Investors Bancorp Inc
Form 10-Q
February 09, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended: December 31, 2006

Commission file number: 0-51557

Investors Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-3493930**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 JFK Parkway, Short Hills, New Jersey 07078

(Address of principal executive offices)

(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 þ 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 Yes o No o Accelerated Filer Yes o No o Non-Accelerated Filer Yes þ No o

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

As of January 31, 2007 there were 115,225,059 shares of the Registrant s common stock, par value $0.01 per share, outstanding, of which 63,099,781 shares, or 54.76% of the Registrant s outstanding common stock, were held by Investors Bancorp, MHC, the Registrant s mutual holding company.

Investors Bancorp, Inc.
FORM 10-Q
Index

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2006 (Unaudited) and June 30, 2006

	December 31, 2006	June 30, 2006
	(In thousands)	
Assets		
Cash and cash equivalents	$ 36,382	39,824
Securities available-for-sale, at estimated fair value	323,719	528,876
Securities held-to-maturity, net (estimated fair value of $1,558,560 and $1,695,975 at December 31, 2006 and June 30, 2006, respectively)	1,595,238	1,763,032
Loans receivable, net	3,274,207	2,960,583
Loans held-for-sale	3,589	974
Stock in the Federal Home Loan Bank	40,545	46,125
Accrued interest receivable	22,435	21,053
Office properties and equipment, net	27,310	27,911
Net deferred tax asset	35,448	28,176
Bank owned life insurance contract	86,186	78,903
Other assets	1,960	1,789
Total assets	$ 5,447,019	5,497,246
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$ 3,451,066	3,302,043
Borrowed funds	1,046,725	1,245,740
Advance payments by borrowers for taxes and insurance	14,591	15,337
Other liabilities	33,342	33,939
Total liabilities	4,545,724	4,597,059
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; 116,275,688 issued; 115,970,059 and 116,275,688 outstanding at December 31, 2006 and June 30, 2006, respectively	532	532
Additional paid-in capital	500,962	524,962
Unallocated common stock held by the employee stock ownership plan	(39,705)	(40,414)
Treasury stock, at cost; 305,629 shares at December 31, 2006	(4,769)	
Retained earnings	447,856	426,233
Accumulated other comprehensive loss:		
Net unrealized loss on securities available for sale, net of tax	(3,213)	(10,758)
Minimum pension liability, net of tax	(368)	(368)

	(3,581)	(11,126)
Total stockholders equity	901,295	900,187
Total liabilities and stockholders equity	$ 5,447,019	5,497,246

See accompanying notes to consolidated financial statements.

1

Table of Contents

INVESTORS BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended December 31, 2006	For the Three Months Ended December 31, 2005	For the Six Months Ended December 31, 2006	For the Six Months Ended December 31, 2005
	(Dollars in thousands, except per share data)			
Interest and dividend income:				
Loans receivable and loans held-for-sale	$ 44,126	29,827	86,038	56,377
Securities:				
Government-sponsored enterprise obligations	1,339	2,490	2,678	4,164
Mortgage-backed securities	20,649	24,680	42,702	50,664
Equity securities available-for-sale	472	455	927	910
Municipal bonds and other debt	2,412	1,701	4,818	2,415
Interest-bearing deposits	222	1,658	391	2,491
Repurchase agreements		351		613
Federal Home Loan Bank stock	753	763	1,450	1,491
Total interest and dividend income	69,973	61,925	139,004	119,125
Interest expense:				
Deposits	34,044	23,055	64,794	44,771
Secured borrowings	14,935	11,141	30,749	22,059
Total interest expense	48,979	34,196	95,543	66,830
Net interest income	20,994	27,729	43,461	52,295
Provision for loan losses	100	100	325	200
Net interest income after provision for loan losses	20,894	27,629	43,136	52,095
Non-interest (loss) income:				
Fees and service charges	659	669	1,319	1,288
Income on bank owned life insurance contract	924	1,257	1,719	1,130
(Loss) gain on sales of mortgage loans, net	(129)	62	(46)	139
Loss on securities transactions	(3,666)		(3,666)	
Gain on sale of other real estate owned, net		5		5
Other non-interest income	21	21	42	41
Total non-interest (loss) income	(2,191)	2,014	(632)	2,603
Non-interest expense:				
Compensation and fringe benefits	12,258	10,987	22,701	20,627
Advertising and promotional expense	858	483	1,758	1,086
Office occupancy and equipment expense	2,515	2,625	4,938	5,269
Federal insurance premiums	108	109	218	218
Stationery, printing, supplies and telephone	380	416	773	908

Legal, audit, accounting, and supervisory examination fees		257	450	1,032	799
Data processing service fees		972	929	1,908	1,816
Contribution to charitable foundation			20,651		20,651
Other operating expenses		899	912	2,006	1,787
Total non-interest expense		18,247	37,562	35,334	53,161
Income (loss) before income tax (benefit) expense		456	(7,919)	7,170	1,537
Income tax (benefit) expense		(11,564)	(2,980)	(9,201)	515
Net income (loss)	$	12,020	(4,939)	16,371	1,022
Earnings (loss) per share basic and diluted (1)	$	0.11	(0.06)	0.15	N/A
Weighted average shares outstanding (1):					
Basic		111,746,704	112,024,104	111,783,846	N/A
Diluted		111,748,993	112,024,104	111,783,846	N/A

(1) Earnings per share and weighted average shares for 2005 are from date of initial stock offering.

See accompanying notes to consolidated financial statements.

Table of Contents

INVESTORS BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Stockholders Equity
Six months ended December 31, 2006 and 2005
(Unaudited)

						Accumulated other comprehensive loss		
	Common stock	Additional paid-in capital	Unallocated Common Stock Held by ESOP	Treasury stock	Retained earnings	Unrealized gain (loss) on securities	Minimum pension liability	Total stockholders' equity
				(In thousands)				
Balance at June 30, 2005	$	25			411,219	(2,316)	(1,101)	407,827
Comprehensive loss:								
Net income					1,022			1,022
Unrealized loss on securities available- for-sale, net of tax benefit of $3,675						(5,598)		(5,598)
Total comprehensive loss								(4,576)
Sale of 53,175,907 shares of common stock in the initial public offering and issuance of 63,099,781 shares to the mutual holding company	532	524,642						525,174
Purchase of common stock by the ESOP			(42,541)					(42,541)
Allocation of ESOP stock		84	1,418					1,502
Balance at December 31, 2005	$ 532	524,751	(41,123)		412,241	(7,914)	(1,101)	887,386
Balance at June 30, 2006	$ 532	524,962	(40,414)		426,233	(10,758)	(368)	900,187

Comprehensive income:								
Net income					16,371			16,371
Unrealized gain on securities available- for-sale, net of tax expense of $6,210						9,496		9,496
Reclassification adjustment for losses on securities transactions included in net income, net of tax benefit of $1,347						(1,951)		(1,951)
Total comprehensive income								23,916
Cummulative effect of change in accounting principle					5,564			5,564
Purchase of treasury stock (1,972,588 shares)				(30,502)				(30,502)
Treasury stock allocated to restricted stock plan		(25,421)		25,733	(312)			
Compensation cost for stock options and restricted stock		1,096						1,096
Allocation of ESOP stock		325	709					1,034
Balance at December 31, 2006	$ 532	500,962	(39,705)	(4,769)	447,856	(3,213)	(368)	901,295

See accompanying notes to consolidated financial statements.

Table of Contents

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

	For the Six Months Ended December 31, 2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 16,371	1,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Contribution of stock to charitable foundation		15,488
ESOP and stock-based compensation expense	2,130	1,502
Amortization of premiums and accretion of discounts on securities, net	891	395
Provision for loan losses	325	200
Depreciation and amortization of office properties and equipment	1,453	1,555
Loss on securities transactions	3,666	
Mortgage loans originated for sale	(21,833)	(13,270)
Proceeds from mortgage loan sales	19,411	15,420
Loss (gain) on sales of mortgage loans, net	46	(139)
Increase in bank owned life insurance contract	(1,719)	(1,130)
Increase in accrued interest receivable	(1,382)	(1,211)
Deferred tax benefit	(12,135)	(2,484)
(Increase) decrease in other assets	(171)	343
Decrease in other liabilities	(597)	(2,258)
Total adjustments	(9,915)	14,411
Net cash provided by operating activities	6,456	15,433
Cash flows from investing activities:		
Originations of loans	(132,025)	(229,908)
Purchases of loans	(371,575)	(388,650)
Payments on loans	189,412	188,680
Purchases of mortgage-backed securities held-to-maturity	(8,933)	(24,865)
Purchases of debt securities held-to-maturity	(3,500)	(333,406)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	154,410	294,856
Proceeds from calls/maturities on debt securities held-to-maturity	1,639	225,167
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	53,132	76,082
Proceeds from sale of mortgage-backed securities held-to-maturity	22,942	
Proceeds from sale of mortgage-backed securities available-for-sale	161,112	
Proceeds from redemptions of Federal Home Loan Bank stock	22,230	51,836
Purchases of Federal Home Loan Bank stock	(16,650)	(43,427)
Purchases of office properties and equipment	(852)	(572)
Net cash provided by investing activities	71,342	(184,207)

Cash flows from financing activities:		
Net increase in deposits	149,023	29,626
Net proceeds from sale of common stock		509,686
Loan to ESOP		(42,541)
Net (decrease) increase in funds borrowed under short-term repurchase agreements	(250,000)	40,000
Proceeds from funds borrowed under other repurchase agreements	260,000	
Repayments of funds borrowed under other repurchase agreements	(235,000)	(515,000)
Net increase in Federal Home Loan Bank advances	25,985	101,486
Net (decrease) increase in advance payments by borrowers for taxes and insurance	(746)	114
Purchase of treasury stock	(30,502)	
Net cash (used in) provided by financing activities	(81,240)	123,371
Net (decrease) increase in cash and cash equivalents	(3,442)	(45,403)
Cash and cash equivalents at beginning of period	39,824	81,329
Cash and cash equivalents at end of period	$ 36,382	35,926
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	96,104	69,560
Income taxes	7,615	400

See accompanying notes to consolidated financial statements.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements are composed of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiary, Investors Savings Bank (Bank) (collectively, the Company) and the Bank s wholly-owned significant subsidiaries, ISB Mortgage Company LLC and ISB Asset Corporation.

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 month periods ended December 31, 2006 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2007.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles 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 Company s audited consolidated financial statements and notes to consolidated financial statements included in the Company s June 30, 2006 Annual Report on Form 10-K.

2. Bank Owned Life Insurance

In September 2006, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 to address diversity in practice with respect to the calculation of the amount that could be realized. The EITF reached a consensus that a policyholder should consider any additional amounts, such as deferred acquisition costs (DAC) and claims stabilization reserves (CSR), in determining the amount that could be realized under the insurance contract and therefore recognized as an asset. The EITF also agreed that fixed amounts that are recoverable by the policyholder in future periods in excess of one year from the surrender of the policy should be recognized at their present value. The consensus is effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of a fiscal year for periods in which interim or annual financial statements have not yet been issued. The Company elected early adoption of the new accounting standard as of July 1, 2006.

The Company s guaranteed DAC and CSR balances represent amounts that could be realized under its group insurance contract, in accordance with the EITF consensus. Accordingly, the Company recorded an asset of $5.6 million for the guaranteed DAC and CSR balances, through a cumulative effect adjustment to retained earnings due to a change in accounting principle, in the quarter ended September 30, 2006.

The Company s insurance contract provides that, upon full and complete surrender of all outstanding certificates under the group policy held by the Company, the carrier s repayment of the DAC and CSR would be guaranteed if certain conditions are met at the time of surrender. The conditions that must be met at the time of surrender to obtain repayment of the DAC and CSR are as follows: (i) the Company must hold harmless and absolve the carrier from payment

Table of Contents

of all incurred but not reported claims; (ii) the Company must be a well capitalized institution under the regulatory capital rules; (iii) the Company cannot be transacting a non-taxable policy exchange as defined in the Internal Revenue Code; and (iv) the Company cannot have undergone a change in control (as defined) within 30 months prior to payment of the CSR. If these conditions have been met, the terms of the guarantee provide that (i) the CSR will be paid in full six months after full surrender of the policy, and (ii) future payments of the DAC will continue to be made in accordance with the terms of the insurance contract (generally based on a predetermined payment schedule over a period of 11 years from the date of original purchase). The Company has continuously satisfied the conditions of the guarantee, and management believes it is probable that the conditions will continue to be satisfied for the foreseeable future. Absent a full surrender of the policy, the guaranteed amounts are expected to be realized through the passage of time (in the case of the DAC) or the collection of future death benefit claims (in the case of the CSR).

3. Earnings (Loss) Per Share

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

	For the Three Months Ended December 31,					
	2006			2005 (1)		
	Income	Shares	Per Share Amount	Loss	Shares	Per Share Amount
	(Dollars in thousands, except per share data)					
Net Income (loss)	$ 12,020			$ (4,939)		
Basic earnings per share: Income (loss) attributable to common stockholders	$ 12,020	111,746,704	$ 0.11	$ (6,625)	112,024,104	$ (0.06)
Effect of dilutive common stock equivalents		2,289				
Diluted earnings per share: Income attributable to common stockholders	$ 12,020	111,748,993	$ 0.11	$	112,024,104	$

(1) Loss attributable to common stockholders and weighted average shares for 2005 are from date of initial stock offering.

Table of Contents

	For the Six Months Ended December 31, 2006		
	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)		
Net Income	$ 16,371		
Basic earnings per share:			
Income attributable to common stockholders	$ 16,371	111,783,846	$ 0.15
Effect of dilutive common stock equivalents			
Diluted earnings per share:			
Income attributable to common stockholders	$ 16,371	111,783,846	$ 0.15

4. Loans Receivable, Net

Loans receivable, net are summarized as follows:

	December 31, 2006	June 30, 2006
	(In thousands)	
Residential mortgage loans	$ 2,938,307	2,666,559
Multi-family and commercial	83,161	76,976
Construction loans	83,793	65,459
Consumer and other loans	154,854	139,336
Total loans	3,260,115	2,948,330
Premiums on purchased loans	22,416	20,327
Deferred loan fees, net	(1,798)	(1,734)
Allowance for loan losses	(6,526)	(6,340)
	$ 3,274,207	2,960,583

5. Deposits

Deposits are summarized as follows:

	December 31, 2006	June 30, 2006
	(In thousands)	
Savings accounts	$ 257,994	226,245
Checking accounts	340,308	349,014

Money market accounts	178,321	212,200
Total core deposits	776,623	787,459
Certificates of deposit	2,674,443	2,514,584
	$ 3,451,066	3,302,043

7

Table of Contents

6. Equity Incentive Plan

At the annual meeting held on October 24, 2006, stockholders of the Company approved the Investors Bancorp, Inc. 2006 Equity Incentive Plan. On November 20, 2006, certain officers and employees and a service vendor of the Company were granted in aggregate 2,790,000 stock options and 1,120,000 shares of restricted stock, and non-employee directors received in aggregate 1,367,401 stock options and 546,959 shares of restricted stock. On December 1, 2006, certain officers and employees of the Company were granted a total of 290,000 options. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payments , upon approval of the Plan, and began to expense the fair value of all share-based compensation granted over the requisite service periods.

SFAS No. 123R also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. In accordance with SEC Staff Accounting Bulletin (SAB) No. 107, the Company classified share-based compensation for employees and outside directors within compensation and fringe benefits in the consolidated statement of operations to correspond with the same line item as the cash compensation paid.

Stock options generally vest over a five-year service period. Management recognizes compensation expense for all option grants over the awards respective requisite service periods. Management estimated the fair values of all option grants using the Black-Scholes option-pricing model. Since there is limited historical information on the volatility of the Company s stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB 107. The 7-year Treasury yield in effect at the time of the grant provides the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards.

Restricted shares generally vest over a five- year service period. The product of the number of shares granted and the grant date market price of the Company s common stock determine the fair value of restricted shares under the Company s restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

During the three and six months ended December 31, 2006, the Company recorded $1.1 million of share-based compensation expense, comprised of stock option expense of $462,000 and restricted stock expense of $634,000. The Company estimates it will record an additional $4.7 million of share-based compensation expense during the remainder of fiscal 2007.

Table of Contents

The following is a summary of the Company s stock option activity and related information for its option plans for the six months ended December 31, 2006:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at June 30, 2006				
Granted	4,447,401	$ 15.26		
Exercised				
Forfeited				
Outstanding at December 31, 2006	4,447,401	$ 15.26	9.9 years	$2,090,278
Exercisable at December 31, 2006			N/A	N/A

The following is a summary of the status of the Company s non-vested options as of December 31, 2006 and changes during the six months ended December 31, 2006:

	Number of Stock Options	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2006		
Granted	4,447,401	$4.17
Exercised		
Forfeited		
Non-vested at December 31, 2006	4,447,401	$4.17

Expected future compensation expense relating to the 4.4 million non-vested options outstanding as of December 31, 2006 is $18.1 million over a weighted average period of 4.9 years.

Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares. In September 2006, the Company announced a stock repurchase plan to acquire up to 5,317,590 shares, commencing on October 12, 2006.

Table of Contents

The following is a summary of the status of the Company s restricted shares as of December 31, 2006 and changes during the six months ended December 31, 2006:

	Number of Stock Awards Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2006		
Granted	1,666,959	$15.25
Vested		
Forfeited		
Non-vested at December 31, 2006	1,666,959	$15.25

Expected future compensation expense relating to the 1.7 million restricted shares at December 31, 2006 is $24.8 million over a weighted average period of 4.9 years.

7. Income Taxes

A deferred tax asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred tax assets is reduced by the amount of any tax benefits that, based on available evidence, are more likely than not to be realized. On a quarterly basis the Company assesses the realizability of its deferred tax assets. During the three months ended December 31, 2006, the Company performed an assessment of its ability to realize certain deferred tax assets and concluded that, based on current facts and circumstances a portion of the associated valuation allowance was no longer required. Those facts and circumstances included but were not limited to the projected amount of taxable income the Company and its subsidiaries are expected to generate in future years, the Company s ability to generate capital gains, and the discontinuation of the Company s REIT s operations. As a result, the Company recognized a deferred tax benefit of $10.7 million during the second fiscal quarter primarily related to the reversal of the previously established deferred tax asset valuation allowance. The reversal includes the recognition of tax benefits associated with state net operating loss carry forwards and minimum tax assessment ($11.8 million) and a portion of the Company s capital losses related to the sale of equity securities ($163,000). This benefit was partially offset by an additional valuation allowance established for the contribution to the foundation ($1.2 million).

Table of Contents

The following table presents a reconciliation between the actual income tax expense (benefit) and the expected amount computed using the applicable statutory federal income tax rate of 35% as follows:

	For the Three Months ended December 31, 2006	For the Six Months ended December 31, 2006
	(In thousands)	
Expected federal income tax expense	$ 160	$ 2,510
Change in valuation allowance for deferred tax assets Federal and State	(10,717)	(10,717)
Other State tax benefit, net	(663)	(315)
Bank owned life insurance	(323)	(602)
Dividend received deduction	(116)	(227)
Other	95	150
Total income tax benefit	$ (11,564)	$ (9,201)

8. Net Periodic Benefit Plans Expense

The Company has a Supplemental Employee Retirement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to all employees of the Company 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 its 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 Company also provides (i) health care benefits to retired employees hired prior to April 1, 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retired employees. Accordingly, the Company accrues the cost of retiree health care and other benefits during the employee s period of active service.

The components of net periodic benefit expense are as follows:

	Three months ended December 31,			
	SERP and Directors Plan		Other Benefits	
	2006	2005	2006	2005
	(In thousands)			
Service cost	313	345	44	49
Interest cost	240	200	132	124
Amortization of:				
Transition obligation			50	50
Prior service cost	47	47		
Net loss	40	81		24
Total net periodic benefit expense	$ 640	673	$ 226	247

Table of Contents

	Six months ended December 31,			
	SERP and Directors Plan		Other Benefits	
	2006	2005	2006	2005
	(In thousands)			
Service cost	627	691	88	98
Interest cost	479	400	264	249
Amortization of:				
Transition obligation			100	100
Prior service cost	94	93		
Net loss	79	163		47
Total net periodic benefit expense	$ 1,279	1,347	$ 452	494

Due to the unfunded nature of these plans, no contributions are expected to be made to the SERP and Directors plans and Other Benefits plan in fiscal year 2007.

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 did not contribute to the defined benefit pension plan during the first six months of fiscal year 2007. We anticipate contributing funds to the plan during fiscal 2007 to meet any minimum funding requirements.

9. Stock Repurchase Program

On September 25, 2006, the Company announced that its Board of Directors authorized a stock repurchase plan to acquire up to 10% of its publicly-held outstanding shares of common stock, or 5,317,590 shares, commencing October 12, 2006. During the quarter ended December 31, 2006, the Company purchased 1,972,588 shares at a cost of $30,502,000, or approximately $15.46 per share. Under our stock repurchase program, shares of Investors Bancorp, Inc. common stock may be purchased in the open market and through other privately negotiated transactions, from time to time, depending on market conditions. Of the 1,972,588 shares purchased, 1,669,959 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.

10. Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 allows an entity to re-measure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value would be recognized in earnings. Statement 155 is effective for financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006, with earlier adoption permitted. The Company does not expect the adoption of Statement No. 155 to have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation presents a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of Interpretation No. 48 to have a material impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 to have a material impact on its financial statements.

In September 2006, FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires employers to recognize on their balance sheets the funded status of pension and other postretirement benefit plans. For public companies, this requirement is effective as of the end of the first fiscal year ending after December 15, 2006 (as of June 30, 2007 for the Company). Statement 158 will also require fiscal-year-end measurements of plan assets and benefit obligations, eliminating the use of earlier measurement dates currently permissible. The new measurement-date requirement will not be effective until fiscal years ending after December 15, 2008. The Statement amends Statements 87, 88, 106 and 132R, but retains most of their measurement and disclosure guidance and will not change the amounts recognized in the statement of operations as net periodic benefit cost. The Company is evaluating the effect of SFAS No. 158 on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that registrants use a dual approach in quantifying misstatements based on their impact on the financial statements and related disclosures. SAB 108 is effective as of the end of the Company s 2007 fiscal year, allowing a one-time transitional cumulative effect adjustment to retained earnings as of July 1, 2006 for misstatements (if any) that were not previously deemed material, but are material under the guidance in SAB 108. The Company does not expect the application of SAB 108 to have a material impact on its financial statements.

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 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)

Table of Contents

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.

Executive Summary

Investors Bancorp, Inc. is a Delaware-chartered mid-tier stock holding company whose most significant business activity is operating Investors Savings Bank. Investors Savings Bank s principal business is attracting retail deposits from the general public and investing those deposits, together with funds generated from operations, principal repayments on loans and securities and borrowed funds, primarily in one-to-four family, multi-family and commercial real estate mortgage loans and construction loans. Our results of operations depend primarily on our net interest income which is the difference between the interest we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our net interest income is primarily affected by the market interest rate environment, the shape of the U.S. Treasury yield curve, the timing of the placement of interest-earning assets and interest-bearing liabilities, and the prepayment rate on our mortgage-related assets. Other factors which may affect our results of operations are general and local economic and competitive conditions, government policies and actions of regulatory authorities.

Our business strategy is to operate a well-capitalized and profitable full service community bank dedicated to providing high quality customer service and competitive products to the communities we serve. In October 2003 our Board of Directors approved a change in our strategic direction from one focused on investing in securities, wholesale borrowings and high cost certificates of deposits, to one more focused on originating loans and attracting core deposits. We remain committed to this task of originating more loans and attracting more core deposits and expect to continue to change our asset composition by increasing residential and commercial real estate mortgage loans and building on the significant loan portfolio growth we have experienced since the latter part of 2003. We believe this strategy will enhance shareholder value while building a strong retail banking franchise.

There were a number of significant events in the second quarter of fiscal 2007 that impacted both our statement of operations and our balance sheet. The current interest rate environment has been a difficult one for most financial institutions and has had a significant impact on both our net interest spread and our net interest margin. Our net interest margin decreased to 1.55% and 1.61% for the three and six month periods ended December 31, 2006, respectively, compared to 2.12% and 2.05% for the three and six month periods ended December 31, 2005, respectively. Our net interest spread fell to 0.89% and 0.96% for the three and six month periods ended December 31, 2006, respectively, compared to 1.68% and 1.74% for the three and six month periods ended December 31, 2005, respectively.

Table of Contents

During the quarter we sold approximately $187.7 million in low yielding mortgage backed securities and used the proceeds to pay off higher rate wholesale borrowings which resulted in a pretax loss of $3.7 million. Given the flatness of the yield curve, management determined this was a prudent transaction which will help to increase both net interest rate spread and net interest margin going forward. For more information please refer to the ***Securities*** section in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006* . We also recognized $10.7 million in deferred tax benefits during the second quarter of fiscal 2007. On a quarterly basis we evaluate our tax positions, valuation allowances and strategies to determine their appropriateness. This evaluation coupled with changes enacted by the New Jersey State legislature on the tax treatment of REITs and other events resulted in the current recognition of additional deferred tax benefits. For a more detailed discussion see the ***Deferred Tax Asset*** section in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006.*

The Company also repurchased approximately 2.0 million shares of its common stock at an average price per share of $15.46 pursuant to its publicly announced repurchase plan of September 25, 2006. We believe stock repurchases are a prudent use of capital.

At our first annual meeting, our stockholders approved the Company s 2006 Equity Incentive Plan. During the current quarter, the Company awarded 1,666,959 shares of restricted stock and 4,447,401 share options representing 73% and 78%, respectively, of the total shares authorized for these purposes under the plan.

Two non performing loans made to a New Jersey based developer caused an increase in non performing loans for the quarter. Both properties are under contract to be sold and we believe will result in our loans being paid in full. While we are confident of a favorable resolution, we can not ensure a successful outcome and therefore placed these loans on non accrual status during the quarter. For a more detailed discussion see the ***Net Loans*** section in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006.*

We expect our strategy of adding more retail assets and liabilities to our balance sheet will help improve earnings when and if the yield curve assumes a more positive slope. In addition, we will continue to repurchase shares under our board authorized share repurchase program as a means to manage our capital position.

Comparison of Financial Condition at December 31, 2006 and June 30, 2006

Total Assets. Total assets decreased by $50.2 million, or 0.9%, to $5.45 billion at December 31, 2006 from $5.50 billion at June 30, 2006. This decrease was largely the result of a decrease in the securities portfolio partially offset by the increase in our loan portfolio.

Securities. Securities, in aggregate, decreased by $373.0 million, or 16.3%, to $1.92 billion at December 31, 2006, from $2.29 billion at June 30, 2006. This decrease was primarily due to the sale of securities. During the quarter ended December 31, 2006, the Company sold approximately $187.7 million in bonds yielding 3.90%, representing 9% of its mortgage-backed securities portfolio, at a pretax loss of $3.7 million. The proceeds from the sale of these securities were used to reduce wholesale borrowings costing 5.35%. The majority of the securities ($164.4 million) sold were classified as available-for-sale with the remaining securities ($23.3 million) being sold from the held-to-maturity portion of the portfolio. The securities sold

Table of Contents

from the held-to-maturity portfolio qualified to be sold under SFAS No. 115 because more than 85% of the securities original face amounts were paid down.

Net Loans. Net loans, including loans held for sale, increased by $316.2 million, or 10.7%, to $3.28 billion at December 31, 2006 from $2.96 billion at June 30, 2006. This increase in loans reflects our continued focus on loan originations and purchases. The loans we originate and purchase are made primarily on properties in New Jersey. To a lesser degree we originate and purchase loans in states contiguous to New Jersey as a way to geographically diversify our residential loan portfolio.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the six months ended December 31, 2006 we originated $55.1 million in residential mortgage loans. In addition, we purchase 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 December 31, 2006 we purchased loans totaling $307.2 million from these entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. During the six months ended December 31, 2006, we purchased loans totaling $64.4 million on a bulk purchase basis.

Additionally, for the six months ended December 31, 2006, we originated $5.9 million in multi-family and commercial real estate loans and $30.6 million in construction loans. This is consistent with our strategy of originating multi-family, commercial real estate and construction loans to diversify our loan portfolio.

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 at December 31, 2006 was $298.4 million compared to $266.5 million at June 30, 2006. 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 address the increased exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

Total non-performing loans, defined as non-accruing loans, increased by $8.5 million to $11.8 million at December 31, 2006 from $3.3 million at June 30, 2006. This increase is primarily attributable to two residential construction loans to a New Jersey based developer. Contracts for sale of the properties are pending. While management is confident of a favorable resolution, it cannot ensure a successful outcome and therefore placed these loans on non accrual status during the quarter.

Table of Contents

The ratio of non-performing loans to total loans was 0.36% at December 31, 2006 compared with 0.11% at June 30, 2006. The allowance for loan losses as a percentage of non-performing loans was 55.49% at December 31, 2006 compared with 192.18% at June 30, 2006. At December 31, 2006 our allowance for loan losses as a percentage of total loans was 0.20% compared to 0.22% at June 30, 2006.

We believe our allowance for loan losses is adequate based on the overall growth in our loan portfolio, the current level of loan charge-offs, the stability of the New Jersey real estate market in general, and the performance and stability of our loan portfolio.

Although we believe we have established and maintained an adequate level of allowance for loan losses, additions may be necessary if future economic conditions differ substantially from the current operating 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.

Deferred Tax Asset. The Company s net deferred tax asset increased by $7.3 million to $35.4 million at December 31, 2006 from $28.2 million at June 30, 2006. This increase is primarily the result of the reversal of $11.9 million in valuation allowances partially offset by the $1.2 million additional valuation allowance on the contribution to the foundation.

The Company recognizes deferred tax assets equal to the amount of tax benefits that management believes is more likely than not to be realized. A valuation allowance is recorded when it is more likely than not that some portion or all or the Company s deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient future taxable income of the appropriate character in the appropriate corporate entity and taxing jurisdiction. Quarterly the Company evaluates its tax posture and strategies to determine the appropriateness of the valuation allowance.

At June 30, 2006, the Company had a valuation allowance related to the deferred tax assets recorded for: state net operating loss carryforwards; the state minimum tax assessment; capital loss carry forwards; and the charitable contribution made to the Investors Savings Bank Charitable Foundation. The state net operating loss carry forwards and minimum tax assessment arose as a result of our Real Estate Investment Trust (REIT) which was formed in 1997. Due to recently passed legislation in the state of New Jersey, the operations of the REIT will be discontinued. There was also a valuation allowance on our deferred tax assets relating to the capital losses incurred and carried forward on the sale of certain equity securities in March 2005. Additionally, we had a valuation allowance for the deferred tax asset relating to our contribution to the Investors Savings Bank Charitable Foundation.

During the three months ended December 31, 2006, the Company performed an assessment of its ability to realize the deferred tax assets and concluded that, based on current facts and circumstances, a portion of the associated valuation allowances were no longer necessary. Those facts and circumstances include but are not limited to the projected amount of taxable income the Company and its subsidiaries are expected to generate in future years, the Company s ability to generate capital gains, and the discontinuation of our REIT s operations. As a result, the Company recognized a deferred tax benefit of $10.7 million during the second fiscal quarter. The benefit includes the recognition of the benefits from state net operating loss carry forwards and minimum tax assessment ($11.8 million) and a portion of the capital losses on equity securities

Table of Contents

($163,000). This was partially offset by an additional valuation allowance on the contribution to the foundation ($1.2 million).

Bank Owned Life Insurance, Stock in the Federal Home Loan Bank and Other Assets. Bank owned life insurance increased by $7.3 million from $78.9 million at June 30, 2006 to $86.2 million at December 31, 2006. This increase was primarily due to adoption of a new accounting principle related to bank owned life insurance. There was also an increase in accrued interest receivable of $1.4 million resulting from an increase in the yield on interest-earning assets and the timing of certain cash flows resulting from the change in the mix of our assets. The amount of stock we own in the Federal Home Loan Bank (FHLB) decreased by $5.6 million from $46.1 million at June 30, 2006 to $40.5 million at December 31, 2006 as a result of a decrease in our level of borrowings at December 31, 2006.

Deposits. Deposits increased by $149.0 million, or 4.5%, to $3.45 billion at December 31, 2006 from $3.30 billion at June 30, 2006. The increase was due primarily to an increase in certificates of deposits and to a lesser extent, the increase in our savings deposits. This was partially offset by the decrease in money market accounts and checking accounts. We attribute the increase and shift in deposits to new products being offered and higher rates on our CD s in response to consumer demands.

Borrowed Funds. Borrowed funds decreased $199.0 million, or 16.0%, to $1.05 billion at December 31, 2006 from $1.25 billion at June 30, 2006. This decrease in borrowed funds is the result of utilizing the proceeds from the securities sale to repay higher costing borrowed funds.

Stockholders Equity. Stockholders equity increased $1.1 million to $901.3 million at December 31, 2006 from $900.2 million at June 30, 2006. A number of significant transactions impacted our stockholders equity: a decrease from the repurchase of our common stock totaling $30.5 million; a $5.6 million increase in retained earnings due to adoption of the new accounting principle related to bank owned life insurance; a decrease of $7.5 million in the accumulated other comprehensive loss; and net income of $16.4 million for the six months ended December 31, 2006. Our book value per common share increased from $8.02 per share at June 30, 2006 to $8.17 per share at December 31, 2006.

On September 25, 2006 the Company announced its first stock repurchase program and authorized the repurchase of up to 10% of its publicly-held outstanding shares of common stock, or approximately 5.3 million shares, commencing October 12, 2006. The Company completed its initial public offering on October 11, 2005, and applicable regulatory restrictions prohibited the repurchase of shares during the one-year period following the completion of its initial public offering. During the three month period ended December 31, 2006, the Company repurchased 2.0 million shares of its common stock at an average cost of $15.46 per share. Under the current stock repurchase program, 3.3 million shares of the 5.3 million shares authorized remain available for repurchase.

Average Balance Sheets for the Three and Six Months ended December 31, 2006 and 2005

The following tables present certain information regarding Investors Bancorp, Inc. s financial condition and net interest income for the three and six months ended December 31, 2006 and 2005. 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.

	For Three Months Ended					
	December 31, 2006			December 31, 2005		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Due from banks	$ 22,758	$ 222	3.90%	$ 176,800	$ 1,658	3.75%
Repurchase agreements				34,810	351	4.03%
Securities available-for-sale	470,134	5,175	4.40%	620,622	6,554	4.22%
Securities held-to-maturity	1,648,891	19,697	4.78%	2,042,733	22,772	4.46%
Net loans	3,217,045	44,126	5.49%	2,309,963	29,827	5.16%
Stock in FHLB	45,252	753	6.66%	58,729	763	5.20%
Total interest-earning assets	5,404,080	69,973	5.18%	5,243,657	61,925	4.72%
Non-interest earning assets	154,837			135,011		
Total assets	$ 5,558,917			$ 5,378,668		
Interest-bearing Liabilities:						
Savings	$ 243,693	907	1.49%	$ 374,737	830	0.89%
Interest-bearing checking	298,288	1,790	2.40%	312,438	1,484	1.90%
Money market accounts	186,335	929	1.99%	268,122	897	1.34%
Certificates of deposit	2,633,188	30,418	4.62%	2,397,206	19,844	3.31%
Borrowed funds	1,210,038	14,935	4.94%	1,141,045	11,141	3.91%
Total interest-bearing liabilities	4,571,542	48,979	4.29%	4,493,548	34,196	3.04%
Non-interest bearing liabilities	83,732			59,747		
Total liabilities	4,655,274			4,553,295		
Stockholders equity	903,643			825,373		
Total liabilities and stockholders equity	$ 5,558,917			$ 5,378,668		
Net interest income		$ 20,994			$ 27,729	
Net interest rate spread			0.89%			1.68%

Net interest earning assets	$ 832,538			$ 750,109		
Net interest margin			1.55%			2.12%
Ratio of interest-earning assets to total interest- bearing liabilities	1.18X			1.17X		

Table of Contents

	For Six Months Ended					
	December 31, 2006			December 31, 2005		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Due from banks	$ 21,398	$ 391	3.65%	$ 144,479	$ 2,491	3.45%
Repurchase agreements				32,773	613	3.74%
Securities available-for-sale	502,636	10,897	4.34%	641,141	13,499	4.21%
Securities held-to-maturity	1,688,919	40,228	4.76%	2,033,956	44,654	4.39%
Net loans	3,149,672	86,038	5.46%	2,202,165	56,377	5.12%
Stock in FHLB	46,531	1,450	6.23%	58,228	1,491	5.12%
Total interest-earning assets	5,409,156	139,004	5.14%	5,112,742	119,125	4.66%
Non-interest earning assets	152,013			135,726		
Total assets	$ 5,561,169			$ 5,248,468		
Interest-bearing Liabilities:						
Savings	$ 233,447	1,433	1.23%	$ 424,205	1,835	0.87%
Interest-bearing checking	302,959	3,635	2.40%	297,582	2,644	1.78%
Money market accounts	196,799	1,802	1.83%	287,510	1,927	1.34%
Certificates of deposit	2,594,289	57,924	4.47%	2,402,719	38,365	3.19%
Borrowed funds	1,246,699	30,749	4.93%	1,161,966	22,059	3.80%
Total interest-bearing liabilities	4,574,193	95,543	4.18%	4,573,982	66,830	2.92%
Non-interest bearing liabilities	83,478			59,813		
Total liabilities	4,657,671			4,633,795		
Stockholders equity	903,498			614,673		
Total liabilities and stockholders equity	$ 5,561,169			$ 5,248,468		
Net interest income		$ 43,461			$ 52,295	
Net interest rate spread			0.96%			1.74%
Net interest earning assets	$ 834,963			$ 538,760		

Net interest margin	1.61%	2.05%
Ratio of interest-earning assets to total interest-bearing liabilities	1.18X	1.12X

Comparison of Operating Results for the Three Months Ended December 31, 2006 and 2005

Net Income. Net income increased by $17.0 million, to $12.0 million for the three months ended December 31, 2006, from a net loss of $4.9 million for the three months ended December 31, 2005.

Net Interest Income. Net interest income decreased by $6.7 million, or 24.3%, to $21.0 million for the three months ended December 31, 2006 from $27.7 million for the three months ended December 31, 2005. The decrease was caused primarily by a 125 basis point increase in our cost of interest-bearing liabilities to 4.29% for the three months ended December 31, 2006 from 3.04% for the three months ended December 31, 2005. This was partially offset by a 46 basis point improvement in our yield on interest-earning assets to 5.18% for the three months ended December 31, 2006 from 4.72% for the three months ended December 31, 2005. Our net interest margin also decreased by 57 basis points from 2.12% for the three months ended December 31, 2005 to 1.55% for the three months ended December 31, 2006.

Interest and Dividend Income. Total interest and dividend income increased by $8.0 million, or 13.0%, to $70.0 million for the three months ended December 31, 2006 from $61.9 million for the three months ended December 31, 2005. This increase is primarily due to a 46 basis point increase in the weighted average yield on interest-earning assets to 5.18% for the three months ended December 31, 2006 compared to 4.72% for the three months ended December 31, 2005. In addition, the average balance of interest-earning assets increased $160.4 million, or 3.1%, to $5.40 billion for the three months ended December 31, 2006 from $5.24 billion for the three months ended December 31, 2005.

Interest income on loans increased by $14.3 million, or 47.9%, to $44.1 million for the three months ended December 31, 2006 from $29.8 million for the three months ended December 31, 2005, reflecting a $907.1 million, or 39.3%, increase in the average balance of net loans to $3.22 billion for the three months ended December 31, 2006 from $2.31 billion for the three months ended December 31, 2005. In addition, the average yield on loans increased 33 basis points to 5.49% for the three months ended December 31, 2006 from 5.16% for the three months ended December 31, 2005.

Interest income on all other interest-earning assets, excluding loans, decreased by $6.3 million, or 19.5%, to $25.8 million for the three months ended December 31, 2006 from $32.1 million for the three months ended December 31, 2005. This decrease reflected a $746.7 million decrease in the average balance of all other interest-earning assets, excluding loans, partially offset by a 35 basis point increase in the average yield on all other interest-earning assets, excluding loans, to 4.73% for the three months ended December 31, 2006 from 4.38% for the three months ended December 31, 2005.

Interest Expense. Total interest expense increased by $14.8 million, or 43.2%, to $49.0 million for the three months ended December 31, 2006 from $34.2 million for the three months ended December 31, 2005. This increase was primarily due to a 125 basis point increase in the weighted average cost of total interest-bearing liabilities to 4.29% for the three months ended December 31, 2006 compared to 3.04% for the three months ended December 31, 2005. In addition, the average balance of total interest-bearing liabilities increased by $78.0 million, or 1.7%, to $4.57 billion for the three months ended December 31, 2006 from $4.49 billion for the three months ended December 31, 2005.

Interest expense on interest-bearing deposits increased $11.0 million, or 47.7% to $34.0 million for the three months ended December 31, 2006 from $23.1 million for the three months ended December 31, 2005. This increase was due to a 130 basis point increase in the average cost of interest-bearing deposits to 4.05% for the three months ended December 31, 2006 from 2.75% for the three months ended December 31, 2005. In addition, the average balance of interest-bearing

Table of Contents

deposits increased $9.0 million, or 0.3% to $3.36 billion for the three months ended December 31, 2006 from $3.35 billion for the three months ended December 31, 2005.

Interest expense on borrowed funds increased by $3.8 million, or 34.1%, to $14.9 million for the three months ended December 31, 2006 from $11.1 million for the three months ended December 31, 2005. This increase is primarily due to the average cost of borrowed funds increasing by 103 basis points to 4.94% for the three months ended December 31, 2006 from 3.91% for the three months ended December 31, 2005. In addition, the average balance of borrowed funds increased by $69.0 million or 6.0%, to $1.21 billion for the three months ended December 31, 2006 from $1.14 billion for the three months ended December 31, 2005.

Provision for Loan Losses. Our provision for loan losses was $100,000 for the three month periods ended December 31, 2006 and 2005. For the three months ended December 31, 2006, net charge-offs totaled $138,000 compared to net recoveries of $104,000 for the three months ended December 31, 2005. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006.*

Non-Interest Income. Total non-interest income decreased by $4.2 million to a loss of $2.2 million for the three months ended December 31, 2006 from income of $2.0 million for the three months ended December 31, 2005. This decrease was largely the result of the $3.7 million loss on sale of securities recorded during the three months ended December 31, 2006 compared to no securities losses during the three months ended December 31, 2005. In addition, income on our bank owned life insurance decreased by $333,000 to $924,000 for the three months ended December 31, 2006 from $1.3 million for the three months ended December 31, 2005. On July 1, 2006 the Company adopted a new accounting principle that was recently approved by the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF). The adoption of this accounting principle changed the manner in which we recognize income related to our bank owned life insurance contract.

Non-Interest Expense. Total non-interest expenses decreased by $19.3 million, or 51.4%, to $18.2 million for the three months ended December 31, 2006 from $37.6 million for the three months ended December 31, 2005. The decrease is primarily attributed to the $20.7 million contribution of cash and Company stock made to the Investors Savings Bank Charitable Foundation as part of our initial public stock offering during the three months ended December 31, 2005. This decrease was partially offset by compensation and fringe benefits increasing by $1.3 million, or 11.6%, to $12.3 million for the three months ended December 31, 2006. The increase reflects staff additions in our commercial real estate and retail banking areas, as well as, normal merit increases and increases in employee benefit costs. In addition, the three month period ended December 31, 2006 contained, for the first time, expense attributed to the shareholder-approved 2006 Equity Incentive Plan. Compensation expense of $1.1 million was recorded in accordance with FASB Statement No. 123R to reflect the costs associated with awards under this plan. The three month period ended December 31, 2006 included a $536,000 expense for the ESOP allocation for the quarter compared to the three month period ended December 31, 2005 having a $1.5 million expense representing a full year allocation of ESOP shares.

Income Taxes. Income tax benefit was $11.6 million for the three months ended December 31, 2006 compared to income tax benefit of $3.0 million for the three months ended December 31, 2005. The tax benefit in the current quarter is primarily attributable to the reversal of a substantial portion of the previously established deferred tax asset valuation allowance, as

Table of Contents

management has determined that it is more likely than not that the deferred tax asset will be realized. See discussion of deferred tax asset in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006.*

Comparison of Operating Results for the Six Months Ended December 31, 2006 and 2005

Net Income. Net income increased by $15.3 million, to $16.4 million for the six months ended December 31, 2006, from $1.0 million for the six months ended December 31, 2005.

Net Interest Income. Net interest income decreased by $8.8 million, or 16.9%, to $43.5 million for the six months ended December 31, 2006 from $52.3 million for the six months ended December 31, 2005. The decrease was caused primarily by a 126 basis point increase in our cost of interest-bearing liabilities to 4.18% for the six months ended December 31, 2006 from 2.92% for the six months ended December 31, 2005. This was partially offset by a 48 basis point improvement in our yield on interest-earning assets to 5.14% for the six months ended December 31, 2006 from 4.66% for the six months ended December 31, 2005. Our net interest margin also decreased by 44 basis points from 2.05% for the six months ended December 31, 2005 to 1.61% for the six months ended December 31, 2006.

Interest and Dividend Income. Total interest and dividend income increased by $19.9 million, or 16.7%, to $139.0 million for the six months ended December 31, 2006 from $119.1 million for the six months ended December 31, 2005. This increase is primarily due to a 48 basis point increase in the weighted average yield on interest-earning assets to 5.14% for the six months ended December 31, 2006 compared to 4.66% for the six months ended December 31, 2005. The average balance of interest-earning assets increased $296.4 million, or 5.8%, to $5.41 billion for the six months ended December 31, 2006 from $5.11 billion for the six months ended December 31, 2005.

Interest income on loans increased by $29.7 million, or 52.6%, to $86.0 million for the six months ended December 31, 2006 from $56.4 million for the six months ended December 31, 2005, reflecting a $947.5 million, or 43.0%, increase in the average balance of net loans to $3.15 billion for the six months ended December 31, 2006 from $2.20 billion for the six months ended December 31, 2005. In addition, the average yield on loans increased 34 basis points to 5.46% for the six months ended December 31, 2006 from 5.12% for the six months ended December 31, 2005.

Interest income on all other interest-earning assets, excluding loans, decreased by $9.8 million, or 15.6%, to $53.0 million for the six months ended December 31, 2006 from $62.7 million for the six months ended December 31, 2005. This decrease reflected a $651.1 million decrease in the average balance of all other interest-earning assets, excluding loans, partially offset by a 38 basis point increase in the average yield on all other interest-earning assets, excluding loans, to 4.69% for the six months ended December 31, 2006 from 4.31% for the six months ended December 31, 2005.

Interest Expense. Total interest expense increased by $28.7 million, or 43.0%, to $95.5 million for the six months ended December 31, 2006 from $66.8 million for the six months ended December 31, 2005. This increase was primarily due to a 126 basis point increase in the weighted average cost of total interest-bearing liabilities to 4.18% for the six months ended December 31, 2006 compared to 2.92% for the six months ended December 31, 2005. The average balance of total interest-bearing liabilities remained relatively consistent at $4.57 billion for the six months ended December 31, 2006 and December 31, 2005.

Interest expense on interest-bearing deposits increased $20.0 million, or 44.7% to $64.8 million for the six months ended December 31, 2006 from $44.8 million for the six months ended December 31, 2005. This increase was due to a 127 basis point increase in the average cost of interest-bearing deposits to 3.89% for the six months ended December 31, 2006 from 2.62% for the six months ended December 31, 2005. This was partially offset by an $84.5 million, or 2.5% decrease in the average balance of interest-bearing deposits to $3.33 billion for the six months ended December 31, 2006 from $3.41 billion for the six months ended December 31, 2005.

Interest expense on borrowed funds increased by $8.7 million, or 39.4%, to $30.7 million for the six months ended December 31, 2006 from $22.1 million for the six months ended December 31, 2005. This increase is primarily attributed to the average cost of borrowed funds increasing by 113 basis points to 4.93% for the six months ended December 31, 2006 from 3.80% for the six months ended December 31, 2005. In addition, the average balance of borrowed funds increased by $84.7 million or 7.3%, to $1.25 billion for the six months ended December 31, 2006 from $1.16 billion for the six months ended December 31, 2005.

Provision for Loan Losses. Our provision for loan losses was $325,000 for the six month period ended December 31, 2006 compared to $200,000 for the six month period ended December 31, 2005. For the six months ended December 31, 2006, net charge-offs totaled $139,000 compared to net recoveries of $125,000 for the six months ended December 31, 2005. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006* .

Non-Interest Income. Total non-interest income decreased by $3.2 million to a loss of $632,000 for the six months ended December 31, 2006 from income of $2.6 million for the six months ended December 31, 2005. This decrease was largely the result of the $3.7 million loss on sale of securities recorded during the six months ended December 31, 2006 compared to no securities losses in the six months ended December 31, 2005. This was partially offset by income associated with our bank owned life insurance contract increasing by $589,000 to $1.7 million for the six months ended December 31, 2006 from $1.1 million for the six months ended December 31, 2005, reflecting our adoption of a new accounting principle that changed the manner in which we recognize income related to our bank owned life insurance contract.

Non-Interest Expense. Total non-interest expenses decreased by $17.8 million, or 33.5%, to $35.3 million for the six months ended December 31, 2006 from $53.2 million for the six months ended December 31, 2005. The December 31, 2005 expenses include the $20.7 million contribution of cash and Company stock made to the Investors Savings Bank Charitable Foundation as part of our initial public stock offering. This was partially offset by compensation and fringe benefits increasing by $2.1 million, or 10.1%, to $22.7 million for the six months ended December 31, 2006. The increase reflects staff additions in our commercial real estate and retail banking areas, as well as normal merit increases and increases in employee benefit costs. In addition, the six month period ended December 31, 2006 contained, for the first time, expense attributed to the shareholder-approved 2006 Equity Incentive Plan. Compensation expense of $1.1 million was recorded in accordance with FASB Statement No. 123R to reflect the costs associated with awards under this plan. The six month period ended December 31, 2006 included a $1.0 million expense for the ESOP allocation for the period compared to the six month period ended December 31, 2005 having a $1.5 million expense representing a full year allocation of ESOP shares.

Income Taxes. Income tax benefit was $9.2 million for the six months ended December 31, 2006, as compared to income tax expense of $515,000 for the six months ended December 31, 2005. The tax benefit in the December 31, 2006 period is primarily attributable to the reversal of a substantial portion of the previously established deferred tax asset valuation allowance, as management has determined that it is more likely than not that the deferred tax asset will be realized. See discussion of deferred tax asset in *Comparison of Financial Condition at December 31, 2006 and June 30, 2006.*

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 an overnight line of credit and advances from the FHLB.

At December 31, 2006 the Company had outstanding overnight borrowings from the FHLB of $76.0 million as compared to $50.0 million of outstanding overnight borrowings at June 30, 2006. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company had total borrowings, including overnight borrowings, of $1.05 billion at December 31, 2006, a decrease from $1.25 billion at June 30, 2006. This decrease was primarily the result of utilizing the proceeds from the securities sale to repay borrowings.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At December 31, 2006, outstanding commitments to originate loans totaled $177.7 million; outstanding unused lines of credit totaled $213.9 million; and outstanding commitments to sell loans totaled $16.2 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 $2.23 billion at December 31, 2006. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

On September 25, 2006, the Company announced its first stock repurchase program. Under this program, up to 10% of its publicly held outstanding shares of common stock, or 5,317,590 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 month period ended December 31, 2006, the Company repurchased 1,972,588 shares of its common stock at an average cost of $15.46 per share. Under the current stock repurchase program, 3,345,002 shares remain available for repurchase. Of the 1,972,588 shares purchased, 1,669,959 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.

Table of Contents

As of December 31, 2006 the Bank exceeded all regulatory capital requirements as follows:

	As of December 31, 2006			
	Actual		Required	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total capital (to risk-weighted assets)	$684,098	26.3%	$208,000	8.0%
Tier I capital (to risk-weighted assets)	677,572	26.1	104,000	4.0
Tier I capital (to average assets)	677,572	12.2	222,705	4.0

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 due to the high degree of judgment involved, the subjectivity of the assumptions utilized, 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. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk 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.

On a quarterly basis, the Allowance for Loan Loss Committee (comprised of the Senior Vice Presidents of Lending Administration, Residential Lending and Commercial Real Estate Lending and the First Vice President of Lending Administration) 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 and purchase of residential mortgage loans and, to a lesser extent, commercial real estate mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages. We also have a concentration of loans secured by real property located in New Jersey. 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. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in New Jersey. 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 provision for loan losses reflects probable losses resulting from the actual growth and change in composition of our loan portfolio. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses the best information available, 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

Table of Contents

agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amounts of taxes recoverable through loss carry back declines, or if we project lower levels of future taxable income. The increase or decrease of a previously established valuation allowance may occur if our projection of future taxable income changes or other facts and circumstances change. Such changes in the valuation allowance would be recorded through income tax expense.

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. Our held-to-maturity portfolio, consisting of 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. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. The market values of our securities are 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Qualitative Analysis. We believe our most 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 Interest Rate Risk 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 Interest Rate Risk 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. To better manage our interest rate risk, we have increased our focus on the origination of adjustable-rate mortgages, as well as the more recent origination of commercial real estate mortgage loans and adjustable-rate construction 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 two independent, nationally recognized consulting firms who specialize in asset and liability management to complete our quarterly interest rate risk reports. They 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 a dynamic asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations such as interest rate floors and caps, and the U.S. Treasury 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 instantaneously. Net interest income analysis also adjusts the dynamic asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our dynamic 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 dynamic 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 repricing but does not necessarily provide an accurate indicator of interest rate risk because it omits the factors incorporated into the net interest income analysis.

Table of Contents

Quantitative Analysis. The table below sets forth, as of December 31, 2006 the estimated changes in our NPV and our annual net interest income that would result from the designated changes in the interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and 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 or increase of greater than 200 basis points.

Change in Interest Rates (basis points) (1)	Net Portfolio Value (2)			Net Interest Income		
	Estimated NPV	Estimated Increase (Decrease) Amount	Estimated Increase (Decrease) Percent	Estimated Net Interest Income	Increase (Decrease) in Estimated Net Interest Income Amount	Increase (Decrease) in Estimated Net Interest Income Percent
	(Dollars in thousands)					
+200bp	$601,078	$(276,356)	(31.50)%	$74,523	$(11,175)	(13.04)%
0bp	877,434			85,698		
-200bp	958,145	80,711	9.20%	96,942	11,244	13.12%

(1) Assumes an instantaneous uniform change 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.

The table set forth above indicates at December 31, 2006 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 31.50% decrease in NPV and an $11.2 million or 13.04% decrease in annual net interest income. In the event of a 200 basis points decrease in interest rates, we would be expected to experience a 9.20% increase in NPV and an $11.2 million or 13.12% increase in annual 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. Although we are confident of the accuracy of the results, 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 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 to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no significant changes made in the Company s internal controls over financial reporting or in other factors that could significantly affect the Company s internal controls over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s 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 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

The following table reports information regarding repurchases of our common stock during the second quarter of fiscal 2007 and the stock repurchase plan approved by our Board of Directors.

Period	Total Number of Shares Purchased (1)	Average price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2006 through October 31, 2006	0		0	5,317,590
November 1, 2006 through November 30, 2006	322,088	14.87	322,088	4,995,502
December 1, 2006 through December 31, 2006	1,650,500	15.58	1,650,500	3,345,002
Total	1,972,588	15.46	1,972,588	

(1) On September 25, 2006, the Company announced its intention to repurchase up to 10% of its

publicly-held
outstanding
shares of
common stock,
or 5,317,590
shares.

Item 3. Defaults Upon Senior Securities

Not applicable.

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders (the Meeting) of the Company was held on October 24, 2006. There were outstanding and entitled to vote at the Meeting 116,275,688 shares of Common Stock of the Company, including 63,099,781 shares held by Investors Bancorp, MHC, the mutual holding company of the Company that held 54.27% of the outstanding stock. Investors Bancorp, MHC voted its shares in favor of all proposals. There were present at the meeting or by proxy the holders of 110,808,955 shares of Common Stock representing 95.3% of the total eligible votes to be cast. Proposal 1 was to elect three directors of the Company. Proposal 2 was to approve the Company s 2006 Equity Incentive Plan. Proposal 3 was to ratify the appointment of the independent registered public accountants for the fiscal year ending June 30, 2007. The result of the voting at the Meeting is as follows:

Proposal 1: The election of three directors for terms of three years each.

Patrick J. Grant	For: 108,108,388	Withheld: 2,700,567
John A. Kirkpartrick	For: 107,982,373	Withheld: 2,826,582
Joseph H. Shepard III	For: 107,992,062	Withheld: 2,816,893

Proposal 2: Approval of the Investors Bancorp, Inc. 2006 Equity Incentive Plan.

For:	93,400,709
Against:	4,277,913
Abstain:	349,347
Non vote:	12,780,986

Proposal 3: Ratification of the appointment of KPMG LLP as registered public accountants for the fiscal year ended June 30, 2007.

For:	110,111,735
Against:	453,763
Abstain:	243,457

Item 5. Other Information

Not applicable

Table of Contents

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 Savings Bank Director Retirement Plan*

10.4 Investors Savings Bank Supplemental Retirement Plan*

10.5 Investors Bancorp, Inc. Supplemental Wage Replacement Plan*

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed as exhibits to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-125703)

Table of Contents

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.
Dated: February 9, 2007	/s/ Robert M. Cashill Robert M. Cashill President and Chief Executive Officer (Principal Executive Officer)
Dated: February 9, 2007	/s/ Domenick A. Cama Domenick A. Cama Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)