Investors Bancorp Inc
Form 10-K
March 01, 2010

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SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
Washington, D.C. 20549
Form 10-K

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

For the Six Months Ended December 31, 2009

or

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

For the transition period from July 1, 2009 to December 31, 2009

Commission File No. 000-51557

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 Number)*
101 JFK Parkway, Short Hills, New Jersey	**07078**
(Address of Principal Executive Offices)	*Zip Code*

(973) 924-5100

(Registrant s telephone number)

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

Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**
(Title of Class)	***(Name of each exchange on which registered)***

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. Yes þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of February 22, 2010, the registrant had 118,020,280 shares of common stock, par value $0.01 per share, issued and 114,408,388 shares outstanding, of which 64,844,373 shares, or 56.68%, were held by Investors Bancorp, MHC, the registrant s mutual holding company.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2009, as reported by the NASDAQ Global Select Market, was approximately $458.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2010 Annual Meeting of Stockholders of the Registrant (Part III).

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PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

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

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

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

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

As used in this Form 10-K, we, us and our refer to Investors Bancorp, Inc. and its consolidated subsidiaries, principally Investors Savings Bank.

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PART I

ITEM 1. BUSINESS

Investors Bancorp, Inc.

Investors Bancorp, Inc. (the Company) is a Delaware corporation that was organized on January 21, 1997 for the purpose of being a holding company for Investors Savings Bank (the Bank), a New Jersey chartered savings bank. On October 11, 2005, the Company completed its initial public stock offering in which it sold 51,627,094 shares, or 44.40% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by the Investors Savings Bank Employee Stock Ownership Plan (the ESOP). Upon completion of the initial public offering, Investors Bancorp, MHC (the MHC), the Company s New Jersey chartered mutual holding company parent, held 63,099,781 shares, or 54.27% of the Company s outstanding common stock. Additionally, the Company contributed $5,163,000 in cash and issued 1,548,813 shares of common stock, or 1.33% of its outstanding shares, to the Investors Savings Bank Charitable Foundation.

Since the formation of the Company in 1997, our primary business has been that of holding the common stock of the Bank and since our stock offering, a loan to the ESOP. Investors Bancorp, Inc., as the holding company of Investors Savings Bank, is authorized to pursue other business activities permitted by applicable laws and regulations for bank holding companies.

Our cash flow depends on dividends received from Investors Savings Bank. Investors Bancorp, Inc. neither owns nor leases any property, but instead uses the premises, equipment and furniture of Investors Savings Bank. At the present time, we employ as officers only certain persons who are also officers of Investors Savings Bank and we use the support staff of Investors Savings Bank from time to time. These persons are not separately compensated by Investors Bancorp, Inc. Investors Bancorp, Inc. may hire additional employees, as appropriate, to the extent it expands its business in the future.

On October 16, 2009, the Company completed the acquisition of six New Jersey bank branches and approximately $227.0 million of deposits from Banco Popular North America. The Company did not purchase any loans as part of the transaction. The transaction generated approximately $4.9 million in goodwill.

On May 31, 2009, the Company completed the acquisition of American Bancorp of New Jersey, Inc. (American Bancorp), the holding company of American Bank of New Jersey (American Bank), a federal savings bank with approximately $680.0 million in assets and five full-service branches in northern New Jersey. The acquisition was accounted for under the purchase method of accounting as prescribed by Accounting Standard Codification (ASC) 805, Business Combinations, as amended. Accordingly, American Bancorp s results of operations have been included in the Company s results of operations since the date of acquisition. Under this method of accounting, the purchase price is allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired is recorded as goodwill. The purchase price of $98.2 million was paid through a combination of the Company s common stock (6,503,897 shares) and cash of $47.5 million. The transaction generated approximately $17.6 million in goodwill and $3.9 million in core deposit intangibles subject to amortization beginning June 1, 2009. American Bank was merged into the Bank as of the acquisition date.

On June 6, 2008, Investors Bancorp, MHC, the Company s New Jersey chartered mutual holding Company, completed its merger of Summit Federal Bankshares, MHC, a federally chartered mutual holding company. The merger was a combination of mutual enterprises and therefore was accounted for using the pooling-of-interests method. All financial information prior to the merger date has been restated to include amounts for Summit Federal for all periods presented. At the merger date, Summit Federal had assets of $110.0 million and five full service branches in northern New Jersey. The effect of the merger on the Company s consolidated financial condition and results of operations was immaterial. In connection with the merger, the Company, as required by the Office of Thrift Supervision (OTS) which regulated Summit Federal, issued 1,744,592 additional shares of its common stock to Investors Bancorp, MHC.

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Investors Savings Bank

General

Investors Savings Bank is a New Jersey-chartered savings bank headquartered in Short Hills, New Jersey. Originally founded in 1926 as a New Jersey-chartered mutual savings and loan association, we have grown through acquisitions and internal growth, including de novo branching. In 1992, we converted our charter to a mutual savings bank, and in 1997 we converted our charter to a New Jersey-chartered stock savings bank. We conduct business from our main office located at 101 JFK Parkway, Short Hills, New Jersey, and 65 branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey. The telephone number at our main office is (973) 924-5100. At December 31, 2009, our assets totaled $8.36 billion and our deposits totaled $5.84 billion.

We are in the business of attracting deposits from the public through our branch network and borrowing funds in the wholesale markets to originate loans and to invest in securities. We originate mortgage loans secured by one- to four-family residential real estate and consumer loans, the majority of which are home equity loans and home equity lines of credit. In recent years, we expanded our lending activities to include commercial real estate, construction, multi-family loans and more recently commercial and industrial loans. Securities, primarily U.S. Government and Federal Agency obligations, mortgage-backed and other securities represent a large but declining percentage of our assets. We offer a variety of deposit accounts and emphasize exceptional customer service. Investors Savings Bank is subject to comprehensive regulation and examination by both the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation and we are subject to regulations as a bank holding company by the Federal Reserve Board.

Our results of operations are dependent primarily on our net interest income, which is the difference between the interest earned on our assets, primarily our loan and securities portfolios, and the interest paid on our deposits and borrowings. Our net income is also affected by our provision for loan losses, non-interest income, non-interest expense and income tax expense. Non-interest income includes fees and service charges; income from bank owned life insurance, or BOLI; net gain on sales of mortgage loans; net loss on securities; and other income. Non-interest expense consists of compensation and benefits expense; advertising and promotional expense; office occupancy and equipment expense; federal deposit insurance premiums; stationary, printing, supplies and telephone expense; professional fees; data processing fees; and other operating expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

Market Area

We are headquartered in Short Hills, New Jersey, and our primary deposit gathering area is concentrated in the communities surrounding our headquarters and our 65 branch offices located in the communities of Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey. Our primary lending area is broader than our deposit-gathering area and includes 14 counties in New Jersey. The economy in our primary market area has benefited from being varied and diverse. It is largely urban and suburban with a broad economic base as is typical for counties surrounding the New York metropolitan area. As one of the wealthiest states in the nation, New Jersey, with a population of 8.8 million, is considered one of the most attractive banking markets in the United States. The December 2009 unemployment rate for New Jersey of 9.8% was slightly lower than the national rate of 10.0%.

Many of the counties we serve are projected to experience strong to moderate population and household income growth through 2014. Though slower population growth is projected for some of the counties we serve, it is important to note that these counties are some of the most densely populated in the state. All of the counties we serve have a strong mature market with median household incomes greater than $56,000. The household incomes in the counties we serve are all expected to increase in a range from 5.1% to 11.6% through 2014.

Competition

We face intense competition within our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. As of June 30, 2009, the latest date for which statistics are available, our market share of deposits was 2.4% of total deposits in the State of New Jersey.

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Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

Our principal lending activity continues to be the origination and purchase of mortgage loans collateralized by residential real estate. Residential mortgage loans represented $4.77 billion, or 71.76% of our total loans at December 31, 2009. At December 31, 2009, commercial real estate totaled $730.0 million, or 10.97% of our total loan portfolio, multi-family loans totaled $612.7 million, or 9.21% of our total loan portfolio and construction loans totaled $334.5 million, or 5.03% of our total loan portfolio. We also offer consumer loans, which consist primarily of home equity loans and home equity lines of credit. At December 31, 2009, consumer loans totaled $178.2 million or 2.68% of our total loan portfolio. In 2008, we began to offer commercial and industrial (C&I) loans which totaled $23.2 million at December 31, 2009.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan, at the dates indicated.

December 31,		At June 30,								
2009		2009		2008		2007		2006		20
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
(Dollars in thousands)										
$ 4,756,042	71.50%	$ 4,690,335	76.00%	$ 3,989,334	85.54%	$ 3,159,484	87.51%	$ 2,669,726	89.49%	$ 1,874,95
17,514	0.26	18,564	0.30	20,229	0.43	22,624	0.63	24,928	0.84	34,00
4,773,556	71.76	4,708,899	76.30	4,009,563	85.97	3,182,108	88.14	2,694,654	90.33	1,908,96
612,743	9.21	482,783	7.82	82,711	1.77	40,066	1.11	10,936	0.37	10,87
730,012	10.97	433,204	7.02	142,396	3.06	69,282	1.92	68,087	2.28	8,39
334,480	5.03	346,967	5.62	260,177	5.58	153,420	4.25	66,209	2.22	7,06
23,159	0.35	15,665	0.25	47	0.00					
104,864	1.58	119,193	1.93	139,587	2.99	139,524	3.86	113,572	3.80	45,59
70,341	1.06	61,664	1.00	27,270	0.59	23,927	0.66	28,063	0.94	38,34
2,972	0.04	3,341	0.06	1,962	0.04	1,993	0.06	1,721	0.06	1,33
178,177	2.68	184,198	2.99	168,819	3.62	165,444	4.58	143,356	4.80	85,27
$ 6,652,127	100.00%	$ 6,171,716	100.00%	$ 4,663,713	100.00%	$ 3,610,320	100.00%	$ 2,983,242	100.00%	$ 2,020,57
22,958		21,313		22,622		23,587		20,327		14,11
(4,574)		(3,252)		(2,620)		(1,958)		(1,765)		(91
(55,052)		(46,608)		(13,565)		(6,951)		(6,369)		(5,72

$ 6,615,459	$ 6,143,169	$ 4,670,150	$ 3,624,998	$ 2,995,435	$ 2,028,04

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2009. Overdraft loans are reported as being due in one year or less.

	At December 31, 2009						
	Residential Mortgage	**Multi-Family**	**Commercial**	**Construction Loans**	**Commercial and Industrial loans**	**Consumer and Other Loans**	**Total**
			(In thousands)				
Amounts Due:							
One year or less	$ 740	731	4,316	257,270	16,740	1,186	280,983
After one year:							
One to three years	1,487	12,641	9,397	47,655	1,207	3,169	75,556
Three to five years	21,545	158,789	229,705	5,481	2,809	6,267	424,596
Five to ten years	184,434	372,404	430,713	17,004	1,025	36,001	1,041,581
Ten to twenty years	573,722	59,038	41,716	5,470	1,378	77,478	758,802
Over twenty years	3,991,628	9,140	14,165	1,600		54,076	4,070,609
Total due after one year	4,772,816	612,012	725,696	77,210	6,419	176,991	6,371,144
Total loans	$ 4,773,556	612,743	730,012	334,480	23,159	178,177	6,652,127
Premiums on purchased loans, net							22,958
Deferred loan fees, net							(4,574)
Allowance for loan losses							(55,052)
Net loans							$ 6,615,459

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The following table sets forth fixed- and adjustable-rate loans at December 31, 2009 that are contractually due after December 31, 2010.

	Due After December 31, 2010		
	Fixed	Adjustable	Total
		(In thousands)	
Residential mortgage loans	2,681,257	2,091,559	4,772,816
Multi-family	252,060	359,952	612,012
Commercial	559,696	166,000	725,696
Construction loans	13,576	63,634	77,210
Commercial and industrial	6,160	259	6,419
Consumer and other loans:			
Home equity loans	104,458		104,458
Home equity credit lines		69,574	69,574
Other	2,959		2,959
Total consumer and other loans	107,417	69,574	176,991
Total loans	$ 3,620,166	$ 2,750,978	$ 6,371,144

Residential Mortgage Loans. Currently, our primary lending activity is originating and purchasing residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At December 31, 2009, $4.77 billion, or 71.76%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, ISB Mortgage Company LLC (ISB Mortgage), for our loan portfolio and for sale to third parties. Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property to a maximum loan amount of $750,000. Loans over $750,000 require a lower loan to value ratio. Loans in excess of 80% of value require private mortgage insurance and cannot exceed $500,000. We will not make loans with a loan-to-value ratio in excess of 95% or 97% for programs to low or moderate-income borrowers. Fixed-rate mortgage loans are originated for terms of up to 30 years. Generally, all fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. At December 31, 2009, we held $2.68 billion in fixed-rate residential mortgage loans which represented 56.2% of our residential mortgage loan portfolio.

We also offer adjustable-rate residential mortgage loans, which adjust annually after three, five, seven or ten year initial fixed-rate periods. Our adjustable rate loans usually adjust to an index plus a margin, based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one year. Annual caps of 2% per adjustment apply, with a lifetime maximum adjustment of 5% on most loans. Our adjustable-rate mortgage loans amortize over terms of up to 30 years. In addition, we originate interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s contractually required payments due to the required amortization of the principal amount after the interest-only period. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. Borrowers are qualified using the loan rate at the date of origination and the fully amortized payment amount.

Adjustable-rate mortgage loans decrease the Bank s risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates or a decline in housing values. The maximum periodic and lifetime interest rate adjustments may limit the effectiveness of adjustable-rate mortgages during periods of rapidly rising interest rates. At December 31, 2009, we held $2.09 billion of adjustable-rate residential mortgage loans, of which $560.7 million were interest-only one-to four-family mortgages. Adjustable-rate residential mortgage loans represented 43.8% of our residential mortgage loan portfolio.

To provide financing for low-and moderate-income home buyers, we also offer various loan programs some of which include down payment assistance for home purchases. Through these programs, qualified individuals receive a reduced rate of interest on most of our loan programs and have their application fee refunded at closing, as well as other incentives if certain conditions are met. In addition, if private mortgage insurance is required, a lower percentage of coverage is obtained, which will help lower their monthly carrying cost.

All residential mortgage loans we originate include a due-on-sale clause, which gives us the right to declare a loan immediately due and payable if the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance on properties securing real estate loans.

Multi-family and Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, we offer mortgages on multi-family and commercial real estate properties. At December 31, 2009, $612.7 million, or 9.21%, of our total loan portfolio was multi-family and $730.0 million or 10.97% of our total loan portfolio was commercial real estate loans. Our policy generally has been to originate multi-family and commercial real estate loans in New Jersey and surrounding states. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. The multi-family and commercial real estate loans in our portfolio consist of both fixed rate and adjustable rate loans which were originated at prevailing market rates. Multi-family and commercial real estate loans are generally five to fifteen year term balloon loans amortized over fifteen to thirty years. The maximum loan-to-value ratio is 70% for our commercial real estate loans and 75% for multi-family loans. At December 31, 2009, our largest commercial real estate loan was $30.0 million and is on a fully leased industrial warehouse and distribution center. Our largest multi-family loan was $29.0 million and is on a thirteen story apartment building with 193 apartments and 19 commercial rental units in New Jersey.

We consider a number of factors when we originate multi-family and commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower s experience in owning or managing similar property and the borrower s payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure it is at least 120% of the monthly debt service for apartment buildings and 130% for commercial income-producing properties. All commercial real estate loans are appraised by outside independent appraisers who have been approved by our Board of Directors. Personal guarantees are obtained from commercial real estate borrowers although we will consider waiving this requirement based upon the loan-to-value ratio of the proposed loan and other factors. All borrowers are required to obtain title, fire and casualty insurance and, if warranted, flood insurance.

Loans secured by commercial real estate generally are larger than residential mortgage loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, management annually evaluates the performance of all commercial loans in excess of $1.0 million.

Construction Loans. In April 2005, we began to offer loans directly to builders and developers on income properties and residential for-sale housing units. At December 31, 2009, we held $334.5 million in construction loans representing 5.03% of our total loan portfolio. Construction loans are originated through our commercial lending department. If the loan applicant meets our criteria, we issue a letter of intent listing the terms and conditions of any potential loan. Primarily we offer adjustable-rate residential construction loans which can be structured with an option for permanent mortgage financing once the construction is completed. Generally, construction loans will be structured to be repaid over a three-year period and generally will be made in amounts of up to 70% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on inspections in accordance with a schedule reflecting the completion of portions of the project. Construction financing for sold units requires an executed sales contract.

Construction loans generally involve a greater degree of credit risk than residential mortgage loans. The risk of loss on a construction loan depends on the accuracy of the initial estimate of the property s value when the construction is completed compared to the estimated cost of construction. For all loans, we use outside independent appraisers approved by our Board of Directors. We require all borrowers to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance. A detailed plan and cost review by an outside engineering firm is required on loans in excess of $2.5 million.

At December 31, 2009, the Bank s largest construction loan was a $19.1 million note on a town home project in New Jersey. The loan had an outstanding balance at December 31, 2009 of $13.7 million and was performing in accordance with contractual terms.

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Commercial and Industrial Loans. In May 2008 we began offering commercial and industrial loans. These loans include term loans, lines of credit and owner occupied commercial real estate loans. These loans are generally secured by real estate or business assets and include personal guarantees. The loan to value limit is 75% and businesses will typically have at least a 2 year history. At December 31, 2009, $23.2 million, or 0.35%, of our loan portfolio consisted of these types of loans.

Consumer Loans. We offer consumer loans, most of which consist of home equity loans and home equity lines of credit. Home equity loans and home equity lines of credit are secured by residences located in New Jersey. At December 31, 2009, consumer loans totaled $178.2 million or 2.68% of our total loan portfolio. The underwriting standards we use for home equity loans and home equity lines of credit include a determination of the applicant s credit history, an assessment of the applicant s ability to meet existing credit obligations, the payment on the proposed loan and the value of the collateral securing the loan. The combined (first and second mortgage liens) loan-to-value ratio for home equity loans and home equity lines of credit is generally limited to 80%. Home equity loans are offered with fixed rates of interest, terms up to 30 years and to a maximum of $500,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in *The Wall Street Journal*.

Loan Originations, Purchases, Sales and Servicing of Loans. Residential mortgage loans are originated through our mortgage subsidiary, ISB Mortgage. During the six month period ended December 31, 2009 we originated $359.1 million in residential mortgage loans to be held in our portfolio. We also originate multi-family, commercial real estate construction and C&I loans. During the six month period ended December 31, 2009, we originated $301.6 million in commercial real estate loans, $148.4 million in multi-family, $56.3 million in construction loans, $14.6 million in C&I loans, and $34.3 million in consumer and other loans. As part of our strategic plan to increase our loan portfolio, we retain most of the loans we originate, although ISB Mortgage also sells loans without recourse in the secondary market when the loans it originates do not meet the criteria of our lending policies or for other reasons. During fiscal 2008 we began to retain a portion of the servicing rights pertaining to loans sold in the secondary market. If we are successful in continuing to increase the size of our loan portfolio, we may consider selling more of our residential loan originations in the future. We originate both adjustable-rate and fixed-rate loans and our ability to originate and purchase adjustable-rate or fixed-rate loans depends on customer demand for such loans, which is affected by, among other factors, the current and expected future levels of market interest rates.

We also purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements call for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases we acquire the loans with servicing rights, but we have some arrangements in which the correspondent entity will sell us the loan without servicing rights. During the six month period ended December 31, 2009, we purchased $428.6 million of loans from these correspondent entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. While some of these financial institutions retain the servicing rights for loans they sell to us, when presented with the opportunity to purchase the servicing rights as part of the loan, we may decide to purchase the servicing rights. This decision is generally based on the price and other relevant factors. During the six month period ended December 31, 2009, we purchased $23.7 million of loans on a bulk purchase basis.

In addition, during the six month period ended December 31, 2009, we originated $288.6 million of residential loans to be held-for-sale. During the six month period ended December 31, 2009, we sold $323.3 million of loans from our held-for-sale portfolio, resulting in a $2.6 million gain on sale.

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

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	At December 31,		At June 30,		
	2009	2008	2009	2008	2007
		(Unaudited)			
			(In thousands)		
Loan originations and purchases:					
Loan originations:					
Residential mortgage loans:					
One- to four-family	$ 359,118	$ 217,618	$ 407,381	$ 284,386	$ 159,100
FHA		244	244	483	
Total residential mortgage loans	359,118	217,862	407,625	284,869	159,100
Multi-family	148,386	46,519	145,521	139,995	36,862
Commercial	301,603	87,059	221,964		
Construction loans	56,275	89,564	127,631	174,110	116,250
Commercial and industrial	14,637		9,961		
Consumer and other loans:					
Home equity loans	6,251	9,872	14,562	34,039	49,214
Home equity credit lines	26,018	12,144	32,190	21,759	18,442
Other	2,012	1,861	3,698	2,749	2,852
Total consumer and other loans	34,281	23,877	50,450	58,547	70,508
Total loan originations	914,300	464,879	963,152	657,521	382,720
Loan purchases:					
Residential mortgage loans:					
One- to four-family	452,295	720,922	1,063,616	995,753	665,166
FHA		274	274	567	
Multi-family		100,914	200,914		
Total loan purchases	452,295	822,110	1,264,804	996,320	665,166
Loan principal repayments	(882,200)	(324,721)	(1,190,114)	(599,547)	(415,886)
Other items, net(1)	(12,105)	(14,232)	(35,598)	(9,142)	(2,436)
Net loans acquired in acquisition			470,775		
Net increase in loan portfolio	$ 472,290	$ 948,036	$ 1,473,019	$ 1,045,152	$ 629,564

(1) Other items include charge-offs, loan loss provisions, loans transferred to other real

estate owned,
and
amortization
and accretion of
deferred fees
and costs and
discounts and
premiums.

We have purchased a significant amount of loans in the prior three years as a means of accomplishing our strategic goal of shifting assets from securities to loans. In future periods, the extent to which we will purchase loans will depend primarily on the volume of originations from our mortgage subsidiary, ISB Mortgage, and the success of our commercial real estate lending operations.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. In the approval process for residential loans we assess the borrower s ability to repay the loan and the value of the property securing the loan. To assess the borrower s ability to repay, we review the borrower s income and expenses and employment and credit history. In the case of commercial real estate loans we also review projected income, expenses and the viability of the project being financed. We generally require appraisals of all real property securing loans, except for home equity loans and home equity lines of credit, in which case we may use the tax-assessed value of the property securing such loan or a lesser form of valuation, by an approved appraisal company (such as drive-by value estimate). Appraisals are performed by independent licensed appraisers who are approved by our Board of Directors. We require borrowers, except for home equity loans and home equity lines of credit, to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance in amounts at least equal to the principal amount of the loan or the maximum amount available.

Our loan approval policies and limits are also established by our Board of Directors. All residential mortgage loans including home equity loans and home equity lines of credit up to $100,000 may be approved by loan underwriters, provided the loan meets all of our underwriting guidelines. If the loan does not meet all of our underwriting guidelines, but can be considered for approval because of other compensating factors, the loan must be approved by an authorized member of management. Residential mortgage loans in excess of $100,000 and up to $750,000 must be approved by an authorized member of management. Residential mortgage loans in excess of $750,000 and up to $1.25 million must be approved by any two authorized members of management. Residential mortgage loans in excess of $1.25 million must be approved by three authorized members of management, one of whom must be the Chief Executive Officer, Chief Operating Officer, Chief Lending Officer or Chief Financial Officer.

All commercial real estate, multi-family and construction loans in an amount up to $1,000,000 may be approved by the Chief Lending Officer except for loans for which he is the originating loan officer. These loans will require approval of the Chief Executive Officer, Chief Operating Officer or Chief Financial Officer. All commercial real estate loan requests in excess of $1,000,000 must be approved by the Commercial Real Estate Loan Committee, consisting of the Chief Executive Officer, Chief Operating Officer, Chief Lending Officer, Chief Financial Officer and an authorized manager of Loan Originations and Loan Servicing and the Executive Vice President of Retail Administration.

All business loans in an amount up to $1,000,000 may be approved by the Manager of the Business Lending Department and the Chief Lending Officer. All loans in excess of $1,000,000 may be approved by the Manager of the Business Lending Department, the Chief Lending Officer and either the Chief Executive Officer or Chief Operating Officer of the Bank. All commercial real estate loans in excess of $2,000,000 require Commercial Loan Committee approval.

Loans to One Borrower. The Bank s regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of unimpaired capital and surplus. As of December 31, 2009, the regulatory lending limit was $113.5 million. The Bank s internal policy limit is $50.0 million, with the option to exceed that limit with the Board of Directors approval, on total loans to a borrower or related borrowers. The Bank reviews these group exposures on a monthly basis. The Bank also sets additional limits on size of loans by loan type. At December 31, 2009, the Bank s largest relationship with an individual borrower and its related entities was $58.0 million, consisting of three commercial real estate loans on properties located in the State of New Jersey. This relationship was approved by the Board of Directors and was performing in accordance with its terms and conditions as of December 31, 2009.

Asset Quality

One of the Bank s key operating objectives has been, and continues to be, maintaining a high level of asset quality. The Bank maintains sound credit standards for new loan originations and purchases. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. In addition, the Bank uses proactive collection and workout processes in dealing with delinquent and problem loans.

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

Collection Procedures. We send system-generated reminder notices to start collection efforts when a loan becomes fifteen days past due. Subsequent late charge and delinquency notices are sent and the account is monitored on a regular basis thereafter. Direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. We provide the Board of Directors with a summary report of loans 30 days or more past due on a monthly basis. When a loan is more than 60 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. Loans are placed on non-accrual status when they are 90 days delinquent, but may be placed on non-accrual status earlier if the timely collection of principal and/or income is doubtful. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and additional income is recognized in the period collected unless the ultimate collection of principal is considered doubtful. If our effort to cure the delinquency fails and a repayment plan is not in place, the file is referred to counsel for commencement of foreclosure or other collection efforts. We also own loans serviced by other entities and we monitor delinquencies on such loans using reports the servicers send to us. When we receive these past due reports, we review the data and contact the servicer to discuss the specific loans and the status of the collection process. We add the information from the servicer s delinquent loan reports to our own delinquent reports and provide a full summary report monthly to our Board of

Directors.

Our collection procedure for non mortgage related consumer and other loans includes sending periodic late notices to a borrower once a loan is past due. We attempt to make direct contact with the borrower once a loan becomes 30 days past due. The Collection Manager reviews loans 60 days or more delinquent on a regular basis. If collection activity is unsuccessful after 90 days, we may refer the matter to our legal counsel for further collection efforts or we may charge-off the loan. Non real estate related consumer loans that are considered uncollectible are proposed for charge-off by the Collection Manager on a monthly basis.

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Delinquent Loans. The following table sets forth our loan delinquencies by type and by amount at the dates indicated.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At December 31, 2009						
Residential mortgage loans:						
One- to four-family	47	$ 13,273	143	$ 47,582	190	$ 60,855
FHA	4	384	19	2,507	23	2,891
Total residential mortgage loans	51	13,657	162	50,089	213	63,746
Multi-family			4	553	4	553
Commercial			10	3,417	10	3,417
Construction loans	4	30,556	20	41,968	24	72,524
Commercial and industrial	3	734			3	734
Consumer and other loans:						
Home equity loans			4	81	4	81
Home equity credit lines	5	191	11	1,074	16	1,265
Other	7	7	8	11	15	18
Total consumer and other loans	12	198	23	1,166	35	1,364
Total	70	$ 45,145	219	$ 97,193	289	$ 142,338
At June 30, 2009						
Residential mortgage loans:						
One- to four-family	30	$ 8,165	82	$ 27,837	112	$ 36,002
FHA	6	721	15	1,904	21	2,625
Total residential mortgage loans	36	8,886	97	29,741	133	38,627
Multi-family	1	181	6	20,074	7	20,255
Commercial	3	784	6	2,820	9	3,604
Construction loans	3	11,263	17	58,550	20	69,813
Commercial and industrial						
Consumer and other loans:						
Home equity loans	1	2	2	60	3	62
Home equity credit lines	4	659	3	150	7	809
Other	4	4	10	15	14	19
Total consumer and other loans	9	665	15	225	24	890
Total	52	$ 21,779	141	$ 111,410	193	$ 133,189

At June 30, 2008						
Residential mortgage loans:						
One- to four-family	8	$ 1,608	18	$ 5,060	26	$ 6,668
FHA	1	66	15	1,631	16	1,697
Total residential mortgage loans	9	1,674	33	6,691	42	8,365
Multi-family and commercial			4	1,600	4	1,600
Construction loans	1	10,960			1	10,960
Consumer and other loans:						
Home equity loans			3	88	3	88
Home equity credit lines			1	30	1	30
Other	2	2	2	2	4	4
Total consumer and other loans	2	2	6	120	8	122
Total	12	$ 12,636	43	$ 8,411	55	$ 21,047
At June 30, 2007						
Residential mortgage loans:						
One- to four-family	7	$ 628	12	$ 2,220	19	$ 2,848
FHA	2	263	14	1,300	16	1,563
Total residential mortgage loans	9	891	26	3,520	35	4,411
Multi-family and commercial	1	579	3	452	4	1,031
Construction loans			1	1,146	1	1,146
Consumer and other loans:						
Home equity loans	1	7	1	28	2	35
Home equity credit lines	3	88			3	88
Other	1	1	4	3	5	4
Total consumer and other loans	5	96	5	31	10	127
Total	15	$ 1,566	35	$ 5,149	50	$ 6,715

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Non-Performing Assets. Non-performing assets include non-accrual loans, mortgage loans delinquent 90 days or more and still accruing interest and real estate owned, or REO. We did not have any mortgage loans delinquent 90 days or more and still accruing interest or REO at December 31, 2009. At December 31, 2009, the Company moved an $11.5 million construction loan that was 60 days delinquent to non-performing status. Non-performing loans decreased $1.5 million to $120.2 million at December 31, 2009, from $121.7 million at June 30, 2009. The decrease in non-performing loans was attributed to the sale of a previously disclosed $19.4 million multi-family loan for $1.8 million gain and $15.0 million in loan charge-offs. Although we have resolved a number of non-performing loans, the continued deterioration of the housing and real estate markets, as well as the overall weakness in the economy, continue to impact our non-performing loans. As a geographically concentrated residential lender, we have been affected by negative consequences arising from the ongoing economic recession and, in particular, the sharp downturn in the housing industry, as well as economic and housing industry weaknesses in the New Jersey/New York metropolitan area. We are particularly vulnerable to the impact of a severe job loss recession. We continue to closely monitor the local and regional real estate markets and other factors related to risks inherent in our loan portfolio. The ratio of non-performing loans to total loans decreased to 1.81% at December 31, 2009, from 1.97% at June 30, 2009. Our ratio of non-performing assets to total assets decreased to 1.44% at December 31, 2009, from 1.50% at June 30, 2009. The allowance for loan losses as a percentage of total non-performing loans increased to 45.80% at December 31, 2009, from 38.30% at June 30, 2009. For further discussion of our non-performing assets and non-performing loans and the allowance for loan losses, see Item 6, Managements Discussion and Analysis of Financial Condition and Results of Operations.

The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At each date, we had no troubled debt restructurings (such as loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates).

	December 31, 2009(1)	June 30, 2009(2)	2008(3)	2007	2006	2005
			(Dollars in thousands)			
Non-accrual loans:						
Residential mortgage loans:						
One- to four-family	$ 47,582	$ 27,837	$ 5,060	$ 2,220	$ 1,346	$ 3,237
FHA	2,507	1,904	1,631	1,300	1,440	3,825
Total residential mortgage loans	50,089	29,741	6,691	3,520	2,786	7,062
Multi-family and commercial	3,970	22,894	1,600	452	477	608
Construction loans	64,968	68,826	10,960	1,146		
Commercial and industrial						
Consumer and other loans:						
Home equity loans	81	60	88	28	6	193
Home equity credit lines	1,074	150	30		30	
Other	11	15	2	3		2
Total consumer and other loans	1,166	225	120	31	36	195
Total	120,193	121,686	19,371	5,149	3,299	7,865

Total non-performing loans	120,193	121,686	19,371	5,149	3,299	7,865
Real estate owned						
Total non-performing assets	$ 120,193	$ 121,686	$ 19,371	$ 5,149	$ 3,299	$ 7,865
Total non-performing loans to total loans	1.81%	1.97%	0.42%	0.14%	0.11%	0.39%
Total non-performing loans to total assets	1.44%	1.50%	0.30%	0.09%	0.06%	0.15%
Total non-performing assets to total assets	1.44%	1.50%	0.30%	0.09%	0.06%	0.15%

(1) An $11.5 million construction loan that is 60-89 days delinquent at December 31, 2009 is classified as non-performing.

(2) Two construction loans totaling $10.3 million are 60-89 days delinquent at June 30, 2009 are classified as non-performing.

(3) An $11.0 million construction loan that is 60-89 days delinquent at June 30, 2008 is classified as non-performing.

For the six month period ended December 31, 2009, interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to $2.3 million.

Real Estate Owned. Real estate we acquire as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired it is recorded at fair market value at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value result in charges to expense after acquisition. At

December 31, 2009, June 30, 2009 and 2008, we held no real estate owned.

Classified Assets. Federal regulations provide that loans and other assets of lesser quality should be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the curren net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered un-collectible and of such little value their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as special mention if the asset has a potential weakness that warrants management s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset.

We are required to establish an allowance for loan losses in an amount that management considers prudent for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When we classify problem assets as loss, we are required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation, which can require that we establish additional general or specific loss allowances.

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

Impaired Loans. The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. Loans we individually classify as impaired include commercial real estate, multi-family or construction loans with an outstanding balance greater than $3.0 million and on non-accrual status. Impaired loans are individually assessed to determine that the loan s carrying value is not in excess of the fair value of the collateral or the present value of the expected future cash flows. A valuation allowance is established when it is determined there is a shortfall. At December 31, 2009, loans meeting the Company s definition of an impaired loan totaled $48.4 million. The allowance for loan losses related to loans classified as impaired at December 31, 2009, amounted to $8.9 million. Interest income received during the six month period ended December 31, 2009 on loans classified as impaired was $680,000. For further detail on our impaired loans, see Note 1 and Note 5 of Notes to Consolidated Financial Statements in Item 7, Financial Statements and Supplementary Data.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. In determining the allowance for loan losses, management considers the losses inherent in our loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. A description of our methodology in establishing our allowance for loan losses is set forth in the section Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Allowance for Loan Losses. The allowance for loan losses as of December 31, 2009 was maintained at a level that represents management s best estimate of losses inherent in the loan portfolio. However, this analysis process is subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

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

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

	Six months Ended December 31, 2009	2008 (Unaudited)	At or for the Years Ended June 30, 2009	2008	2007	2006	2005
	(Dollars in thousands)						
Allowance balance (beginning of period)	$ 46,608	$ 13,565	$ 13,565	$ 6,951	$ 6,369	$ 5,723	$ 5,218
Provision for loan losses	23,425	13,000	29,025	6,646	729	600	604
Charge-offs:							
Residential mortgage loans							
One- to four-family	1,587	13		18			3
FHA	4		14		141	143	108
Total residential mortgage loans	1,591	13	14	18	141	143	111
Multi-family and commercial loans							
Construction loans	13,411						
Commercial & industrial loans							
Consumer and other loans	23	3	11	15	10	10	14
Total charge-offs	15,025	16	25	33	151	153	125
Recoveries:							
Residential mortgage loans							
One- to four-family							25
FHA	44					196	
Total residential mortgage loans	44					196	25
Multi-family and commercial loans							

Construction loans							
Commercial & industrial loans							
Consumer and other loans				1	4	3	1
Total recoveries	44			1	4	199	26
Net (charge-offs) recoveries	(14,981)	(16)	(25)	(32)	(147)	46	(99)
Allowance acquired in acquisition			4,043				
Allowance balance (end of period)	$ 55,052	$ 26,549	$ 46,608	$ 13,565	$ 6,951	$ 6,369	$ 5,723
Total loans outstanding	$ 6,652,127	$ 5,623,563	$ 6,171,716	$ 4,663,713	$ 3,610,320	$ 2,983,242	$ 2,020,571
Average loans outstanding	6,370,350	5,241,754	5,482,009	4,043,398	3,305,807	2,462,270	1,533,741
Allowance for loan losses as a percent of total loans outstanding	0.83%	0.47%	0.76%	0.29%	0.19%	0.21%	0.28%
Net loans charged off as a percent of average loans outstanding	0.24%	%	%	%	%	%	0.01%
Allowance for loan losses to non-performing loans	45.80%	55.53%	38.30%	70.03%	135.00%	193.06%	72.77%

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

	December 31, 2009		**June 30, 2009**		**June 30, 2008**	
	Allowance for Loan Losses	**Percent of Loans in Each Category to Total Loans**	**Allowance for Loan Losses**	**Percent of Loans in Each Category to Total Loans**	**Allowance for Loan Losses**	**Percent of Loans in Each Category to Total Loans**
			(Dollars in thousands)			
End of period allocated to:						
Residential mortgage loans	$ 13,741	$ 71.76%	$ 10,841	76.30%	$ 4,585	85.97%
Multi-family	3,227	9.21%	1,518	7.82%	223	1.77%
Commercial	10,208	10.97%	6,223	7.02%	1,454	3.06%
Construction loans	25,194	5.03%	23,437	5.62%	4,836	5.58%
Commercial and industrial	558	0.35%	351	0.25%		%
Consumer and other loans	510	2.68%	459	2.99%	254	3.62%
Unallocated	1,614		3,779		2,213	
Total allowance	$ 55,052	100.00%	$ 46,608	100.00%	$ 13,565	100.00%

	June 30, 2007		**June 30, 2006**		**June 30, 2005**	
	Allowance for Loan Losses	**Percent of Loans in Each Category to Total Loans**	**Allowance for Loan Losses**	**Percent of Loans in Each Category to Total Loans**	**Allowance for Loan Losses**	**Percent of Loans in Each Category to Total Loans**
			(Dollars in thousands)			
End of period allocated to:						
Residential mortgage loans	$ 3,444	88.14%	$ 2,910	90.33%	$ 4,249	94.48%
Multi-family and commercial	956	3.03%	1,591	2.65%	712	0.95%
Construction loans	1,896	4.25%	820	2.22%	28	0.35%
Consumer and other loans	247	4.58%	354	4.80%	248	4.22%

Unallocated	408		694		486	
Total allowance	$ 6,951	100.00%	$ 6,369	100.00%	$ 5,723	100.00%

Security Investments

The Board of Directors has adopted our Investment Policy. This policy determines the types of securities in which we may invest. The Investment Policy is reviewed annually by management and changes to the policy are recommended to and subject to approval by the Board of Directors. The Board of Directors delegates operational responsibility for the implementation of the Investment Policy to the Interest Rate Risk Committee, which is comprised of senior officers. While general investment strategies are developed by the Interest Rate Risk Committee, the execution of specific actions rests primarily with our Chief Financial Officer. He is responsible for ensuring the guidelines and requirements included in the Investment Policy are followed and all securities are considered prudent for investment. He or his designee is authorized to execute transactions that fall within the scope of the established Investment Policy. Investment transactions are reviewed and ratified by the Board of Directors at their regularly scheduled meetings.

Our Investment Policy requires that investment transactions conform to Federal and New Jersey State investment regulations. Our investments include U.S. Treasury obligations, securities issued by various Federal Agencies, mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, investment grade corporate debt instruments, and Fannie Mae and Freddie Mac equity securities. In addition, Investors Bancorp may invest in equity securities subject to certain limitations.

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

While we currently continue to de-emphasize securities and emphasize loans as assets, securities still represent a significant asset class on our balance sheet. At December 31, 2009, our securities portfolio totaled $1.19 billion representing 14.2% of our total assets. Securities are classified as held-to-maturity or available-for-sale when purchased. At December 31, 2009, $717.4 million of our securities were classified as held-to-maturity and reported at amortized cost and $471.2 million were classified as available-for-sale and reported at fair value.

Mortgage-Backed Securities. We purchase mortgage-backed pass through and collateralized mortgage obligation (CMO) securities insured or guaranteed by Fannie Mae, Freddie Mac (government-sponsored enterprises) and Ginnie Mae (government agency), and to a lesser extent, a variety of federal and state housing authorities (collectively referred to below as agency-issued mortgage-backed securities). At December 31, 2009, agency-issued mortgage-backed securities including CMOs, totaled $981.9 million, or 82.6%, of our total securities portfolio.

Mortgage-backed pass through securities are created by pooling mortgages and issuing a security with an interest rate less than the interest rate on the underlying mortgages. Mortgage-backed pass through securities represent a participation interest in a pool of single-family or multi-family mortgages. As loan payments are made by the borrowers, the principal and interest portion of the payment is passed through to the investor as received. CMOs are also backed by mortgages; however, they differ from mortgage-backed pass through securities because the principal and interest payments of the underlying mortgages are financially engineered to be paid to the security holders of pre-determined classes or tranches of these securities at a faster or slower pace. The receipt of these principal and interest payments which depends on the proposed average life for each class is contingent on a prepayment speed assumption assigned to the underlying mortgages. Variances between the assumed payment speed and actual payments can significantly alter the average lives of such securities. To quantify and mitigate this risk, we undertake a payment analysis before purchasing these securities. We invest in CMO classes or tranches in which the payments on the underlying mortgages are passed along at a pace fast enough to provide an average life of two to four years with no change in market interest rates. The issuers of such securities, as noted above, pool and sell participation interests in security form to investors such as Investors Savings Bank and guarantee the payment of principal and interest. Mortgage-backed securities and CMOs generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize borrowings and other liabilities.

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

Our mortgage-backed securities portfolio had a weighted average yield of 4.38% at December 31, 2009. The estimated fair value of our mortgage-backed securities at December 31, 2009 was $1.13 billion, which is $19.4 million greater than the amortized cost of $1.11 billion.

We also invest in securities issued by non-agency or private mortgage originators, provided those securities are rated AAA by nationally recognized rating agencies at the time of purchase. At December 31, 2009, a significant portion of our non-agency portfolio is comprised of 28 securities issued by private mortgage originators that had an amortized cost of $135.2 million and a fair value of $130.1 million. These securities were originated in the period 2002-2004 and are performing largely in accordance with contractual terms. During the year, three securities with an aggregate amortized cost of $17.2 million were downgraded by credit rating agencies to Aa, A and Ba. For securities with larger decreases in fair values, management estimates the loss projections for each security by stressing the individual loans collateralizing the security with a range of expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on those specific assumptions, a range of possible cash flows were identified to determine whether an other-than-temporary impairment, or OTTI, existed as of December 31, 2009. Under certain stress scenarios estimated future losses may arise. Management determined that one non-agency mortgage-backed security, which was classified as available for sale and had a rating of Ba, with an amortized cost of $6.9 million and an estimated fair value of $5.8 million at December 31, 2009 had expected cash flows such that it is probable that the full amortized cost will not be received and as such a credit-related OTTI charge of $91,000 was recorded at December 31, 2009.

Corporate and Other Debt Securities. At December 31, 2009, our corporate and other debt securities portfolio consists of collateralized debt obligations (CDOs) backed by pooled trust preferred securities (TruPS), principally issued by banks (80.6%) and to a lesser extent insurance companies (17.5%) and real estate investment trusts (1.9%). The interest rates on these securities reset quarterly in relation to the 3 month Libor rate. These securities have been classified in the held to maturity portfolio since their purchase and the Company has the ability and intent to hold these securities until maturity.

At June 30, 2008, this portfolio contained 3 securities with an amortized cost of $13.1 million which had an investment grade rating of AAA and 30 securities with an amortized cost of $165.6 million with an investment grade rating of A. Over the past eighteen months, the market for CDOs became increasingly illiquid due to negative perceptions about the health of the financial sector in general, and more specifically the financial stability of the underlying issuers. The combination of the illiquidity, credit downgrades by credit rating agencies and the increase in payment deferrals and defaults by issuers resulted in a continued decline in the fair value of these securities. We perform extensive analysis to determine our risk associated with these securities. These instruments were over collateralized upon origination to absorb a level of possible future defaults over their anticipated lives. Due to the deteriorating economic conditions, the current estimated future deferrals and defaults have increased significantly.

At December 31, 2008, we recorded a pre-tax $156.7 million other-than-temporary impairment, or OTTI, charge to reduce the carrying amount of our investment bank pooled trust preferred securities to the securities market values totaling $20.7 million. The decision to recognize the OTTI charge was based on the severity of the decline in the market values of these securities at that time and the unlikelihood of any near-term market value recovery. The significant decline in the market value occurred primarily as a result of deteriorating national economic conditions, rapidly increasing amounts of non-accrual and delinquent loans at some of the underlying issuing banks, and credit rating downgrades by Moody s. In March 2009, Moody s again downgraded substantially all of the credit ratings of these securities in our portfolio due to the continued credit crisis and weak economic conditions, as well as the sharp increase in the number of interest payment deferrals and defaults over the past year which are expected to continue to rise, resulting in only 2 securities maintaining investment grade (Baa and higher). Of the remaining securities, the majority are credit rated Ca which Moody s defines as highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest. Currently there are 42 issuers which have been taken into receivership by the FDIC, 10 issuers in default and 154 issuers deferring payments within the CDOs we own, which in the aggregate represent 28.8% of the collateral for these instruments.

The Company adopted ASC 320, Recognition and Presentation of Other-Than-Temporary Impairments, which was incorporated into ASC 320, Investments Debt and Equity Securities, on April 1, 2009. Under this guidance, the difference between the present value of the cash flows expected to be collected and the amortized cost basis is deemed to be the credit loss. The present value of the expected cash flows is calculated based on the contractual terms of each security, and is discounted at a rate equal to the effective interest rate implicit in the security at the date of acquisition. The guidance also required management to determine the amount of any previously recorded OTTI charges on the TruPS that were related to credit and all other non-credit factors. In accordance with ASC 320, management considered the deteriorating financial condition of the U.S. banking sector, the credit rating downgrades, the accelerating pace of banks deferring or defaulting on their trust preferred debt, and the increasing amounts of non-accrual and delinquent loans at the underlying issuing banks. The aforementioned analysis was incorporated into the present value of the cash flows expected to be collected for each of these securities and management determined that $35.6 million of the previously recorded pre-tax OTTI charge was due to other non-credit factors and, in accordance with ASC 320, the Company recognized a cumulative effect of initially applying ASC 320 as a $21.1 million after-tax adjustment to retained earnings with a corresponding adjustment to AOCI. At June 30, 2009, the Company recorded an additional $1.3 million pre-tax credit related OTTI charge on these securities.

For December 31, 2009, we engaged an independent valuation firm to value our TruPS portfolio and prepare our OTTI analysis. The valuation firm assisted us in evaluating the credit and performance for each remaining issuer to derive probabilities and assumptions for default, recovery and prepayment/amortization for the expected cashflows for each security. At December 31, 2009, management deemed that there was no deterioration in projected discounted cashflows since the prior period for each of its TruPS and did not recognize an OTTI charge for the six months ended December 31, 2009. The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the debt securities before the recovery of their amortized cost basis or maturity. At December 31, 2009, the corporate and other debt portfolio totaled $21.4 million and had a fair value of $37.8 million.

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

Government Sponsored Enterprises. At December 31, 2009, bonds issued by Government Sponsored Enterprises held in our security portfolio totaled $40.3 million representing 3.4% of our total securities portfolio. While these securities may generally provide lower yields than other securities in our securities portfolio, we hold for liquidity purposes, as collateral for certain borrowings, to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by these issuers.

Marketable Equity Securities. At December 31, 2009, we had $2.1 million in equity securities representing 0.2% of our total securities portfolio. Equity securities are not insured or guaranteed investments and are affected by market interest rates and stock market fluctuations. Such investments (when held) are carried at their fair value and fluctuations in the fair value of such investments, including temporary declines in value, directly affect our net capital position.

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

	At December 31,		At June 30,					
	2009		2009		2008		2007	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)							
Available-for-sale:								
Equity securities	$ 1,832	$ 2,053	$ 1,583	$ 1,598	$ 6,655	$ 6,514	$ 6,205	$ 5,969
GSE debt securities	25,013	25,039	30,051	30,079				
Mortgage-backed securities:								
Federal Home Loan Mortgage Corporation	206,877	209,522	151,450	152,718	51,256	51,197	68,635	67,223
Federal National Mortgage Association	158,678	160,427	94,967	96,617	49,393	49,364	70,059	68,856
Government National Mortgage Association	10,504	10,450	275	300				
Non-agency securities	67,290	63,752	80,523	73,704	101,555	95,957	119,598	115,891
Total mortgage-backed securities available for sale	443,349	444,151	327,215	323,339	202,204	196,518	258,292	251,970
Total securities available-for-sale	$ 470,194	$ 471,243	$ 358,849	$ 355,016	$ 208,859	$ 203,032	$ 264,497	$ 257,939
Held-to-maturity:								
Debt securities:								
Government Sponsored Enterprises	$ 15,226	$ 15,956	$ 18,238	$ 19,161	$ 46,703	$ 47,052	$ 131,900	$ 127,370
Municipal bonds	10,259	10,451	10,420	10,624	10,574	10,773	14,048	14,236
Corporate and other debt securities	21,411	37,809	20,727	20,129	178,669	135,527	166,074	165,897
	46,896	64,216	49,385	49,914	235,946	193,352	312,022	307,503
Mortgage-backed securities:								

Federal Home Loan Mortgage Corporation	358,998	369,404	429,969	440,088	551,708	544,834	684,839	660,478
Government National Mortgage Association	3,880	4,157	4,269	4,617	5,052	5,322	6,061	6,235
Federal National Mortgage Association	236,109	245,353	278,272	286,820	354,493	351,003	444,689	430,723
Federal housing authorities	2,549	2,780	2,654	2,908	2,849	3,077	3,027	3,251
Non-agency securities	69,009	67,495	81,494	76,955	105,006	100,465	128,284	123,686
Total mortgage-backed securities held-to-maturity	670,545	689,189	796,658	811,388	1,019,108	1,004,701	1,266,900	1,224,373
Total securities held-to-maturity	$ 717,441	$ 753,405	$ 846,043	$ 861,302	$ 1,255,054	$ 1,198,053	$ 1,578,922	$ 1,531,876
Total securities	$ 1,187,635	$ 1,224,648	$ 1,204,892	$ 1,216,318	$ 1,463,913	$ 1,401,085	$ 1,843,419	$ 1,789,815

At December 31, 2009, we had no investment that had an aggregate book value in excess of 10% of our equity.

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Portfolio Maturities and Yields. The composition and maturities of the securities portfolio at December 31, 2009 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal securities yields have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Available-for-Sale:											
Equity securities	$	%	$	%	$	%	$ 1,832	%	$ 1,832	$ 2,053	%
GSE debt securities	25,013	0.89%		%		%		%	25,013	25,039	%
Mortgage-backed securities:											
Federal Home Loan Mortgage Corporation		%	4,510	4.01%	38,461	4.01%	163,906	4.79%	206,877	209,522	4.63%
Government National Mortgage Association		%	15,031	4.04%	65,906	4.00%	77,741	4.45%	158,678	160,427	4.23%
Federal National Mortgage Association		%		%		%	10,504	4.01%	10,504	10,450	4.01%
Non-agency securities		%	89	0.41%	50,320	4.59%	16,881	4.07%	67,290	63,752	4.45%
Total mortgage-backed securities	$	%	19,630	4.02%	154,687	4.19%	269,032	4.46%	443,349	444,151	4.44%
Total securities available-for- sale	$ 25,013	0.89%	$ 19,630	4.02%	$ 154,687	4.19%	$ 270,864	4.43%	$ 470,194	$ 471,243	4.19%
Held-to-Maturity:											
Debt securities:											
Government sponsored enterprises	$	%	$ 15,000	4.50%	$ 226	1.25%	$	%	$ 15,226	$ 15,956	4.45%
Municipal bonds		%	5,109	6.80%	20	7.17%	5,130	9.08%	10,259	10,451	7.94%
Corporate and other debt securities		%		%		%	21,411	1.81%	21,411	37,809	1.81%

		%	20,109	5.08%	246	1.73%	26,541	3.22%	46,896	64,216	4.01%
Mortgage-backed securities:											
Federal Home Loan Mortgage Corporation	4,803	3.65%	12,511	4.05%	188,328	4.22%	153,356	4.07%	358,998	369,404	4.00%
Government National Mortgage Association		%	1	12.00%	2	10.00%	3,877	7.24%	3,880	4,157	7.24%
Federal National Mortgage Association	1,259	4.25%	112	7.50%	116,268	4.65%	118,470	4.67%	236,109	245,353	4.64%
Federal and state housing authorities		%	1,572	8.88%	977	8.90%		%	2,549	2,780	8.88%
Non-agency securities					64,849	4.88%	4,160	2.91%	69,009	67,495	4.76%
Total mortgage-backed securities	6,062	3.78%	14,196	4.61%	370,424	4.48%	279,863	4.35%	670,545	689,189	4.34%
Total securities held-to-maturity	$ 6,062	3.78%	$ 34,305	4.89%	$ 370,670	4.48%	$ 306,404	4.25%	$ 717,441	$ 753,405	4.31%

Sources of Funds

General. Deposits, primarily certificates of deposit, have traditionally been the primary source of funds used for our lending and investment activities. In addition, we use a significant amount of borrowings, primarily reverse repurchase agreements from the Federal Home Loan Bank (FHLB) and various brokers; to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management and to manage our cost of funds. Additional sources of funds include principal and interest payments from loans and securities, loan and security prepayments and maturities, brokered certificates of deposit, income on other earning assets and retained earnings. While cash flows from loans and securities payments can be relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. At December 31, 2009, we held $5.84 billion in total deposits, representing 77.8% of our total liabilities. In prior years we emphasized a more wholesale strategy for generating funds, in particular, by offering high cost certificates of deposit. At December 31, 2009, $3.29 billion, or 56.4%, of our total deposit balances were certificates of deposit. We had no brokered deposits at December 31, 2009. We continue to change the mix of our deposits from one focused on attracting certificates of deposit to one focused on core deposits. The impact of these efforts has been a continuing shift in deposit mix to lower cost core products. We remain committed to our plan of attracting more core deposits because core deposits represent a more stable source of low cost funds and are less sensitive to changes in market interest rates. At December 31, 2009, we held $2.55 billion in core deposits, representing 43.6% of total deposits. This is an increase of $347.8 million, or 15.8%, when compared to June 30, 2009, when our core deposits were $2.20 billion. We intend to continue to invest in branch staff training and to aggressively market and advertise our core deposit products. We attempt to generate our deposits from a diverse client group within our primary market area. We are focusing on attracting the deposits from municipalities and C&I businesses which operate in our marketplace.

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

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

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

	At December 31, 2009			At June 30, 2009		
	Balance	**Percent of Total Deposits**	**Weighted Average Rate**	**Balance**	**Percent of Total Deposits**	**Weighted Average Rate**
			(Dollars in thousands)			
Savings	$ 877,421	15.02%	1.64%	$ 779,678	14.16%	1.99%
Checking accounts	927,675	15.88	0.81	898,816	16.33	0.84
Money market deposits	742,618	12.72	1.26	521,425	9.47	1.76
Total transaction accounts	2,547,714	43.62	1.21	2,199,919	39.96	1.46
Certificates of deposit	3,292,929	56.38	2.18	3,305,828	60.04	2.80
Total deposits	$ 5,840,643	100.00%	1.77%	$ 5,505,747	100.00%	2.27%

	At June 30,					
	2008			2007		
	Balance	Percent of Total Deposits	Weighted Average Rate	Balance	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)					
Savings	$ 417,196	10.51%	1.96%	$ 358,866	9.52%	2.13%
Checking	401,100	10.10	1.28	406,231	10.78	2.30
Money market deposits	229,018	5.77	2.06	182,274	4.84	2.37
Total transaction accounts	1,047,314	26.38	1.72	947,371	25.14	2.25
Certificates of deposit	2,922,961	73.62	3.71	2,820,817	74.86	5.03
Total deposits	$ 3,970,275	100.00%	3.18%	$ 3,768,188	100.00%	4.33%

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

	At December 31, 2009	At June 30, 2009	2008	2007
	(Dollars in thousands)			
Certificates of Deposits				
Less than 2%	$ 1,872,168	$ 598,759	$ 45,284	$ 18,813
2.01% - 3.00%	850,129	1,501,821	566,007	19,910
3.01% - 4.00%	267,519	866,050	1,188,461	441,633
4.01% - 5.00%	268,460	311,509	769,010	1,070,531
Over 5.00%	34,653	27,689	354,199	1,269,930
Total	$ 3,292,929	$ 3,305,828	$ 2,922,961	$ 2,820,817

The following table sets forth, by rate category, the remaining period to maturity of certificates of deposit outstanding at December 31, 2009.

	Within Three Months	Over Three to Six Months	Over Six Months to One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years	Total
	(Dollars in thousands)						
Certificates of Deposits							
Less than 2%	$ 379,424	$ 759,438	$ 529,760	$ 199,924	$ 3,491	$ 131	$ 1,872,168
2.01% - 3.00%	181,412	137,958	170,627	311,655	15,153	33,324	850,129
3.01% - 4.00%	83,243	68,681	25,103	24,145	22,859	43,488	267,519

4.01% - 5.00%	15,866	11,216	8,930	65,289	133,149	34,010	268,460
Over 5.00%	116	312	1,815	9,288	13,608	9,514	34,653
Total	$ 660,061	$ 977,605	$ 736,235	$ 610,301	$ 188,260	$ 120,467	$ 3,292,929

As of December 31, 2009 the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $1.10 billion. The following table sets forth the maturity of those certificates as of December 31, 2009.

	At December 31, 2009 (In thousands)
Three months or less	$ 236,416
Over three months through six months	321,219
Over six months through one year	220,468
Over one year	324,131
Total	$ 1,102,234

Borrowings. We borrow funds under repurchase agreements with the FHLB and various brokers. These agreements are recorded as financing transactions as we maintain effective control over the transferred or pledged securities. The dollar amount of the securities underlying the agreements continues to be carried in our securities portfolio while the obligations to repurchase the securities are reported as liabilities. The securities underlying the agreements are delivered to the party with whom each transaction is executed. Those parties agree to resell to us the identical securities we delivered to them at the maturity or call period of the agreement.

We also borrow directly from the FHLB and various financial institutions. Our FHLB borrowings, frequently referred to as advances, are collateralized by a blanket lien against our residential mortgage portfolio.

The following table sets forth information concerning balances and interest rates on our advances from the FHLB and other financial institutions at the dates and for the periods indicated.

	At or for the Six Month Period Ended December 31,		At or for the Years Ended June 30,		
	2009	2008	2009	2008	2007
		(Unaudited)			
	(Dollars in thousands)				
Balance at end of period	$ 850,542	$ 1,223,569	$ 870,555	$ 563,583	$ 333,710
Average balance during period	819,585	1,280,026	989,855	208,866	196,417
Maximum outstanding at any month end	870,553	1,348,574	1,348,574	563,583	333,710
Weighted average interest rate at end of period	3.79%	2.90%	3.66%	3.50%	5.42%
Average interest rate during period	3.82%	3.05%	3.34%	4.41%	5.46%

The following table sets forth information concerning balances and interest rate on our securities sold under agreements to repurchase at the dates and for the periods indicated:

	At or for the Six Month Period Ended December 31,		At or for the Years Ended June 30,		
	2009	2008	2009	2008	2007
		(Unaudited)			
	(Dollars in thousands)				
Balance at end of period	$ 750,000	$ 910,000	$ 860,000	$ 1,000,000	$ 705,000
Average balance during period	823,620	894,348	902,326	999,663	925,280
Maximum outstanding at any month end	860,000	1,085,000	960,000	1,109,500	1,095,000
Weighted average interest rate at end of period	4.36%	4.31%	4.32%	4.27%	4.78%
Average interest rate during period	4.43%	4.43%	4.38%	4.58%	4.80%

Subsidiary Activities

Investors Bancorp, Inc. has two direct subsidiaries: ASB Investment Corp and Investors Savings Bank.

ASB Investment Corp. ASB Investment Corp. is a New Jersey corporation, which was organized in June 2003 for the purpose of selling insurance and investment products, including annuities, to customers and the general public through a third party networking arrangement. This subsidiary was obtained in the acquisition of American Bancorp in May 2009. There has been very little activity at this subsidiary and sales are currently limited to the sale of fixed rate annuities.

Investors Savings Bank has the following subsidiaries.

ISB Mortgage Company LLC. ISB Mortgage Company LLC is a New Jersey limited liability company that was formed in 2001 for the purpose of originating loans for sale to both Investors Savings Bank and third parties. In recent years, as Investors Savings Bank has increased its emphasis on the origination of loans, ISB Mortgage Company LLC has served as Investors Savings Bank s retail lending production arm throughout the branch network.

ISB Mortgage Company LLC sells all loans that it originates either to Investors Savings Bank or third parties.

ISB Asset Corporation. ISB Asset Corporation is a New Jersey corporation formed in 1997 for the sole purpose of acquiring mortgage loans and mortgage-backed securities from Investors Savings Bank. It operated as a real estate investment trust (REIT) though December 2006. During fiscal 2008, the REIT was liquidated due to tax law changes and its assets were transferred to the Bank.

ISB Holdings, Inc. ISB Holdings, Inc. is a New Jersey corporation, which is the 100% owner of ISB Asset Corporation.

American Savings Investment Corp. American Savings Investment Corp. is a New Jersey corporation that was formed in 2004 as an investment company subsidiary. The purpose of this subsidiary is to invest in stocks, bonds, notes and all types of equity, mortgages, debentures and other investment securities. Holding investment securities in this subsidiary reduces our New Jersey state income tax rate. This subsidiary was obtained in the acquisition of American Bancorp in May 2009.

Investors Savings Bank has two additional subsidiaries which are inactive.

Personnel

As of December 31, 2009, we had 684 full-time employees and 47 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

SUPERVISION AND REGULATION

General

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

Investors Bancorp, Inc., as a bank holding company controlling Investors Savings Bank, is subject to the Bank Holding Company Act of 1956, as amended (BHCA), and the rules and regulations of the Federal Reserve Board under the BHCA and to the provisions of the New Jersey Banking Act of 1948 (the New Jersey Banking Act) and the regulations of the Commissioner under the New Jersey Banking Act applicable to bank holding companies. Investors Savings Bank and Investors Bancorp, Inc. are required to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve Board, the Commissioner and the FDIC. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company s compliance with various regulatory requirements. Investors Bancorp, Inc. files certain reports with, and otherwise complies with, the rules and regulations of the Securities and Exchange Commission under the federal securities laws and the listing requirements of NASDAQ.

Any change in such laws and regulations, whether by the Commissioner, the FDIC, the Federal Reserve Board or through legislation, could have a material adverse impact on Investors Savings Bank and Investors Bancorp, Inc. and their operations and stockholders.

Some of the laws and regulations applicable to Investors Savings Bank and Investors Bancorp, Inc. are summarized below or elsewhere in this Form 10-K. These summaries do not purport to be complete and are qualified in their entirety by reference to such laws and regulations.

New Jersey Banking Regulation

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

- real estate mortgages;
- consumer and commercial loans;
- specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;
- certain types of corporate equity securities; and

certain other assets.

A savings bank may also invest pursuant to a leeway power that permits investments not otherwise permitted by the New Jersey Banking Act, subject to certain restrictions imposed by the FDIC. Leeway investments must comply with a number of

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limitations on the individual and aggregate amounts of leeway investments. A savings bank may also exercise trust powers upon approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers are limited by federal law and the related regulations. See Federal Banking Regulation Activity Restrictions on State-Chartered Banks below.

Loans-to-One-Borrower Limitations. With certain specified exceptions, a New Jersey-chartered savings bank may not make loans or extend credit to a single borrower or to entities related to the borrower in an aggregate amount that would exceed 15% of the bank s capital funds. A savings bank may lend an additional 10% of the bank s capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act and §5200 of the Revised Statutes (the National Bank Act). Investors Savings Bank currently complies with applicable loans-to-one-borrower limitations.

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

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

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine Investors Savings Bank whenever it deems an examination advisable. The Department examines Investors Savings Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or unsound business practice, and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed.

Federal Banking Regulation

Capital Requirements. FDIC regulations require banks to maintain minimum levels of capital. The FDIC regulations define two tiers, or classes, of capital.

Tier 1 capital is comprised of the sum of:

- common stockholders equity, excluding the unrealized appreciation or depreciation, net of tax, from available for sale securities;
- non-cumulative perpetual preferred stock, including any related retained earnings; and
- minority interests in consolidated subsidiaries minus all intangible assets, other than qualifying servicing rights and any net unrealized loss on marketable equity securities.

The components of Tier 2 capital currently include:

- cumulative perpetual preferred stock;
- certain perpetual preferred stock for which the dividend rate may be reset periodically;
- hybrid capital instruments, including mandatory convertible securities;
- term subordinated debt;
- intermediate term preferred stock;

allowance for loan losses; and

up to 45% of pretax net unrealized holding gains on available for sale equity securities with readily determinable fair market values.

The allowance for loan losses includible in Tier 2 capital is limited to a maximum of 1.25% of risk-weighted assets (as discussed below). Overall, the amount of Tier 2 capital that may be included in total capital cannot exceed 100% of Tier 1 capital. The FDIC regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System, of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution.

The FDIC regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

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

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

The following table shows Investors Savings Bank s Total capital, Tier 1 risk-based capital, and Total risk-based capital ratios as of December 31, 2009:

	As of December 31, 2009	
	Capital	**Percent of Assets(1)**
	(Dollars in thousands)	
Total capital	$ 749,585	9.0%
Tier 1 risk-based capital	$ 749,585	14.7%
Total risk-based capital	$ 804,637	15.8%

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

As of December 31, 2009, Investors Savings Bank was considered well capitalized under FDIC guidelines.

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

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

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

Federal Home Loan Bank System. Investors Savings Bank is a member of the Federal Home Loan Bank system, which consists of twelve regional Federal Home Loan Banks, each subject to supervision and regulation by the Federal Housing Finance Agency (FHFA). The Federal Home Loan Banks provide a central credit facility primarily for member thrift institutions as well as other entities involved in home mortgage lending. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Banks. The Federal Home Loan Banks make loans to members (i.e., advances) in accordance with policies and procedures, including collateral requirements, established by the respective Boards of Directors of the Federal Home Loan Banks. These policies and procedures are subject to the regulation and oversight of the FHFA. All long-term advances are required to provide funds for residential home financing. The FHFA has also established standards of community or investment service that members must meet to maintain access to such long-term advances.

Investors Savings Bank, as a member of the FHLB is currently required to acquire and hold shares of FHLB Class B stock. The Class B stock has a par value of $100 per share and is redeemable upon five years notice, subject to certain conditions. The Class B stock has two subclasses, one for membership stock purchase requirements and the other for activity-based stock purchase requirements. The minimum stock investment requirement in the FHLB Class B stock is the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For Investors Savings Bank, the membership stock purchase requirement is 0.2% of the Mortgage-Related Assets, as defined by the FHLB, which consists principally of residential mortgage loans and mortgage-backed securities, including CMOs, held by Investors Savings Bank. The activity-based stock purchase requirement for Investors Savings Bank is equal to the sum of: (1) 4.5% of outstanding borrowing from the FHLB; (2) 4.5% of the outstanding principal balance of Acquired Member Assets, as defined by the FHLB, and delivery commitments for Acquired Member Assets; (3) a specified dollar amount related to certain off-balance sheet items, for which Investors Savings Bank is zero; and (4) a specified percentage ranging from 0 to 5% of the carrying value on the FHLB balance sheet of derivative contracts between the FHLB and its members, which for Investors Savings Bank is also zero. The FHLB can adjust the specified percentages and dollar amount from time to time within the ranges established by the FHLB capital plan. At December 31, 2009, the amount of FHLB stock held by us satisfies these requirements.

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

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

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

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FDIC, as well as the other federal banking regulators, adopted regulations governing the supervisory actions that may be taken against undercapitalized institutions. The regulations establish five categories, consisting of well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC s regulations define the five capital categories as follows:

An institution will be treated as well capitalized if:

- its ratio of total capital to risk-weighted assets is at least 10%;
- its ratio of Tier 1 capital to risk-weighted assets is at least 6%; and

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its ratio of Tier 1 capital to total assets is at least 5%, and it is not subject to any order or directive by the FDIC to meet a specific capital level.

An institution will be treated as adequately capitalized if:

its ratio of total capital to risk-weighted assets is at least 8%; or

its ratio of Tier 1 capital to risk-weighted assets is at least 4%; and

its ratio of Tier 1 capital to total assets is at least 4% (3% if the bank receives the highest rating under the Uniform Financial Institutions Rating System) and it is not a well-capitalized institution.

An institution will be treated as undercapitalized if:

its total risk-based capital is less than 8%; or

its Tier 1 risk-based-capital is less than 4%; and

its leverage ratio is less than 4%.

An institution will be treated as significantly undercapitalized if:

its total risk-based capital is less than 6%;

its Tier 1 capital is less than 3%; or

its leverage ratio is less than 3%.

An institution that has a tangible capital to total assets ratio equal to or less than 2% would be deemed to be critically undercapitalized.

The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is critically undercapitalized. For this purpose, critically undercapitalized means having a ratio of tangible capital to total assets of less than 2%. The FDIC may also appoint a conservator or receiver for a state bank on the basis of the institution s financial condition or upon the occurrence of certain events, including:

insolvency, or when a assets of the bank are less than its liabilities to depositors and others;

substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices;

existence of an unsafe or unsound condition to transact business;

likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and

insufficient capital, or the incurring or likely incurring of losses that will deplete substantially all of the institution s capital with no reasonable prospect of replenishment of capital without federal assistance.

Investors Savings Bank is in compliance with the Prompt Corrective Action rules.

Liquidity. Investors Savings Bank maintains sufficient liquidity to ensure its safe and sound operation, in accordance with FDIC regulations.

Deposit Insurance. Investors Savings Bank is a member of the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. Deposit accounts at Investors Savings Bank are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of $100,000 for each separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. However, the Federal Deposit Insurance Corporation increased the deposit insurance available on all deposit accounts to $250,000, effective until December 31, 2013. In addition, certain noninterest-bearing transaction accounts maintained with financial institutions participating in the Federal Deposit Insurance Corporation s Transaction Account Guarantee (TAG) Program under the Temporary Liquidity Guarantee (TLG) Program are fully insured regardless of the dollar amount until June 30, 2010. Investors

Savings Bank has opted to participate in the Federal Deposit Insurance Corporation s TAG Program. The purpose of the TLG is to strengthen confidence and encourage liquidity in the banking system. Under the TAG, funds in non-interest-bearing accounts, in interest-bearing transaction accounts with interest rate of 0.50% or less and in Interest on Lawyers Trust Accounts will have a temporary unlimited guarantee from the FDIC until June 30, 2010. The coverage of the TAG is in addition to and separate from coverage available under the FDIC s general deposit insurance rules, which insure accounts up to $250,000.

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The Federal Deposit Insurance Corporation imposes an assessment against all depository institutions for deposit insurance. This assessment is based on the risk category of the institution and, prior to 2009, ranged from 5 to 43 basis points of the institution s deposits. On February 27, 2009, the Federal Deposit Insurance Corporation published a final rule raising the current deposit insurance assessment rates to a range from 12 to 45 basis points beginning April 1, 2009.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment of $3.7 million was collected on September 30, 2009.

On November 12, 2009, the FDIC adopted a final rule amending the assessment regulations to require insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. The amount of prepayments paid by the Company amounted to $35.9 million.

The deposit insurance assessment rates are in addition to the assessments for payments on the bonds issued in the late 1980s by the Financing Corporation, or FICO, to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. The FICO payments will continue until the FICO bonds mature in 2017 through 2019. Excluding the special assessment noted above, our expense for the assessment of deposit insurance and the FICO payments was $4.7 million for the six month period ended December 31, 2009 and $5.0 million for the year ended June 30, 2009. The FDIC also established 1.25% of estimated insured deposits as the designated reserve ratio of the DIF. The FDIC is authorized to change the assessment rates as necessary, subject to the previously discussed limitations, to maintain the required reserve ratio of 1.25%.

There was a One-Time Assessment Credit the FDIC gave to institutions that were in existence on December 31, 1996 and paid deposit insurance assessments prior to that date, or are a successor to such an institution. The Bank received a $2.8 million One-Time Assessment Credit, all of which was used by September 30, 2008.

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

Section 23A:

- limits the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such bank s capital stock and retained earnings, and limits all such transactions with all affiliates to an amount equal to 20% of such capital stock and retained earnings; and

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

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

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

Privacy Standards. FDIC regulations require Investors Savings Bank to disclose their privacy policy, including identifying with whom they share non-public personal information, to customers at the time of establishing the customer relationship and annually thereafter.

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

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

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

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

a lending test, to evaluate the institution s record of making loans in its service areas;

an investment test, to evaluate the institution s record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and/or census tracts and businesses; and

a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices.

An institution s failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities. Investors Savings Bank received an outstanding CRA rating in our most recently completed federal examination, which was conducted by the FDIC in June 2008.

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

Loans to a Bank s Insiders

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

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

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

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

Federal Reserve System

The Federal Reserve Board regulations require all depository institutions to maintain reserves at specified levels against their transaction accounts (primarily NOW and regular checking accounts). At December 31, 2009, Investors Savings Bank was in compliance with the Federal Reserve Board s reserve requirements. Savings banks, such as Investors Savings Bank, are authorized to borrow from the Federal Reserve Bank discount window. Investors Savings Bank is deemed by the Federal Reserve Board to be generally sound and thus is eligible to obtain primary credit from its Federal Reserve Bank. Generally, primary credit is extended on a very short-term basis to meet the liquidity needs of an institution. Loans must be secured by acceptable collateral and carry a rate of interest of 100 basis points above the Federal Open Market Committee s federal funds target rate.

Interagency Guidance on Nontraditional Mortgage Product Risks. On October 4, 2006, the FDIC and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risks, or the Guidance. The Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest only loans. The Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Guidance indicates that originating interest only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower s repayment capacity. Specifically, the Guidance indicates that a lender may accept a borrower s statement as to the borrower s income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

On June 29, 2007, the FDIC and other federal bank regulatory agencies issued a final Statement on Subprime Mortgage Lending (the Statement) to address the growing concerns facing the sub-prime mortgage market, particularly with respect to rapidly rising sub-prime default rates that may indicate borrowers do not have the ability to repay adjustable-rate sub-prime loans originated by financial institutions. In particular, the agencies express concern in the Statement that current underwriting practices do not take into account that many subprime borrowers are not prepared for payment shock and that the current subprime lending practices compound risk for financial institutions. The Statement describes the prudent safety and soundness and consumer protection standards that financial institutions should follow to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower s repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to the expiration of the initial fixed interest rate period without penalty. The Statement also reinforces the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the federal bank regulatory agencies encouraged

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institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to meet their contractual payment obligations on their home loans.

We originate and purchase interest only loans. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. At December 31, 2009, our residential mortgage loan portfolio included approximately $560.7 million of interest only loans.

Anti-Money Laundering and Customer Identification

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

Title III of the USA PATRIOT Act and the related FDIC regulations impose the following requirements with respect to financial institutions:

- Establishment of anti-money laundering programs

- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time.

- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money-laundering.

- Prohibitions on correspondent accounts for foreign shell banks and compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

- Bank regulators are directed to consider a holding company s effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted to address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Under Section 302(a) of the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports filed with the Securities and Exchange Commission do not contain any untrue statement of a material fact. Rules promulgated under the Sarbanes-Oxley Act require that these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in our quarterly and annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls. Investors Bancorp, Inc. was required to report under Section 404 of the Sarbanes-Oxley Act beginning with the fiscal year ending June 30, 2008. Investors Bancorp, Inc. has existing policies, procedures and systems designed to comply with these regulations, and is further enhancing and documenting such policies, procedures and systems to ensure continued compliance with these regulations.

Holding Company Regulation

Federal Regulation. Bank holding companies, like Investors Bancorp, Inc., are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for

Investors Savings Bank. As of December 31, 2009, Investors Bancorp, Inc. s total capital and Tier 1 capital ratios exceeded these minimum capital requirements. See Regulatory Capital Compliance.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions of the Federal Deposit Insurance Act, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of an undercapitalized bank. See Federal Banking Regulation Prompt Corrective Action. If an undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the Federal Reserve Board.

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

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

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

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

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

- each of its depository institution subsidiaries is well capitalized ;
- each of its depository institution subsidiaries is well managed ;

each of its depository institution subsidiaries has at least a "satisfactory" Community Reinvestment Act rating at its most recent examination; and

the bank holding company has filed a certification with the Federal Reserve Board stating that it elects to become a financial holding company.

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

It has been the policy of many mutual holding companies to waive the receipt of dividends declared by their savings bank subsidiaries. In connection with its approval of the 1997 reorganization, however, the Federal Reserve Board imposed certain

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conditions on the waiver by Investors Bancorp, MHC of dividends paid on the common stock of Investors Bancorp, Inc. In particular, Investors Bancorp, MHC will be required to obtain prior Federal Reserve Board approval before it may waive any dividends. Federal Reserve Board policy generally prohibits mutual holding companies from waiving the receipt of dividends. Accordingly, management does not expect that Investors Bancorp, MHC will be permitted to waive the receipt of dividends so long as Investors Bancorp, MHC is regulated by the Federal Reserve Board as a bank holding company.

In connection with the 2005 stock offering, the Federal Reserve Board required Investors Bancorp, Inc. to agree to comply with certain regulations issued by the Office of Thrift Supervision that would apply if Investors Bancorp, Inc., Investors Bancorp, MHC and Investors Savings Bank were Office of Thrift Supervision chartered entities, including regulations governing post-stock offering stock benefit plans and stock repurchases.

Conversion of Investors Bancorp, MHC to Stock Form. Investors Bancorp, MHC is permitted to convert from the mutual form of organization to the capital stock form of organization (a Conversion Transaction). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new stock holding company would be formed as the successor to Investors Bancorp, Inc. (the New Holding Company), Investors Bancorp, MHC s corporate existence would end, and certain depositors of Investors Savings Bank would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than Investors Bancorp, MHC (Minority Stockholders) would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in Investors Bancorp, Inc. immediately before the Conversion Transaction, subject to any adjustment required by regulation or regulatory policy. The FDIC s approval of Investors Savings Bank s initial mutual holding company reorganization in 1997 requires that any dividends waived by Investors Bancorp, MHC be taken into account in establishing the exchange ratio in any Conversion Transaction. The total number of shares held by Minority Stockholders after a Conversion Transaction also would be increased by any purchases by Minority Stockholders in the offering conducted as part of the Conversion Transaction.

In connection with our June 2008 merger of Summit Federal Savings Bank, we issued 1,744,592 shares of our common stock to Investors Bancorp, MHC, which represents the pro forma market value of Summit Federal Savings Bank, thereby increasing Investors Bancorp, MHC s ownership interest in Investors Bancorp, Inc. As a result, in the event of a Conversion Transaction of Investors Bancorp, MHC, there will be additional shares of New Holding Company available to depositors of Investors Savings Bank, including former depositors of Summit Federal Savings Bank who remain depositors of Investors Savings Bank at the time of the conversion.

Any Conversion Transaction would require the approval of a majority of the outstanding shares of Investors Bancorp, Inc. common stock held by Minority Stockholders and approval of a majority of the votes held by depositors of Investors Savings Bank.

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

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

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

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

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TAXATION

Federal Taxation

General. Investors Bancorp, Inc. and Investors Savings Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Neither Investors Bancorp, Inc. s nor Investors Savings Bank s federal tax returns are currently under audit, and neither entity has been audited during the past five years. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Investors Bancorp, Inc. or Investors Savings Bank.

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

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

Currently, the Investors Savings Bank consolidated group uses the specific charge off method to account for bad debt deductions for income tax purposes.

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 (pre-base year reserves) were subject to recapture into taxable income if Investors Savings Bank failed to meet certain thrift asset and definitional tests.

As a result of the 1996 Act, bad debt reserves accumulated after 1987 are required to be recaptured into income over a six-year period. However, all pre-base year reserves are subject to recapture if Investors Savings Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. At December 31, 2009, our total federal pre-base year reserve was approximately $40.7 million.

Alternative Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax (AMT) at a rate of 20% on a base of regular taxable income plus certain tax preferences (alternative minimum taxable income or AMTI). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of AMT may be used as credits against regular tax liabilities in future years. Investors Bancorp, Inc. and Investors Savings Bank have not been subject to the AMT and have no such amounts available as credits for carryover.

Net Operating Loss Carryforwards and Charitable Contribution Carryforward. A financial institution may carry back net operating losses to the preceding five taxable years and forward to the succeeding 20 taxable years. As of December 31, 2009, the Company has a $4.0 million carryback claim and a federal net operating loss carryforward of approximately $12.5 million.

At December 31, 2009, the Company had approximately $1.0 million in charitable contribution carryforwards which are due to expire in 2010. It is more likely than not that we will be able to use the carryforward before it expires.

Corporate Dividends-Received Deduction. Investors Bancorp, Inc. may exclude from its federal taxable income 100% of dividends received from Investors Savings Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 80% when the dividend is received from a corporation having at least 20% of its stock owned by the recipient corporation. A 70% dividends-received deduction is available for dividends received from a corporation having less than 20% of its stock owned by the recipient corporation.

State Taxation

New Jersey State Taxation. Investors Savings Bank files New Jersey Corporate Business income tax returns. Generally, the income of savings institutions in New Jersey, which is calculated based on federal taxable income, subject to certain adjustments, is

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subject to New Jersey tax. Investors Savings Bank is not currently under audit with respect to its New Jersey income tax returns and Investors Savings Bank s state tax returns have not been audited for the past five years.

For tax years beginning after June 30, 2006, New Jersey savings banks, including Investors Savings Bank, are subject to a 9% corporate business tax (CBT). For tax years beginning before June 30, 2006, New Jersey savings banks, including Investors Savings Bank, paid the greater of a 9% CBT or an Alternative Minimum Assessment (AMA) tax. As of July 1, 2007, there is no longer a New Jersey AMA tax. The AMA tax paid in prior years is creditable against the CBT in future years limited to an amount such that the tax is not reduced by more than 50% of the tax otherwise due and other statutory minimums.

Investors Bancorp, Inc is required to file a New Jersey income tax return and will generally be subject to a state income tax at a 9% rate. However, if Investors Bancorp, Inc. meets certain requirements, it may be eligible to elect to be taxed as a New Jersey Investment Company, which would allow it to be taxed at a rate of 3.60%.

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

At December 31, 2009 and June 30, 2009, the Company had state net operating loss carryforwards of approximately $44.2 million and $98.6 million, respectively. Based upon projections of future taxable income for the periods in which the temporary differences are expected to be deductible, management believes it is more likely than not the Company will realize the deferred tax asset.

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

ITEM 1A. RISK FACTORS

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

Our Liabilities Reprice Faster Than Our Assets and Future Increases in Interest Rates Will Reduce Our Profits.

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and

- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

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

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

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2009, the fair value of our total securities portfolio was $1.22 billion. Unrealized net losses on securities-available-for-sale are reported as a separate component of equity. To the extent interest rates increase and the value of our available-for-sale portfolio decreases, our stockholders equity will be adversely affected.

We evaluate interest rate sensitivity using models that estimate the change in our net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At December 31, 2009, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no action to mitigate the effect of such change, the model projects that we would experience an 3.1% or $7.7 million decrease in net interest income.

Because We Intend to Continue to Increase Our Commercial Originations, Our Lending Risk Will Increase.

At December 31, 2009, our portfolio of commercial real estate, multi-family, construction and C&I loans totaled $1.70 billion, or 25.56% of our total loans. We intend to increase our originations of commercial real estate, multi-family construction and C&I loans, which generally have more risk than one- to four-family residential mortgage loans. As the repayment of commercial real estate loans depends on the successful management and operation of the borrower s properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. We anticipate that several of our borrowers will have more than one commercial real estate loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

The U.S. Economy Is Experiencing An Economic Downturn. A Continuation or Further Deterioration Will Have An Adverse Effect On Our Operations.

Both nationally and in the State of New Jersey we are experiencing an economic downturn that is having a significant impact on the prices of real estate and related assets. The residential and commercial real estate sectors have been adversely affected by weakening economic conditions and may negatively impact our loan portfolio. Total non-performing assets decreased from $121.7 million at June 30, 2009 to $120.2 million at December 31, 2009, and total non-performing loans as a percentage of total assets decreased to 1.44% at December 31, 2009 as compared to 1.50% at June 30, 2009. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses, which would have an adverse impact on our financial condition and results of operations.

In addition, the impact of the continued economic downturn could negatively impact the carrying values of our securities portfolio. At December 31, 2009, our securities portfolio contains approximately $132.8 million in non-agency mortgage backed securities. At December 31, 2009, we recorded an OTTI charge of $91,000 pertaining to this portfolio. Continued economic weakness could result additional other-than-temporary impairment which would have an adverse impact on our financial condition and results of operations.

Any Future FDIC Insurance Premiums Will Adversely Impact Our Earnings.

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. We recorded an expense of $3.6 million during the quarter ended June 30, 2009, to reflect the special assessment. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the appropriate period. In addition, the Federal Deposit Insurance Corporation increased the general assessment rate and, therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase compared to prior periods.

The Federal Deposit Insurance Corporation also issued a final rule pursuant to which all insured depository institutions were required to prepay on December 30, 2009 their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. The assessment rate for the fourth quarter of 2009 and for 2010 was based on each institution s total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 would be equal to the modified third quarter assessment rate plus an additional three basis points. In addition, each institution s base assessment rate for each period was calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. We made a payment of $35.9 million to the Federal Deposit Insurance Corporation on December 30, 2009, and recorded the payment as a prepaid expense, which will be amortized to expense over three years.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income. Our allowance for loan losses of $55.1 million was 0.83% of total loans and 45.80% of non-performing loans at December 31, 2009.

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

Our Inability to Achieve Profitability on New Branches May Negatively Affect Our Earnings.

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

Strong Competition Within Our Market Area May Limit Our Growth and Profitability.

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

If We Declare Dividends on Our Common Stock, Investors Bancorp, MHC Will be Prohibited From Waiving the Receipt of Dividends by Current Federal Reserve Board Policy, Which May Result in Lower Dividends for All Other Stockholders.

The Board of Directors of Investors Bancorp, Inc. has the authority to declare dividends on its common stock, subject to statutory and regulatory requirements. So long as Investors Bancorp, MHC is regulated by the Federal Reserve Board, if Investors Bancorp, Inc. pays dividends to its stockholders, it also will be required to pay dividends to Investors Bancorp, MHC, unless Investors Bancorp, MHC is permitted by the Federal Reserve Board to waive the receipt of dividends. The Federal Reserve Board s current policy does not permit a mutual holding company to waive dividends declared by its subsidiary. Accordingly, because dividends will be required to be paid to Investors Bancorp, MHC along with all other stockholders, the amount of dividends available for all other stockholders will be less than if Investors Bancorp, MHC were permitted to waive the receipt of dividends.

Investors Bancorp, MHC Exercises Voting Control Over Investors Bancorp; Public Stockholders Own a Minority Interest

Investors Bancorp, MHC owns a majority of Investors Bancorp, Inc. s common stock and, through its Board of Directors, exercises voting control over the outcome of all matters put to a vote of stockholders (including the election of directors), except for matters that require a vote greater than a majority. Public stockholders own a minority of the outstanding shares of Investors Bancorp, Inc. s common stock. The same directors and officers who manage Investors Bancorp, Inc. and Investors Savings Bank also manage Investors Bancorp, MHC. In addition, regulatory restrictions applicable to Investors Bancorp, MHC prohibit the sale of Investors Bancorp, Inc. unless the mutual holding company first undertakes a second-step conversion.

We Operate in a Highly Regulated Industry, Which Limits the Manner and Scope of Our Business Activities.

We are subject to extensive supervision, regulation and examination by the New Jersey Department of Banking and by the FDIC. As a result, we are limited in the manner in which we conduct our business, undertake new investments and activities and obtain financing. This regulatory structure is designed primarily for the protection of the DIF and our depositors, and not to benefit our stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. In addition, we must comply with significant anti-money laundering and anti-terrorism laws. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws.

Future Acquisition Activity Could Dilute Book Value

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

At December 31, 2009, the Company and the Bank conducted business from its corporate headquarters in Short Hills, New Jersey, and 65 full-service branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey.

ITEM 3. 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.

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PART II

ITEM 4. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol ISBC . The approximate number of holders of record of Investors Bancorp, Inc. s common stock as of February 19, 2009 was 12,000. Certain shares of Investors Bancorp, Inc. are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for Investors Bancorp, Inc. s common stock for the periods indicated. The following information was provided by the NASDAQ Global Select Market.

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	High	**Low**	**Dividends**	**High**	**Low**	**Dividends**
First Quarter	$13.29	$ 6.86	$	$15.59	$13.17	$
Second Quarter	9.71	8.14		15.75	13.06	
Third Quarter	10.94	8.72		16.15	12.59	
Fourth Quarter	11.15	10.25		15.00	12.39	

Investors Bancorp, Inc. did not pay a dividend during the six months ended December 31, 2009 and the fiscal year ended June 30, 2009.

So long as Investors Bancorp, MHC is regulated by the Federal Reserve Board, if Investors Bancorp, Inc. pays dividends to its stockholders, it also will be required to pay dividends to Investors Bancorp, MHC, unless Investors Bancorp, MHC is permitted by the Federal Reserve Board to waive the receipt of dividends. The Federal Reserve Board s current position is to not permit a bank holding company to waive dividends declared by its subsidiary.

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

The Company completed its acquisition of American Bancorp of New Jersey, Inc. effective May 31, 2009, in which 6.5 million of its common shares were issued.

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Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company s Common Stock for the period beginning October 12, 2005, the date that Investors Bancorp began trading as a public company as reported by the NASDAQ Global Select Market through December 31, 2009, (b) the cumulative total return of publicly traded thrifts over such period, and, (c) the cumulative total return of all publicly traded banks and thrifts over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of $100.

INVESTORS BANCORP, INC.
Total Return Performance

	Period Ending									
Index	**10/12/05**	**12/31/05**	**06/30/06**	**12/31/06**	**06/30/07**	**12/31/07**	**06/30/08**	**12/31/08**	**06/30/09**	**12/31/09**
Investors Bancorp, Inc.	100.00	110.08	135.23	156.99	134.03	141.12	130.34	134.03	91.82	109.18
SNL Bank and Thrift Index	100.00	110.59	116.36	129.22	123.80	98.54	68.68	56.67	48.71	55.91
SNL Thrift Index	100.00	112.84	121.62	131.54	120.31	78.91	62.25	50.22	42.18	46.83

* Source : SNL Financial LC, Charlottesville, VA

The following table reports information regarding repurchases of our common stock during the quarter ended December 31, 2009 and the stock repurchase plans approved by our Board of Directors.

Period	**Total Number of Shares Purchased(1)**	**Average Price paid Per Share**	**As part of Publicly Announced Plans or Programs**	**Yet Be Purchased Under the Plans or Programs**
October 1, 2009 through October 31, 2009		$		2,928,436
November 1, 2009 through November 30, 2009	49,632	10.80	49,632	2,878,804
December 1, 2009 through December 31, 2009				2,878,804
Total	49,632		49,632	

(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 2,878,804 shares yet to be purchased as of December 31, 2009.

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ITEM 5. SELECTED FINANCIAL DATA

The following information is derived in part from the consolidated financial statements of Investors Bancorp, Inc. For additional information, reference is made to Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of Investors Bancorp, Inc. and related notes included elsewhere in this Annual Report.

	At December 31, 2009	2009	2008	At June 30, 2007	2006	2005
			(In thousands)			
Selected Financial Condition Data:						
Total assets	$8,357,816	$8,136,432	$6,419,142	$5,722,026	$5,631,809	$5,142,575
Loans receivable, net	6,615,459	6,143,169	4,670,150	3,624,998	2,995,435	2,028,045
Loans held-for-sale	27,043	61,691	9,814	3,410	974	3,412
Securities held to maturity, net	717,441	846,043	1,255,054	1,578,922	1,835,581	2,128,944
Securities available for sale, at estimated fair value	471,243	355,016	203,032	257,939	538,526	683,701
Bank owned life insurance	114,542	113,191	96,170	92,198	82,603	79,779
Deposits	5,840,643	5,505,747	3,970,275	3,768,188	3,419,361	3,373,291
Borrowed funds	1,600,542	1,730,555	1,563,583	1,038,710	1,245,740	1,313,769
Stockholders equity	850,213	819,283	828,538	858,859	916,291	423,704

	Six Months Ended December 31, 2009	2008 (1) (Unaudited)	2009(1)	Years Ended June 30, 2008	2007(2)	2006(3)	2005(4)
				(In thousands)			
Selected Operating Data:							
Interest and dividend income	$198,272	$ 181,947	$ 368,060	$312,807	$285,223	$252,050	$232,594
Interest expense	90,471	100,299	201,924	207,695	195,263	143,594	128,286
Net interest income	107,801	81,648	166,136	105,112	89,960	108,456	104,308
Provision for loan losses	23,425	13,000	29,025	6,646	729	600	604
Net interest income after provision for loan losses	84,376	68,648	137,111	98,466	89,231	107,856	103,704

Non-interest income (loss)	9,007	(154,258)	(148,430)	7,373	3,175	5,972	(2,080)
Non-interest expenses	56,500	45,181	97,799	80,780	77,617	90,877	107,173
Income (loss) before income tax expense (benefit)	36,883	(130,791)	(109,118)	25,059	14,789	22,951	(5,549)
Income tax expense (benefit)	14,321	(53,323)	(44,200)	9,030	(7,477)	7,610	(2,986)
Net income (loss)	$ 22,562	$ (77,468)	$ (64,918)	$ 16,029	$ 22,266	$ 15,341	$ (2,563)
Earnings (loss) per share basic and diluted(5)	$ 0.21	$ (0.75)	$ (0.62)	$ 0.15	$ 0.20	$ 0.07	n/a

(1) June 30, 2009 year end results and the December 31, 2008 six month results reflect a $158.0 million pre-tax OTTI charge related to our trust preferred securities.

(2) June 30, 2007 year end results reflect a $9.9 million reversal of previously established valuation allowances for deferred tax assets.

(3) June 30, 2006 year end results reflect a pre-tax expense of $20.7 million for the

charitable contribution made to Investors Savings Bank Charitable Foundation as part of our initial public offering.

(4) June 30, 2005 year end results reflect pre-tax expense of $54.0 million attributable to the March 2005 balance sheet restructuring.

(5) Basic and diluted earnings per share for the year ended June 30, 2006 include the results of operations from October 11, 2005, the date the Company completed its initial public offering.

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	At or for the Six Months Ended December 31,		At or for the Years Ended June, 30				
	2009	2008 (Unaudited)	2009	2008	2007	2006	2005
Selected Financial Ratios and Other Data:							
Performance Ratios:							
Return (loss) on assets (ratio of net income or loss to average total assets)	0.55%	(2.24)%	(0.90)%	0.27%	0.39%	0.28%	(0.05)%
(Return (loss) on equity (ratio of net income or loss to average equity)	5.46%	(18.75)%	(8.14)%	1.92%	2.47%	2.00%	(0.62)%
Net interest rate spread(1)	2.49%	2.05%	2.06%	1.28%	1.02%	1.65%	1.82%
Net interest margin(2)	2.72%	2.42%	2.38%	1.81%	1.65%	2.06%	2.00%
Efficiency ratio(3)	48.37%	(62.22)%	552.35%	71.81%	83.34%	79.42%	104.84%
Efficiency ratio (excluding OTTI and FDIC special assessment) (4)	48.33%	53.40%	54.39%	71.55%	83.34%	79.42%	104.84%
Non-interest expenses to average total assets	1.37%	1.30%	1.35%	1.35%	1.38%	1.68%	2.00%
Average interest-earning assets to average interest-bearing liabilities	1.10x	1.13x	1.11x	1.15x	1.18x	1.15x	1.07x
Asset Quality Ratios:							
Non-performing assets to total assets	1.44%	0.67%	1.50%	0.30%	0.09%	0.06%	0.15%
Non-performing loans to total loans	1.81%	0.85%	1.97%	0.42%	0.14%	0.11%	0.39%
Allowance for loan losses to non-performing loans	45.80%	55.53%	38.30%	70.03%	135.00%	193.06%	72.77%
Allowance for loan losses to total loans	0.83%	0.47%	0.76%	0.29%	0.19%	0.21%	0.28%
Capital Ratios:							

Risk-based capital (to risk-weighted assets)(5)	15.78%	17.35%	16.88%	21.77%	25.18%	26.63%	21.72%
Tier I risk-based capital (to risk-weighted assets)(5)	14.70%	16.67%	15.86%	21.37%	24.93%	26.38%	21.44%
Total capital (to average assets)(5)	9.03%	9.04%	9.52%	11.93%	12.52%	12.25%	8.35%
Equity to total assets	10.17%	10.49%	10.07%	12.91%	15.01%	16.27%	8.24%
Average equity to average assets	9.99%	11.92%	11.05%	13.94%	15.97%	14.21%	7.75%
Tangible capital (to tangible assets)	9.83%	10.48%	9.78%	12.89%	15.01%	16.26%	8.24%
Book value per common share	$ 7.67	$ 7.15	$ 7.38	$ 7.87	$ 7.86	$ 8.04	n/a
Other Data:							
Number of full service offices	65	52	58	52	51	51	51
Full time equivalent employees	704	554	647	537	509	510	493

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

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

(3) The efficiency ratio represents non-interest expenses divided

by the sum of net interest income and non-interest income.

(4) Excludes OTTI of \$91,000 and \$157.2 million for the six months ended December 31, 2009 and 2008, respectively and \$158.5 and \$409,000 for the years ended June 30, 2009 and 2008, respectively. Also excludes FDIC special assessment of \$3.6 million at June 30, 2009.

(5) Ratios are for Investors Savings Bank and do not include capital retained at the holding company level.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As one of the largest banks headquartered in New Jersey, we strive to provide high quality products and services in an honest and straightforward manner while operating responsibly and ethically, so that our clients, employees, stockholders and communities may prosper. Effective December 31, 2009, the Company changed its fiscal year end from June 30 to December 31.

2009 was an unprecedented time for the financial services industry. The U.S. economy fell deeper into recession as the disruption of financial and capital markets continued. As a result, a large number of financial institutions remain under pressure with 140 banks going into FDIC receivership in 2009 and the list of problem banks increasing to 706. Although the markets seem to have stabilized in the second half of 2009, depressed consumer spending and unemployment at 25 year highs will be inhibitors of an economic recovery. We have benefited from one of the steeper yield curve environments in recent history which has resulted in our increased profitability.

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This interest rate environment helped to reduce our cost of funds on deposits and wholesale borrowings. Net interest income increased by $26.2 million to $107.8 million for the six months ended December 31, 2009. With our strong capital and liquidity levels we continue to be well positioned to take advantage of opportunities to enhance our franchise.

The disruption in the financial markets has also created other opportunities for us. With many lenders reducing the amount of loans being made, we continued lending to highly qualified borrowers and increased the number of new customers and new loans. While our lending has increased in this difficult environment, we remain focused on maintaining our strict and conservative loan underwriting standards. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. This environment has also helped us to continue our transition to be more commercial bank like with the origination of more commercial, multifamily and business loans. We believe our expansion into this type of lending will provide us with an opportunity to increase net interest income, diversify the loan portfolio, improve our interest rate risk position and add more low cost commercial deposits. While we take advantage of these opportunities and increase our loan portfolio we continue to prudently evaluate the portfolio and provide for potential losses given the current environment. The provision for loan losses recorded during the six months reflects the overall increase in the loan portfolio, the change in portfolio composition, the increase in loan delinquencies, the level of nonperforming loans, loan charge-offs, the internal downgrade of the risk rating on several construction loans, as well as our evaluation of the continued deterioration of the housing and real estate markets and the continued weakness in the overall economy, particularly the high unemployment rate.

Deposit growth has been strong while we continue to change our mix of deposits from certificates of deposits to core deposits. At December 31, 2009 core deposits represented 43.6% of total deposits compared to 40.0% at June 30, 2009 and 26.4% at June 30, 2008. We will continue to invest in branch staff training, new core deposit products and marketing to a diverse client group within our primary market area including municipalities and commercial businesses. Deposit growth and diversification will remain our primary focus.

We have also been successful in expanding our Company through strategic acquisitions and de novo branch growth. In October 2009, we acquired six branch offices from Banco Popular with total deposits of approximately $227 million. The branch offices, located in Essex County New Jersey enhanced the geographic presence of the offices acquired in American Bancorp acquisition in June 2009.

Total non-performing loans, defined as non-accruing loans, decreased by $1.5 million to $120.2 million at December 31, 2009 which are comprised of construction loans of $65.0 million, residential and consumer loans of $51.2 million, commercial loans of $3.4 million and multifamily loans of $600,000. The ratio of non-performing loans to total loans was 1.81% at December 31, 2009 compared to 1.97% at June 30, 2009. The decrease in non-performing loans was attributed to the sale of a previously disclosed $19.4 million multi-family loan for $1.8 million gain and $15.0 million in loan charge-offs. Although we have resolved a number of non-performing loans, the continued deterioration of the housing and real estate markets, as well as the overall weakness in the economy, continue to impact in our non-performing loans. As a geographically concentrated residential lender, we have been affected by negative consequences arising from the ongoing economic recession and, in particular, the sharp downturn in the housing industry, as well as economic and housing industry weaknesses in the New Jersey/New York metropolitan area. Residential loan delinquency has risen as unemployment in our lending area has risen steadily over the past year. We continue to closely monitor the local and regional real estate markets and other factors related to risks inherent in our loan portfolio.

Given our strong capital and liquidity positions, we believe we are well positioned to deal with the current economic conditions while focusing on enhancing shareholder value, providing a high quality client experience with competitively priced products and services to individuals and businesses in the communities we serve. We will continue to explore opportunities to grow the franchise through the acquisition of banks and branch locations.

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 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 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. 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. 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.

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

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current 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 ASC 740, *Income Taxes,* using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Securities Impairment Judgments. Some of our assets are carried on our consolidated balance sheets at cost, at 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 securities 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 securities portfolio, consisting of debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. The market values of our securities are affected principally by changes in market interest rates, changes in the credit ratings of the issuer and credit spreads subsequent to purchase and the illiquidity in the capital markets. When significant changes in fair values occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance.

Goodwill Impairment. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. For purposes of our goodwill impairment testing, we have identified a single reporting unit. We consider the quoted market price of our common stock on our impairment testing date as an initial indicator of estimating the fair value of our reporting unit. In addition, we consider our average stock price, both before and after our impairment test date, as well as market-based control premiums in determining the estimated fair value of our reporting unit. If the estimated fair value of our reporting unit exceeds its carrying amount, further evaluation is not necessary. However, if the fair value of our reporting unit is less than its carrying amount, further evaluation is required to compare the implied fair value of the reporting unit s goodwill to its carrying amount to determine if a write-down of goodwill is required.

Valuation of Mortgage Servicing Rights (MSR). The initial asset recognized for originated MSR is measured at fair value. The fair value of MSR is estimated by reference to current market values of similar loans sold servicing released. MSR are amortized in proportion to and over the period of estimated net servicing income. We apply the amortization method for measurements of our MSR. MSR are assessed for impairment based on fair value at each reporting date. MSR impairment, if any, is recognized in a valuation allowance through charges to earnings. Increases in the fair value of impaired MSR are recognized only up to the amount of the previously recognized valuation allowance.

We assess impairment of our MSR based on the estimated fair value of those rights with any impairment recognized through a valuation allowance. The estimated fair value of the MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market s perception of future interest rate movements. The allowance is then adjusted in subsequent periods to reflect changes in the measurement of impairment. All assumptions are reviewed for reasonableness on a quarterly basis to ensure they reflect current and anticipated market conditions.

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

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

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

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

Comparison of Financial Condition at December 31, 2009 and June 30, 2009

Total Assets. Total assets increased by $221.4 million, or 2.7%, to $8.36 billion at December 31, 2009 from $8.14 billion at June 30, 2009. This increase was largely the result of the growth in our loan portfolio, partially offset by a decrease in cash and cash equivalents as cash was utilized to partially fund loan growth.

Net Loans. Net loans, including loans held for sale, increased by $437.6 million, or 7.1%, to $6.64 billion at December 31, 2009 from $6.20 billion at June 30, 2009. This increase in loans reflects our continued focus on loan originations and purchases which was partially offset by paydowns and payoffs of loans. 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 or option ARMs.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage. During the six month period ended December 31, 2009 we originated $359.1 million in residential mortgage loans. In addition, we purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the six month period ended December 31, 2009, we purchased loans totaling $428.6 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 month period ended December 31, 2009, we purchased $23.7 million of residential mortgage loans that met our underwriting criteria on a bulk purchase basis.

Additionally, for the six month period ended December 31, 2009, we originated $148.4 million in multi-family loans, $301.6 million commercial real estate loans, $56.3 million in construction loans, and $14.6 million in commercial and industrial loans. This activity is consistent with our strategy to diversify our loan portfolio by adding more multi-family and commercial real estate loans.

The allowance for loan losses increased by $8.4 million to $55.1 million at December 31, 2009 from $46.6 million at June 30, 2009. The increase in the allowance is primarily attributable to the higher current period loan loss provision which reflects the overall growth in the loan portfolio, particularly residential multi family and commercial real estate loans; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; and internal downgrades of the risk ratings on certain construction loans; the level of non-performing loans; and the adverse economic environment.

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The comparative table below details non-performing loans and allowance for loan loss coverage ratios over the last four quarters.

	December 31, 2009		September 30, 2009		June 30, 2009		March 31, 2009	
	# of loans	Amount	# of loans	Amount	# of loans	Amount	# of loans	Amount
	(Dollars in Millions)							
Residential and consumer	185	$ 51.2	164	$ 41.0	112	$ 30.0	66	$ 17.5
Multi-family	4	0.6	4	0.6	4	20.1	4	19.8
Commercial	10	3.4	9	3.4	8	2.8	2	1.9
Construction	22	65.0	22	70.5	19	68.8	9	40.9
Total non-performing loans	221	$ 120.2	199	$ 115.5	143	$ 121.7	81	$ 80.1
Non-performing loans to total loans		1.81%		1.82%		1.97%		1.44%
Allowance for loan loss as a percent of non-performing loans		45.80%		46.35%		38.30%		43.10%
Allowance for loan loss as a percent of total loans		0.83%		0.84%		0.76%		0.62%

Non-performing loans decreased $1.5 million to $120.2 million at December 31, 2009, from $121.7 million at June 30, 2009. The decrease in non-performing loans was attributed to the sale of a previously disclosed $19.4 million multi-family loan for $1.8 million gain and $15.0 million in loan charge-offs. Although we have resolved a number of non-performing loans, the continued deterioration of the housing and real estate markets, as well as the overall weakness in the economy, continue to impact our non-performing loans. As a geographically concentrated residential lender, we have been affected by negative consequences arising from the ongoing economic recession and, in particular, the sharp downturn in the housing industry, as well as economic and housing industry weaknesses in the New Jersey/New York metropolitan area. We are particularly vulnerable to the impact of a severe job loss recession. We continue to closely monitor the local and regional real estate markets and other factors related to risks inherent in our loan portfolio.

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, 2009, the Company has four construction loans totaling $43.1 million that it deems potential problem loan. 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 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 $12.4 million, or 1.0%, to $1.19 billion at December 31, 2009, from $1.20 billion at June 30, 2009. During the six months, the Company purchased $180.0 million of agency issued mortgage backed securities as a way to utilize excess liquidity. This increase was offset as the cash flows by our securities portfolio.

The securities portfolio includes non-agency, private label mortgage backed securities with an amortized cost of $136.3 million and a fair value of $131.2 million. These securities were originated in the period 2002-2004 and are performing in accordance with contractual terms. The decrease in fair value for these securities is primarily attributed to changes in market interest rates, however, we recognized a $91,000 pre-tax non-cash OTTI charge relating to one security which was recently downgraded below investment grade. Management will continue to monitor these securities for possible OTTI.

Other Assets, Stock in the Federal Home Loan Bank, Bank Owned Life Insurance, and Intangible Assets. Other assets increased $35.9 million to $37.1 million at December 31, 2009 from $1.3 million at June 30, 2009, which is primarily attributed to the prepayment of FDIC premiums of $35.9 million. The amount of FHLB stock we own decreased by $5.9 million from $72.1 million at June 30, 2009 to $66.2 million at December 31, 2009 as a result of a decrease in our level of borrowings since June 30, 2009. Bank owned life insurance increased by $1.4 million from $113.2 million at June 30, 2009 to $114.5 million at December 31, 2009. Intangible assets increased $5.3 million from $26.4 million at June 30, 2009 to $31.7 million at December 31, 2009 primarily due to the Banco Popular acquisition.

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Deposits. Deposits increased by $334.9 million, or 6.1%, to $5.84 billion at December 31, 2009 from $5.51 billion at June 30, 2009. Core deposits increased by $347.8 million offset by a decrease in certificate of deposits of $12.9 million. We successfully completed the acquisition of six Banco Popular branches and opened two new branch locations. Our deposit gathering efforts continue to be successful in our markets.

Borrowed Funds. Borrowed funds decreased $130.0 million, or 7.5%, to $1.60 billion at December 31, 2009 from $1.73 billion at June 30, 2009. Due to excess liquidity, we were able to repay a number of our borrowings upon maturity.

Stockholders Equity. Stockholders equity increased $30.9 million to $850.2 million at December 31, 2009 from $819.3 million at June 30, 2009. The increase is primarily attributed to the $22.6 million net income for the period.

Analysis of Net Interest Income

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

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

	For Six Months Ended December 31,					
	2009			2008 (Unaudited)		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(In thousands)					
Interest-earning assets:						
Interest-bearing deposits	$ 304,293	$ 346	0.23%	$ 19,221	$ 39	0.41%
Securities available-for-sale(1)	406,462	5,926	2.92	196,848	4,491	4.56
Securities held-to-maturity	779,405	17,404	4.47	1,203,268	27,222	4.52
Net loans	6,370,350	172,575	5.42	5,241,754	148,771	5.68
Stock in FHLB	68,122	2,021	5.93	79,496	1,424	3.58
Total interest-earning assets	7,928,632	198,272	5.00	6,740,587	181,947	5.40
Non-interest-earning assets	335,411			191,168		
Total assets	$ 8,264,043			$ 6,931,755		
Interest-bearing liabilities:						
Savings deposits	$ 835,109	7,615	1.82%	$ 395,448	3,650	1.85%
Interest-bearing checking	802,474	4,426	1.10	371,200	2,842	1.53
Money market accounts	608,710	4,392	1.44	265,074	3,024	2.28
Certificates of deposit	3,321,607	40,144	2.42	2,968,288	53,421	3.60
	5,567,900	56,577	2.03	4,000,010	62,937	3.15

Total interest-bearing deposits						
Borrowed funds	1,643,205	33,894	4.13	1,990,807	37,362	3.75
Total interest-bearing liabilities	7,211,105	90,471	2.51	5,990,817	100,299	3.35
Non-interest-bearing liabilities	226,956			114,409		
Total liabilities	7,438,061			6,105,226		
Stockholders equity	825,982			826,529		
Total liabilities and stockholders equity	$ 8,264,043			$ 6,931,755		
Net interest income		$ 107,801			$ 81,648	
Net interest rate spread(2)			2.49%			2.05%
Net interest-earning assets(3)	$ 717,527			$ 749,770		
Net interest margin(4)			2.72%			2.42%
Ratio of interest-earning assets to total interest-bearing liabilities	1.10x			1.13x		

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

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

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

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

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	For the Years Ended June 30,								
	2009			2008			2007		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Interest-bearing deposits	$ 158,743	$ 393	0.25%	$ 32,948	$ 974	2.96%	$ 25,701	$ 993	3.86%
Repurchase agreements and federal funds sold				5,798	162	2.79			
Securities available-for-sale(1)	197,824	8,968	4.53	235,385	10,826	4.60	406,274	18,006	4.43
Securities held-to-maturity	1,074,279	50,917	4.74	1,438,804	67,977	4.72	1,689,890	80,310	4.75
Net loans	5,482,009	304,678	5.56	4,043,398	229,634	5.68	3,305,807	182,996	5.54
Stock in FHLB	75,938	3,104	4.09	44,939	3,234	7.20	40,304	2,918	7.24
Total interest-earning assets	6,988,793	368,060	5.27	5,801,272	312,807	5.39	5,467,976	285,223	5.22
Non-interest-earning assets	231,122			185,705			170,671		
Total assets	$ 7,219,915			$ 5,986,977			$ 5,638,647		
Interest-bearing liabilities:									
Savings deposits	$ 507,132	10,568	2.08%	$ 372,846	7,718	2.07%	$ 302,331	4,685	1.55
Interest-bearing checking	565,278	11,668	2.06	353,564	7,329	2.07	321,155	7,473	2.33
Money market accounts	310,656	6,466	2.08	204,952	5,005	2.44	185,849	3,596	1.93
Certificates of deposit	3,015,955	100,660	3.34	2,909,550	132,693	4.56	2,719,327	124,382	4.57
Total interest-bearing deposits	4,399,021	129,362	2.94	3,840,912	152,745	3.98	3,528,662	140,136	3.97
Borrowed funds	1,892,181	72,562	3.83	1,208,529	54,950	4.55	1,121,697	55,127	4.91
Total interest-bearing liabilities	6,291,202	201,924	3.21	5,049,441	207,695	4.11	4,650,359	195,263	4.20

Non-interest-bearing liabilities	131,219		102,828		87,946	
Total liabilities	6,422,421		5,152,269		4,738,305	
Stockholders equity	797,494		834,708		900,342	
Total liabilities and stockholders equity	$ 7,219,915		$ 5,986,977		$ 5,638,647	
Net interest income		$ 166,136		$ 105,112		$ 89,960
Net interest rate spread(2)		2.06%		1.28%		1.02%
Net interest-earning assets(3)	$ 697,591		$ 751,831		$ 817,617	
Net interest margin(4)		2.38%		1.81%		1.65%
Ratio of interest-earning assets to total interest-bearing liabilities	1.11x		1.15x		1.18x	

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

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

(3) Net interest-earning assets represent

total interest-earning assets less total interest-bearing liabilities.

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

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Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Six Months Ended December 31, 2009 vs. 2008			Years Ended June 30, 2009 vs. 2008			Years Ended June 30, 2008 vs. 2007		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)								
Interest-earning assets:									
Interest-bearing deposits	$ 365	$ (58)	$ 307	$ 971	$ (1,552)	$ (581)	$ 244	$ (263)	$ (19)
Repurchase agreements				(162)		(162)	162		162
Securities available-for-sale	3,799	(2,364)	1,435	(1,818)	(40)	(1,858)	(7,839)	659	(7,180)
Securities held-to-maturity	(15,169)	5,351	(9,818)	(17,644)	584	(17,060)	(10,946)	(1,387)	(12,333)
Net loans	44,655	(20,851)	23,804	82,755	(7,711)	75,044	43,961	2,677	46,638
Stock in FHLB	(562)	1,159	597	1,638	(1,768)	(130)	334	(18)	316
Total interest-earning assets	33,088	(16,763)	16,325	65,740	(10,487)	55,253	25,916	1,668	27,584
Interest-bearing liabilities:									
Savings deposits	4,097	(132)	3,965	2,798	52	2,850	1,243	1,790	3,033
Interest-bearing checking	3,839	(2,255)	1,584	4,370	(31)	4,339	715	(859)	(144)
Money market accounts	4,530	(3,162)	1,368	2,285	(824)	1,461	397	1,012	1,409
Certificates of deposit	15,138	(28,415)	(13,277)	4,697	(36,730)	(32,033)	8,676	(365)	8,311
Total deposits	27,604	(33,964)	(6,360)	14,150	(37,533)	(23,383)	11,031	1,578	12,609
Borrowed funds	(10,322)	6,854	(3,468)	22,283	(4,671)	17,612	4,111	(4,288)	(177)
Total interest-bearing liabilities	17,282	(27,110)	(9,828)	36,433	(42,204)	(5,771)	15,142	(2,710)	12,432

Increase (decrease) in net interest income	$ 15,806	$ 10,347	$ 26,153	$ 29,307	$ 31,717	$ 61,024	$ 10,774	$ 4,378	$ 15,152

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Comparison of Operating Results for the Six Month Period Ended December 31, 2009 and 2008

Net Income. The net income for the six months ended December 31, 2009 was $22.6 million compared to a net loss of $77.5 million for the six months ended December 31, 2008. The net loss in the prior period included the recognition of non-cash other-than-temporary impairment charges related to our portfolio of pooled bank trust preferred collateralized debt obligations of $156.7 million pre-tax for the six month period.

Net Interest Income. Net interest income increased by $26.2 million, or 32.0%, to $107.8 million for the six months ended December 31, 2009 from $81.6 million for the six months ended December 31, 2008. The increase was caused primarily by a 84 basis point decrease in our cost of interest-bearing liabilities to 2.51% for the six months ended December 31, 2009 from 3.35% for the six months ended December 31, 2008. This was partially offset by a 40 basis point decrease in our yield on interest-earning assets to 5.00% for the six months ended December 31, 2009 from 5.40% for the six months ended December 31, 2008. Our net interest margin improved by 30 basis points from 2.42% for the six months ended December 31, 2008 to 2.72% for the six months ended December 31, 2009. Our net interest margin for the six months ended December 31, 2009 has been positively impacted by a steeper yield curve which allowed us to reduce deposit rates while keeping mortgage rates relatively stable.

Interest and Dividend Income. Total interest and dividend income increased by $16.3 million, or 9.0%, to $198.3 million for the six months ended December 31, 2009 from $181.9 million for the six months ended December 31, 2008. This increase is due to the average balance of interest-earning assets increasing $1.19 billion, or 17.6%, to $7.93 billion for the six months ended December 31, 2009 from $6.74 billion for the six months ended December 31, 2008. This was partially offset by a 40 basis point decrease in the weighted average yield on interest-earning assets to 5.00% for the six months ended December 31, 2009 compared to 5.40% for the six months ended December 31, 2008.

Interest income on loans increased by $23.8 million, or 16.0%, to $172.6 million for the six months ended December 31, 2009 from $148.8 million for the six months ended December 31, 2008, reflecting a $1.13 billion, or 21.5%, increase in the average balance of net loans to $6.37 billion for the six months ended December 31, 2009 from $5.24 billion for the six months ended December 31, 2008. This was partially offset by the average yield on loans decreasing 26 basis points to 5.42% for the six months ended December 31, 2009 from 5.68% for the six months ended December 31, 2008. This is attributed to higher loan refinancing activity as customers took advantage of lower rates primarily on residential mortgage loans and to a lesser extent, the repricing of adjustable rate loans.

Interest income on all other interest-earning assets, excluding loans, decreased by $7.5 million, or 22.5%, to $25.7 million for the six months ended December 31, 2009 from $33.2 million for the six months ended December 31, 2008. This decrease reflected a 113 basis point decrease in the average yield on all other interest-earning assets, excluding loans, to 3.30% for the six months ended December 31, 2009 from 4.43% for the six months ended December 31, 2008. The decrease in yield is primarily attributed to the repricing of our adjustable rate securities and an increase in the average balance of interest bearing deposits which had a yield of 0.23%.

Interest Expense. Total interest expense decreased by $9.8 million, or 9.8%, to $90.5 million for the six months ended December 31, 2009 from $100.3 million for the six months ended December 31, 2008. This decrease was due to the weighted average cost of total interest-bearing liabilities decreasing 84 basis points to 2.51% for the six months ended December 31, 2009 compared to 3.35% for the six months ended December 31, 2008. This was partially offset by the average balance of total interest-bearing liabilities increasing by $1.22 billion, or 20.4%, to $7.21 billion for the six months ended December 31, 2009 from $5.99 billion for the six months ended December 31, 2008.

Interest expense on interest-bearing deposits decreased $6.4 million, or 10.1% to $56.6 million for the six months ended December 31, 2009 from $62.9 million for the six months ended December 31, 2008. This decrease was due to a 112 basis point decrease in the average cost of interest-bearing deposits to 2.03% for the six months ended December 31, 2009 from 3.15% for the six months ended December 31, 2008. This was partially offset by the average balance of interest-bearing deposits increasing $1.57 billion, or 39.2% to $5.57 billion for the six months ended December 31, 2009 from $4.00 billion for the six months ended December 31, 2008.

Interest expense on borrowed funds decreased by $3.5 million, or 9.3%, to $33.9 million for the six months ended December 31, 2009 from $37.4 million for the six months ended December 31, 2008. This decrease is attributed to the average balance of borrowed funds decreasing by $347.6 million or 17.5%, to $1.64 billion for the six months ended

December 31, 2009 from $1.99 billion for the six months ended December 31, 2008. This was partially offset by the average cost of borrowed funds increasing 38 basis points to 4.13% for the six months ended December 31, 2009 from 3.75% for the six months ended December 31, 2008.

Provision for Loan Losses. Our provision for loan losses for the six month period ended December 31, 2009 was $23.4 million compared to $13.0 million for the six month period ended December 31, 2008. Net charge-offs totaled $15.0 million for the six months ended December 31, 2009, compared to net charge-offs of sixteen thousand for the six months ended December 31, 2008. The charges offs during the six months ended December 31, 2009 included 12 construction loans for a total of $13.4 million. All charge-offs were fully reserved for in prior periods. The increase in the allowance is primarily attributable to the higher current period loan loss provision which reflects the overall growth in the loan portfolio, particularly residential multi family and commercial real estate loans; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; and internal downgrades of the risk ratings on certain construction loans; the level of non-performing loans; and the adverse economic environment.

Non-Interest Income. Total non-interest income was $9.0 million for the six months ended December 31, 2009 compared to a loss of $154.3 million for the six months ended December 31, 2008. This difference was largely the result of a $158.0 million loss on securities transactions in the six months ended December 31, 2008 primarily attributed to a $156.7 million OTTI charge mentioned above. Gain on loan sales increased by $4.4 million to $4.5 million for the six months ended December 31, 2009 as management decided to sell lower yielding refinanced residential mortgage loans in the secondary market. In addition we recognized a $1.8 million gain from the sale of a $19.4 million non-performing loan. Fees and service charges also increased $1.5 million to $2.9 million for the six months ended December 31, 2009.

Non-Interest Expenses. Total non-interest expenses increased by $11.3 million, or 25.1%, to $56.5 million for the six months ended December 31, 2009 from $45.2 million for the six months ended December 31, 2008. Compensation and fringe benefits increased during the six months ended December 31, 2009 as a result of staff additions in our commercial real estate, retail banking areas and our mortgage company as well as the accelerated vesting of our Chairman s stock awards upon his death in December 2009. FDIC insurance premiums increased as a result of an increase in our deposits and an increase in the FDIC premium rate. Occupancy expense increased as a result of the costs associated with expanding our branch network.

Income Taxes. Income tax expense was $14.3 million for the six months ended December 31, 2009 representing a 38.8% effective tax rate for the period. For the six months ended December 31, 2008 there was an income tax benefit of $53.3 million which was primarily the result of the OTTI charge taken on our pooled trust preferred securities.

Comparison of Operating Results for the Years Ended June 30, 2009 and 2008

Net Income. The net loss for the year ended June 30, 2009 was $64.9 million compared to net income of $16.0 million for the year ended June 30, 2008. Excluding the FDIC special assessment and the OTTI charges taken during the fiscal year earnings were $31.5 million compared to earnings of $16.3 for the year ended June 30, 2008.

Net Interest Income. Net interest income increased by $61.0 million, or 58.1%, to $166.1 million for the year ended June 30, 2009 from $105.1 million for the year ended June 30, 2008. Our net interest margin also increased by 57 basis points from 1.81% for the year ended June 30, 2008 to 2.38% for the year ended June 30, 2009.

Interest and Dividend Income. Total interest and dividend income increased by $55.3 million, or 17.7%, to $368.1 million for the year ended June 30, 2009 from $312.8 million for the year ended June 30, 2008. This increase was primarily due to a $1.19 billion, or 20.4%, increase in the average balance of interest-earning assets to $6.99 billion for the year ended June 30, 2009 from $5.80 billion for the year ended June 30, 2008. We took advantage of several opportunities to grow assets by purchasing high quality mortgage loans and continued our focus on growing our multifamily loan portfolio. This increase was partially offset by a 12 basis point decrease in the weighted average yield on interest-earning assets to 5.27% for the year ended June 30, 2009 compared to 5.39% for the year ended June 30, 2008.

Interest income on loans increased by $75.0 million, or 32.7%, to $304.7 million for the year ended June 30, 2009 from $229.6 million for the year ended June 30, 2008, reflecting a $1.44 billion, or 35.6%, increase in the average balance of net loans to $5.48 billion for the year ended June 30, 2009 from $4.04 billion for the year ended June 30, 2008. This increase was partially offset by a 12 basis point decrease in the average yield on loans to 5.56% for the year ended June 30, 2009 from 5.68% for the year ended June 30, 2008.

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Interest income on all other interest-earning assets, excluding loans, decreased by $19.8 million, or 23.8%, to $63.4 million for the year ended June 30, 2009 from $83.2 million for the year ended June 30, 2008. This decrease reflected a $251.1 million decrease in the average balance of securities and other interest-earning assets, which is consistent with our strategic plan to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio. In addition, the average yield on securities and other interest-earning assets decreased 52 basis points to 4.21% for the year ended June 30, 2009 from 4.73% for the year ended June 30, 2008.

Interest Expense. Total interest expense decreased by $5.8 million, or 2.8%, to $201.9 million for the year ended June 30, 2009 from $207.7 million for the year ended June 30, 2008. This decrease was primarily due to a 90 basis point decrease in the weighted average cost of total interest-bearing liabilities to 3.21% for the year ended June 30, 2009 compared to 4.11% for the year ended June 30, 2008 partially offset by a $1.24 billion, or 24.6%, increase in the average balance of total interest-bearing liabilities to $6.29 billion for the year ended June 30, 2009 from $5.05 billion for the year ended June 30, 2008.

Interest expense on interest-bearing deposits decreased $23.3 million, or 15.3%, to $129.4 million for the year ended June 30, 2009 from $152.7 million for the year ended June 30, 2008. This decrease was due to a 104 basis point decrease in the average cost of interest-bearing deposits to 2.94% at June 30, 2009 partially offset by a $558.1 million increase in the average balance of interest-bearing deposits.

Interest expense on borrowed funds increased by $17.6 million, or 32.0%, to $72.6 million for the year ended June 30, 2009 from $55.0 million for the year ended June 30, 2008. This increase was primarily due to a $683.7 million, or 56.6%, increase in the average balance of borrowed funds to $1.89 billion for the year ended June 30, 2009 from $1.21 billion for the year ended June 30, 2008. This was partially offset by a 72 basis point decrease in the average cost of borrowed funds to 3.83% for the year ended June 30, 2009 from 4.55% for the year ended June 30, 2009 as lower short term interest rates allowed us to obtain funding at lower interest rates.

Provision for Loan Losses. The provision for loan losses was $29.0 million for the year ended June 30, 2009 compared to $6.6 million for the year ended June 30, 2008. There were net charge-offs of $25,000 for the year ended June 30, 2009 compared to net charge-offs of $31,000 for the year ended June 30, 2008.

Non-Interest Income. Total non-interest income decreased by $155.8 million to a loss of $148.4 million for the year ended June 30, 2009 from income of $7.4 million for the year ended June 30, 2008. This decrease was largely the result of a $159.3 million loss on securities transactions in the year ended June 30, 2009 primarily attributed to a $158.5 million OTTI charge mentioned above. Gain on loan sales increased by $3.7 million to $4.3 million for the year ended June 30, 2009 as management decided to sell lower yielding refinanced residential mortgage loans in the secondary market. Additionally, income associated with our bank owned life insurance decreased $1.1 million resulting from lower market interest rates.

Non-Interest Expenses. Total non-interest expenses increased by $17.0 million, or 21.1%, to $97.8 million for the year ended June 30, 2009 from $80.8 million for the year ended June 30, 2008. This increase was primarily the result of FDIC insurance premiums increasing $8.1 million to $8.6 million for the year ended June 30, 2009. In addition, compensation and fringe benefits increased by $6.2 million, or 11.5%, to $60.1 million for the year ended June 30, 2009. This increase was due to the accelerated vesting of two participants in the equity incentive plan; additional equity incentive plan expense for grants made during 2008; staff additions in our commercial real estate, retail banking areas and our mortgage company. The year ended June 30, 2008 included a $2.3 million gain related to the curtailment and settlement of our postretirement benefit obligation and a $1.1 million compensation expense reduction for employee benefit plans and a $1.5 million non-recurring compensation expense recorded as a result of the merger of Summit Federal for a retirement plan payout and employee retention bonuses.

Income Taxes. Income tax benefit was $44.2 million for the year ended June 30, 2009 representing a 40.51% effective tax benefit rate for the period. The benefit is primarily the result of the OTTI charge taken on our pooled trust preferred securities. For the year ended June 30, 2008 there was an income tax expense of $9.0 million representing an effective tax expense rate of 36.03% for the period.

Comparison of Operating Results for the Years Ended June 30, 2008 and 2007

Net Income. Net income for the year ended June 30, 2008 was $16.0 million compared to net income of $22.3 million for the year ended June 30, 2007. Net income for the year ended June 30, 2007 included a $9.9 million tax benefit, partially offset by a $3.7 million pre-tax loss from a balance sheet restructuring.

Net Interest Income. Net interest income increased by $15.2 million, or 16.8%, to $105.1 million for the year ended June 30, 2008 from $90.0 million for the year ended June 30, 2007. Our net interest margin also increased by 16 basis points from 1.65% for the year ended June 30, 2007 to 1.81% for the year ended June 30, 2008.

The increase in net interest income for the year ended June 30, 2008, was partially attributed to lower short term interest rates and more stable longer term rates. The effect of this steeper yield curve allowed us to lower deposit rates while keeping mortgage rates relatively stable. In addition, we were able to take advantage of several opportunities to purchase high quality residential loans at favorable prices to grow our loan portfolio. The increase was partially offset by the average balance of interest-bearing liabilities increasing for the year ended June 30, 2008.

Interest and Dividend Income. Total interest and dividend income increased by $27.6 million, or 9.7%, to $312.8 million for the year ended June 30, 2008 from $285.2 million for the year ended June 30, 2007. This increase was primarily due to a $333.3 million, or 6.1%, increase in the average balance of interest-earning assets to $5.80 billion for the year ended June 30, 2008 from $5.47 billion for the year ended June 30, 2007. We took advantage of several opportunities to grow assets by purchasing high quality residential mortgage loans, particularly during the fourth quarter. In addition, there was a 17 basis point increase in the weighted average yield on interest-earning assets to 5.39% for the year ended June 30, 2008 compared to 5.22% for the year ended June 30, 2007.

Interest income on loans increased by $46.6 million, or 25.5%, to $229.6 million for the year ended June 30, 2008 from $183.0 million for the year ended June 30, 2007, reflecting a $737.6 million, or 22.3%, increase in the average balance of net loans to $4.04 billion for the year ended June 30, 2008 from $3.31 billion for the year ended June 30, 2007. In addition, the average yield on loans increased to 5.68% for the year ended June 30, 2008 from 5.54% for the year ended June 30, 2007.

Interest income on all other interest-earning assets, excluding loans, decreased by $19.1 million, or 18.6%, to $83.2 million for the year ended June 30, 2008 from $102.2 million for the year ended June 30, 2007. This decrease reflected a $404.3 million decrease in the average balance of securities and other interest-earning assets, which is consistent with our strategic plan to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio. In addition, the average yield on securities and other interest-earning assets remained consistent at 4.73% for the years ended June 30, 2008 and 2007.

Interest Expense. Total interest expense increased by $12.4 million, or 6.4%, to $207.7 million for the year ended June 30, 2008 from $195.3 million for the year ended June 30, 2007. This increase was primarily due to a $399.1 million, or 8.6%, increase in the average balance of total interest-bearing liabilities to $5.05 billion for the year ended June 30, 2008 from $4.65 billion for the year ended June 30, 2007 partially offset by 9 basis point decrease in the weighted average cost of total interest-bearing liabilities to 4.11% for the year ended June 30, 2008 compared to 4.20% for the year ended June 30, 2007.

Interest expense on interest-bearing deposits increased $12.6 million, or 9.0%, to $152.7 million for the year ended June 30, 2008 from $140.1 million for the year ended June 30, 2007. This increase was due to a $312.3 million increase in the average balance of interest-bearing deposits and a 1 basis point increase in the average cost of interest-bearing deposits to 3.98% at June 30, 2008.

Interest expense on borrowed funds decreased by $177,000, or 0.3%, to $55.0 million for the year ended June 30, 2008 from $55.1 million for the year ended June 30, 2007. This decrease was primarily due to a 36 basis point decrease in the average cost of borrowed funds to 4.55% for the year ended June 30, 2008 from 4.91% for the year ended June 30, 2007 reflecting the lower rates available in the wholesale markets for longer term borrowings. This was partially offset by an $86.8 million, or 7.7%, increase in the average balance of borrowed funds to $1.21 billion for the year ended June 30, 2008 from $1.12 billion for the year ended June 30, 2007.

Provision for Loan Losses. The provision for loan losses was $6.6 million for the year ended June 30, 2008 compared to $729,000 for the year ended June 30, 2007.

Non-Interest Income. Total non-interest income increased by $4.2 million to $7.4 million for the year ended June 30, 2008 from $3.2 million for the year ended June 30, 2007. This increase was largely the result of a $682,000 loss on securities transactions in the year ended June 30, 2008 primarily attributed to a $651,000 other-than-temporary impairment charge recorded on the above-mentioned mutual fund investment, compared to a $3.8 million loss on the sale of securities recorded during the year ended June 30, 2007 primarily attributed to a balance sheet restructuring. Additionally, the gain on loan sales increased by $361,000 to $605,000 for the year ended June 30, 2008 from $244,000 for the year ended June 30, 2007 and income associated with our bank owned life insurance increased $223,000. Other non-interest income also increased $246,000 partially due to a $105,000 gain realized on the redemption of the Visa stock received in connection with Visa s initial public offering.

Non-Interest Expenses. Total non-interest expenses increased by $3.2 million, or 4.1%, to $80.8 million for the year ended June 30, 2008 from $77.6 million for the year ended June 30, 2007. This increase was primarily the result of compensation and fringe benefits increasing by $2.7 million, or 5.2%, to $53.9 million for the year ended June 30, 2008. The year ended June 30, 2008 included a $3.9 million increase in expense for the equity incentive plan compared to the prior fiscal year as the plan was in effect for only a portion of fiscal 2007. In addition, there was approximately $1.5 million in non-recurring compensation expense recorded as a result of the merger of Summit Federal for a retirement plan payout and employee retention bonuses. Additionally, the increase reflects staff additions in our commercial real estate, retail banking areas and our mortgage company as well as normal merit increases and increases in employee benefit costs. These increases were partially offset by a $2.3 million gain related to the curtailment and settlement of our postretirement benefit obligation and a $1.1 million compensation expense reduction for employee benefit plans during the year.

Income Taxes. Income tax expense was $9.0 million for the year ended June 30, 2008, as compared to an income tax benefit of $7.5 million for the year ended June 30, 2007. The tax benefit in fiscal 2007 was largely attributable to an $8.7 million reduction in the deferred tax asset valuation allowance. The reduction was primarily the result of the reversal of a substantial portion of the previously-established deferred tax asset valuation allowance, as management determined that it is more likely than not that the deferred tax asset will be recognized.

Management of Market Risk

Qualitative Analysis. We believe one of 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., forward 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 the Company s financial instruments. 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 loan modifications, 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 the Company s assets, liabilities and commitments, 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 assets, liabilities and equity.

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 adjustable- rate first mortgages. At December 31, 2009, approximately 43.8% of our residential portfolio was in adjustable rate products, while 56.2% was in fixed rate products. Our adjustable 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. To help manage our interest rate risk, we have increased our focus on the origination of commercial real estate mortgage loans and multi-family loans. We retain two independent, nationally recognized consulting firms who specialize in asset and liability management to generate our quarterly interest rate risk reports. The consulting firms utilize financial modeling and simulation techniques based on data and assumptions provided by the Company. These methods assist the Company in determining the effects of market rate changes on net interest income and future economic value of equity. The techniques utilized for managing exposure to market rate changes involve a variety of interest rate, pricing and volume assumptions. These assumptions include projections on growth, prepayment speeds, reinvestment rates and deposit decay rates as well as how other embedded options inherently found in financial instruments are affected by changes in market interest rates. The Company reviews and validates these assumptions at least quarterly or more frequently if economic or other conditions change.

The economic value of equity analysis estimates the change in net portfolio value (NPV) given an instantaneous and parallel shift in the yield curve of up to a 200 basis point rising interest rate environment and a 100 basis point declining interest rate environment. NPV is the discounted present value of projected cash flows from assets, liabilities, and off-balance sheet contracts. The net interest income analysis estimates the change in net interest income given a gradual and parallel shift in the yield curve of up to a 200 basis point rising interest rate environment and a 100 basis point declining interest rate environment over a twelve month period. Although stimulated, the likelihood of a 100 basis point decrease in interest rates as of December 31, 2009 was considered to be unlikely given current interest rate levels.

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Quantitative Analysis. The table below sets forth, as of December 31, 2009, the estimated changes in the Company s NPV and the Company s net interest income that would result from the designated changes in interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. The table below reflects the changes in an up 200 basis point environment and a down 100 basis point environment. The down 200 basis point environment is not meaningful given the current interest rate environment and therefore is not included.

	Net Portfolio Value(2)				Net Interest Income Increase (Decrease) in	
Change in Interest Rates (basis points)(1)	**Estimated NPV**	**Estimated Increase (Decrease) Amount**	**Percent**	**Estimated Net Interest Income(3)**	**Estimated Net Interest Income Amount**	**Percent**
			(Dollars in thousands)			
+ 200bp	$ 681,159	$(355,581)	(34.3)%	$238,609	$(7,717)	(3.1)%
0bp	$1,036,740			$246,326		
-100bp	$1,070,561	$ 33,821	3.3%	$249,908	$ 3,581	1.5%

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

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

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

The table set forth above indicates at December 31, 2009, in the event of a 200 basis points increase in interest rates, we would be expected to experience a 34.3% decrease in NPV and a $7.7 million, or 3.1%, decrease in net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 3.3% increase in NPV and a $3.6 million, or 1.5%, increase in net interest income. This data does not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

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. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change. 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 does not reflect any actions we may take in response to changes in interest rates. The table also assumes a particular change in interest rates is reflected uniformly across the yield curve and does not consider varying shapes and slopes of yield curves or varying product spread changes. 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.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of liquidity consist of deposit inflows, loan repayments and maturities and borrowings from the FHLB and others. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. From time to time we may evaluate the sale of securities as a possible liquidity source. Our Interest Rate Risk Committee is responsible for establishing and monitoring our liquidity targets and strategies to ensure that sufficient liquidity exists for meeting the borrowing needs of our customers as well as unanticipated contingencies.

We regularly adjust our investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our primary source of funds is cash provided by principal and interest payments on loans and securities. Principal repayments on loans for the six month periods ended December 31, 2009 and 2008 and for the fiscal years ended June 30, 2009, 2008, and 2007 were

$882.2 million, $324.7 million, $1.19 billion, $599.5 million, and $415.9 million, respectively. Principal repayments on securities for the six month periods ended December 31, 2009 and 2008 and for the fiscal years ended June 30, 2009, 2008, and 2007 were $194.5 million, $140.6 million, $408.6 million, $402.1 million, and $425.0 million, respectively. There were no sales of securities during the six month periods ended December 31, 2009 and 2008 and year ended June 30, 2009. During the years ended June 30, 2008 and 2007 we received proceeds from the sale of securities of $250,000 and $187.7 million, respectively.

In addition to cash provided by principal and interest payments on loans and securities, our other sources of funds include cash provided by operating activities, deposits and borrowings. Net cash provided by operating activities for the six month periods ended December 31, 2009 and 2008 and for the fiscal years ended June 30, 2009, 2008, and 2007 totaled $40.9 million, $28.5 million, $39.1 million, $23.7 million, and $16.0 million, respectively. Excluding deposits from the acquisition of Banco Popular, total deposits had net increases of $107.4 million for the six month period ended December 31, 2009 and $262.4 million during the six month period ended December 31, 2008. Excluding deposits from the acquisition of American Bancorp, total deposits had net increases of $1.02 billion for the fiscal year ended June 30, 2009 and $202.1 million, and $348.8 million for fiscal years ended June 30, 2008 and 2007, respectively. Deposit flows are affected by the overall level of market interest rates, the interest rates and products offered by us and our local competitors, and other factors.

Our net borrowings at December 31, 2009 and 2008, and at June 30, 2009, 2008, 2007 increased/(decreased) $(130) million, $570.0 million, $167.0 million, $524.9 million and $(207.0), respectively. The decrease in borrowings was largely due to strong deposit growth.

Our primary use of funds is for the origination and purchase of loans and the purchase of securities. During the six month periods ended December 2009 and 2008, and fiscal years ended June 30, 2009, 2008 and 2007, we originated loans of $914.3 million, $464.9 million, $963.2 million, $657.5 million, and $382.7 million, respectively. During the six month periods ended December 31, 2009 and 2008, and fiscal years ended June 30, 2009, 2008 and 2007, we purchased loans of $452.3 million, $822.1 million, $1.26 billion, $996.3 million, and $665.2 million, respectively. During the six month periods ended December 31, 2009 and 2008, and fiscal years ended June 30, 2009, 2008 and 2007, we purchased securities of $180.0 million, $0.1 million, $214.3 million, $24.5 million, and $69.1 million, respectively. In addition, we utilized $2.4 million, $1.1 million, $4.5 million, $60.1 million, and $96.7 million during the six month periods ended December 31, 2009 and 2008 and fiscal years ended June 30, 2009, 2008 and 2007, respectively, to repurchase shares of our common stock under our stock repurchase plans.

At December 31, 2009, we had $418.5 million in loan commitments outstanding. In addition to commitments to originate and purchase loans, we had $364.4 million in unused home equity, overdraft lines of credit, and undisbursed business and construction loans. Certificates of deposit due within one year of December 31, 2009 totaled $2.37 billion, or 40.6% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and FHLB advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2010. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. Our most liquid assets are cash and cash equivalents. The levels of these assets depend upon our operating, financing, lending and investing activities during any given period. At December 31, 2009, cash and cash equivalents totaled $73.6 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $471.2 million at December 31, 2009. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB and other financial institutions, which provide an additional source of funds. At December 31, 2009, the Company had a 12-month commitment for overnight and one month lines of credit with the FHLB and other institutions totaling $250 million, of which there were no balances were outstanding under the overnight line of credit or the one month line. The lines of credit are priced at federal funds rate plus a spread (generally between 20 and 40 basis points) and re-price daily.

Investors Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2009, Investors Savings Bank exceeded all regulatory capital requirements. Investors Savings Bank is considered well capitalized under regulatory guidelines. See Item 1 Business Supervision and Regulation Federal Banking Regulation Capital Requirements.

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

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

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2009. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
Contractual Obligations	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**	**Total**
			(In thousands)		
Other borrowed funds	$ 105,000	$ 455,542	$ 240,000	$ 150,000	$ 950,542
Repurchase agreements	250,000	445,000	55,000		750,000
Operating leases	5,392	10,133	8,533	37,605	61,663
Total	$ 360,392	$ 910,675	$ 303,533	$ 187,605	$ 1,762,205

Recent Accounting Pronouncements

In June 2009, the FASB Codification (the Codification) was issued. The Codification is the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have an impact on the Company s consolidated financial condition and results of operations.

In June 2009, the FASB issued ASC 860, an amendment to the accounting and disclosure requirements for transfers of financial assets. The guidance defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. If the transfer does not meet those conditions, a transferor should account for the transfer as a sale only if it transfers an entire financial asset or a group of entire financial assets and surrenders control over the entire transferred asset(s). The guidance requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. This Statement is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is evaluating the impact the adoption of ASC 860 will have on its financial condition, results of operations or financial statement disclosures.

In June 2008, the FASB ratified ASC 840-10, Accounting by Lessees for Nonrefundable Maintenance Deposits . ASC 840-10 requires that all nonrefundable maintenance deposits be accounted for as a deposit with the deposit expensed or capitalized in accordance with the lessee s maintenance accounting policy when the underlying maintenance is performed. Once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it is to be recognized as additional expense at the time such determination is made. ASC 840-10 is effective for fiscal years beginning after July 1, 2009. The adoption of ASC 840-10 did not a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In February 2008, ASC 820-10, Effective Date of ASC 820, was issued. ASC 820-10 delayed the application of ASC 820 Fair Value Measurements and Disclosures for non-financial assets and non-financial liabilities until July 1, 2009. The adoption of ASC 820-10 did not a material impact on the Company s financial condition, results of operations or financial statement disclosures

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In December 2007, the FASB issued ASC 805, Business Combinations. ASC 805 requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. ASC 805 applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under ASC 805, all business combinations will be accounted for by applying the acquisition method. The adoption of ASC 805 on July 1, 2009 did not have a material impact on the Company s consolidated financial statements.

In June 2008, ASC 260-10 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, 2009. The adoption of ASC 260-10 on July 1, 2009 did not have a material impact on the Company s consolidated financial statements.

Impact of Inflation and Changing Prices

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

ITEM 6A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For information regarding market risk see Item 6- Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements are included in Part IV, Item 14 of this Form 10-K.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 8A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

With the participation of management, the Principal Executive Officer and Principal Financial Officer have evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2009. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of that date, the Company s disclosure controls and procedures are effective 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.

(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting and we identified no material weaknesses requiring corrective action with respect to those controls.

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

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

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

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

Investors Bancorp s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of December 31, 2009, the Company s internal control over financial reporting is effective based on those criteria.

Investors Bancorp s independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. This report appears on page 66.

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

ITEM 8B. OTHER INFORMATION

Not Applicable.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding directors, executive officers and corporate governance of the Company is incorporated herein by reference in the Company s definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders.

ITEM 10. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference in the Company s definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference in the Company s definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders. Information regarding equity compensation plans is incorporated here in by reference in the Company s definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders.

ITEM 12. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions, and director independence is incorporated herein by reference in the Company s definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders.

ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accounting fees and services is incorporated herein by reference in Investors Bancorp s definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders.

ITEM 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Investors Bancorp, Inc.
Short Hills, New Jersey:

We have audited the accompanying consolidated balance sheets of Investors Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2009, June 30, 2009 and June 30, 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for the six-month period ended December 31, 2009, and for each of the years in the three-year period ended June 30, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Investors Bancorp, Inc. and subsidiary as of December 31, 2009, June 30, 2009 and June 30, 2008, and the results of their operations and their cash flows for the six-month period ended December 31, 2009, and for each of the years in the three-year period ended June 30, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the Company changed its method of evaluating other-than-temporary impairments of debt securities due to the adoption of new accounting requirements issued by the FASB, as of April 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
Short Hills, New Jersey
March 1, 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Investors Bancorp, Inc.
Short Hills, New Jersey:

We have audited the internal control over financial reporting of Investors Bancorp, Inc. and subsidiary (the Company) as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Investors Bancorp, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Investors Bancorp, Inc. and subsidiary as of December 31, 2009, June 30, 2009 and June 30, 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for the six-month period ended December 31, 2009 and for each of the years in the three-year period ended June 30, 2009, and our report dated March 1, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Short Hills, New Jersey
March 1, 2010

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 2009	June 30, 2009	June 30, 2008
		(In thousands)	
ASSETS			
Cash and cash equivalents	$ 73,606	317,757	22,823
Securities available-for-sale, at estimated fair value (notes 4 and 9)	471,243	355,016	203,032
Securities held-to-maturity, net (estimated fair value of $753,405, $861,302 and $1,198,053 at December 31, 2009, June 30, 2009 and June 30, 2008, respectively) (notes 4 and 9)	717,441	846,043	1,255,054
Loans receivable, net (note 5)	6,615,459	6,143,169	4,670,150
Loans held-for-sale	27,043	61,691	9,814
Stock in the Federal Home Loan Bank	66,202	72,053	60,935
Accrued interest receivable (note 6)	36,942	37,291	27,716
Office properties and equipment, net (note 7)	49,384	44,142	29,710
Net deferred tax asset (note 10)	117,143	118,455	40,702
Bank owned life insurance (note 1)	114,542	113,191	96,170
Intangible assets	31,668	26,365	922
Other assets	37,143	1,259	2,114
	$ 8,357,816	8,136,432	6,419,142
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities:			
Deposits (note 8)	$ 5,840,643	5,505,747	3,970,275
Borrowed funds (note 9)	1,600,542	1,730,555	1,563,583
Advance payments by borrowers for taxes and insurance	29,675	26,839	21,829
Other liabilities	36,743	54,008	34,917
Total liabilities	7,507,603	7,317,149	5,590,604
Commitments and contingencies (note 12)			
Stockholders equity (notes 3 and 15):			
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; 114,448,888, 114,692,020 and 109,010,756 outstanding at December 31, 2009, June 30, 2009 and June 30, 2008, respectively	532	532	532
Additional paid-in capital	530,133	524,463	514,613
Retained earnings	422,211	399,672	486,244
	(44,810)	(42,447)	(128,977)

Treasury stock, at cost; 3,571,392, 3,328,260 and 9,009,524 shares at December 31, 2009, June 30, 2009 and June 30, 2008, respectively			
Unallocated common stock held by the employee stock ownership plan	(35,451)	(36,160)	(37,578)
Accumulated other comprehensive loss	(22,402)	(26,777)	(6,296)
Total stockholders equity	850,213	819,283	828,538
Total liabilities and stockholders equity	$ 8,357,816	8,136,432	6,419,142

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Six-Month Period Ended December 31, 2009	Six-Month Period Ended December 31, 2008 (Unaudited)	Years Ended June 30, 2009	Years Ended June 30, 2008	Years Ended June 30, 2007
	(In thousands, except per share data)				
Interest and dividend income:					
Loans receivable and loans held-for-sale	$ 172,575	148,771	304,678	229,634	182,996
Securities:					
Government-sponsored enterprise obligations	453	991	1,587	4,662	5,851
Mortgage-backed securities	21,431	26,273	49,531	62,919	80,712
Equity securities available-for-sale		63	64	287	1,786
Municipal bonds and other debt	1,446	4,386	8,703	10,935	9,967
Interest-bearing deposits	346	39	393	974	993
Repurchase agreements				162	
Federal Home Loan Bank stock	2,021	1,424	3,104	3,234	2,918
Total interest and dividend income	198,272	181,947	368,060	312,807	285,223
Interest expense:					
Deposits (note 8)	56,577	62,937	129,362	152,745	140,136
Secured borrowings	33,894	37,362	72,562	54,950	55,127
Total interest expense	90,471	100,299	201,924	207,695	195,263
Net interest income	107,801	81,648	166,136	105,112	89,960
Provision for loan losses (note 5)	23,425	13,000	29,025	6,646	729
Net interest income after provision for loan losses	84,376	68,648	137,111	98,466	89,231
Non-interest income (loss):					
Fees and service charges	2,938	1,452	3,174	3,022	2,762
Income on bank owned life insurance (note 1)	1,301	1,984	2,910	3,972	3,749
Gain on sales of mortgage loans, net	4,454	66	4,343	605	244
Loss on securities, net (note 4) (a)	(112)	(157,971)	(159,266)	(682)	(3,790)
Other income	426	211	409	456	210

Total non-interest income (loss)		9,007	(154,258)	(148,430)	7,373	3,175
Non-interest expenses:						
Compensation and benefits (note 11)		32,713	29,743	60,085	53,886	51,221
Advertising and promotional expense		1,860	1,760	3,635	2,736	3,310
Office occupancy and equipment expense (notes 7 and 12)		7,778	5,542	11,664	10,888	10,470
Federal deposit insurance premiums		4,815	1,357	8,557	445	451
Stationery, printing, supplies and telephone		1,369	1,035	2,088	1,869	1,688
Professional fees		1,861	1,190	2,319	2,008	2,094
Data processing service fees		2,729	2,235	4,588	4,730	4,315
Other operating expenses		3,375	2,319	4,863	4,218	4,068
Total non-interest expenses		56,500	45,181	97,799	80,780	77,617
Income (loss) before income tax expense (benefit).		36,883	(130,791)	(109,118)	25,059	14,789
Income tax expense (benefit) (note 10)		14,321	(53,323)	(44,200)	9,030	(7,477)
Net income (loss)	$	22,562	(77,468)	(64,918)	16,029	22,266
Basic and diluted earnings (loss) per share	$	0.21	(0.75)	(0.62)	0.15	0.20
Weighted average shares outstanding (note 18)						
Basic		109,862,617	103,872,522	104,530,402	105,447,910	111,730,234
Diluted		109,989,048	103,872,522	104,530,402	105,601,764	112,012,064

(a) Loss on securities of $35.7 million in fiscal year ended June 30, 2009 and the six-month period ended December 31, 2008 was determined to be a non-credit related OTTI charge upon the adoption of

ASC 320. For the six-month period ended December 31, 2009, a $1.1 million non-credit related loss is reflected in accumulated other comprehensive income.

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity
Six-Months Ended December 31, 2009 and
Years ended June 30, 2009, 2008 and 2007

	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, 2006	$ 532	524,972	442,687		(40,414)	(11,486)	916,291
Comprehensive income:							
Net income			22,266				22,266
Change in minimum pension liability, net of tax expense of $245						368	368
Unrealized gain on securities available-for-sale, net of tax expense of $3,273						5,068	5,068
Reclassification adjustment for losses included in net income, net of tax benefit of $1,347						2,075	2,075
Total comprehensive income							29,777
Cumulative effect of change in accounting for bank owned life insurance			5,564				5,564
Purchase of treasury stock (6,473,695 shares)				(96,706)			(96,706)
Treasury stock allocated to restricted stock plan		(25,421)	(312)	25,733			
Funded status of postretirement plans upon adoption of ASC 715, net of tax benefit of $2,638						(3,960)	(3,960)

Compensation cost for stock options and restricted stock		5,821					5,821
ESOP shares allocated or committed to be released		654			1,418		2,072
Balance at June 30, 2007	$ 532	506,026	470,205	(70,973)	(38,996)	(7,935)	858,859
Comprehensive income:							
Net income			16,029				16,029
Change in funded status of postretirement plan due to plan curtailment and settlement, net of tax expense of $891						1,337	1,337
Change in funded status of retirement obligations, net of tax benefit of $107						(169)	(169)
Unrealized loss on securities available-for-sale, net of tax expense of $260						(208)	(208)
Reclassification adjustment for losses included in net income						679	679
Total comprehensive income							17,668
Cumulative effect adjustment upon adoption of FIN 48			300				300
Purchase of treasury stock (4,339,530 shares)				(60,124)			(60,124)
Treasury stock allocated to restricted stock plan		(1,830)	(290)	2,120			
Compensation cost for stock options and restricted stock		9,814					9,814
ESOP shares allocated or		603			1,418		2,021

committed to be released							
Balance at June 30, 2008	$ 532	514,613	486,244	(128,977)	(37,578)	(6,296)	828,538
Comprehensive income:							
Net loss			(64,918)				(64,918)
Change in funded status of retirement obligations, net of tax benefit of $431						(638)	(638)
Unrealized gain on securities available-for-sale, net of tax expense of $728						808	808
Reclassification adjustment for losses included in net income						457	457

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	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)			
Total comprehensive loss							(64,291)
Cumulative effect of initial application of ASC 320 on other-than-temporary-impairment net of tax benefit of $14,577			21,108			(21,108)	
Common stock issued out of treasury stock to finance acquisition (6,503,897 shares)			(42,520)	93,250			50,730
Purchase of treasury stock (947,633 shares)				(8,673)			(8,673)
Treasury stock allocated to restricted stock plan		(1,711)	(242)	1,953			
Compensation cost for stock options and restricted stock		11,330					11,330
ESOP shares allocated or committed to be released		231			1,418		1,649
Balance at June 30, 2009	$ 532	524,463	399,672	(42,447)	(36,160)	(26,777)	819,283
Comprehensive income:							
Net income			22,562				22,562
Change in funded status of retirement obligations, net of tax expense of $645						969	969
Unrealized gain on securities available-for-sale, net of tax expense of $1,875						2,917	2,917
Reclassification adjustment for losses included in net income, net of tax expense of $37						54	54
Other-than-temporary impairment accretion on debt securities, net of tax expense of $300						435	435
Total comprehensive income							26,937
Purchase of treasury stock (248,132 shares)				(2,436)			(2,436)
Treasury stock allocated to restricted stock plan		(50)	(23)	73			
Compensation cost for stock options and restricted stock		5,708					5,708

ESOP shares allocated or committed to be released		12			709		721
Balance at December 31, 2009	$ 532	530,133	422,211	(44,810)	(35,451)	(22,402)	850,213

See accompanying notes to consolidated financial statements.

INVESTORS BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Six-Month Period Ended December 31, 2009	Six-Month Period Ended December 31, 2008 (Unaudited)	Years Ended June 30, 2009	Years Ended June 30, 2008	Years Ended June 30, 2007
	(In thousands)				
Cash flows from operating activities:					
Net income (loss)	$ 22,562	(77,468)	$ (64,918)	16,029	22,266
Adjustments to reconcile net income to net cash provided by operating activities:					
ESOP and stock-based compensation expense	6,429	6,264	12,979	11,835	7,893
Accretion of discounts and amortization of premiums on securities, net	3,242	258	(520)	993	1,552
Amortization of premiums and accretion of fees and costs on loans, net	3,564	1,249	6,599	2,389	1,881
Amortization of intangible assets	366		70		
Provision for loan losses	23,425	13,000	29,025	6,646	729
Depreciation and amortization of office properties and equipment	1,980	1,005	2,725	2,760	2,937
Loss on securities, net	21	157,971	159,266	682	3,790
Other-than-temporary impairment losses on securities	91				
Mortgage loans originated for sale	(288,647)	(203,728)	(753,264)	(139,487)	(41,887)
Proceeds from mortgage loan sales	325,928	196,673	712,295	133,688	39,934
Gain on sales of mortgage loans, net	(2,633)	(66)	(4,343)	(605)	(244)
Gain on sale of REO	(38)				
Income on bank owned life insurance	(1,301)	(1,984)	(2,910)	(3,972)	(3,749)
Decrease (increase) in accrued interest receivable	349	(5,215)	(7,123)	(2,898)	(3,247)
Deferred tax benefit	1,595	(66,203)	(65,275)	(1,602)	(14,016)
(Increase) decrease in other assets	(36,604)	251	242	(1,742)	(236)
(Decrease) increase in other liabilities	(19,394)	6,485	14,232	(1,038)	(1,580)
Total adjustments	18,373	105,960	103,998	7,649	(6,243)
Net cash provided by operating activities	40,935	28,492	39,080	23,678	16,023
Cash flows from investing activities:					
Purchases of loans receivable	(452,295)	(822,110)	(1,264,804)	(996,320)	(665,166)
Net (originations) repayments of loans receivable	(66,342)	(140,174)	226,936	(58,005)	32,788
	106			138	

Net proceeds from sale of foreclosed real estate					
Proceeds from sale of non performing loan	21,178				
Gain on sale of loan	(1,820)				
Mortgage-backed securities available-for-sale received in like-kind exchange		(3,911)			
Purchases of mortgage-backed securities held-to-maturity					(22,696)
Purchases of debt securities held-to-maturity				(23,118)	(46,362)
Purchases of mortgage-backed securities available for sale	(179,756)		(104,186)		
Purchases of other investments available-for-sale	(250)	(100)	(100)	(1,400)	
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	125,721	95,436	221,680	247,018	290,649
Proceeds from calls/maturities on debt securities held-to-maturity	2,660	19,612	19,553	98,876	10,137
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	61,110	20,797	56,345	56,205	89,170
Proceeds from sales of mortgage-backed securities held-to-maturity					22,942
Proceeds from sales of mortgage-backed securities available-for-sale					161,112
Proceeds from maturities of US Government and Agency Obligations available-for-sale	5,000				
Purchase of US Government and Agency Obligations held to maturity			(109,997)		
Proceeds from maturities of US Government and Agency Obligations held to maturity	155		120,120		

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	Six-Month Period Ended December 31, 2009	2008 (Unaudited)	Years Ended June 30, 2009	2008	2007
	(In thousands)				
Redemption of equity securities available-for-sale		4,774	863		
Proceeds from sales of equity securities available-for-sale				250	3,681
Proceeds from call of equity securities available-for-sale					35,000
Proceeds from redemptions of Federal Home Loan Bank stock	10,756	30,578	53,349	35,208	48,908
Purchases of Federal Home Loan Bank stock	(4,905)	(56,228)	(61,950)	(62,074)	(36,651)
Purchases of office properties and equipment	(5,122)	(4,805)	(9,055)	(3,818)	(2,098)
Purchase of bank owned life insurance					(282)
Cash consideration paid for acquisitions, net of cash received	220,944		(4,225)		
Net cash used in investing activities	(262,860)	(856,131)	(855,471)	(707,040)	(78,868)
Cash flows from financing activities:					
Net increase in deposits	107,387	262,363	1,017,256	202,087	348,827
Net (decrease) increase in funds borrowed under short-term repurchase agreements		(25,000)	(25,000)	(135,000)	(165,000)
Proceeds from funds borrowed under other repurchase agreements		55,000	90,000	640,000	360,000
Repayments of funds borrowed under other repurchase agreements	(110,000)	(120,000)	(205,000)	(210,000)	(585,000)
Net (decrease) increase in other borrowings	(20,013)	659,986	235,249	229,873	182,970
Net increase in advance payments by borrowers for taxes and insurance	2,836	256	3,299	3,767	2,354
Purchase of treasury stock	(2,436)	(1,097)	(4,479)	(60,124)	(96,706)
Net cash (used in) provided by financing activities	(22,226)	831,508	1,111,325	670,603	47,445
Net (decrease) increase in cash and cash equivalents	(244,151)	3,869	294,934	(12,759)	(15,400)
Cash and cash equivalents at beginning of year	317,757	22,823	22,823	35,582	50,982
	$ 73,606	26,692	317,757	22,823	35,582

Cash and cash equivalents at end of year						
Supplemental cash flow information:						
Noncash investing activities:						
Real estate acquired through foreclosure	$	68			138	
Cash paid during the year for:						
Interest	$	91,055	98,126	201,081	205,660	196,170
Income taxes	$	14,574	8,815	22,989	9,217	9,662
Fair value of assets acquired	$	2,230		628,847		
Goodwill and core deposit intangible	$	4,850		21,549		
Liabilities assumed	$	228,024		595,440		
Common stock issued for American Bancorp of NJ acquisition	$			50,730		

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2009 and June 30, 2009, 2008 and 2007

(1) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The consolidated financial statements are composed of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiary, Investors Savings Bank (Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

In January 1997, the Bank completed a Plan of Mutual Holding Company Reorganization, utilizing the multi-tier mutual holding company structure. In a series of steps, the Bank formed a Delaware-chartered stock corporation (Investors Bancorp, Inc.) which owned 100% of the common stock of the Bank and formed a New Jersey-chartered mutual holding company (Investors Bancorp, MHC) which initially owned all of the common stock of Investors Bancorp, Inc. On October 11, 2005, Investors Bancorp, Inc. completed an initial public stock offering. See Note 3.

Effective December 31, 2009, the Company changed its fiscal year end from June 30 to December 31. The six month period ended December 31, 2009 is the Company s transitional period for its change in fiscal year end.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The estimate of our allowance for loan losses, the valuation of mortgage servicing rights (MSR), impairment judgments regarding goodwill, and fair value and impairment of securities are particularly critical because they involve a higher degree of complexity and subjectivity and require estimates and assumptions about highly uncertain matters. Actual results may differ from our estimates and assumptions.

Business

Investors Bancorp, Inc. s primary business is holding the common stock of the Bank and a loan to the Investors Savings Bank Employee Stock Ownership Plan.

The Bank provides banking services to customers primarily through branch offices in New Jersey. The Bank is subject to competition from other financial institutions and is subject to the regulations of certain federal and state regulatory authorities and undergoes periodic examinations by those regulatory authorities.

(b) Cash Equivalents

Cash equivalents consist of cash on hand, amounts due from banks and interest-bearing deposits in other financial institutions. The Company is required by the Federal Reserve System to maintain cash reserves equal to a percentage of certain deposits. The reserve requirement totaled $2.0 million at December 31, 2009 and $5.0 million at June 30, 2009. Prior to October 2008, we did not receive interest on our cash reserves at the Federal Reserve Bank. Effective October 1, 2008 as a result of the Emergency Economic Stabilization Act of 2008, we began earning interest on our cash reserves at a rate of interest indexed to the target federal funds rates.

(c) Securities

Securities include securities held-to-maturity and securities available-for-sale. Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent not to sell and the Company would not be required to sell prior to maturity, they are classified as held-to-maturity securities. Such securities are stated at amortized cost, adjusted for unamortized purchase premiums and discounts. Securities in the available-for-sale category are debt and mortgage-backed securities which the Company may sell prior to maturity, and all marketable equity securities. Available-for-sale securities are reported at fair value with any unrealized appreciation or depreciation, net of tax effects, reported as accumulated other comprehensive income/loss in stockholders equity. Discounts and premiums on securities are accreted or amortized using the level-yield method over the estimated lives of the securities, including the effect of prepayments. Realized gains and losses are recognized when securities are sold or called using the specific identification method.

The Company periodically evaluates the security portfolio to determine if a decline in the fair value of any security below its cost basis is other-than-temporary. Our evaluation of other-than-temporary impairment considers the duration and severity of the impairment, our intent and ability to hold the securities and our assessments of the reason for the decline in value and the likelihood of a near-term recovery. If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

(d) Loans Receivable, Net

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

The allowance for loan losses is increased by the provision for loan losses charged to earnings and is decreased by charge-offs, net of recoveries. The provision for loan losses is based on management s evaluation of the adequacy of the allowance which considers, among other things, the Company s past loan loss experience, known and inherent risks in the portfolio, existing adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and current economic conditions. While management uses available information to recognize estimated losses on loans, future additions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based upon their judgments and information available to them at the time of their examinations.

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

The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. The Company considers the population of loans in its impairment analysis to include commercial real estate, multi-family and construction loans with an outstanding balance greater than $3.0 million and on non-accrual status. Impaired loans are individually assessed to determine that the loan s carrying value is not in excess of the fair value of the collateral or the present value of the expected future cash flows. Smaller balance homogeneous loans are evaluated for impairment collectively unless they are modified in a trouble debt restructure. Such loans include residential mortgage loans, installment loans, and loans not meeting the Company s definition of impaired, and are specifically excluded from impaired loans.

(e) Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Net unrealized losses, if any, are recognized in a valuation allowance through charges to earnings. Premiums and discounts and origination

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fees and costs on loans held-for-sale are deferred and recognized as a component of the gain or loss on sale. Gains and losses on sales of loans held-for-sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of the loans. These transactions are accounted for as sales based on our satisfaction of the criteria for such accounting which provide that, as transferor, we have surrendered control over the loans.

(f) Federal Home Loan Bank Stock

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

(g) Office Properties and Equipment, Net

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

(h) Bank Owned Life Insurance

Bank owned life insurance is carried at the amount that could be realized under the Company s life insurance contracts as of the date of the consolidated balance sheets and is classified as a non-interest earning asset. Increases in the carrying value are recorded as non-interest income in the consolidated statements of income and insurance proceeds received are generally recorded as a reduction of the carrying value. The carrying value consists of cash surrender value of $106.7 million at December 31, 2009 and $105.8 million at June 30, 2009 and $90.2 million at June 30, 2008, claims stabilization reserve of $7.2 million at December 31, 2009, $6.5 million at June 30, 2009 and $4.7 million at June 30, 2008 and deferred acquisition costs of $685,000 at December 31, 2009, $900,000 at June 30, 2009 and $1.2 million at June 30, 2008. Repayment of the claims stabilization reserve (funds transferred from the cash surrender value to provide for future death benefit payments) and the deferred acquisition costs (costs incurred by the insurance carrier for the policy issuance) is guaranteed by the insurance carrier provided that certain conditions are met at the date of a contract is surrendered. The Company satisfied these conditions at December 31, 2009, June 30, 2009 and 2008.

(i) Intangible Assets

Goodwill. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. For purposes of our goodwill impairment testing, we have identified the Bank as the reporting unit. We consider the quoted market price of our common stock on our impairment testing date as an initial indicator of estimating the fair value of our reporting unit. In addition, we consider our average stock price, both before and after our impairment test date, as well as market-based control premiums in determining the estimated fair value of our reporting unit. If the estimated fair value of our reporting unit exceeds its carrying amount, further evaluation is not necessary. However, if the fair value of our reporting unit is less than its carrying amount, further evaluation is required to compare the implied fair value of the reporting unit s goodwill to its carrying amount to determine if a write-down of goodwill is required.

Mortgage Servicing Rights. The Company recognizes as separate assets the rights to service mortgage loans. The right to service loans for others is generally obtained through the sale of loans with servicing retained. The initial asset recognized for originated MSR is measured at fair value. The fair value of MSR is estimated by reference to current market values of similar loans sold servicing released. MSR are amortized in proportion to and over the period of estimated net servicing income. We apply the amortization method for measurements of our MSR. MSR are assessed for impairment based on fair value at each reporting date. MSR impairment, if any, is recognized in a valuation allowance through charges to earnings. Increases in the fair value of impaired MSR are recognized only up to the amount of the previously recognized valuation allowance. Fees earned for servicing loans are reported as income when the related mortgage loan payments are collected.

Core Deposit Premiums. Core deposit premiums represent the intangible value of depositor relationships assumed in purchase acquisitions and are amortized on an accelerated basis over 10 years.

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(j) Real Estate Owned

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

(k) Borrowed Funds

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

The Bank also obtains advances from the FHLB, which are secured primarily by stock in the FHLB, and mortgage loans and mortgage-backed securities under a blanket collateral pledge agreement.

(l) Income Taxes

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

(m) Employee Benefits

The Company has a defined benefit pension plan which covers all employees who satisfy the eligibility requirements. The Company participates in a multiemployer plan. Costs of the pension plan are based on the contributions required to be made to the program.

The Company has a Supplemental Employee Retirement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to all employees of the Company if their benefits and/or contributions under the pension plan are limited by the Internal Revenue Code. The Company also has a nonqualified, defined benefit plan which provides benefits to its directors. The SERP and the directors plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The Company also 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 related to the postretirement benefit plan and recognized a pre-tax gain of $2.3 million as a reduction of compensation and fringe benefits expense in the consolidated statements of income.

The Company has a 401(k) plan covering substantially all employees. The Company matches 50% of the first 6% contributed by participants and recognizes expense as its contributions are made.

The employee stock ownership plan (ESOP) is accounted for in accordance with the provisions of Statement ASC 718-40, Employers Accounting for Employee Stock Ownership Plans. The funds borrowed by the ESOP from the Company to purchase the Company s common stock are being repaid from the Bank s contributions over a period of up to 30 years. The Company s common stock not yet allocated to participants is recorded as a reduction of stockholders equity at cost.

Compensation expense for the ESOP is based on the market price of the Company s stock and is recognized as shares are committed to be released to participants.

The Company recognizes the grant-date fair value of stock based awards issued to employees as compensation cost in the statement of operations. Compensation cost related to stock based awards is recognized on a straight-line basis over the requisite service periods. The fair value of stock based awards is based on the closing price market value as reported on the NASDAQ Stock Market on the grant date.

(n) Earnings Per Share

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

Diluted EPS is computed using the same method as basic EPS, but includes the effect of all potentially dilutive common shares that were outstanding during the period, such as unexercised stock options and unvested shares of restricted stock, calculated using the treasury stock method. When applying the treasury stock method, we add: (1) the assumed proceeds from option exercises; (2) the tax benefit that would have been credited to additional paid-in capital assuming exercise of non-qualified stock options and vesting of shares of restricted stock; and (3) the average unamortized compensation costs related to unvested shares of restricted stock and stock options. We then divide this sum by our average stock price to calculate shares repurchased. The excess of the number of shares issuable over the number of shares assumed to be repurchased is added to basic weighted average common shares to calculate diluted EPS.

(2) Business Combinations

On October 16, 2009, the Company completed the acquisition of six New Jersey bank branches and approximately $227.0 million of deposits from Banco Popular North America. The acquisition was accounted for under the acquisition method of accounting as prescribed by ASC 805, Business Combinations, as amended. The Company did not purchase any loans as part of the transaction. The transaction generated approximately $4.9 million in goodwill.

On May 31, 2009, the Company completed the acquisition of American Bancorp of New Jersey, Inc. (American), the holding company of American Bank of New Jersey, a federal savings bank with approximately $670 million in assets and five full-service branches in northern New Jersey. The acquisition was accounted for under the purchase method of accounting as prescribed by ASC 805, Business Combinations, as amended. Accordingly, American s results of operations have been included in the Company s results of operations since the date of acquisition. Under this method of accounting, the purchase price is allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired is recorded as goodwill. The purchase price of $98.2 million was paid through a combination of the Company s common stock (6,503,897 shares) and cash of $47.5 million. The transaction generated approximately $17.6 million in goodwill and $3.9 million in core deposit intangibles subject to amortization beginning June 1, 2009. American Bank was merged into the Bank as of the acquisition date.

On June 6, 2008, Investors Bancorp, MHC, the Company s New Jersey chartered mutual holding Company, completed its merger of Summit Federal Bankshares, MHC, a federally chartered mutual holding company. The merger was a combination of mutual enterprises and therefore was accounted for using the pooling-of-interests method. All financial information prior to the merger date has been restated to include amounts for Summit Federal for all periods presented. At the merger date, Summit Federal had assets of $110.1 million. The effect of the merger on the Company s consolidated financial condition and results of operations was immaterial. In connection with the merger, the Company, as required by the Office of Thrift Supervision (OTS), issued 1,744,592 additional shares of its common stock to Investors Bancorp, MHC.

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(3) Stock Transactions

Stock Offering

The Company completed its initial public stock offering on October 11, 2005 selling 51,627,094 shares, or 44.40% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by Investors Savings Bank Employee Stock Ownership Plan. Upon completion of the initial public offering, Investors Bancorp, MHC, a New Jersey chartered mutual holding company held 64,844,373 shares, or 54.94% of the Company s outstanding common stock (shares restated to include the shares issued in the Summit Federal merger). Additionally, the Company contributed $5.2 million in cash and issued 1,548,813 shares of common stock, or 1.33% of its outstanding shares, to Investors Savings Bank Charitable Foundation resulting in a pre-tax expense charge of $20.7 million. Net proceeds from the initial offering were $509.7 million. The Company contributed $255.0 million of the net proceeds to the Bank. Stock subscription proceeds of $557.9 million were returned to subscribers.

Stock Repurchase Programs

At its January 2008 meeting, the Board of Directors approved a third share repurchase program which authorizes the repurchase of an additional 10% of the Company s publicly-held outstanding common stock, or 4,307,248 shares. Under the stock repurchase programs, shares of the Company s common stock may be purchased in the open market and through privately negotiated transactions, from time to time, depending on market conditions. During the six month period ended December 31, 2009, the Company purchased 248,132 shares at a cost of $2.4 million, or approximately $9.79 per share. Of the shares purchased through December 31, 2009, 1,933,701 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. At December 31, 2009, there are 2,878,804 shares yet to be purchased under the current plan.

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(4) Securities

The amortized cost, gross unrealized gains and losses and estimated fair value of securities are as follows:

	At December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available-for-sale				
Equity securities	$ 1,832	221		2,053
GSE debt securities	25,013	26		25,039
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	206,877	2,725	80	209,522
Federal National Mortgage Association	158,678	2,197	448	160,427
Government National Mortgage Association	10,504	25	79	10,450
Non-agency securities	67,290	284	3,822	63,752
Total mortgage-backed securities available for sale	443,349	5,231	4,429	444,151
Total securities available-for-sale	$ 470,194	5,478	4,429	471,243
Held-to-maturity				
Debt securities:				
Government Sponsored Enterprises	$ 15,226	731	1	15,956
Municipal bonds	10,259	196	4	10,451
Corporate and other debt securities	21,411	18,015	1,617	37,809
	46,896	18,942	1,622	64,216
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	358,998	10,565	159	369,404
Government National Mortgage Association	3,880	277		4,157
Federal National Mortgage Association	236,109	9,268	24	245,353
Federal housing authorities	2,549	231		2,780
Non-agency securities	69,009	47	1,561	67,495
Total mortgage-backed securities held-to-maturity	670,545	20,388	1,744	689,189
Total securities held-to-maturity	$ 717,441	39,330	3,366	753,405
Total securities	$ 1,187,635	44,808	7,795	1,224,648

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	At June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available-for-sale				
Equity securities	$ 1,583	15		1,598
GSE debt securities	30,051	28		30,079
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	151,450	1,276	8	152,718
Federal National Mortgage Association	94,967	1,661	11	96,617
Government National Mortgage Association	275	25		300
Non-agency securities	80,523	137	6,956	73,704
Total mortgage-backed securities available for sale	327,215	3,099	6,975	323,339
Total securities available-for-sale	$ 358,849	3,142	6,975	355,016
Held-to-maturity				
Debt securities:				
Government Sponsored Enterprises	$ 18,238	924	1	19,161
Municipal bonds	10,420	211	7	10,624
Corporate and other debt securities	20,727	2,332	2,930	20,129
	49,385	3,467	2,938	49,914
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	429,969	10,426	307	440,088
Federal National Mortgage Association	278,272	8,682	134	286,820
Government National Mortgage Association	4,269	348		4,617
Federal housing authorities	2,654	254		2,908
Non-agency securities	81,494		4,539	76,955
Total mortgage-backed securities held-to-maturity	796,658	19,710	4,980	811,388
Total securities held-to-maturity	$ 846,043	23,177	7,918	861,302
Total securities	$ 1,204,892	26,319	14,893	1,216,318

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	At June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available-for-sale				
Equity securities	$ 6,655		141	6,514
GSE debt securities				
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	51,256	182	241	51,197
Federal National Mortgage Association	49,393	174	203	49,364
Government National Mortgage Association				
Non-agency securities	101,555	6	5,604	95,957
Total mortgage-backed securities available for sale	202,204	362	6,048	196,518
Total securities available-for-sale	$ 208,859	362	6,189	203,032
Held-to-maturity				
Debt securities:				
Government Sponsored Enterprises	$ 46,703	443	94	47,052
Municipal bonds	10,574	212	13	10,773
Corporate and other debt securities	178,669		43,142	135,527
	235,946	655	43,249	193,352
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	551,708	1,307	8,181	544,834
Federal National Mortgage Association	354,493	1,139	4,629	351,003
Government National Mortgage Association	5,052	270		5,322
Federal housing authorities	2,849	228		3,077
Non-agency securities	105,006		4,541	100,465
Total mortgage-backed securities held-to-maturity	1,019,108	2,944	17,351	1,004,701
Total securities held-to-maturity	$ 1,255,054	3,599	60,600	1,198,053
Total securities	$ 1,463,913	3,961	66,789	1,401,085

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Our investment portfolio is comprised primarily of fixed rate mortgage-backed securities guaranteed by a GSE as issuer. Substantially all of our non-GSE issuance securities have a AAA credit rating and they have performed similarly to our GSE issuance securities. The current mortgage market conditions reflecting credit quality concerns have not had a significant impact on our non-GSE securities. Based on the high quality of our investment portfolio, current market conditions have not significantly impacted the pricing of our portfolio or our ability to obtain reliable prices.

Gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009, June 30, 2009 and 2008, were as follows:

	December 31, 2009					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In thousands)					
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	$ 33,595	80			33,595	80
Federal National Mortgage Association	63,527	446	16	2	63,543	448
Government National Mortgage Association	10,168	79			10,168	79
Non-agency securities	4,563	370	26,736	3,452	31,299	3,822
Total available-for sale	111,853	975	26,752	3,454	138,605	4,429
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises			225	1	225	1
Municipal bonds			1,035	4	1,035	4
Corporate and other debt securities	1,024	1,617			1,024	1,617
	1,024	1,617	1,260	5	2,284	1,622
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	5,860	159			5,860	159
Federal National Mortgage Association	2,699	5	5,392	19	8,091	24
Non-agency securities	16,352	257	42,308	1,304	58,660	1,561
	24,911	421	47,700	1,323	72,611	1,744
Total held-to-maturity	25,935	2,038	48,960	1,328	74,895	3,366

Total	$ 137,788	3,013	75,712	4,782	213,500	7,795

	June 30, 2009					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In thousands)					
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	$ 947	8			947	8
Federal National Mortgage Association	8,587	11			8,587	11
Non-agency securities	359	109	67,149	6,847	67,508	6,956
Total available-for sale	9,893	128	67,149	6,847	77,042	6,975
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	237	1			237	1
Municipal bonds			1,193	7	1,193	7
Corporate and other debt securities	9,238	2,930			9,238	2,930
	9,475	2,931	1,193	7	10,668	2,938
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	19,968	171	7,980	136	27,948	307
Federal National Mortgage Association	14,170	28	13,841	106	28,011	134
Non-agency securities			76,955	4,539	76,955	4,539
	34,138	199	98,776	4,781	132,914	4,980
Total held-to-maturity	43,613	3,130	99,969	4,788	143,582	7,918
Total	$ 53,506	3,258	167,118	11,635	220,624	14,893

	June 30, 2008					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In thousands)					
Available-for-sale:						

Equity securities	$ 1,238	141			1,238	141
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	24,517	241			24,517	241
Federal National Mortgage Association	25,622	203			25,622	203
Non-agency securities	63,155	3,946	30,428	1,658	93,583	5,604
Total available-for sale:	114,532	4,531	30,428	1,658	144,960	6,189
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	14,906	94			14,906	94
Municipal bonds	1,341	13			1,341	13
Corporate and other debt securities	105,855	32,316	29,672	10,826	135,527	43,142
	122,102	32,423	29,672	10,826	151,774	43,249
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	228,833	3,428	157,496	4,753	386,329	8,181
Federal National Mortgage Association	180,992	1,978	94,077	2,651	275,069	4,629
Non-agency securities	51,314	1,778	49,151	2,763	100,465	4,541
	461,139	7,184	300,724	10,167	761,863	17,351