Investors Bancorp Inc
Form 10-Q
February 09, 2009

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, 2008

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of January 31, 2008 there were 109,052,929 shares of the Registrant s common stock, par value $0.01 per share, outstanding, of which 64,844,373 shares, or 59.46% 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
Part I. Financial Information

	Page
tem 1. Financial Statements	
Consolidated Balance Sheets as of December 31, 2008 (unaudited) and June 30, 2008	1
Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2008 and 2007 (unaudited)	2
Consolidated Statements of Stockholders Equity for the Three and Six Months Ended December 31, 2008 and 2007 (unaudited)	3
Consolidated Statements of Cash Flows for the Three and Six Months Ended December 31, 2008 and 2007 (unaudited)	4
Notes to Consolidated Financial Statements	5
tem 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	13
tem 3. Quantitative and Qualitative Disclosures About Market Risk	29
tem 4. Controls and Procedures	31
Part II. Other Information	
tem 1. Legal Proceedings	32
tem 1A. Risk Factors	32
tem 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
tem 3. Defaults upon Senior Securities	33
tem 4. Submission of Matters to a Vote of Security Holders	33
tem 5. Other Information	34
tem 6. Exhibits	34
Signature Page	
EX-31.1: CERTIFICATION	
EX-31.2: CERTIFICATION	
EX-32: CERTIFICATION	

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

INVESTORS BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2008 (Unaudited) and June 30, 2008

	December 31, 2008	June 30, 2008
	(In thousands)	
Assets		
Cash and cash equivalents	$ 26,692	22,823
Securities available-for-sale, at estimated fair value	176,351	203,032
Securities held-to-maturity, net (estimated fair value of $988,286 and $1,198,053 at December 31, 2008 and June 30, 2008, respectively)	982,952	1,255,054
Loans receivable, net	5,618,185	4,670,150
Loans held-for-sale	16,935	9,814
Stock in the Federal Home Loan Bank	86,585	60,935
Accrued interest receivable	32,931	27,716
Office properties and equipment, net	33,510	29,710
Net deferred tax asset	108,707	40,702
Bank owned life insurance contract	98,153	96,170
Other assets	2,785	3,036
Total assets	$ 7,183,786	6,419,142
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$ 4,232,638	3,970,275
Borrowed funds	2,133,569	1,563,583
Advance payments by borrowers for taxes and insurance	22,085	21,829
Other liabilities	41,695	34,917
Total liabilities	6,429,987	5,590,604
Stockholders equity:		
Preferred stock, $0.01 par value, 50,000,000 authorized shares; none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 109,052,929 and 109,010,756 outstanding at December 31, 2008 and June 30, 2008, respectively	532	532
Additional paid-in capital	518,457	514,613
Retained earnings	408,534	486,244
Treasury stock, at cost; 8,967,351 shares at December 31, 2008 and June 30, 2008	(128,121)	(128,977)

Unallocated common stock held by the employee stock ownership plan	(36,869)	(37,578)
Accumulated other comprehensive loss	(8,734)	(6,296)
Total stockholders equity	753,799	828,538
Total liabilities and stockholders equity	$ 7,183,786	6,419,142

See accompanying notes to consolidated financial statements.

Table of Contents

INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended December 31, 2008	For the Three Months Ended December 31, 2007	For the Six Months Ended December 31, 2008	For the Six Months Ended December 31, 2007
	(Dollars in thousands, except per share data)			
Interest and dividend income:				
Loans receivable and loans held-for-sale	$ 78,291	57,185	148,771	110,657
Securities:				
Government-sponsored enterprise obligations	491	1,443	991	2,905
Mortgage-backed securities	12,834	16,238	26,273	33,371
Equity securities available-for-sale	8	76	63	156
Municipal bonds and other debt	2,249	3,050	4,386	6,146
Interest-bearing deposits	7	275	39	556
Federal Home Loan Bank stock	619	804	1,424	1,400
Total interest and dividend income	94,499	79,071	181,947	155,191
Interest expense:				
Deposits	31,928	40,058	62,937	79,811
Secured borrowings	19,663	14,424	37,362	28,527
Total interest expense	51,591	54,482	100,299	108,338
Net interest income	42,908	24,589	81,648	46,853
Provision for loan losses	8,000	1,750	13,000	1,949
Net interest income after provision for loan losses	34,908	22,839	68,648	44,904
Non-interest (loss) income:				
Fees and service charges	609	813	1,452	1,568
Income on bank owned life insurance contract	971	1,083	1,984	2,066
(Loss) gain on sales of mortgage loans, net	(118)	151	66	232
(Loss) gain on securities transactions, net	(153,605)	18	(157,971)	(224)
Other income	117	93	211	178
Total non-interest (loss) income	(152,026)	2,158	(154,258)	3,820
Non-interest expenses:				
Compensation and fringe benefits	15,061	12,441	29,743	26,270
Advertising and promotional expense	955	737	1,760	1,247
Office occupancy and equipment expense	2,797	2,703	5,542	5,367
Federal insurance premiums	676	112	1,357	220
Stationery, printing, supplies and telephone	496	464	1,035	894

Legal, audit, accounting, and supervisory examination fees	641	576	1,190	1,036
Data processing service fees	1,078	1,069	2,235	2,178
Other operating expenses	1,116	1,200	2,319	2,253
Total non-interest expenses	22,820	19,302	45,181	39,465
(Loss) income before income tax (benefit) expense	(139,938)	5,695	(130,791)	9,259
Income tax (benefit) expense	(56,979)	2,112	(53,323)	3,244
Net (loss) income	$ (82,959)	3,583	(77,468)	6,015
Basic (loss) earnings per share	$ (0.80)	0.03	(0.75)	0.06
Diluted earnings per share	$ n/a	0.03	n/a	0.06
Weighted average shares outstanding				
Basic	103,950,667	105,909,100	103,872,522	106,359,599
Diluted	103,950,667	106,080,292	103,872,522	106,532,592

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, 2008 and 2007
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unallocated Common Stock Held by ESOP	Accumulated other comprehensive loss	Total stockholders equity
				(In thousands)			
Balance at June 30, 2007	$ 532	506,026	470,205	(70,973)	(38,996)	(7,935)	858,859
Comprehensive income:							
Net income			6,015				6,015
Change in funded status of postretirement plan due to plan curtailment and settlement, net of tax expense of $969						1,450	1,450
Change in funded status of retirement obligations, net of tax expense of $47						69	69
Unrealized gain on securities available-for-sale, net of tax expense of $1,716						2,476	2,476
Reclassification adjustment for losses included in net income						242	242
Total comprehensive income							10,252
Cumulative effect adjustment upon adoption of FIN 48			300				300
Purchase of treasury stock (3,069,029 shares)				(42,376)			(42,376)
Compensation cost for stock options and		4,725					4,725

restricted stock							
ESOP shares allocated or committed to be released		285			709		994
Balance at December 31, 2007	$ 532	511,036	476,520	(113,349)	(38,287)	(3,698)	832,754
Balance at June 30, 2008	$ 532	514,613	486,244	(128,977)	(37,578)	(6,296)	828,538
Comprehensive loss:							
Net loss			(77,468)				(77,468)
Change in funded status of retirement obligations, net of tax benefit of $120						(174)	(174)
Unrealized gain on securities available-for-sale, net of tax expense of $1,683						(2,721)	(2,721)
Reclassification adjustment for losses included in net loss						457	457
Total comprehensive loss							(79,906)
Purchase of treasury stock (82,827 shares)				(1,097)			(1,097)
Treasury stock allocated to restricted stock plan		(1,711)	(242)	1,953			
Compensation cost for stock options and restricted stock		5,269					5,269
ESOP shares allocated or committed to be released		286			709		995
Balance at December 31, 2008	$ 532	518,457	408,534	(128,121)	(36,869)	(8,734)	753,799

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,	
	2008	**2007**
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	$ (77,468)	6,015
Adjustments to reconcile net income to net cash used in operating activities:		
ESOP and stock-based compensation expense	6,264	5,719
Amortization of premiums and accretion of discounts on securities, net	258	575
Amortization of premium and accretion of fees and costs on loans, net	1,249	777
Provision for loan losses	13,000	1,949
Depreciation and amortization of office properties and equipment	1,005	1,453
Loss on securities, net	157,971	224
Mortgage loans originated for sale	(203,728)	(34,116)
Proceeds from mortgage loan sales	196,673	30,615
Gain on sales of mortgage loans, net	(66)	(232)
Increase in bank owned life insurance contract	(1,984)	(2,066)
Increase in accrued interest	(5,215)	(2,003)
Deferred tax benefit	(66,203)	(389)
Decrease (increase) in other assets	251	(430)
Increase (decrease) in other liabilities	6,485	(712)
Total adjustments	105,960	1,364
Net cash provided by operating activities	28,492	7,379
Cash flows from investing activities:		
Purchases of loans receivable	(822,110)	(346,336)
Net originations of loans receivable	(140,174)	(62,116)
Purchases of debt securities held-to-maturity		(10,000)
Mortgage-backed securities available-for-sale received in like-kind exchange	(3,911)	
Purchases of other investments available-for-sale	(100)	
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	95,436	121,515
Proceeds from calls/maturities on debt securities held-to-maturity	19,612	12,570
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	20,797	31,468
Redemption of equity securities available-for-sale	4,774	
Proceeds from redemptions of Federal Home Loan Bank stock	30,578	11,036
Purchases of Federal Home Loan Bank stock	(56,228)	(23,297)
Purchases of office properties and equipment	(4,805)	(2,174)

Net cash used in investing activities	(856,131)	(267,334)
Cash flows from financing activities:		
Net increase in deposits	262,363	123,486
Net decrease in funds borrowed under short-term repurchase agreements	(25,000)	(28,500)
Proceeds from funds borrowed under other repurchase agreements	55,000	395,000
Repayments of funds borrowed under other repurchase agreements	(120,000)	(50,000)
Net increase (decrease) in other borrowings	659,986	(144,015)
Net increase in advance payments by borrowers for taxes and insurance	256	141
Purchase of treasury stock	(1,097)	(42,376)
Net cash provided by financing activities	831,508	253,736
Net increase (decrease) in cash and cash equivalents	3,869	(6,219)
Cash and cash equivalents at beginning of the period	22,823	35,582
Cash and cash equivalents at end of the period	$ 26,692	29,363
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 98,126	105,341
Income taxes	8,815	2,194

See accompanying notes to consolidated financial statements.

Table of Contents

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Basis of Presentation

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

On June 6, 2008, the Company completed its merger of Summit Federal Bankshares, Inc. (Summit Federal). This transaction involved the combination of mutual enterprises and, therefore, was accounted for as a pooling of interests. All financial information has been restated to include amounts for Summit Federal, based on historical costs, for all periods presented.

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-month period ended December 31, 2008 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2009.

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 the Company s audited consolidated financial statements and notes to consolidated financial statements included in the Company s June 30, 2008 Annual Report on Form 10-K.

2. Mergers and Acquisitions

On December 15, 2008, the Company announced the signing of a definitive agreement under which the Company will acquire American Bancorp of New Jersey, a community bank with $622 million in assets, $448 million in deposits and five branches in Essex and Passaic Counties. The transaction is expected to close in the second calendar quarter of 2009, subject to customary closing conditions including regulatory approvals and approval by American Bancorp of New Jersey s shareholders.

3. Earnings Per Share

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

Table of Contents

	For the Three Months Ended December 31,					
	2008			2007		
	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Net (Loss) Income	$ (82,959)			$ 3,583		
Basic (loss) earnings per share:						
(Loss) income available to common stockholders	$ (82,959)	103,950,667	$ (0.80)	$ 3,583	105,909,100	$ 0.03
Effect of dilutive common stock equivalents					171,192	
Diluted earnings per share:						
(Loss) income available to common stockholders	$ (82,959)	103,950,667	n/a	$ 3,583	106,080,292	$ 0.03

	For the Six Months Ended December 31,					
	2008			2007		
	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Net (Loss) Income	$ (77,468)			$ 6,015		
Basic earnings per share:						
(Loss) income available to common stockholders	$ (77,468)	103,872,522	$ (0.75)	$ 6,015	106,359,599	$ 0.06
Effect of dilutive common stock equivalents					172,993	
Diluted earnings per share:						
(Loss) income available to common stockholders	$ (77,468)	103,872,522	n/a	$ 6,015	106,532,592	$ 0.06

Table of Contents

4. Securities Impairment

The Company recorded a $156.7 million pre-tax non-cash OTTI charge on our pooled bank trust preferred CDOs during the six months ended December 31, 2008. As a result of the charge, the securities have an amortized cost of $20.8 million. The Company has the ability and intent to hold these securities until their maturity, or recovery, and the majority of the securities are performing in accordance with contractual terms. However, the impairment was recognized as management does not believe that the securities market values will recover within the foreseeable future. These securities will continue to be classified as held-to-maturity. Additionally, during the six months ended December 31, 2008, the Company recorded a $456,000 pre-tax non-cash OTTI charge on the AMF Ultra Short Mortgage Fund (AMF), and $791,000 pre-tax charge on the redemption in kind of the AMF, a mutual fund acquired in the June 2008 merger with Summit Federal.

5. Loans Receivable, Net

Loans receivable, net are summarized as follows:

	December 31, 2008	June 30, 2008
	(In thousands)	
Residential mortgage loans	$ 4,699,758	4,009,563
Multi-family and commercial	455,468	225,154
Construction loans	301,915	260,177
Consumer and other loans	166,422	168,819
Total loans	5,623,563	4,663,713
Premiums on purchased loans, net	23,795	22,622
Deferred loan fees, net	(2,624)	(2,620)
Allowance for loan losses	(26,549)	(13,565)
Net loans	$ 5,618,185	4,670,150

6. Deposits

Deposits are summarized as follows:

	December 31, 2008	June 30, 2008
	(In thousands)	
Savings accounts	$ 393,053	417,196
Checking accounts	493,845	401,100
Money market accounts	279,305	229,018
Total core deposits	1,166,203	1,047,314
Certificates of deposit	3,066,435	2,922,961
	$ 4,232,638	3,970,275

7. Equity Incentive Plan

During the six months ended December 31, 2008, the Company recorded $5.3 million of share-based expense, comprised of stock option expense of $2.2 million and restricted stock expense of $3.1 million.

During the six months ended December 31, 2008, 365,000 options with an exercise price of $13.69 and a grant date fair value of $4.07 were granted and 7,500 options with an exercise price of $15.35 and a grant date fair value of $4.10 were forfeited. At December 31, 2008, 5,136,752 options, with a weighted average exercise price of $15.02 and a weighted average grant date fair value of $4.11, were outstanding, of which 3,368,792 were unvested. Expected future expense relating to the 3.4 million non-vested options outstanding as of December 31, 2008 is $12.3 million over a weighted average period of 3.23 years.

During the six months ended December 31, 2008, 125,000 shares of restricted stock with a grant date fair value of $13.69 were granted and 333,389 shares with a grant date fair value of $15.25 were vested. At December 31, 2008, 1,261,923 shares of restricted stock, with a weighted

Table of Contents

average grant date fair value of $14.89, are unvested. Expected future compensation expense relating to the 1.3 million restricted shares at December 31, 2008 is $16.6 million over a weighted average period of 4.0 years.

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. Effective December 31, 2006, the Company limited participation in the Directors plan to the then current participants and placed a cap on director s fees for plan purposes at the December 31, 2006 rate.

The Company also provided (i) postretirement health care benefits to retired employees hired prior to April 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retired employees. During the year ended June 30, 2008, the Company curtailed the benefits to current employees and settled its obligations to retired employees.

The components of net periodic benefit expense are as follows:

	Three months ended December 31,			
	SERP and Directors Plan		Other Benefits	
	2008	2007	2008	2007
	(In thousands)			
Service cost	$ 112	114	$	12
Interest cost	257	239	11	61
Amortization of:				
Transition obligation			8	19
Prior service cost	25	25		
Net loss	32	29	(3)	(3)
Total net periodic benefit expense	$ 426	407	$ 16	89

	Six months ended December 31,			
	SERP and Directors Plan		Other Benefits	
	2008	2007	2008	2007
	(In thousands)			
Service cost	$ 225	228	$	23
Interest cost	513	479	22	122
Amortization of:				
Transition obligation			17	38
Prior service cost	49	49		
Net loss	64	57	(7)	(5)
Total net periodic benefit expense	$ 851	813	$ 32	178

Due to the unfunded nature of these plans, no contributions are expected to be made to the SERP and Directors plans and other benefit plans in the fiscal year ending June 30, 2009.

The Company also maintains a defined benefit pension plan for eligible employees. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. The Company contributed $614,000 to the defined benefit pension plan during the first six months of fiscal year 2009. We anticipate contributing funds to the plan to meet any minimum funding requirements.

Summit Federal, at the time of merger, had a funded non-contributory defined benefit pension plan covering all eligible employees, an unfunded non-qualified defined benefit SERP for the benefit of certain key employees and a postretirement life insurance benefit plan for the benefit of key employees. At December 31, 2008, the pension plan, SERP plan and postretirement life insurance plan had an accrued liability of $840,000, $981,000 and $346,000, respectively. At December 31, 2008, the charges recognized in accumulated other comprehensive loss for the pension plan, the SERP plan and the postretirement life insurance plan were $1,228,000, $223,000 and $180,000, respectively. For the six months ended December 31, 2008 and 2007, the expense related to these plans was $175,000 and $104,000, respectively.

9. Income Taxes

Effective July 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48, which 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. FIN 48 prescribes 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Tax positions must meet the more-likely-than-not recognition threshold at the effective date in order for the related tax benefits to be recognized or continue to be recognized upon adoption of FIN 48. As a result of the adoption of FIN 48, the Company recognized a $300,000 decrease in the liability for unrecognized tax benefits, which was accounted for as an addition to the July 1, 2007, balance of retained earnings. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, where applicable, in income tax expense.

The Company files income tax returns in the United States federal jurisdiction and in the state of New Jersey jurisdiction. With few exceptions, we are no longer subject to federal and state income tax examinations by tax authorities for years prior to 2003. Currently, the Company is not under examination by any taxing authority.

10. Fair Value Measurements

Effective July 1, 2008, we adopted Statement of Financial Accounting Standards, or SFAS, No. 157 Fair Value Measurements and related interpretations, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures.

Table of Contents

The following disclosures, which include certain disclosures which are generally not required in interim period financial statements, are included herein as a result of our adoption of SFAS No. 157.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securites, mortgage servicing rights, or MSR, loans receivable and real estate owned, or REO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets. Additionally, in connection with our mortgage banking activities we have commitments to fund loans held for sale and commitments to sell loans, which are considered free-standing derivative instruments, the fair values of which are not material to our financial condition or results of operations.

In accordance with SFAS No. 157, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

Securities available-for-sale

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders equity. Approximately 99% of our securities available-for-sale portfolio consists of mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the majority of securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark

Table of Contents

yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The remaining 1% of our securities available-for-sale portfolio is comprised primarily of private fund investments for which the issuer provides us prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis at December 31, 2008.

	Carrying Value at December 31, 2008			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Securities available for sale:				
Mortgage-backed securities	$ 174,843		174,843	$
Equity securities	1,508		1,508	
	$ 176,351	$	$ 176,351	$

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

Securities held-to-maturity

Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the held-to-maturity portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. 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. For the six months ended December 31, 2008, the Company recognized an OTTI charge on our pooled trust preferred CDOs, for which level 2 was used as quoted prices in active markets for identical assets were not available.

Mortgage Servicing Rights, net

Mortgage Servicing Rights are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market s perception of future interest rate movements and, as such, are classified as Level 3.

Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an

Table of Contents

outstanding balance greater than $3.0 million and on non-accrual status. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.
The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at December 31, 2008.

	Carrying Value at December 31, 2008			
	Total	Level 1	Level 2	Level 3
		(In thousands)		
Securities held-to-maturity	$ 20,800	$	$ 20,800	$
MSR, net	961			961
Impaired loans	6,618			6,618
	$ 28,379	$	$ 20,800	$ 7,579

11. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No.141R, *Business Combinations.* SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. SFAS No. 141R applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS No. 141R, all business combinations will be accounted for by applying the acquisition method. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date. The Company does not expect that the adoption of SFAS No. 141R will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* SFAS No. 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS No. 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. The Company does not expect that the adoption of SFAS No. 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities . SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect that the adoption of SFAS No. 161 will have a material impact on its consolidated financial statements.

In June 2008, EITF 03-6-1 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect that the adoption of EITF 03-6-1 will have a material impact on its consolidated financial statements.

In January 2009, the FASB issued FASB Staff Position EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FASB Staff Position (FSP) amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. The FSP shall be effective for interim and annual reporting periods ending after December 15, 2008. The adoption did not have a material impact on the consolidated 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. 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 s fundamental business strategy is to be a well capitalized, full service community bank, providing high quality customer service and competitively priced products and services to individuals and businesses in the communities we serve. Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily time deposits, interest-bearing transaction accounts and borrowed funds. Net interest income is affected by the shape of the market yield curve, the timing of the placement and re-pricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rate on our mortgage-related assets.

The Company s results of operations are also significantly affected by general economic conditions. The financial services industry continues to face highly volatile and adverse economic conditions. The significant contributors to the disruptions include subprime mortgage lending, illiquidity in the capital and credit markets and the decline of real estate values. The U.S. government s attempts to respond to the crisis affecting the financial services industry has not, to date, stabilized U.S. financial markets. While the government indicates it will continue to support the financial services industry, it is difficult to determine how the various government programs will impact the banking industry.

During the quarter, the Company recognized a $152.8 million pre-tax, ($90.6 million after-tax, or $0.87 per share), non-cash other-than-temporary impairment (OTTI) charge related to our portfolio of pooled bank trust preferred collateralized debt obligations (CDOs). The portfolio is comprised of 31 securities whose book value of $173.6 million has been reduced to $20.8 million as a result of this charge. Since purchase, the Company had received all payments due under the contractual terms through September 30, 2008. For the quarter ended December 31, 2008 the Company received 98.5% of the contractual payments due. The Company continues to have the ability and intent to hold these securities until their maturity, or recovery. The impairment was recognized because the market value of these securities continued to decline during the quarter and we do not believe the market value of these securities will recover within the foreseeable future. While the accounting rules for other-than-temporary impairment requires us to recognize this non-cash charge, we believe that actual losses will be less than this non-cash charge. Despite this charge, the Company maintains a strong tangible capital ratio of 10.48% and is considered well capitalized under regulatory guidelines.

The Company announced during the quarter that after careful consideration, it decided not to participate in the Treasury Department s Capital Purchase Program which is part of the broader Troubled Asset Relief Program (TARP). In reaching this decision, the Company felt its strong capital position and conservative lending practices would allow it to continue originating loans to qualified individuals and businesses in its local market and navigate through this difficult economic environment. In addition, the Company s mutual holding company parent, Investors Bancorp MHC, currently owns approximately 60% of the Company s outstanding stock. The Company therefore has the ability to raise additional capital through a second step stock offering.

Given our strong capital position, we believe we are well positioned to deal with this economic uncertainty and take advantages of opportunities to enhance our franchise.

On December 15th, 2008 the Company announced the signing of a definitive agreement under which the Company will acquire American Bancorp of New Jersey, a community bank with $622 million in assets, $448 million in deposits and five branches in Essex and Passaic Counties. The transaction is expected to close in the second calendar quarter of 2009, subject to customary closing conditions including regulatory approvals and approval by American Bancorp of New Jersey s shareholders. American is a well managed financial institution that maintains a strong credit culture and will help to enhance our geographic presence in New Jersey.

During 2008 the Federal Reserve lowered the Fed Funds rate by over 400 basis points which helped to reduce the cost of our interest-bearing liabilities by 105 basis points. Our core deposits have grown for the period as we continue to focus on this aspect of our business. In addition, core deposits have increased as depositors searched for well capitalized banks amidst the turmoil surrounding a number of larger financial institutions in our market.

This disruption in the financial markets has created an opportunity for us to add more loans as many financial institutions have reduced or stopped lending. Total loans increased to $5.62 billion at December 31, 2008 from $4.66 billion at June 30, 2008, an increase of 20.6%. The majority of the growth came from residential mortgage loans which grew 17.2%, or $690.2 million to $4.70 billion. In order to diversify our loan portfolio we have continued our expansion into commercial real estate lending. During the three months ended December 31, 2008 commercial real estate, construction and multi-family loans increased $272.1 million or 56.1%. As a result of strong loan growth that exceeded the available cash flows from the investment, loan and deposit portfolios, borrowed funds increased $570.0 million, or 36.5%, to $2.13 billion at December 31, 2008 from $1.56 billion at June 30, 2008. As we add more loans to our balance sheet we remain focused on maintaining our historically strict underwriting standards. We have never originated or purchased, and our portfolio does not include, any sub-prime loans.

During the six months ended December 31, 2008, we recorded a $13.0 million provision for loan losses. As our loan portfolio continues to grow and we increase the amount of commercial real estate loans, we believe higher loans loss provisions are prudent and necessary especially in light of the current economic environment. It is difficult to determine how the economy will fare in 2009 as we are faced with the uncertainty surrounding rising unemployment in our lending area, specifically, the financial services sector. We will monitor our loan portfolio carefully and continue our practices of conservative loan underwriting. Our strong capital position will help us navigate this difficult and unprecedented environment.

Excluding OTTI charges, net income was $7.6 million and $15.6 million for the three month and six month periods ended December 31, 2008, respectively, compared to $3.6 million and $6.2 million for the three month and six month periods ended December 31, 2007, respectively.

Comparison of Financial Condition at December 31, 2008 and June 30, 2008

Total Assets. Total assets increased by $764.6 million, or 11.9%, to $7.18 billion at December 31, 2008 from $6.42 billion at June 30, 2008. This increase was largely the result of the growth in our loan portfolio partially offset by the decrease in our securities portfolio.

Net Loans. Net loans, including loans held for sale, increased by $955.2 million, or 20.4%, to $5.64 billion at December 31, 2008 from $4.68 billion at June 30, 2008. As many financial institutions have curtailed their lending operations, we have taken advantage of this opportunity to increase our loan portfolio without compromising our underwriting standards. The loans we originate and purchase are on properties in New Jersey and states in close proximity to New

Jersey. We do not originate or purchase and our loan portfolio does not include any sub-prime loans.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the six months ended December 31, 2008 we originated $217.9 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, 2008, we purchased loans totaling $542.5 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, 2008, we purchased $279.6 million of residential mortgage loans that met our underwriting criteria on a bulk purchase basis.

For the six months ended December 31, 2008, we originated $46.5 million in multi-family loans, $84.0 million commercial real estate loans and $89.6 million in construction loans. We also purchased $100.9 million of multi-family loans in the secondary market on a bulk purchase basis. This activity is consistent with our strategy to diversify our loan portfolio by adding more multi-family, commercial real estate and construction loans.

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, 2008 was $532.5 million compared to $450.0 million at June 30, 2008. 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 this criteria adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

The allowance for loan losses increased by $13.0 million to $26.5 million at December 31, 2008 from $13.6 million at June 30, 2008. Total non-performing loans, defined as non-accruing loans, were $47.8 million at December 31, 2008, $42.1 million at September 30, 2008 and $19.4 million at June 30, 2008. The majority of the increase from June 30, 2008 was the result of the previously disclosed $19.4 million multi-family loan to a New Jersey developer that was 30 days delinquent at June 30, 2008 and is now on non-accrual. Based on the current loan to value of approximately 55%, management believes that the probability of loss on this loan is low. Non-performing loans at December 31, 2008 are comprised of the following; 39 residential loans totaling $10.3 million; 5 multi-family and commercial loans totaling $20.4 million, which includes the $19.4 million loan described above; and 5 construction loans totaling $17.0 million that have specific reserves of $5.8 million. The ratio of non-performing loans to total loans was 0.85% at December 31, 2008, 0.79% at September 30, 2008 and 0.42% at June 30, 2008. The allowance for loan losses as a percentage of non-performing loans was 55.5% at December 31, 2008, 44.0% at September 30, 2008 and 70.0% at June 30, 2008. Our allowance for loan losses

as a percentage of total loans was 0.47% at December 31, 2008, 0.35% at September 30, 2008 and 0.29% at June 30, 2008.

In addition to non-performing loans we continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans about which we have concerns as to the ability of the borrower to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of December 31, 2008, the Company has three commercial real estate loans totaling $2.3 million and three construction loans totaling $23.9 million that it deemed potential problem loans. Four of the construction loans are current and two are 30 days delinquent. Management is actively monitoring these loans.

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

Securities. Securities, in the aggregate, decreased by $298.8 million, or 20.5%, to $1.16 billion at December 31, 2008, from $1.46 billion at June 30, 2008. The decrease is primarily the result of the Company writing-down the book value of pooled bank trust preferred CDOs through a $156.7 million pre-tax non-cash OTTI charge during the six months ended December 31, 2008. At June 30, 2008, the portfolio of pooled bank trust preferred CDOs contained securities with an amortized cost of $13.1 million which had an investment grade rating of AAA and $165.6 million with an investment grade rating of A. During the six month period ended December 31, 2008, Moody s rating agency downgraded a number of these securities. Based on the Moody s downgrades, the investment ratings as of December 31, 2008 were $5.8 million with an investment grade of AAA; $2.7 million with an investment grade of A; $3.6 million with an investment grade of BBB; and $8.7 million that are below investment grade. The impairment, which reduced the amortized cost of our portfolio of trust preferred CDOs to $20.8 million, was recognized as we do not believe that the securities market value will recover within the foreseeable future. The Company has the ability and intent to hold these securities until their maturity, or recovery, and the majority of the securities are performing in accordance with contractual terms. These securities will continue to be classified as held-to-maturity.

The securities portfolio also includes private label mortgage backed securities with an amortized cost of $190.7 million and a fair value of $173.8 million. Of these securities, $189.2 million in amortized cost, $172.2 million in fair value, are currently AAA rated and were originated in the period 2002-2004 and are performing in accordance with contractual terms. Given the decline in market value, several securities were evaluated for OTTI and management has determined that they are not OTTI at December 31, 2008. The decrease in fair value for these securities is attributed to changes in market interest rates. The remaining private label securities were received in the AMF redemption-in-kind exchange during the period ended December 31, 2008 and recorded at market value. The Company will continue to closely monitor the private label mortgage backed securities portfolio for other-than-temporary impairment which could result in a future non-cash charge to earnings.

As part of the merger with Summit Federal in June 2008, we acquired a $6.0 million mutual fund investment in AMF, which was deemed OTTI and was written down to fair value through pre-tax charges totaling $651,000 during the year ended June 30, 2008. The Company recorded an

additional $456,000, pre-tax non-cash OTTI charge during the six months ended December 31, 2008. Management decided to liquidate this investment upon completion of the merger and had received $500,000 in cash liquidations through September 30, 2008, which represented the maximum allowable cash redemption by the asset manager for that time period. With the continued deterioration in the net asset value of AMF, management exercised a redemption-in-kind option available to shareholders. The redemption-in-kind allowed the Company to redeem its remaining shares in AMF for its pro-rata share of the underlying securities and cash. The Company received securities, primarily agency and private label mortgage-backed securities, totaling $3.9 million and $613,000 in cash. The securities were recorded at market value resulting in an additional $791,000 pre-tax charge related to the exchange.

Net Deferred Tax Asset. Net deferred tax asset increased by $68.0 million from $40.7 million at June 30, 2008 to $108.7 million at December 31, 2008 which is primarily attributed to the tax benefit recorded as a result of the OTTI charge on our pooled bank trust preferred CDOs. Based on current facts and circumstances, the Company believes that it is more likely than not that the net deferred tax asset will be realized.

Stock in the Federal Home Loan Bank, Bank Owned Life Insurance and Other Assets. The amount of stock we own in the Federal Home Loan Bank (FHLB) increased by $25.7 million from $60.9 million at June 30, 2008 to $86.6 million at December 31, 2008 as a result of an increase in our level of borrowings at December 31, 2008. There was also an increase in accrued interest receivable of $5.2 million resulting from an increase in the average balance of our interest-earning assets. Additionally, bank owned life insurance increased by $2.0 million from $96.2 million at June 30, 2008 to $98.2 million at December 31, 2008.

Deposits. Deposits increased by $262.4 million, or 6.6%, to $4.23 billion at December 31, 2008 from $3.97 billion at June 30, 2008. Certificates of deposits, checking account deposits, and money market account deposits increased by $143.5 million, $92.7 million and $50.3 million, respectively. These increases were partially offset by a $24.1 million decrease in savings account deposits.

Borrowed Funds. Borrowed funds increased $570.0 million, or 36.5%, to $2.13 billion at December 31, 2008 from $1.56 billion at June 30, 2008. We utilized wholesale borrowings to fund a portion of our loan growth because of the lower rates available in the wholesale markets.

Stockholders Equity. Stockholders equity decreased $74.7 million to $753.8 million at December 31, 2008 from $828.5 million at June 30, 2008 primarily due to net loss of $77.5 million for the six months ended December 31, 2008. The decrease was partially offset by an increase in additional paid-in capital for compensation costs associated with stock options and restricted stock.

Average Balance Sheets for the Three Months ended December 31, 2008 and 2007

The following table presents certain information regarding Investors Bancorp, Inc. s financial condition and net interest income for the three and six months ended December 31, 2008 and 2007. The table presents 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.

Table of Contents

	For the three months ended					
	December 31, 2008			December 31, 2007		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-bearing deposits	$ 19,933	$ 7	0.14%	$ 26,501	$ 275	4.15%
Securities available-for-sale(1)	191,193	2,177	4.55%	240,958	2,769	4.60%
Securities held-to-maturity	1,175,931	13,405	4.56%	1,488,856	18,038	4.85%
Net loans	5,540,867	78,291	5.65%	3,974,934	57,185	5.75%
Stock in FHLB	88,496	619	2.80%	46,032	804	6.99%
Total interest-earning assets	7,016,420	94,499	5.39%	5,777,281	79,071	5.47%
Non-interest earning assets	195,093			187,257		
Total assets	$ 7,211,513			$ 5,964,538		
Interest-bearing Liabilities:						
Savings	$ 389,446	$ 1,778	1.83%	$ 343,742	$ 1,703	1.98%
Interest-bearing checking	379,846	1,469	1.55%	346,898	1,890	2.18%
Money market accounts	298,300	1,805	2.42%	207,385	1,425	2.75%
Certificates of deposit	3,023,602	26,876	3.56%	2,925,555	35,040	4.79%
Borrowed funds	2,174,374	19,663	3.62%	1,201,523	14,424	4.80%
Total interest-bearing liabilities	6,265,568	51,591	3.29%	5,025,103	54,482	4.34%
Non-interest bearing liabilities	117,845			103,950		
Total liabilities	6,383,413			5,129,053		
Stockholders equity	828,100			835,485		
Total liabilities and stockholders equity	$ 7,211,513			$ 5,964,538		
Net interest income		$ 42,908			$ 24,589	
Net interest rate spread(2)			2.10%			1.13%

Net interest earning assets(3)	$ 750,852		$ 752,178	
Net interest margin(4)		2.45%		1.70%
Ratio of interest-earning assets to total interest-bearing liabilities	1.12X		1.15X	

17

Table of Contents

	For Six Months Ended					
	December 31, 2008			December 31, 2007		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-bearing deposits	$ 19,221	$ 39	0.41%	$ 26,361	$ 556	4.22%
Securities available-for-sale (1)	196,848	4,491	4.56%	249,060	5,729	4.60%
Securities held-to-maturity	1,203,268	27,222	4.52%	1,521,984	36,849	4.84%
Net loans	5,241,754	148,771	5.68%	3,864,190	110,657	5.73%
Stock in FHLB	79,496	1,424	3.58%	42,856	1,400	6.53%
Total interest-earning assets	6,740,587	181,947	5.40%	5,704,451	155,191	5.44%
Non-interest-earning assets	191,168			184,999		
Total assets	$ 6,931,755			$ 5,889,450		
Interest-bearing liabilities:						
Savings	$ 395,448	$ 3,650	1.85%	$ 347,864	$ 3,587	2.06%
Interest-bearing checking	371,200	2,842	1.53%	358,039	4,351	2.43%
Money market accounts	265,074	3,024	2.28%	197,475	2,664	2.70%
Certificates of deposit	2,968,288	53,421	3.60%	2,883,144	69,209	4.80%
Borrowed funds	1,990,807	37,362	3.75%	1,160,360	28,527	4.92%
Total interest-bearing liabilities	5,990,817	100,299	3.35%	4,946,882	108,338	4.38%
Non-interest-bearing liabilities	114,409			104,371		
Total liabilities	6,105,226			5,051,253		
Stockholders equity	826,529			838,197		
Total liabilities and stockholders equity	$ 6,931,755			$ 5,889,450		
Net interest income		$ 81,648			$ 46,853	

Net interest rate spread (2)		2.05%		1.06%
Net interest-earning assets (3)	$ 749,770		$ 757,569	
Net interest margin (4)		2.42%		1.64%
Ratio of interest-earning assets to total interest-bearing liabilities	1.13X		1.15X	

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

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

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

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

assets.

Table of Contents

Comparison of Operating Results for the Three Months Ended December 31, 2008 and 2007

Net Income. The Company incurred a net loss of $83.0 million for the three months ended December 31, 2008 compared to net income of $3.6 million for the three months ended December 31, 2007. Basic loss per share was $0.80 for the three months ended December 31, 2008 compared to basic and diluted earnings of $0.03 per share for the three months ended December 31, 2007.

The Company recognized a $152.8 million pre-tax, ($90.6 million after-tax, or $0.87 per share), non-cash OTTI charge for the three months ended December 31, 2008 related to our portfolio of pooled bank trust preferred CDOs. The portfolio is comprised of 31 securities whose book value of $173.6 million has been reduced to $20.8 million as a result of this charge. Since purchase, the Company had received all payments due under the contractual terms through September 30, 2008. For the quarter ended December 31, 2008 the Company received 98.5% of the contractual payments due. The Company continues to have the ability and intent to hold these securities until their maturity, or recovery.

The impairment was recognized because the market value of these securities continued to decline during the quarter and we do not believe the market value of these securities will recover within the foreseeable future. While following the accounting rules for other-than-temporary impairment requires us to take this non-cash charge, we believe that actual losses will be less than this non-cash charge.

Net Interest Income. Our net interest margin for the three months and six months ended December 31, 2008 was positively impacted by the Federal Reserve lowering the Fed Funds rate by over 400 basis points during the last year. This resulted in a steeper yield curve which allowed us to borrow money at lower rates and reduce deposit rates while keeping mortgage rates relatively stable.

Net interest income increased by $18.3 million, or 74.5%, to $42.9 million for the three months ended December 31, 2008 from $24.6 million for the three months ended December 31, 2007. The increase was caused primarily by a 105 basis point decrease in our cost of interest-bearing liabilities to 3.29% for the three months ended December 31, 2008 from 4.34% for the three months ended December 31, 2007. This was partially offset by an 8 basis point decrease in our yield on interest-earning assets to 5.39% for the three months ended December 31, 2008 from 5.47% for the three months ended December 31, 2007. Our net interest margin improved by 75 basis points from 1.70% for the three months ended December 31, 2007 to 2.45% for the three months ended December 31, 2008.

Interest and Dividend Income. Total interest and dividend income increased by $15.4 million, or 19.5%, to $94.5 million for the three months ended December 31, 2008 from $79.1 million for the three months ended December 31, 2007. This increase is attributed to the average balance of interest-earning assets increasing $1.24 billion, or 21.4%, to $7.02 billion for the three months ended December 31, 2008 from $5.78 billion for the three months ended December 31, 2007. This was partially offset by an 8 basis point decrease in the weighted average yield on interest-earning assets to 5.39% for the three months ended December 31, 2008 compared to 5.47% for the three months ended December 31, 2007.

Table of Contents

Interest income on loans increased by $21.1 million, or 36.9%, to $78.3 million for the three months ended December 31, 2008 from $57.2 million for the three months ended December 31, 2007, reflecting a $1.57 billion, or 39.4%, increase in the average balance of net loans to $5.54 billion for the three months ended December 31, 2008 from $3.97 billion for the three months ended December 31, 2007. The average yield on loans decreased 10 basis points to 5.65% for the three months ended December 31, 2008 from 5.75% for the three months ended December 31, 2007.

Interest income on all other interest-earning assets, excluding loans, decreased by $5.7 million, or 25.9%, to $16.2 million for the three months ended December 31, 2008 from $21.9 million for the three months ended December 31, 2007. This decrease reflected a $326.8 million decrease in the average balance of all other interest-earning assets, excluding loans, and a 47 basis point decrease in the average yield on all other interest-earning assets, excluding loans, to 4.39% for the three months ended December 31, 2008 from 4.86% for the three months ended December 31, 2007.

Interest Expense. Total interest expense decreased by $2.9 million, or 5.3%, to $51.6 million for the three months ended December 31, 2008 from $54.5 million for the three months ended December 31, 2007. This decrease was due to the weighted average cost of total interest-bearing liabilities decreasing 105 basis points to 3.29% for the three months ended December 31, 2008 compared to 4.34% for the three months ended December 31, 2007. This was partially offset by the average balance of total interest-bearing liabilities increasing by $1.24 billion, or 24.7%, to $6.27 billion for the three months ended December 31, 2008 from $5.03 billion for the three months ended December 31, 2007.

Interest expense on interest-bearing deposits decreased $8.1 million, or 20.3% to $31.9 million for the three months ended December 31, 2008 from $40.1 million for the three months ended December 31, 2007. This decrease was due to a 107 basis point decrease in the average cost of interest-bearing deposits to 3.12% for the three months ended December 31, 2008 from 4.19% for the three months ended December 31, 2007. This was partially offset by the average balance of interest-bearing deposits increasing $267.6 million, or 7.0% to $4.09 billion for the three months ended December 31, 2008 from $3.82 billion for the three months ended December 31, 2007.

Interest expense on borrowed funds increased by $5.2 million, or 36.3%, to $19.7 million for the three months ended December 31, 2008 from $14.4 million for the three months ended December 31, 2007. This increase is due to the average balance of borrowed funds increasing by $972.9 million or 81.0%, to $2.17 billion for the three months ended December 31, 2008 from $1.20 billion for the three months ended December 31, 2007. This was partially offset by the average cost of borrowed funds decreasing 118 basis points to 3.62% for the three months ended December 31, 2008 from 4.80% for the three months ended December 31, 2007.

Provision for Loan Losses. Our provision for loan losses was $8.0 million for the three month period ended December 31, 2008 compared to $1.8 million for the three month period ended December 31, 2007. For the three months ended December 31, 2008, net charge-offs totaled $14,000 compared to net charge-offs of $4,000 for the three months ended December 31, 2007. The increase in our provision is due to continued growth in the loan portfolio; an additional $2.0 million specific reserve on a previously disclosed $11.0 million impaired loan; the increased

inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in loan delinquency and non-performing loans; and the adverse economic conditions in our lending area. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at December 31, 2008 and June 30, 2008.*

Non-interest Income. Total non-interest income decreased by $154.2 million to a loss of $152.0 million for the three months ended December 31, 2008 from income of $2.2 million for the three months ended December 31, 2007. The decrease was primarily the result of a $152.8 million pre-tax non-cash OTTI charge recognized on our pooled bank trust preferred CDOs for the three months ended December 31, 2008. Due to a lack of liquidity in the market and the prolonged broker price deterioration for these securities, we do not believe the market value of these securities will recover within the foreseeable future. Additionally, during the three months ended December 31, 2008 we took an additional $791,000 pre-tax charge on the redemption in kind of the AMF, a mutual fund acquired in the June 2008 merger with Summit Federal.

Non-interest Expenses. Total non-interest expenses increased by $3.5 million, or 18.2%, to $22.8 million for the three months ended December 31, 2008 from $19.3 million for the three months ended December 31, 2007. Included in the prior year quarter was a $2.3 million gain recognized from the curtailment and settlement of our postretirement benefit obligation. Excluding this item, the net increase of $1.2 million is attributed to Federal deposit insurance premiums increasing by $564,000 as we exhausted our FDIC One-Time Assessment Credit; compensation and fringe benefits increasing as a result of staff additions in our commercial real estate, retail banking areas and our mortgage company as well as equity incentive plan expense increasing for grants made during 2008; and the cost associated with opening a new branch.

Income Taxes. Income tax benefit was $57.0 million for the three months ended December 31, 2008 representing an effective tax benefit rate of 40.7% for the period. The benefit is primarily the result of the OTTI charge taken on our pooled trust preferred securities which is described above. There was an income tax expense of $2.1 million for the three months ended December 31, 2007.

Comparison of Operating Results for the Six Months Ended December 31, 2008 and 2007

Net Income. The Company incurred a net loss for the six months ended December 31, 2008 of $77.5 million compared to net income of $6.0 million for the six months ended December 31, 2007. Basic loss per share was $0.75 for the six months ended December 31, 2008 compared to basic and diluted earnings of $0.06 per share for the six months ended December 31, 2007. For the six month period ended December 31, 2008, the Company recorded OTTI charges of $156.7 million on the pooled trust preferred CDOs and $456,000 on the AMF. See discussion of securities and the OTTI charge in *Comparison of Financial Condition at December 31, 2008 and June 30, 2008.*

Net Interest Income. Net interest income increased by $34.8 million, or 74.3%, to $81.6 million for the six months ended December 31, 2008 from $46.9 million for the six months ended December 31, 2007. The increase was caused primarily by a 103 basis point decrease in our cost of interest-bearing liabilities to 3.35% for the six months ended December 31, 2008 from 4.38% for the six months ended December 31, 2007. This was partially offset by a 4 basis point decrease in our yield on interest-earning assets to 5.40% for the six months ended December 31, 2008 from 5.44% for the six months ended December 31, 2007. Our net interest margin

improved by 78 basis points from 1.64% for the six months ended December 31, 2007 to 2.42% for the six months ended December 31, 2008.

Our net interest margin for the three months and six months ended December 31, 2008 was positively impacted by the Federal Reserve lowering the Fed Funds rate by over 400 basis points during the last year. This resulted in a steeper yield curve which allowed us to borrow money at lower rates and reduce deposit rates while keeping mortgage rates relatively stable.

Interest and Dividend Income. Total interest and dividend income increased by $26.8 million, or 17.2%, to $181.9 million for the six months ended December 31, 2008 from $155.2 million for the six months ended December 31, 2007. This increase is due to the average balance of interest-earning assets increasing $1.04 billion, or 18.2%, to $6.74 billion for the six months ended December 31, 2008 from $5.70 billion for the six months ended December 31, 2007. This was partially offset by a 4 basis point decrease in the weighted average yield on interest-earning assets to 5.40% for the six months ended December 31, 2008 compared to 5.44% for the six months ended December 31, 2007.

Interest income on loans increased by $38.1 million, or 34.4%, to $148.8 million for the six months ended December 31, 2008 from $110.7 million for the six months ended December 31, 2007, reflecting a $1.38 billion, or 35.6%, increase in the average balance of net loans to $5.24 billion for the six months ended December 31, 2008 from $3.86 billion for the six months ended December 31, 2007. The average yield on loans decreased 5 basis points to 5.68% for the six months ended December 31, 2008 from 5.73% for the six months ended December 31, 2007.

Interest income on all other interest-earning assets, excluding loans, decreased by $11.4 million, or 25.5%, to $33.2 million for the six months ended December 31, 2008 from $44.5 million for the six months ended December 31, 2007. This decrease reflected a $341.4 million decrease in the average balance of all other interest-earning assets and a 41 basis point decrease in the average yield on all other interest-earning assets, excluding loans, to 4.43% for the six months ended December 31, 2008 from 4.84% for the six months ended December 31, 2007.

Interest Expense Total interest expense decreased by $8.0 million, or 7.4%, to $100.3 million for the six months ended December 31, 2008 from $108.3 million for the six months ended December 31, 2007. This decrease was due to the weighted average cost of total interest-bearing liabilities decreasing 103 basis points to 3.35% for the six months ended December 31, 2008 compared to 4.38% for the six months ended December 31, 2007. This was partially offset by the average balance of total interest-bearing liabilities increasing by $1.04 billion, or 21.1%, to $5.99 billion for the six months ended December 31, 2008 from $4.95 billion for the six months ended December 31, 2007.

Interest expense on interest-bearing deposits decreased $16.9 million, or 21.1% to $62.9 million for the six months ended December 31, 2008 from $79.8 million for the six months ended December 31, 2007. This decrease was due to a 107 basis point decrease in the average cost of interest-bearing deposits to 3.15% for the six months ended December 31, 2008 from 4.22% for the six months ended December 31, 2007. This was partially offset by the average balance of interest-bearing deposits increasing $213.5 million, or 5.64% to $4.00 billion for the six months ended December 31, 2008 from $3.79 billion for the six months ended December 31, 2007.

Interest expense on borrowed funds increased by $8.8 million, or 31.0%, to $37.4 million for the six months ended December 31, 2008 from $28.5 million for the six months ended December 31, 2007. This increase is attributed to the average balance of borrowed funds increasing by $830.4 million or 71.6%, to $1.99 billion for the six months ended December 31, 2008 from $1.16 billion for the six months ended December 31, 2007. This was partially offset by the average cost of borrowed funds decreasing 117 basis points to 3.75% for the six months ended December 31, 2008 from 4.92% for the six months ended December 31, 2007.

Provision for Loan Losses Our provision for loan losses was $13.0 million for the six month period ended December 31, 2008 compared to $1.9 million for the six month period ended December 31, 2007. For the six months ended December 31, 2008, net charge-offs totaled $17,000 compared to net charge-offs of $8,000 for the six months ended December 31, 2007. The increase in our provision is due to continued growth in the loan portfolio; an additional $3.0 million specific reserve on a previously disclosed $11.0 million impaired loan; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in loan delinquency and non-performing loans; and the adverse economic conditions in our lending area. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at December 31, 2008 and June 30, 2008.*

Non-interest Income. Total non-interest income decreased by $158.1 million to a loss of $154.3 million for the six months ended December 31, 2008 from income of $3.8 million for the six months ended December 31, 2007. The decrease was primarily the result of a $156.7 million pre-tax non-cash OTTI charge recognized on our pooled bank trust preferred CDO for the six months ended December 31, 2008. Due to a lack of liquidity in the market and the prolonged broker price deterioration for these securities, we do not believe the market value of these securities will recover within the foreseeable future. Additionally, during the six months ended December 31, 2008 we took an additional $456,000 pre-tax non-cash OTTI charge on the AMF and $791,000 pre-tax charge on the redemption in kind of the AMF, a mutual fund acquired in the June 2008 merger with Summit Federal.

Non-interest Expenses. Total non-interest expenses increased by $5.7 million, or 14.5%, to $45.2 million for the six months ended December 31, 2008 from $39.5 million for the six months ended December 31, 2007. Included in the prior year quarter was a $2.3 million gain recognized from the curtailment and settlement of our postretirement benefit obligation. Excluding this item, the net increase of $3.4 million is attributed to Federal deposit insurance premiums increasing by $1.1 million as we exhausted our FDIC One-Time Assessment Credit; compensation and fringe benefits increasing as a result of staff additions in our commercial real estate, retail banking areas and our mortgage company as well as equity incentive plan expense increasing for grants made during 2008; the cost associated with opening a new branch; and additional advertising expense to increase our exposure and promote our deposit and loan growth initiatives.

Income Taxes. Income tax benefit was $53.3 million for the six months ended December 31, 2008 representing a 40.8% effective tax benefit rate for the period. The benefit is primarily the result of the OTTI charge taken on our pooled trust preferred securities which is described above. For the six months ended December 31, 2007 there was an income tax expense of $3.2 million.

Table of Contents

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 additional borrowing capacity from the FHLB and other correspondent banks.

At December 31, 2008 the Company had $93.0 million in overnight borrowings outstanding compared to $88.0 million of outstanding overnight borrowings at June 30, 2008. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company had total borrowings of $2.13 billion at December 31, 2008, an increase from $1.56 billion at June 30, 2008. This increase was primarily the result of strong loan growth that exceeded the available cash flows from the investment and deposit portfolios.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At December 31, 2008, outstanding commitments to originate loans totaled $187.5 million; outstanding unused lines of credit totaled $326.8 million; standby letters of credit totaled $2.7 million and outstanding commitments to sell loans totaled $59.6 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 $2.64 billion at December 31, 2008. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The Board of Directors approved a third share repurchase program at their January 2008 meeting, which authorizes the repurchase of an additional 10% of the Company s outstanding common stock. The third share repurchase program commenced upon completion of the second program on May 7, 2008. Under this program, up to 10% of its publicly-held outstanding shares of common stock, or 4,307,248 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, 2008, the Company repurchased 82,827 shares of its common stock. Under the current share repurchase program, 3,514,617 shares remain available for repurchase. As of December 31, 2008, a total of 10,896,052 shares have been purchased under Board authorized share repurchase programs, of which 1,928,701 shares were allocated to fund the restricted stock portion of the Company s 2006 Equity Incentive Plan. The remaining shares are held for general corporate use.

As of December 31, 2008 Investors Savings Bank and Investors Bancorp, Inc. exceeded all regulatory capital requirements as follows:

Table of Contents

	As of December 31, 2008			
	Actual		Required	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total capital (to risk-weighted assets)	$677,938	17.4%	$312,635	8.0%
Tier I capital (to risk-weighted assets)	651,389	16.7	156,317	4.0
Tier I capital (to average assets)	651,389	9.0	288,285	4.0

As of December 31, 2008, Investors Bancorp, Inc had total capital to risk-weighted assets of 20.1%, Tier I capital to risk-weighted assets of 19.4% and Tier I to average assets of 10.6%.

Off-Balance Sheet Arrangements and Contractual Obligations

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

The following table shows the contractual obligations of the Company by expected payment period as of December 31, 2008:

Contractual Obligations	Total	Less than One Year	One-Two Years	Two-Three Years	More than Three Years
Debt obligations (excluding capitalized leases)	$2,133,569	613,000	355,000	520,000	645,569
Commitments to originate and purchase loans	$ 187,538	187,538			
Commitments to sell loans	$ 59,645	59,645			

Additionally, at December 31, 2008, the Company s commitments to fund unused lines of credit totaled $326.8 million.

Debt obligations include borrowings from the FHLB and other borrowings. The borrowings have defined terms and, under certain circumstances, $790.0 million of the borrowings are callable at the option of the lender.

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

In addition to the contractual obligations previously discussed, we have other liabilities and capitalized and operating lease obligations. These contractual obligations as of December 31, 2008 have not changed significantly from June 30, 2008.

On December 15, 2008, the Company announced the signing of a definitive agreement under which the Company will acquire American Bancorp of New Jersey. The transaction is expected to close in the second calendar quarter of 2009, subject to customary closing conditions including regulatory approvals and approval by American Bancorp of New Jersey s shareholders.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in our 2008 Annual Report on Form 10-K.

Critical Accounting Policies

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

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

The allowance for loan losses has been determined in accordance with U.S. generally accepted accounting principles, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $3.0 million and on non-accrual status. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company s definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

On a quarterly basis, management s Allowance for Loan Loss Committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a

Table of Contents

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

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

Deferred Income Taxes. The Company records income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized

Table of Contents

in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

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

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary.

Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. Management is required to use a significant degree of judgment when the valuation of investments includes inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations.

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

If it is determined that the value of any security has declined below its cost or amortized cost, and 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. During the six months ended December 31, 2008, we recorded a $156.7 million, pre-tax, non-cash, other-than-temporary impairment charge on our pooled bank trust preferred securities classified as held to maturity.

Table of Contents

Stock-Based Compensation. We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with SFAS No. 123(R).

We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

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

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. Historically, our lending activities have emphasized one- to four-family fixed- and variable-rate first mortgages. Our variable-rate mortgage related assets have helped to reduce our exposure to interest rate fluctuations and is expected to benefit our long-term profitability, as

the rate earned in the mortgage loans will increase as prevailing market rates increase. However, the current interest rate environment, and the preferences of our customers, has resulted in more of a demand for fixed-rate products. This may adversely impact our net interest income, particularly in a rising rate environment. To help manage our interest rate risk, we have increased our focus on the origination of commercial real estate mortgage loans and adjustable-rate construction loans.

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 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 gradually. 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 but does not necessarily provide an accurate indicator of interest rate risk because the assumptions used in the analysis may not reflect the actual response to market changes.

Quantitative Analysis. The table below sets forth, as of December 31, 2008 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 a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points or increase of greater than 200 basis points.

Table of Contents

Change in Interest Rates (basis points)	Net Portfolio Value (1),(2)			Net Interest Income (3)		
	Estimated NPV	Estimated Increase (Decrease)		Estimated Net Interest Income	Increase (Decrease) in Estimated Net Interest Income	
		Amount	Percent		Amount	Percent
	(Dollars in thousands)					
+200bp	$445,790	$(264,989)	(37.3)%	$167,548	$(10,573)	(5.9)%
0bp	$710,779			$178,121		
-100bp	$751,563	$ 40,784	5.7%	$182,112	$ 3,991	2.2%

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

(2) Assumes an instantaneous uniform change in interest rates at all maturities.

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

The table set forth above indicates at December 31, 2008 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 37.3% decrease in NPV and a $10.6 million or 5.9% decrease in annual net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 5.7% increase in NPV and a $4.0 million or 2.2% increase in annual net interest income. This 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.

Table of Contents

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 have materially affected, or are 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

The risks set forth below, in addition to the other risks described in this quarterly report, represent material changes from those risk factors previously disclosed in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on August 22, 2008, and may adversely affect our business, financial condition and operating results. In addition to the risks set forth below and the other risks described in this quarterly report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Our Expenses Will Increase as a Result of Increases in FDIC Insurance Premiums

The Federal Deposit Insurance Corporation (FDIC) imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and ranges from 5 to 43 basis points of the institution s deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects it to do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund s reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at March 31, 2008. As a result of this reduced reserve ratio, on October 7, 2008, the FDIC adopted a restoration plan that would restore the reserve ratios to its required level. The proposed rule would raise the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009.

Table of Contents

Under the proposed rule, the FDIC would first establish an institution s initial base assessment rate. This initial base assessment rate would range, depending on the risk category of the institution, from 10 to 45 basis points. The FDIC would then adjust the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate would be based upon an institution s levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate would range from 8 to 77.5 basis points of the institution s deposits. The FDIC is implementing the proposed rule starting in January 2009.

The Emergency Economic Stabilization Act of 2008 (EESA) temporarily increased the limit on FDIC insurance coverage for deposits to $250,000 through December 31, 2009, In addition, the FDIC announced the Temporary Liquidity Guarantee (TLG) Program. The TLG Program covers two programs: 1.) Transaction Account Guarantee Program and the 2.) Debt Guarantee Program. The Company has elected to participate in the Transaction Account Guarantee Program, which will increase the insurance coverage for the following deposit accounts in excess of $250,000: all non-interested bearing accounts, NOW accounts (as long as the interest rate paid is equal to or below 50 basis points) and IOLTA accounts. The cost of the program to the Company will be 10 basis points annualized and the expiration of the program is December 31, 2009.

These actions will significantly increase the Company s non-interest expense in 2009 and in future years as long as the increased premiums are in place.

If Our Investment in the Federal Home Loan Bank of New York is Classified as Other-Than-Temporarily Impaired or as Permanently Impaired, Our Earnings and Stockholders Equity Could Decrease

We own common stock of the Federal Home Loan Bank of New York (FHLB-NY). We hold the FHLB-NY common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB-NY s advance program. The aggregate cost and fair value of our FHLB-NY common stock as of December 31, 2008 was $86.6 million based on its par value. There is no market for our FHLB-NY common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB-NY, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLB-NY common stock could be deemed other-than-temporarily impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders equity to decrease by the after-tax amount of the impairment charge.

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 2009 and the stock repurchase plan approved by our Board of Directors.

Period	Total Number of Shares Purchased	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 (1)
October 1, 2008 through October 31, 2008		$		3,597,444
November 1, 2008 through November 30, 2008	40,927	12.48	40,927	3,556,517
December 1, 2008 through December 31, 2008	41,900	14.00	41,900	3,514,617

Total	82,827	$ 13.25	82,827

(1) On January 22, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares. This stock repurchase program commenced upon the completion of the second program on May 7, 2008. This program has no expiration date and has 3,514,617 shares yet to be purchased as of December 31, 2008.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

3.1	Certificate of Incorporation of Investors Bancorp, Inc.*
3.2	Bylaws of Investors Bancorp, Inc.*
4	Form of Common Stock Certificate of Investors Bancorp, Inc.*
10.1	Form of Employment Agreement between Investors Bancorp, Inc. and certain executive officers*
10.2	Form of Change in Control Agreement between Investors Bancorp, Inc. and certain executive officers *
10.3	Investors Savings Bank Director Retirement Plan*
10.4	Investors Savings Bank Supplemental Retirement Plan*
10.5	Investors Bancorp, Inc. Supplemental Wage Replacement Plan*
10.6	Executive Officer Annual Incentive 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)

** Filed as Appendix A to the Company s

definitive proxy statement with the Securities and Exchange Commission of September 26, 2008.

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, 2009	/s/ Kevin Cummings Kevin Cummings President and Chief Executive Officer (Principal Executive Officer)
Dated: February 9, 2009	/s/ Thomas F. Splaine, Jr. Thomas F. Splaine, Jr. Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

35