Borrowed Funds. Borrowed funds increased $697.5 million, or 25.8%, to $3.40 billion at June 30, 2013 from $2.71 billion at December 31, 2012 due to the funding of our asset growth.

Stockholders' Equity. Stockholders' equity increased $29.3 million to $1.10 billion at June 30, 2013 from $1.07 billion at December 31, 2012. The increase is primarily attributed to the $55.2 million of net income for the six months ended June 30, 2013 offset by a $17.7 million increase to other comprehensive loss. Stockholders' equity was also impacted by $0.10 per common share of a cash dividend for the six month period that resulted in a decrease of $11.2 million.

Average Balance Sheets for the Three and Six Months ended June 30, 2013 and 2012

The following tables present certain information regarding Investors Bancorp, Inc.'s financial condition and net interest income for the three and six months ended June 30, 2013 and 2012. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

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	Three months ended June 30,					
	2013			2012		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning cash accounts	$121,617	$11	0.04 %	$86,690	$7	0.03 %
Securities available-for-sale(1)	1,336,112	5,372	1.61	1,278,226	6,053	1.89
Securities held-to-maturity	204,747	2,747	5.37	234,432	3,337	5.69
Net loans	10,688,759	122,636	4.59	9,038,667	112,277	4.97
Stock in FHLB	164,710	1,428	3.47	126,447	1,263	4.00
Total interest-earning assets	12,515,945	132,194	4.22	10,764,462	122,937	4.57
Non-interest-earning assets	567,056			472,634		
Total assets	$13,083,001			$11,237,096		
Interest-bearing liabilities:						
Savings deposits	$1,750,081	$1,542	0.35 %	$1,486,569	$1,989	0.54 %
Interest-bearing checking	1,697,260	1,622	0.38	1,337,777	1,649	0.49
Money market accounts	1,547,331	1,655	0.43	1,301,734	2,072	0.64
Certificates of deposit	2,816,048	7,431	1.06	3,214,617	10,696	1.33
Total interest-bearing deposits	7,810,720	12,250	0.63	7,340,697	16,406	0.89
Borrowed funds	3,063,327	15,235	1.99	2,261,258	14,971	2.65
Total interest-bearing liabilities	10,874,047	27,485	1.01	9,601,955	31,377	1.31
Non-interest-bearing liabilities	1,112,053			623,526		
Total liabilities	11,986,100			10,225,481		
Stockholders’ equity	1,096,901			1,011,615		
Total liabilities and stockholders’ equity	$13,083,001			$11,237,096		
Net interest income		$104,709			$91,560	
Net interest rate spread(2)			3.21 %			3.26 %
Net interest-earning assets(3)	$1,641,898			$1,162,507		
Net interest margin(4)			3.35 %			3.40 %
Ratio of interest-earning assets to total interest-bearing liabilities	1.15	X		1.12	X	

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

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	Six months ended June 30,					
	2013			2012		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning cash accounts	$116,238	$21	0.04 %	$87,984	$21	0.05 %
Securities available-for-sale(1)	1,351,731	10,735	1.59	1,216,302	11,945	1.96
Securities held-to-maturity	187,158	5,498	5.88	251,424	7,004	5.57
Net loans	10,527,405	242,496	4.61	8,977,328	222,529	4.96
Stock in FHLB	154,785	2,878	3.72	119,603	2,654	4.44
Total interest-earning assets	12,337,317	261,628	4.24	10,652,641	244,153	4.58
Non-interest-earning assets	560,521			473,150		
Total assets	$12,897,838			$11,125,791		
Interest-bearing liabilities:						
Savings deposits	$1,744,802	$3,219	0.37 %	$1,447,078	$3,962	0.55 %
Interest-bearing checking	1,718,649	3,080	0.36	1,336,786	3,349	0.50
Money market accounts	1,566,555	3,342	0.43	1,261,608	4,159	0.66
Certificates of deposit	2,871,314	15,297	1.07	3,309,928	23,269	1.41
Total interest-bearing deposits	7,901,320	24,938	0.63	7,355,400	34,739	0.94
Borrowed funds	2,848,563	29,940	2.10	2,162,347	30,123	2.79
Total interest-bearing liabilities	10,749,883	54,878	1.02	9,517,747	64,862	1.36
Non-interest-bearing liabilities	1,062,639			611,740		
Total liabilities	11,812,522			10,129,487		
Stockholders' equity	1,085,316			996,304		
Total liabilities and stockholders' equity	$12,897,838			$11,125,791		
Net interest income		$206,750			$179,291	
Net interest rate spread(2)			3.22 %			3.22 %
Net interest-earning assets(3)	$1,587,434			$1,134,894		
Net interest margin(4)			3.35 %			3.37 %
Ratio of interest-earning assets to total interest-bearing liabilities	1.15	X		1.12	X	

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

Comparison of Operating Results for the Three and Six Months Ended June 30, 2013 and 2012

Net Income. The net income of $28.1 million for the three months ended June 30, 2013 compared to net income of $24.0 million for the three months ended June 30, 2012. Net income for the six months ended June 30, 2013 was $55.2 million compared to net income of $42.9 million for the six months ended June 30, 2012.

Net Interest Income. Net interest income increased by $13.1 million, or 14.4%, to $104.7 million for the three months ended June 30, 2013 from $91.6 million for the three months ended June 30, 2012. The increase was primarily due to the average balance of interest earning assets increasing $1.75 billion to $12.52 billion at June 30, 2013 compared to $10.76 billion at June 30, 2012, as well as a 30 basis point decrease in our cost of interest-bearing liabilities to 1.01%

for the three months ended June 30, 2013 from 1.31% for the three months ended June 30, 2012. These were partially offset by the average balance of our interest bearing liabilities increasing $1.27 billion to $10.87 billion at June 30, 2013 compared to $9.60 billion at June 30, 2012, as well as the

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yield on our interest-earning assets decreasing 35 basis points to 4.22% for the three months ended June 30, 2013 from 4.57% for the three months ended June 30, 2012. The net interest spread decreased by 5 basis points to 3.21% for the three months ended June 30, 2013 from 3.26% for the three months ended June 30, 2012 as the yield on interest earning assets declined 35 basis points while the cost of interest bearing liabilities declined 30 basis points.

Net interest income increased by $27.5 million, or 15.32%, to $206.8 million for the six months ended June 30, 2013 from $179.3 million for the six months ended June 30, 2012. The increase was primarily due to the average balance of interest earning assets increasing $1.68 billion to $12.34 billion at June 30, 2013 compared to $10.65 billion at June 30, 2012, as well as a 34 basis point decrease in our cost of interest-bearing liabilities to 1.02% for the six months ended June 30, 2013 from 1.36% for the six months ended June 30, 2012. These were partially offset by the average balance of our interest bearing liabilities increasing $1.23 billion to $10.75 billion at June 30, 2013 compared to $9.52 billion at June 30, 2012, as well as the yield on our interest-earning assets decreasing 34 basis points to 4.24% for the six months ended June 30, 2013 from 4.58% for the six months ended June 30, 2012. The net interest spread was 3.22% for both the six months ended June 30, 2013 and June 30, 2012.

Interest and Dividend Income. Total interest and dividend income increased by $9.3 million, or 7.5%, to $132.2 million for the three months ended June 30, 2013 from $122.9 million for the three months ended June 30, 2012. This increase is attributed to the average balance of interest-earning assets increasing $1.75 billion or 16.3%, to $12.52 billion for the three months ended June 30, 2013 from $10.76 billion for the three months ended June 30, 2012 due to organic growth and acquisitions. This was partially offset by the weighted average yield on interest-earning assets decreasing 35 basis points to 4.22% for the three months ended June 30, 2013 compared to 4.57% for the three months ended June 30, 2012.

Interest income on loans increased by $10.4 million, or 9.2%, to $122.6 million for the three months ended June 30, 2013 from $112.3 million for the three months ended June 30, 2012, reflecting a $1.65 billion or 18.3%, increase in the average balance of net loans to $10.69 billion for the three months ended June 30, 2013 from $9.04 billion for the three months ended June 30, 2012. The increase is primarily attributed to the average balance of multi-family loans and commercial real estate loans increasing $1.21 billion and $558.1 million, respectively, as we continue to focus on diversifying our loan portfolio by adding more multi-family loans and commercial real estate loans. This was partially offset by the decrease in the average balance of residential loans and construction loans of $87.7 million and $46.6 million, respectively, for the three months ended June 30, 2013. The increase also reflects $3.6 million in loan prepayment fees recorded in interest income for the three months ended June 30, 2013 compared to $2.2 million for the three months ended June 30, 2012. The increase was partially offset by a 38 basis point decrease in the average yield on net loans to 4.59% for the three months ended June 30, 2013 from 4.97% for the three months ended June 30, 2012, as lower rates on new and refinanced loans reflect the current interest rate environment.

Interest income on all other interest-earning assets, excluding loans, decreased by $1.1 million or 10.3%, to $9.6 million for the three months ended June 30, 2013 from $10.7 million for the three months ended June 30, 2012. The decrease is attributed to the weighted average yield on interest-earning assets, excluding loans, decreasing by 38 basis points to 2.09% for the three months ended June 30, 2013 compared to 2.47% for the three months ended June 30, 2012 reflecting the lower interest rate environment. This was partially offset by a $101.4 million increase in the average balance of all other interest-earning assets, excluding loans, to $1.83 billion for the three months ended June 30, 2013 from $1.73 billion for the three months ended June 30, 2012.

Total interest and dividend income increased by $17.5 million, or 7.2%, to $261.6 million for the six months ended June 30, 2013 from $244.2 million for the six months ended June 30, 2012. This increase is attributed to the average balance of interest-earning assets increasing $1.68 billion, or 15.8%, to $12.34 billion for the six months ended June 30, 2013 from $10.65 billion for the six months ended June 30, 2012. This was partially offset by the weighted average yield on interest-earning assets decreasing 34 basis points to 4.24% for the six months ended June 30, 2013 compared to 4.58% for the six months ended June 30, 2012.

Interest income on loans increased by $20.0 million, or 9.0%, to $242.5 million for the six months ended June 30, 2013 from $222.5 million for the six months ended June 30, 2012, reflecting an $1.55 billion, or 17.3%, increase in the average balance of net loans to $10.53 billion for the six months ended June 30, 2013 from $8.98 billion for the six months ended June 30, 2012. The increase is primarily attributed to the average balance of multi-family loans and commercial real estate loans increasing $1.20 billion and $555.6 million, respectively, as we continue to focus on diversifying our loan portfolio by adding more multi-family loans and commercial real estate loans. In addition, we recorded $6.7 million in loan prepayment penalties as interest income for the six months ended June 30, 2013 compared to $3.3 million for the six months ended June 30, 2012. This was partially offset by a 35 basis point decrease in the average yield on net loans to 4.61% for the six months ended June 30, 2013 from 4.96% for the six months ended June 30, 2012, as lower rates on new and refinanced loans reflect the current interest rate environment.

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Interest income on all other interest-earning assets, excluding loans, decreased by $2.5 million, or 11.5%, to $19.1 million for the six months ended June 30, 2013 from $21.6 million for the six months ended June 30, 2012. This decrease reflected the weighted average yield on interest-earning assets, excluding loans, decreasing by 47 basis points to 2.11% for the six months ended June 30, 2013 compared to 2.58% for the six months ended June 30, 2012 reflecting the current interest rate environment. This was partially offset by a $134.6 million increase in the average balance of all other interest-earning assets, excluding loans, to $1.81 billion for the six months ended June 30, 2013 from $1.68 billion for the six months ended June 30, 2012.

Interest Expense. Total interest expense decreased by $3.9 million, or 12.4%, to $27.5 million for the three months ended June 30, 2013 from $31.4 million for the three months ended June 30, 2012. This decrease is attributed to the weighted average cost of total interest-bearing liabilities decreasing 30 basis points to 1.01% for the three months ended June 30, 2013 compared to 1.31% for the three months ended June 30, 2012. This was partially offset by the average balance of total interest-bearing liabilities increasing by $1.27 billion, or 13.2%, to $10.87 billion for the three months ended June 30, 2013 from $9.60 billion for the three months ended June 30, 2012.

Interest expense on interest-bearing deposits decreased $4.2 million, or 25.3% to $12.3 million for the three months ended June 30, 2013 from $16.4 million for the three months ended June 30, 2012. This decrease is attributed to a 26 basis point decrease in the average cost of interest-bearing deposits to 0.63% for the three months ended June 30, 2013 from 0.89% for the three months ended June 30, 2012 as deposit rates reflect the lower interest rate environment. This was partially offset by the average balance of total interest-bearing deposits increasing $470.0 million, or 6.4% to $7.81 billion for the three months ended June 30, 2013 from $7.34 billion for the three months ended June 30, 2012. Average balances of core deposit accounts- savings, checking and money market increased $868.6 million over the past year.

Interest expense on borrowed funds increased by $264,000 or 1.8%, to $15.2 million for the three months ended June 30, 2013 from $15.0 million for the three months ended June 30, 2012. This increase is attributed to the average balance of borrowed funds increasing $802.1 million or 35.5%, to $3.06 billion for the three months ended June 30, 2013 from $2.26 billion for the three months ended June 30, 2012. This increase was offset by a 66 basis points decrease to the average cost of borrowings to 1.99% for the three months ended June 30, 2013 from 2.65% for the three months ended June 30, 2012 as maturing and new borrowings repriced to current interest rates.

Total interest expense decreased by $10.0 million, or 15.4%, to $54.9 million for the six months ended June 30, 2013 from $64.9 million for the six months ended June 30, 2012. This decrease is attributed to the weighted average cost of total interest-bearing liabilities decreasing 34 basis points to 1.02% for the six months ended June 30, 2013 compared to 1.36% for the six months ended June 30, 2012. This was partially offset by the average balance of total interest-bearing liabilities increasing by $1.23 billion, or 12.9%, to $10.75 billion for the six months ended June 30, 2013 from $9.52 billion for the six months ended June 30, 2012.

Interest expense on interest-bearing deposits decreased $9.8 million, or 28.2% to $24.9 million for the six months ended June 30, 2013 from $34.7 million for the six months ended June 30, 2012. This decrease is attributed to a 31 basis point decrease in the average cost of interest-bearing deposits to 0.63% for the six months ended June 30, 2013 from 0.94% for the six months ended June 30, 2012 as deposit rates reflect the lower interest rate environment. This was partially offset by the average balance of total interest-bearing deposits increasing $545.9 million, or 7.4% to $7.90 billion for the six months ended June 30, 2013 from $7.36 billion for the six months ended June 30, 2012. Average balances of core deposit accounts- savings, checking and money market increased $984.5 million for the six months ended June 30, 2013.

Interest expense on borrowed funds decreased by $183,000, or 0.6%, to $29.9 million for the six months ended June 30, 2013 from $30.1 million for the six months ended June 30, 2012. This decrease is attributed to the average cost of borrowed funds decreasing 69 basis points to 2.10% for the six months ended June 30, 2013 from 2.79% for

the six months ended June 30, 2012 as maturing and new borrowings repriced to current interest rates. This was partially offset by the average balance of borrowed funds increasing by $686.2 million or 31.7%, to $2.85 billion for the six months ended June 30, 2013 from $2.16 billion for the six months ended June 30, 2012.

Provision for Loan Losses. Our provision for loan losses was $13.8 million for the three months ended June 30, 2013 compared to $19.0 million for the three months ended June 30, 2012. For the three months ended June 30, 2013, net charge-offs were $8.9 million compared to $14.0 million for the three months ended June 30, 2012. For the six months ended June 30, 2013, our provision for loan losses was $27.5 million compared to $32.0 million for the six months ended June 30, 2012. For the six months ended June 30, 2013, net charge-offs were $15.2 million compared to $20.8 million for the six months ended June 30, 2012. Our provision for the three and six months ended June 30, 2013 is a result of continued growth in the loan portfolio, specifically the multi-family and commercial real estate portfolios; the inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; the level of non-performing loans and delinquent loans caused by

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the adverse economic and real estate conditions in our lending area. See discussion of the allowance for loan losses and non-accrual loans in "Comparison of Financial Condition at June 30, 2013 and December 31, 2012."

Non-Interest Income. Total non-interest income decreased by $1.0 million, or 9.85% to $9.5 million for the three months ended June 30, 2013 from $10.6 million for the three months ended June 30, 2012. The decrease is primarily attributed to the gain on the sale of loans decreasing $2.8 million to $2.0 million for the three months ended June 30, 2013 due to lower volume of sales in the secondary market at slightly lower margins. This decrease was offset by increases to fees and service charges of $709,000 and gain on sales of real estate owned of $603,000. In addition, other income increased $322,000 as a result of income on non-deposit investment products.

Total non-interest income decreased by $1.3 million, or 6.25% to $19.6 million for the six months ended June 30, 2013 from $20.9 million for the six months ended June 30, 2012. The decrease is primarily attributed to the gain on the sale of loans decreasing $3.6 million to $5.1 million for the six months ended June 30, 2013 as compared to $8.7 million for the six months ended June 30, 2012 due to lower volume of sales in the secondary market at slightly lower margins. This decrease was offset by $661,000 on gains from securities sold during the six months ended June 30, 2013 and gains on sale of real estate owned of $533,000. Other income increased $687,000 as a result of income on non-deposit investment products.

Non-Interest Expenses. Total non-interest expenses increased by $12.0 million, or 26.8%, to $56.9 million for the three months ended June 30, 2013 from $44.9 million for the three months ended June 30, 2012. Compensation and fringe benefits increased $4.4 million for the three months ended June 30, 2013 primarily as a result of the staff additions to support our continued growth including employees from the acquisition of Marathon Bank in the fourth quarter of 2012, as well as normal merit increases. Professional fees increased $922,000 for the three months ended June 30, 2013 attributed to increased legal and consulting services for the period. The Company has continued to increase its branch network and enter new markets through acquisitions as well as organic growth. As a result there has been an increase in occupancy expense, data processing fees, advertising and stationary expenses of $2.2 million, $1.0 million, $468,000 and $414,000, respectively for the three months ended June 30, 2013. Other operating expense also increased $926,000 for the three months ended June 30, 2013 related to higher recruiting, training and insurance expenses. FDIC insurance premium increased $1.7 million for the three months ended June 30, 2013 compared to June 30, 2012. This increase is a result of the FDIC finalizing its procedures for determining the deposit insurance assessment. These final rules were effective March 1, 2013.

Total non-interest expenses increased by $13.7 million, or 13.78%, to $113.0 million for the six months ended June 30, 2013 from $99.3 million for the six months ended June 30, 2012. The six months ended June 30, 2012 included $6.1 million in one time charges associated with the acquisition of Brooklyn Federal as well as $3.0 million for the early termination of certain leased facilities. Compensation and fringe benefits increased $7.9 million for the six months ended June 30, 2013 primarily as a result of the staff additions to support our continued growth including employees from the acquisition of Marathon Bank in the fourth quarter of 2012, as well as normal merit increases. The Company has continued to increase its branch network and enter new markets through acquisitions as well as organic growth. As a result there has been an increase to occupancy expense and advertising expense of $1.3 million and $770,000 for the six months ended June 30, 2013. In addition, our FDIC insurance premium increased $3.4 million for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This increase is a result of the FDIC finalizing its procedures for determining the deposit insurance assessment. These final rules were effective March 1, 2013. Other operating expense increased $1.3 million for the six months ended June 30, 2013 related to higher recruiting, training and insurance expenses.

Income Tax Expense. Income tax expense was $15.5 million for the three months ended June 30, 2013, representing a 35.61% effective tax rate compared to income tax expense of $14.3 million for the three months ended June 30, 2012 representing a 37.35% effective tax rate.

Income tax expense was $30.6 million for the six months ended June 30, 2013, representing a 35.66% effective tax rate compared to income tax expense of $26.0 million for the six months ended June 30, 2012 representing a 37.72%

effective tax rate.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank ("FHLB") and other borrowings and, to a lesser extent, 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. The Company has other sources of liquidity if a need for additional funds arises, including unsecured overnight lines of credit and other borrowings from the FHLB and other correspondent banks.

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At June 30, 2013, the Company had overnight borrowings outstanding with FHLB of $448.0 million compared to $373.5 million at December 31, 2012. The Company utilizes overnight borrowings from time to time to fund short-term liquidity needs. The Company had total borrowings of $3.40 billion at June 30, 2013, an increase from $2.70 billion at December 31, 2012.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At June 30, 2013, outstanding commitments to originate loans totaled $789.2 million; outstanding unused lines of credit totaled $531.8 million; standby letters of credit totaled $16.1 million and outstanding commitments to sell loans totaled $34.9 million. The Company expects to have sufficient funds available to meet current commitments in the normal course of business. Time deposits scheduled to mature in one year or less totaled $1.65 billion at June 30, 2013. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The Board of Directors approved a fourth share repurchase program at their January 2011 meeting, which authorizes the repurchase of an additional 10% of the Company’s outstanding common stock. The fourth share repurchase program commenced immediately upon completion of the third program. Under this program, up to 10% of its publicly–held outstanding shares of common stock, or 3,876,523 shares of Investors Bancorp, Inc. common stock may be purchased in the open market and through other privately negotiated transactions in accordance with applicable federal securities laws. During the three months period ended June 30, 2013, the Company did not repurchase any shares of its common stock. Under the current share repurchase program, 2,111,597 shares remain available for repurchase. At June 30, 2013, a total of 16,652,720 shares have been purchased under Board authorized share repurchase programs, of which 3,412,701 shares were allocated to fund the restricted stock portion of the Company’s 2006 Equity Incentive Plan. The remaining shares are held for general corporate use.

As of June 30, 2013, the Bank exceeded all regulatory capital requirements as follows:

	June 30, 2013					
	Actual			Required		
	Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)					
Total capital (to risk-weighted assets)	$1,079,426	11.2	%	772,558	8.0	%
Tier I capital (to risk-weighted assets)	958,297	9.9		386,279	4.0	
Tier I capital (to average assets)	958,297	7.4		518,271	4.0	

In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will revise 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. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interests. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in the financial statements. These transactions primarily relate to debt obligations and lending commitments.

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The following table shows the contractual obligations of the Company by expected payment period as of June 30, 2013:

Contractual Obligations	Total	Less than One Year	One-Two Years	Two-Three Years	More than Three Years
	(in thousands)				
Debt obligations (excluding capitalized leases)	$3,403,125	1,395,000	328,000	175,000	1,505,125
Commitments to originate and purchase loans	$789,196	789,196	—	—	—
Commitments to sell loans	$34,929	34,929	—	—	—

Debt obligations include borrowings from the FHLB and other borrowings. The borrowings have defined terms and, under certain circumstances, $80,000 of the borrowings are callable at the option of the lender.

Additionally, at June 30, 2013, the Company's commitments to fund unused lines of credit totaled $531.8 million. Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements. Commitments generally have a fixed expiration or other termination clauses which may or may not require a payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.

In addition to the contractual obligations previously discussed, we have other liabilities which includes capitalized and operating lease obligations. These contractual obligations as of June 30, 2013, have not changed significantly from December 31, 2012.

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 we are found to be in breach of these representations and warranties, we may be obligated to repurchase certain of these loans.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our December 31, 2012 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative Analysis. We believe one significant form of market risk is interest rate risk. Interest rate risk results from timing differences in the maturity or re-pricing of our assets, liabilities and off-balance sheet contracts (i.e., loan commitments); the effect of loan prepayments, deposits and withdrawals; the difference in the behavior of lending and funding rates arising from the uses of different indices; and "yield curve risk" arising from changing interest rate relationships across the spectrum of maturities for constant or variable credit risk investments. Besides directly affecting our net interest income, changes in market interest rates can also affect the amount of new loan originations, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and refinancings, the carrying value of securities classified as available for sale and the mix and flow of deposits.

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

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. Historically, our lending activities have emphasized one- to four-family fixed- and variable- rate first mortgages. Our variable-rate

mortgage related assets have helped to reduce our exposure to interest rate fluctuations and is expected to benefit our long-term profitability, as the rate earned in the mortgage loans will increase as prevailing market rates increase. However, the current interest rate environment, and the preferences of our customers, has resulted in more of a demand for fixed-rate products. This may adversely impact our net interest income, particularly in a rising rate environment. To help manage our interest rate risk, we have increased our focus on the origination of commercial real estate mortgage loans, particularly multi-family loans, as these loan types may reduce our interest rate risk due to their shorter repricing term compared to fixed rate residential mortgage loans. In addition, we primarily invest in shorter-to-medium duration securities, which generally have shorter average lives and lower yields compared to longer term securities. Shortening the average lives of our securities, along with originating more adjustable-rate mortgages and commercial real estate mortgages, will help to reduce interest rate risk.

We retain an independent, nationally recognized consulting firm who specializes in asset and liability management to complete our quarterly interest rate risk reports. We also retain a second nationally recognized consulting firm to prepare independently comparable interest rate risk reports for the purpose of validation. Both firms use a combination of analyses to monitor our exposure to changes in interest rates. The economic value of equity analysis is a model that estimates the change in net portfolio value ("NPV") over a range of immediately changed interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. In calculating changes in NPV, assumptions estimating loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes are used.

The net interest income analysis uses data derived from an asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations and the U.S. Treasury

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yield curve as of the balance sheet date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred gradually. Net interest income analysis also adjusts the asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our asset and liability analysis determines the relative balance between the repricing of assets and liabilities over multiple periods of time (ranging from overnight to five years). This asset and liability analysis includes expected cash flows from loans and mortgage-backed securities, applying prepayment rates based on the differential between the current interest rate and the market interest rate for each loan and security type. This analysis identifies mismatches in the timing of asset and liability but does not necessarily provide an accurate indicator of interest rate risk because the assumptions used in the analysis may not reflect the actual response to market changes.

Quantitative Analysis. The table below sets forth, as of June 30, 2013, the estimated changes in our NPV 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 NPV 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. We did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points or increase of greater than 200 basis points.

	Net Portfolio Value(2)			Net Interest Income		
Change in Interest Rates (basis points)(1)	Estimated NPV	Estimated Increase (Decrease)		Estimated Net Interest Income(3)	Estimated Increase (Decrease)	
		Amount	Percent		Amount	Percent
	(Dollars in thousands)					
+ 200bp	$985,177	(176,077)	(15.2)%	$382,664	(31,243)	(7.6)%
0bp	$1,161,254	—	—	$413,906	—	—
-100bp	$1,080,125	(81,129)	(7.0)%	$416,573	2,666	0.6 %

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

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

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

The table set forth above indicates at June 30, 2013, in the event of a 200 basis points increase in interest rates, we would be expected to experience a 15.2% decrease in NPV and a $31.2 million, or 7.6%, decrease in net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 7.0% decrease in NPV and a $2.7 million, or 0.6%, increase in net interest income. These data do not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

As mentioned above, we retain two nationally recognized firms to compute our quarterly interest rate risk reports. Certain shortcomings are inherent in any methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The NPV and net interest income table presented above assumes the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data do 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 regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the NPV 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 NPV and net interest income.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based

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upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.
There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company 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 the Company's financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in the "Risk Factors" disclosed in the Company's December 31, 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 1, 2011, the Company announced its fourth Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 3,876,523 million shares. This stock repurchase program commenced upon the completion of the third program on July 25, 2011. This program has no expiration date and has 2,111,597 shares yet to be purchased as of June 30, 2013. There were no repurchase of our common stock during the second quarter 2013.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

3.1	Certificate of Incorporation of Investors Bancorp, Inc.*
3.2	Bylaws of Investors Bancorp, Inc.*
4	Form of Common Stock Certificate of Investors Bancorp, Inc.*
10.1	Form of Employment Agreement between Investors Bancorp, Inc. and certain executive officers*
10.2	Form of Change in Control Agreement between Investors Bancorp, Inc. and certain executive officers *
10.3	Investors Bank Amended and Restated Director Retirement Plan*
10.4	Investors Bank Amended and Restated Supplemental ESOP Retirement Plan*

10.5	Investors Bancorp, Inc. Supplemental Wage Replacement Plan*
10.6	Investors Bank Amended and Restated Deferred Directors Fee Plan*
10.7	Investors Bancorp, Inc. Amended and Restated Deferred Directors Fee Plan*
10.8	Executive Officer Annual Incentive Plan**
10.9	Investors Bancorp 2006 Equity Incentive Plan***
10.10	Definitive Agreement and Plan of Merger by and among Investors Bank, Investors Bancorp and Investors Bancorp, MHC and Roma Bank, Roma Financial Corporation and Roma Financial Corporation, MHC****
10.11	Agreement and Plan of Merger dated as of April 5, 2013 by and among Investors Bank, Investors Bancorp, Inc., Investors Bancorp MHC and GCF Bank, Gateway Community Financial Corp. and Gateway Community Financial, MHC *****
21	Subsidiaries of Registrant*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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31.2	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	101.INS (1) XBRL Instance Document 101. SCH (1) XBRL Taxonomy Extension Schema Document 101.CAL (1) XBRL Taxonomy Extension Calculation Linkbase Document 101.DEF (1) XBRL Taxonomy Extension Definition Linkbase Document 101.LAB (1) XBRL Taxonomy Extension Labels Linkbase Document 101.PRE (1) XBRL Taxonomy Extension Presentation Linkbase Document (1) These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

*	Incorporated by reference to the Registration Statement on Form S-1 of Investors Bancorp, Inc. (file no. 333-125703), originally filed with the Securities and Exchange Commission on June 10, 2005.
**	Incorporated by reference to Appendix A of the Company's definitive proxy statement filed with the Securities and Exchange Commission on September 26, 2008.
***	Incorporated by reference to Appendix B to the Proxy Statement for the Annual Meeting of Stockholders of Investors Bancorp, Inc. (File No. 000-51557), originally filed the Securities and Exchange Commission on September 15, 2006.
****	Incorporated by reference to Form 8-K originally filed with the Securities and Exchange Commission on December 21, 2012.
*****	Incorporated by reference to Form 8-K originally filed with the Securities and Exchange Commission on April 8, 2013.

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SIGNATURES

Pursuant to the requirements 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: August 9, 2013	By:	/s/ Kevin Cummings Kevin Cummings President and Chief Executive Officer (Principal Executive Officer)
Date: August 9, 2013	By:	/s/ Thomas F. Splaine, Jr. Thomas F. Splaine, Jr. Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)