Investors Bancorp Inc
Form 10-K
August 29, 2007

SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Fiscal Year Ended June 30, 2007**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File No. 000-51557

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

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

(973) 924-5100
(Registrant s telephone number)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of Class)

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 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, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 August 20, 2007, the registrant had 116,275,688 shares of common stock, par value $0.01 per share, issued and 110,375,952 shares outstanding, of which 63,099,781 shares, or 56.6%, 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 December 31, 2006, as reported by the NASDAQ Global Select Market, was approximately $805.4 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2007 Annual Meeting of Stockholders of the Registrant (Part III).

INVESTORS BANCORP, INC.

2007 ANNUAL REPORT ON FORM 10-K

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PART I

Forward Looking Statements

This Annual Report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward looking statements may be identified by reference to a future period or periods, or by the use of forward looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar terms or variations on those terms, or the negative of th terms. Forward looking statements are subject to numerous risks, as described in our SEC filings, and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which we operated, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

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 Company s New Jersey chartered 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.

We recently announced the definitive agreement to acquire Summit Federal Bankshares, MHC, the parent company of Summit Federal Bankshares and Summit Federal Savings Bank (Summit). As of June 30, 2007, Summit Federal Bank operated five branches in New Jersey and had assets of $120 million, deposits of $103 million and equity of $16 million.

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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 our 46 branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Somerset and Union Counties, New Jersey. The telephone number at our main office is (973) 924-5100. At June 30, 2007, our assets totaled $5.60 billion and our deposits totaled $3.66 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 and multi-family loans. A large, but declining percentage of our assets are invested in securities, primarily U.S. Government and Federal Agency obligations, mortgage-backed and other securities. We offer a variety of deposit accounts and emphasize exceptional customer service. We are subject to comprehensive regulation and examination by both the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

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 46 branch offices located in the communities of Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Somerset and Union 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 nearly 8.9 million, is considered one of the most attractive banking markets in the United States. The June 2007 unemployment rate for New Jersey of 4.3% was slightly lower than the national rate of 4.5%.

Many of the counties we serve are projected to experience strong to moderate population and household income growth through 2011. 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 $53,000. The household incomes in the counties we serve are all expected to increase in a range from 15% to 20% through 2011.

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, 2006, the latest date for which statistics are available, our market share of deposits was 1.59% of total deposits in the State of New Jersey.

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.

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Lending Activities

Our principal lending activity is the origination and purchase of mortgage loans collateralized by residential real estate. Residential mortgage loans represented $3.15 billion, or 88.21% of our total loans at June 30, 2007. In 2005, we began offering commercial real estate, multi-family and construction loans. At June 30, 2007, commercial real estate and multi-family loans totaled $107.4 million, or 3.00% of our total loan portfolio and construction loans totaled $152.7 million, or 4.27%. We also offer consumer loans, which consist primarily of home equity loans and home equity lines of credit. At June 30, 2007, consumer loans totaled $161.4 million or 4.52% of our total loan portfolio.

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

	At June 30,								
	2007		2006		2005		2004		2
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
					(Dollars in thousands)				
:									
ily	$ 3,134,690	87.69%	$ 2,646,056	89.75%	$ 1,850,806	93.18%	$ 987,958	89.26%	$ 652,53
	18,522	0.52	20,503	0.70	30,273	1.52	43,923	3.97	67,63
	3,153,212	88.21	2,666,559	90.45	1,881,079	94.70	1,031,881	93.23	720,16
d									
	107,350	3.00	76,976	2.61	17,181	0.86	6,147	0.56	7,01
ans	152,670	4.27	65,459	2.22	6,465	0.33	845	0.08	14
ns	138,358	3.87	112,977	3.83	45,591	2.30	29,731	2.69	21,94
dit									
	21,269	0.60	24,770	0.84	34,840	1.75	36,513	3.30	31,32
	1,768	0.05	1,589	0.05	1,210	0.06	1,588	0.14	1,62
and									
	161,395	4.52	139,336	4.72	81,641	4.11	67,832	6.13	54,88
	$ 3,574,627	100.00%	$ 2,948,330	100.00%	$ 1,986,366	100.00%	$ 1,106,705	100.00%	$ 782,21
	23,587		20,327		14,113		5,274		1,69
es,									
	(1,924)		(1,734)		(881)		(905)		(70
an									
	(6,917)		(6,340)		(5,694)		(5,193)		(4,75

$ 3,589,373	$ 2,960,583	$ 1,993,904	$ 1,105,881	$ 778,45

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2007. Overdraft loans are reported as being due in one year or less.

	At June 30, 2007				
	Residential Mortgage	Multi-Family and Commercial	Construction Loans	Consumer and Other Loans	Total
	(In thousands)				
Amounts Due:					
One year or less	$ 307	355	44,182	188	45,032
After one year:					
One to three years	1,092	6,104	97,220	3,181	107,597
Three to five years	291	26,184	8,217	8,544	43,236
Five to ten years	49,982	56,753	3,051	30,987	140,773
Ten to twenty years	527,217	13,663		87,259	628,139
Over twenty years	2,574,323	4,291		31,236	2,609,850
Total due after one year	3,152,905	106,995	108,488	161,207	3,529,595
Total loans	$ 3,153,212	107,350	152,670	161,395	3,574,627
Premiums on purchased loans					23,587
Deferred loan fees, net					(1,924)
Allowance for loan losses					(6,917)
Net loans					$ 3,589,373

The following table sets forth fixed- and adjustable-rate loans at June 30, 2007 that are contractually due after June 30, 2008.

	Due After June 30, 2008		
	Fixed	Adjustable	Total
	(In thousands)		
Residential mortgage loans:			
One- to four-family	$ 1,817,457	1,317,044	3,134,501
FHA	18,404		18,404
Total residential mortgage loans	1,835,861	1,317,044	3,152,905
Multi-family and commercial	58,409	48,586	106,995
Construction loans	100,802	7,686	108,488
Consumer and other loans			
Home equity loans	138,151		138,151
Home equity credit lines		21,261	21,261

Other	1,516	279	1,795
Total consumer and other loans	139,667	21,540	161,207
Total loans	$ 2,134,739	1,394,856	3,529,595

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 June 30, 2007, $3.15 billion, or 88.21%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, ISB Mortgage Company LLC, 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 generally will not make loans with a loan-to-value ratio in excess of 95%. Fixed-rate mortgage loans are originated for terms of up to 40 years. Generally, all fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. At June 30, 2007, we held $1.84 billion in fixed-rate residential mortgage loans which represented 58.00% 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.

Adjustable-rate mortgage loans decrease the Bank s risk associated with changes in market interest rates by periodically repricing, 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 June 30, 2007, we held $1.32 billion of adjustable-rate residential mortgage loans, of which $287.9 million were interest only one-to four-family mortgages. Adjustable-rate residential mortgage loans represented 42.00% of our residential mortgage loan portfolio.

To provide financing for low-and moderate-income home buyers, we also offer a special Affordable Mortgage Program for home purchases. Through this program, qualified individuals receive a reduced rate of interest on most of our loan programs, have their application fee refunded at closing and receive $500 towards their purchase or closing costs. 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.

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 June 30, 2007, consumer loans totaled $161.4 million or 4.52% 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 $400,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in *The Wall Street Journal*.

Multi-family and Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, in recent years we began offering mortgages on multi-family and commercial real estate properties. At June 30, 2007, $107.4 million, or 3.00%, of our total loan portfolio consisted of these types of loans. Commercial real estate and multi-family loans are secured by office buildings, apartment buildings, mixed-use properties and other commercial properties. We generally originate adjustable-rate commercial real estate loans and multi-family loans with a maximum amortization term of 25 years. The maximum loan-to-value ratio is 75% for our commercial real estate loans and 80% for multi-family loans. At June 30, 2007, our largest commercial real estate loan was $19.7 million.

We consider a number of factors when we originate 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. Before April 2005, we held a small number of construction loans in our portfolio which were originated by other financial institutions with whom we participated. In April 2005, we began to offer loans directly to builders and developers on income properties and residential for-sale housing units. At June 30, 2007, we held $152.7 million in construction loans representing 4.27% 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 75% 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 June 30, 2007, the Bank s largest relationship with an individual borrower and its related entities was $30.2 million, consisting of construction loans for residential projects in the State of New Jersey.

Loan Originations, Purchases, Participations and Servicing of Loans. We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co., LLC. During the year ended June 30, 2007 we originated $153.9 million in residential mortgage loans. We also originate multi-family, commercial real estate and construction loans. During the year ended June 30, 2007, we originated $36.9 million in multi-family and commercial real estate loans and $116.3 million in construction loans. As part of our strategic plan to increase our loan portfolio, we retain most of the loans we and ISB Mortgage originate, although ISB Mortgage also sells loans without recourse in the secondary market when loans it originates do not meet the criteria of our lending policies. 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

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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 year ended June 30, 2007, we purchased $452.4 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 year ended June 30, 2007, we purchased $212.0 million of loans on a bulk purchase basis.

The following table shows our loan originations, loan purchases and repayment activities for the periods indicated.

	For the Years Ended June 30,		
	2007	**2006**	**2005**
		(In thousands)	
Loan originations and purchases:			
Loan originations:			
Residential mortgage loans:			
One- to four-family	$ 153,897	$ 226,955	$ 239,384
FHA			326
Total residential mortgage loans	153,897	226,955	239,710
Multi-family and commercial	36,862	66,786	10,781
Construction loans	116,250	94,965	5,324
Consumer and other loans:			
Home equity loans	49,189	80,870	23,309
Home equity credit lines	18,442	16,396	5,029
Other	2,728	1,817	652
Total consumer and other loans	70,359	99,083	28,990
Total loan originations	377,368	487,789	284,805
Loan purchases:			
Residential mortgage loans:			
One- to four-family	664,384	833,449	856,557
FHA			767
Total loan purchases	664,384	833,449	857,324
Loan principal repayments	(410,533)	(351,899)	(252,113)
Other items, net(1)	(2,429)	(2,660)	(1,993)
Net increase in loan portfolio	$ 628,790	$ 966,679	$ 888,023

(1) Other items include charge-offs and amortization and accretion of; deferred fees and expenses 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

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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 a senior vice president or an authorized vice president. Residential mortgage loans in excess of $100,000 and up to $750,000 must be approved by a senior vice president or an authorized vice president. Residential mortgage loans in excess of $750,000 and up to $1.25 million must be approved by any two authorized individuals, one of whom must be a senior vice president. Residential mortgage loans in excess of $1.25 million must be approved by three authorized individuals, one of whom must be the President or an executive vice president, and one of whom must be a senior vice president.

All commercial real estate, multi-family and construction loans in an amount up to $750,000 may be approved by the Senior Vice President Commercial Real Estate Lending except for loans for which he is the originating loan officer. These loans will require approval of the President, Chief Operating Officer, Chief Financial Officer or the Senior Vice President Residential Lending. All commercial real estate loan requests in excess of $750,000 must be approved by the Commercial Real Estate Loan Committee, consisting of the President, Chief Operating Officer, Chief Financial Officer, Senior Vice President Residential Lending and Senior Vice President Commercial Real Estate Lending.

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 June 30, 2007, the regulatory lending limit was $102.4 million. The Bank s internal policy limit is $50.0 million 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 June 30, 2007, the Bank s largest relationship with an individual borrower and its related entities was $30.2 million, consisting of construction loans for residential projects in the State of New Jersey. The borrower is a well-established and experienced residential developer. This relationship was performing in accordance with its terms and conditions as of June 30, 2007.

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. In addition, the Bank uses proactive collection and workout processes in dealing with delinquent and problem loans. These conditions and the fact that the majority of our portfolio is concentrated in one- to four- family mortgages have historically resulted in low delinquency ratios.

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 more than 90 days delinquent. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and additional

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income is recognized only to the extent received. 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.

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 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	1	40			1	40
Other	1	1	4	3	5	4
Total consumer and other loans	3	48	5	31	8	79
Total	13	$ 1,518	35	$ 5,149	48	$ 6,667
At June 30, 2006						
Residential mortgage loans:						
One- to four-family	5	$ 626	11	$ 1,346	16	$ 1,972
FHA	7	682	15	1,440	22	2,122
Total residential mortgage loans	12	1,308	26	2,786	38	4,094
Multi-family and commercial			3	477	3	477
Construction loans						
Consumer and other loans:						

Home equity loans				1		6	1		6
Home equity credit lines				1		30	1		30
Other	4		51				4		51
Total consumer and other loans	4		51	2		36	6		87
Total	16	$	1,359	31	$	3,299	47	$	4,658

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	Loans Delinquent for 60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At June 30, 2005						
Residential mortgage loans:						
One- to four-family	3	$ 359	21	$ 3,237	24	$ 3,596
FHA	1	119	34	3,825	35	3,944
Total residential mortgage loans	4	478	55	7,062	59	7,540
Multi-family and commercial			4	608	4	608
Construction loans						
Consumer and other loans:						
Home equity loans	1	33	3	193	4	226
Home equity credit lines	1	40			1	40
Other	4	3	2	2	6	5
Total consumer and other loans	6	76	5	195	11	271
Total	10	$ 554	64	$ 7,865	74	$ 8,419

Non-Performing Assets. 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).

	At June 30,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Non-accrual loans:					
Residential mortgage loans:					
One- to four-family	$ 2,220	$ 1,346	$ 3,237	$ 3,021	$ 3,786
FHA	1,300	1,440	3,825	5,559	6,324
Total residential mortgage loans	3,520	2,786	7,062	8,580	10,110
Multi-family and commercial	452	477	608	437	451
Construction loans	1,146				
Consumer and other loans:					
Home equity loans	28	6	193	18	24
Home equity credit lines		30		30	110
Other	3		2	1	2
Total consumer and other loans	31	36	195	49	136

Total	5,149	3,299	7,865	9,066	10,697
Total non-performing loans	5,149	3,299	7,865	9,066	10,697
Real estate owned				154	110
Total non-performing assets	$ 5,149	$ 3,299	$ 7,865	$ 9,220	$ 10,807
Total non-performing loans to total loans	0.14%	0.11%	0.40%	0.82%	1.37%
Total non-performing loans to total assets	0.09%	0.06%	0.16%	0.17%	0.20%
Total non-performing assets to total assets	0.09%	0.06%	0.16%	0.17%	0.20%

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For the year ended June 30, 2007, interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to $229,000.

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 June 30, 2007 and 2006, 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.

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 June 30, 2007 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.

	At or for the Years Ended June 30,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Allowance balance (beginning of period)	$ 6,340	$ 5,694	$ 5,193	$ 4,750	$ 4,320
Provision for loan losses	725	600	600	600	600
Charge-offs:					
Residential mortgage loans					
One- to four-family			3	18	56
FHA	141	143	108	276	
Total residential mortgage loans	141	143	111	294	56
Multi-family and commercial loans					384
Construction loans					
Consumer and other loans	10	10	14	12	8
Total charge-offs	151	153	125	306	448
Recoveries:					
Residential mortgage loans					
One- to four-family			25	28	
FHA		196			
Total residential mortgage loans		196	25	28	
Multi-family and commercial loans				109	275
Construction loans					
Consumer and other loans	3	3	1	12	3
Total recoveries	3	199	26	149	278
Net (charge-offs) recoveries	(148)	46	(99)	(157)	(170)
Allowance balance (end of period)	$ 6,917	$ 6,340	$ 5,694	$ 5,193	$ 4,750
Total loans outstanding	$ 3,574,627	$ 2,948,330	$ 1,986,366	$ 1,106,705	$ 782,210
Average loans outstanding	3,269,196	2,427,506	1,502,704	895,759	889,599
Allowance for loan losses as a percent of total loans outstanding	0.19%	0.22%	0.29%	0.47%	0.61%

Net loans charged off as a percent of average loans outstanding	%	%	(0.01)%	(0.02)%	(0.02)%
Allowance for loan losses to non-performing loans	134.33%	192.18%	72.40%	57.29%	44.40%

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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.

	At June 30,					
	2007		2006		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:						
One- to four-family	$ 3,302	87.69%	$ 2,756	89.75%	$ 3,749	93.18%
FHA	127	0.52	139	0.70	485	1.52
Total residential mortgage loans	3,429	88.21%	2,895	90.45%	4,234	94.70%
Multi-family and commercial	943	3.00%	1,583	2.61%	703	0.86%
Construction loans	1,894	4.27%	818	2.22%	26	0.33%
Consumer and other loans:						
Home equity loans	208	3.87%	282	3.83%	136	2.30%
Home equity credit lines	32	0.60	64	0.84	105	1.75
Other	3	0.05	4	0.05	4	0.06
Total consumer and other loans	243	4.52%	350	4.72%	245	4.11%
Unallocated	408		694		486	
Total allowance	$ 6,917	100.00%	$ 6,340	100.00%	$ 5,694	100.00%

	At June 30,			
	2004		2003	
	Allowance for	Percent of Loans in Each Category to Total Loans	Allowance for	Percent of Loans in Each Category to Total Loans

	Loan Losses			Loan Losses	
		(Dollars in thousands)			
End of period allocated to:					
Residential mortgage loans:					
One- to four-family	$ 2,979	89.26%	$ 1,983		83.41%
FHA	429	3.97	597		8.65
Total residential mortgage loans	3,408	93.23%	2,580		92.06%
Multi-family and commercial	878	0.56%	1,059		0.90%
Construction loans	4	0.08%	1		0.02%
Consumer and other loans:					
Home equity loans	89	2.69%	66		2.81%
Home equity credit lines	110	3.30	94		4.00
Other	4	0.14	5		0.21
Total consumer and other loans	203	6.13%	165		7.02%
Unallocated	700		945		
Total allowance	$ 5,193	100.00%	$ 4,750		100.00%

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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 June 30, 2007, our securities portfolio totaled $1.77 billion representing 31.6% of our total assets. Securities are classified as held-to-maturity or available-for-sale when purchased. At June 30, 2007, $1.52 billion of our securities were classified as held-to-maturity and reported at amortized cost and $252.0 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 June 30, 2007, agency-issued mortgage-backed securities including CMOs, totaled $1.23 billion or 69.2% of our total securities portfolio. We also invest in securities issued by non-agency or private mortgage originators, provided those securities are rated AAA by nationally recognized rating agencies. Securities issued by private mortgage originators totaled $244.2 million, or 13.8% of our total securities portfolio at June 30, 2007.

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 4.74% at June 30, 2007. The estimated fair value of our mortgage-backed securities at June 30, 2007 was $1.43 billion, which is $0.05 billion less than the amortized cost of $1.48 billion.

Corporate and Other Debt Securities. At June 30, 2007, our Corporate and other debt securities portfolio totaled $166.1 million representing 9.4% of our total securities portfolio. This portfolio consists primarily of investment grade trust preferred securities whose interest rate resets quarterly in relation to the 3 month Libor rate.

Government Sponsored Enterprises. At June 30, 2007, bonds issued by Government Sponsored Enterprises held in our security portfolio totaled $119.9 million representing 6.8% of our total securities portfolio. While these securities may generally provide lower yields than other securities in our securities portfolio, we hold these securities, to the extent appropriate, for liquidity purposes and as collateral for certain borrowings. We invest in these securities 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 June 30, 2007, we had no equity securities. 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.

Securities Held-to-Maturity

	At June 30,					
	2007		2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)					
Debt securities:						
Government Sponsored Enterprises	$ 119,900	$ 115,675	$ 120,062	$ 113,656	$ 120,633	$ 119,646
Municipal bonds	14,048	14,236	14,177	14,378	18,220	18,712
Corporate and other debt securities	166,074	165,897	130,111	129,739	8,000	7,985
	300,022	295,808	264,350	257,773	146,853	146,343
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	641,452	618,414	808,952	775,443	1,072,121	1,065,872
Government National Mortgage Association	6,049	6,222	8,249	8,442	16,465	16,932
Federal National Mortgage Association	438,830	425,004	527,338	507,462	612,556	611,801
Federal housing authorities	3,027	3,251	3,189	3,442	3,336	3,775
Non-agency securities	128,284	123,686	150,954	143,413	189,551	188,216
Total mortgage-backed securities held-to-maturity	1,217,642	1,176,577	1,498,682	1,438,202	1,894,029	1,886,596
Total securities held-to-maturity	$ 1,517,664	$ 1,472,385	$ 1,763,032	$ 1,695,975	$ 2,040,882	$ 2,032,939

Securities Available-for-Sale

	At June 30,					
	2007		2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)					
Equity securities	$	$	$ 35,000	$ 35,035	$ 35,000	$ 34,825

Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	68,635	67,223	124,845	120,764	156,162	155,106
Federal National Mortgage Association	70,059	68,856	208,545	201,794	262,644	262,336
Non-agency securities	119,598	115,891	178,446	171,283	223,861	221,684
Total mortgage-backed securities available for sale	258,292	251,970	511,836	493,841	642,667	639,126
Total securities available-for-sale	$ 258,292	$ 251,970	$ 546,836	$ 528,876	$ 677,667	$ 673,951

At June 30, 2007, 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 June 30, 2007 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 Secur	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair V
	(Dollars in thousands)									
:										
sored	$	%	$ 65,120	4.07%	$ 54,000	4.90%	$ 780	6.25%	$ 119,900	$ 11
	1,850	6.45%	1,165	6.20%	5,163	7.12%	5,870	8.85%	14,048	1
er debt		%		%		%	166,074	6.79%	166,074	16
	1,850	6.45%	66,285	4.11%	59,163	5.09%	172,724	6.86%	300,022	29
securities:										
n tion		%		%	102,924	4.29%	538,528	4.57%	641,452	61
nal tion		%		%	2	10.00%	6,047	7.22%	6,049	
Mortgage		%		%	32,746	5.39%	406,084	5.02%	438,830	42
ousing		%		%	3,027	8.89%		%	3,027	
ties		%		%		%	128,284	4.86%	128,284	12
cked		%		%	138,699	4.65%	1,078,943	4.79%	1,217,642	1,17
	$ 1,850	6.45%	$ 66,285	4.11%	$ 197,862	4.78%	$ 1,251,667	5.07%	$ 1,517,664	$ 1,47
e:										
securities:										
n tion		%		%	9,253	4.00%	59,382	4.69%	68,635	6
Mortgage		%		%	23,784	4.00%	46,275	4.78%	70,059	6

ties			%		%				%		119,598	4.65%		119,598		11
cked			%		%		33,037	4.00%			225,255	4.68%		258,292		25
	$		%	$	%	$	33,037	4.00%		$	225,255	4.68%	$	258,292	$	25

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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 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 June 30, 2007, we held $3.66 billion in total deposits, representing 77.0% 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 June 30, 2007, $2.77 billion, or 75.7%, of our total deposit accounts were certificates of deposit, including $20.4 million in brokered deposits. We are attempting to change the mix of our deposits from one focused on attracting certificates of deposit to one focused on core deposits. Although this change has been difficult due to, among other things, the current interest rate environment, we are 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 June 30, 2007, we held $891.4 million in core deposits, representing 24.3% of total deposits. This is an increase of $103.9 million, or 13.2%, when compared to June 30, 2006, when our core deposits were $787.5 million. 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 and have introduced a number of new products, namely a High Yield Savings and Checking product, a business checking product, business money market accounts and escrow management accounts to compete with products offered by other financial institutions. Additionally, we are using brokered deposits as an alternative funding source to wholesale borrowings.

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 June 30,					
	2007			2006		
	Balance	Percent of Total Deposits	Weighted Average Rate	Balance	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)					
Savings	$ 320,880	8.76%	2.30%	$ 226,245	6.85%	0.83%

Checking accounts	388,215	10.59	2.39	349,014	10.57	2.08
Money market deposits	182,274	4.97	2.37	212,200	6.43	1.56
Total transaction accounts	891,369	24.32	2.35	787,459	23.85	1.58
Certificates of deposit	2,773,597	75.68	5.06	2,514,584	76.15	4.06
Total deposits	$ 3,664,966	100.00%	4.40%	$ 3,302,043	100.00%	3.47%

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	At June 30, 2005		
	Balance	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)		
Savings	$ 271,071	8.36%	0.83%
Checking	277,317	8.56	1.30
Money market deposits	318,432	9.83	1.32
Total transaction accounts	866,820	26.75	1.16
Certificates of deposit	2,373,600	73.25	2.87
Total deposits	$ 3,240,420	100.00%	2.42%

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

	At June 30,		
	2007	2006	2005
	(Dollars in thousands)		
Certificates of Deposits			
Less than 2%	$ 5,353	$ 32,225	$ 446,421
2.01% - 3.00%	18,317	116,330	757,576
3.01% - 4.00%	432,054	870,358	987,320
4.01% - 5.00%	1,047,943	1,325,226	162,270
5.01% - 6.00%	1,268,741	170,435	20,013
Over 6.00%	1,189	10	
Total	$ 2,773,597	$ 2,514,584	$ 2,373,600

The following table sets forth, by rate category, the remaining period to maturity of certificates of deposit outstanding at June 30, 2007.

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%	$ 5,205	$ 85	$ 46	$	$ 17	$	$ 5,353
2.01% - 3.00%	4,381	3,879	7,139	2,918			18,317
3.01% - 4.00%	82,653	88,612	93,506	155,391	10,689	1,203	432,054
4.01% - 5.00%	405,306	220,076	253,714	93,661	42,580	32,606	1,047,943
5.01% - 6.00%	574,757	364,418	233,692	79,751	548	15,575	1,268,741
Over 6.00%	1,187		2				1,189
Total	$ 1,073,489	$ 677,070	$ 588,099	$ 331,721	$ 53,834	$ 49,384	$ 2,773,597

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As of June 30, 2007 the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $716.1 million. The following table sets forth the maturity of those certificates as of June 30, 2007.

	At June 30, 2007 (In thousands)
Three months or less	$ 288,777
Over three months through six months	187,392
Over six months through one year	138,140
Over one year	101,747
Total	$ 716,056

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 Years Ended June 30,		
	2007	2006	2005
	(Dollars in thousands)		
Balance at end of period	$ 333,710	$ 150,740	$ 88,769
Average balance during period	196,417	107,317	25,402
Maximum outstanding at any month end	333,710	190,255	88,769
Weighted average interest rate at end of period	5.42%	5.36%	3.49%
Average interest rate during period	5.46%	4.30%	2.80%

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

	At or for the Years Ended June 30,		
	2007	2006	2005
	(Dollars in thousands)		

Balance at end of period	$ 705,000	$ 1,095,000	$ 1,225,000
Average balance during period	925,280	1,008,406	1,475,269
Maximum outstanding at any month end	1,095,000	1,160,000	1,673,000
Weighted average interest rate at end of period	4.78%	4.69%	3.53%
Average interest rate during period	4.80%	4.03%	3.80%

Subsidiary Activities

Investors Bancorp, Inc. s only direct subsidiary is Investors Savings Bank. 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, which was formed in 1997 for the sole purpose of acquiring mortgage loans and mortgage-backed securities from Investors Savings Bank, operated as a real estate investment trust (REIT) through December 2006. Due to legislation passed in the State of New Jersey, we have decided to discontinue the operations of the REIT and will transfer the REIT s assets to the Bank. At June 30, 2007, ISB Asset Corporation had $1.37 billion in assets.

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

Investors Savings Bank has two additional subsidiaries which are inactive.

Personnel

As of June 30, 2007, we had 448 full-time employees and 62 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 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 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 and the Commissioner. Investors Bancorp, Inc. is required to file certain reports with, and otherwise comply with, the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

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.

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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. Leeway investments must comply with a number of 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. 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.

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 Core capital, Tier 1 risk-based capital, and Total risk-based capital ratios as of June 30, 2007:

	As of June 30, 2007	
	Historical Capital	Percent of Assets(1)
	(Dollars in thousands)	
Core capital	$ 686,487	12.50%
Tier 1 risk-based capital	686,487	24.75
Total risk-based capital	693,404	25.00

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

As the table shows, as of June 30, 2007, 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 must have policies and procedures to assess the financial subsidiary s risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary s assets with the bank s and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. State- chartered 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 (FHLB) system, which consists of twelve regional Federal Home Loan Banks, each subject to supervision and regulation by the Federal Housing Finance Board (FHFB). 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 FHFB. All long-term advances are required to provide funds for residential home financing. The FHFB 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 June 30, 2007, the amount of FHLB stock held by us satisfies these requirements.

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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

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.

Deposit Insurance. Deposit accounts at Investors Savings Bank are insured by the Deposit Insurance Fund (DIF) of the Federal Deposit Insurance Corporation. Investors Savings Bank s deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments and the Federal Deposit Insurance Corporation has adopted a risk-based system for determining deposit insurance assessments.

Under the FDIA, the FDIC may terminate the insurance of an institution s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of Investors Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

In February 2006, the Federal Deposit Insurance Reform Act of 2005, or the 2005 Deposit Act, was signed into law. The 2005 Deposit Act contains provisions designed to reform and modernize the Federal deposit insurance system. Effective in 2006, the 2005 Deposit Act merged the previously separate insurance funds into the new DIF; indexed the current $100,000 deposit insurance limit to inflation beginning in April 2010 and every succeeding five years; and increased the deposit insurance limit for certain retirement accounts to $250,000 and indexed that limit to inflation as well.

Prior to January 1, 2007, an institution s assessment rate depended on the capital category and supervisory category to which it was assigned. Under this risk-based assessment system, there were nine assessment risk classifications (i.e., combinations of capital groups and supervisory subgroups) to which different assessment rates are applied. The capital and supervisory subgroup to which an institution is assigned by the FDIC is confidential and may not be disclosed. If the FDIC determined that assessment rates should be increased, institutions in all risk categories would be affected.

Effective January 1, 2007, the FDIC established a new risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. The FDIC consolidated the previous nine assessment rate categories into four new categories. The FDIC has the flexibility to adjust rates, without further notice-and-comment rulemaking, provided that no such adjustment can be greater than three basis points from one quarter to the next, that adjustments cannot result in rates more than three basis points above or below the base rates and that rates cannot be negative. The deposit insurance assessment rates are in addition to the FICO payments. 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%.

Under the Deposit Insurance Funds Act of 1996 (Funds Act), the assessment base for the payments on the bonds (FICO bonds) issued in the late 1980 s by the Financing Corporation to recapitalize the now defunct Federal Savings and Loan Insurance Corporation was expanded to include, beginning January 1, 1997, the deposits of certain insured institutions, including Investors Savings Bank. The bonds issued by the Financing Corporation are due to mature in 2017 through 2019.

Our total expense incurred in fiscal year ended June 30, 2007 for the assessment for deposit insurance and the FICO payments was $437,000. The FDIC has approved a One-Time Assessment Credit 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. Investors Savings Bank is entitled to a One-Time Assessment Credit of $2.6 million which may be used to offset 100% of the 2007 calendar year deposit insurance assessment, excluding the FICO payments. Any remaining credit can be used to offset up to 90% of the 2008 calendar year deposit insurance assessment. We estimate that approximately $974,000 of this credit was utilized in fiscal 2007 and the remainder will be used to offset a portion of fiscal 2008 deposit insurance assessment.

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.

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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.

In addition, Investors Savings Bank is 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.

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 and related regulations to help meet the credit needs of their communities, including low- and moderate-income 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 Community Reinvestment Act. Among other things, the current Community Reinvestment Act regulations replace the prior process-based assessment factors with a new evaluation system that 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 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 Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. Investors Savings Bank received a satisfactory Community Reinvestment Act rating in our most recently completed federal examination, which was conducted by the FDIC in 2005.

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

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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 executive officers, directors, any owner of 10% or more of its stock (each, an insider) 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 non interest-earning reserves at specified levels against their transaction accounts (primarily NOW and regular checking accounts). At June 30, 2007, 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.

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. The USA Patriot Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

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. is 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 June 30, 2007, 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

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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 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.

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.

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 June 30, 2007, our total federal pre-base year reserve was approximately $36.5 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 two taxable years and forward to the succeeding 20 taxable years. As of June 30, 2007, the Company has filed a carry back claim receivable of $2.8 million and has no federal net operating loss carryforwards.

At June 30, 2007, the Company had $17.9 million in charitable contribution carryforwards which are due to expire in 2010.

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 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. There were two methods for calculating the AMA tax, the gross receipts method or the gross profits method. Under the gross receipts method, the tax was calculated by multiplying the gross receipts by the applicable factor, which ranged from 0.125% to 0.4%. Under the gross profits method, the tax was calculated by multiplying the gross profits by the applicable factor, which ranged from 0.25% to 0.8%. The taxpayer had the option of choosing either the gross receipts or gross profits method, but once an election was made, the taxpayer had to use the same method for the next four tax years. The AMA tax was creditable against the CBT in a year in which the CBT is higher, limited to the AMA for that year, and limited to an amount such that the tax is not reduced by more than 50% of the tax otherwise due and other statutory minimums. The AMA tax for tax years beginning after December 31, 2006 will be zero.

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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.

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*

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 June 30, 2007, the fair value of our total securities portfolio was $1.72 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 June 30, 2007, 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 a 13.2% or $11.4 million decrease in net interest income.

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There Is No Assurance That Our Strategy to Change the Mix of Our Assets and Liabilities Will Succeed.

We previously emphasized investments in government agency and mortgage-backed securities, funded with wholesale borrowings. This policy was designed to achieve profitability by allowing asset growth with low overhead expense, although securities generally have lower yields than loans, resulting in a lower interest rate spread and lower interest income. In October 2003, we implemented a strategy to change the mix of our assets and liabilities to one more focused on loans and retail deposits. As a result of this strategy, at June 30, 2007, our mortgage-backed and other securities accounted for 31.6% of total assets, while our loan portfolio accounted for 64.1% of our total assets. In comparison, at June 30, 2003, our mortgage-backed and other securities accounted for 77.6% of total assets and our loan portfolio accounted for 14.5% of total assets.

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. 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.

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

At June 30, 2007, our portfolio of commercial real estate, multi-family and construction loans totaled $260.0 million, or 7.3% of our total loans. We intend to increase our originations of commercial real estate, multi-family and construction loans. In September 2004, we hired an experienced commercial real estate lending executive from another New Jersey institution who has since built an experienced team of six commercial real estate lenders. Commercial real estate, multi-family and construction loans 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.

A Downturn in the New Jersey Economy or a Decline in Real Estate Values Could Reduce Our Profits.

Most of our real estate loans are secured by real estate in New Jersey. As a result of this concentration, a downturn in this market area could cause significant increases in nonperforming loans, which would reduce our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. In prior years, there had been significant increases in real estate values in our market area. As a result of rising home prices, our loans have been well collateralized. However, a decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss.

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 collectibility 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

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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 $6.9 million was 0.19% of total loans and 134.33% of non-performing loans at June 30, 2007.

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 Return on Equity Has Been Low Compared to Other Financial Institutions. This Could Negatively Affect the Price of Our Common Stock.

Net income divided by average equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. For the year ended June 30, 2007, our return on average equity was 2.52% compared to a return on average equity of 3.11% for all publicly traded savings institutions organized in the mutual holding company form. We expect our return on equity to remain below the industry average until we are able to further leverage the additional capital we received from the offering. Our return on equity has been low principally because of the amount of capital raised in the offering, higher expenses from the costs of being a public company, and added expenses associated with our employee stock ownership plan and the stock-based incentive plan. Until we can increase our net interest income and other income, we expect our return on equity to be below the industry average.

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

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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.

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 June 30, 2007, the Company and the Bank conducted business from its corporate headquarters in Short Hills, New Jersey, and 46 full-service branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Somerset and Union 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.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

During the fourth quarter of the fiscal year covered by this report, the Company did not submit any matters to the vote of security holders.

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol ISBC . The approximate number of holders of record of Investors Bancorp, Inc. s common stock as of August 20, 2007 was 6,000. 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. Investors Bancorp, Inc. began trading on the NASDAQ Global Select Market on October 12, 2005. Accordingly, no information prior to this date is available. The following information was provided by the NASDAQ Global Select Market.

	Fiscal 2007			Fiscal 2006		
	High	Low	Dividends	High	Low	Dividends
First Quarter	$ 15.48	$ 13.16	$	$ n/a	$ n/a	n/a
Second Quarter	15.90	14.66		11.07	9.89	
Third Quarter	15.81	14.24		14.49	10.99	
Fourth Quarter	14.50	13.33		14.00	12.75	

Investors Bancorp, Inc. did not pay a dividend during the fiscal years ended June 30, 2007 and 2006.

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.

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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 June 30, 2007, (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		
	10/12/05	**12/31/05**	**06/30/06**	**12/31/06**	**06/30/07**
Investors Bancorp	100.00	110.08	135.23	156.99	134.03
SNL Bank and Thrift Index	100.00	110.59	116.36	129.22	123.80
SNL Thrift Index	100.00	112.84	121.62	131.54	120.31

* Source: SNL Financial LC, Charlottesville, VA

The following table reports information regarding repurchases of our common stock during the fourth quarter of fiscal 2007 and the stock repurchase plans approved by our Board of Directors on September 25, 2006 and April 26, 2007.

Period	**Total Number of Shares Purchased(1)(2)**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs**
April 1, 2007 through April 30, 2007	390,000	$ 14.06	390,000	71,295
May 1, 2007 through May 31, 2007	695,000	14.12	695,000	4,162,126
June 1, 2007 through June 30, 2007	532,400	13.76	532,400	3,629,726
Total	1,617,400	13.99	1,617,400	

(1) On September 25, 2006, the Company announced its intention to repurchase up to 10% of its publicly-held outstanding shares of common stock, or 5,317,590 shares. This plan was completed on May 10, 2007.

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(2) On April 26, 2007, the Company announced its second Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,785,831 shares. This stock repurchase program commenced upon the completion of the first program on May 10, 2007. This program has no expiration date and has 3,629,726 shares yet to be purchased as of June 30, 2007.

ITEM 6. *SELECTED FINANCIAL DATA*

The following information is derived in part from the consolidated financial statements of Investors Bancorp, Inc. For additional information, reference is made to 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 June 30,				
	2007	2006	2005	2004	2003
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 5,601,088	$ 5,497,246	$ 4,992,753	$ 5,318,140	$ 5,352,404
Loans receivable, net	3,589,373	2,960,583	1,993,904	1,105,881	778,451
Loans held-for-sale	3,410	974	3,412	1,428	10,991
Securities held to maturity, net	1,517,664	1,763,032	2,040,882	2,522,811	3,851,921
Securities available for sale, at estimated fair value	251,970	528,876	673,951	1,421,073	303,525
Bank owned life insurance	88,018	78,903	76,229	75,543	74,541
Deposits	3,664,966	3,302,043	3,240,420	3,266,935	3,172,826
Borrowed funds	1,038,710	1,245,740	1,313,769	1,604,798	1,744,827
Stockholders equity	843,365	900,187	407,827	401,663	392,537

	Years Ended June 30,				
	2007(1)	2006(2)	2005(3)	2004	2003
	(In thousands)				
Selected Operating Data:					
Interest and dividend income	$ 279,689	$ 246,068	$ 226,524	$ 210,574	$ 241,238
Interest expense	193,398	141,796	126,679	127,558	158,121
Net interest income	86,291	104,272	99,845	83,016	83,117
Provision for loan losses	725	600	600	600	600
Net interest income after provision for loan losses	85,566	103,672	99,245	82,416	82,517
Non-interest income (loss)	2,843	5,580	(2,431)	3,890	7,138
Non-interest expenses	73,573	86,830	103,302	54,803	49,153
	14,836	22,422	(6,488)	31,503	40,502

Income (loss) before income tax expense (benefit)					
Income tax (benefit) expense	(7,430)	7,408	(3,346)	11,666	12,232
Net income (loss)	$ 22,266	$ 15,014	$ (3,142)	$ 19,837	$ 28,270
Earnings per share basic and diluted(4)	$ 0.20	$ 0.06	n/a	n/a	n/a

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

(2) 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 IPO.

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

(4) Basic 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 Years Ended June 30,				
	2007	2006	2005	2004	2003
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net income or loss to average total assets)	0.40%	0.29%	(0.06)%	0.37%	0.52%
Return on equity (ratio of net income or loss to average equity)	2.52%	2.00%	(0.78)%	5.00%	7.56%
Net interest rate spread(1)	0.97%	1.62%	1.79%	1.42%	1.37%
Net interest margin(2)	1.61%	2.04%	1.97%	1.58%	1.56%
Efficiency ratio(3)	82.54%	79.04%	106.04%	63.06%	54.46%
Non-interest expenses to average total assets	1.33%	1.65%	1.98%	1.02%	0.90%
Average interest-earning assets to average interest-bearing liabilities	1.18x	1.15x	1.07x	1.06x	1.06x
Asset Quality Ratios:					
Non-performing assets to total assets	0.09%	0.06%	0.16%	0.17%	0.20%
Non-performing loans to total loans	0.14%	0.11%	0.40%	0.82%	1.37%
Allowance for loan losses to non-performing loans	134.33%	192.18%	72.40%	57.29%	44.40%
Allowance for loan losses to total loans	0.19%	0.22%	0.29%	0.47%	0.61%
Capital Ratios:					
Risk-based capital (to risk-weighted assets)(4)	25.00%	26.48%	21.48%	26.55%	27.58%
Tier I risk-based capital (to risk-weighted assets)(4)	24.75%	26.23%	21.18%	26.22%	27.24%
Core capital (to average assets)(4)	12.50%	12.25%	8.28%	7.69%	7.12%
Equity to total assets	15.06%	16.38%	8.17%	7.55%	7.33%
Average equity to average assets	16.04%	14.29%	7.69%	7.36%	6.86%
Tangible capital (to tangible assets)	15.06%	16.36%	8.16%	7.52%	7.30%
Book value per common share	$ 7.84	$ 8.02	n/a	n/a	n/a
Other Data:					
Number of full service offices	46	46	46	45	45
Full time equivalent employees	475	473	459	443	455

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

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Investors Bancorp s fundamental business strategy continues to be to operate a well capitalized, full service, community bank and to provide both a high quality client experience and competitively priced products and services to individuals and businesses in the communities we serve.

An integral part of that strategy is to continue to reposition the assets and liabilities on our balance sheet by adding more loans and deposits. Over the past few years we have been successful in this repositioning effort and remain committed to this strategy.

We are pleased with our success on the asset side of the balance sheet as total loans have grown from $2.95 billion at June 30, 2006 to $3.57 billion at June 30, 2007, an increase of 21%. Much of that growth has come from residential mortgage loans which have grown 18.3% or $486.7 million from the year ended June 30, 2006 to a total of $3.15 billion at June 30, 2007. As we add more loans to our balance sheet we remain focused on diversifying by originating different types of loans. During the year ended June 30, 2007 we added $153.1 million of commercial real estate, construction and multi-family loans.

Commercial real estate and construction lending generally expose a lender to more credit risk than residential mortgage loans as the repayment of commercial real estate and construction loans depend upon the business and financial condition of the borrower and on the economic viability of projects financed. Consequently, like other financial institutions, we generally charge higher rates of interest for these types of loans compared to residential mortgage loans. We believe our expansion into commercial real estate lending will provide us with an opportunity to increase our net interest income, diversity our loan portfolio and improve our interest rate risk position.

Recently there has been significant attention paid to the sub-prime lending component of the residential mortgage origination market. As we have stated in previous filings, Investors Savings Bank neither originates nor purchases any sub-prime loans or option ARMs.

We also continue to focus on changing our mix of deposits as we try to de-emphasize high cost certificates of deposits in favor of lower cost core deposits. This has proven to be a difficult task due to the extreme competition for deposits from other banks and financial intermediaries. Over the period, we have undertaken a number of initiatives in order to help change our mix of deposits. With our ongoing commitment to employee education we have introduced a number of training programs designed to teach our branch staff about effective cross-selling and customer retention techniques. Our objective is to increase the number of products used by our existing customers and to attract new customers.

We have also launched a number of new products designed to increase the amount of core deposits. We recently introduced a high yield checking account and a suite of commercial deposit products, designed to appeal to small business owners and non-profit organizations. We have also improved the functionality and features of our internet banking platform and will introduce a remote deposit capture program by year end. These initiatives, along with a more effective marketing and community relations effort, are necessary steps for improving our retail deposit franchise.

Our plans also include growing our retail banking franchise by building or acquiring new branch locations. We have established financial, geographic and other criteria to evaluate potential new branch offices both inside and outside our current market area. There can be no assurance, however, we will be successful with our plans to grow as finding suitable new branch sites has become increasingly expensive in New Jersey and the approval process for branch construction is protracted.

We recently announced the definitive agreement to acquire Summit Federal Bankshares, MHC, the parent company of Summit Federal Bankshares and Summit Federal Savings Bank (Summit). In this unique acquisition of a mutual thrift we will acquire five new branch locations that complement our current geographic markets. This transaction is expected to close during the fourth quarter of calendar year 2007 or during the first quarter of 2008.

Our net income for the fiscal year ended June 2007 increased when compared to the fiscal year ended June 2006. This increase is due primarily to the absence of a $20.7 million contribution we made in fiscal 2006 to the Investors Savings Bank Charitable Foundation as part of our initial public offering and an income tax benefit recognized during 2007 offset by a loss on the sale of various securities. While interest income increased during the fiscal year ended June 2007, this increase was offset by higher interest expense on deposits and borrowings.

The interest rate environment remains difficult for most financial institutions. Although some minor positive slope has returned to the yield curve and residential mortgage rate spreads have improved, the persistence of the high rate of Federal Funds has not allowed for any meaningful reduction of deposit costs. This limits the ability to increase our interest rate spread and net interest margin.

The change in the composition of our balance sheet is consistent with and reflects our strategy of transitioning from a wholesale banking model to a retail banking model. We continue to believe this repositioning will improve earnings, particularly when the interest rate environment improves. In the interim we will continue to change the structure of our balance sheet, endeavor to expand our branch network and opportunistically consider acquisitions.

The difficult interest rate environment has also limited opportunities for profitable growth. Given our excess capital position, we have utilized share repurchase programs as a way to effectively manage our capital position. We believe share repurchases are currently an appropriate use of capital and help to increase shareholder value.

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. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established, which could have a material negative effect on our financial results.

On a quarterly basis, the Allowance for Loan Loss Committee (comprised of the Senior Vice Presidents of Lending Administration, Residential Lending and Commercial Real Estate Lending and the First Vice President of Lending Administration) reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

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

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Through June 2007, our primary lending emphasis has been the origination and purchase of residential mortgage loans and, to a lesser extent, commercial mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages at June 30, 2007. We also have a concentration of loans secured by real property located in New Jersey. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a decline in the economy generally, and a decline in real estate market values in New Jersey. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the loan portfolio.

Our allowance for loan losses in recent years reflects probable losses resulting from the actual growth in our loan portfolio. We believe the ratio of the allowance for loan losses to total loans at June 30, 2007 accurately reflects our portfolio credit risk, given our emphasis on residential lending and current market conditions. Furthermore, the increase in the allowance for loan losses during 2007 reflected the growth of the loan portfolio, partially offset by the low level of loan charge-offs, the stability in the real estate market and the resulting stability in our overall loan quality.

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

Deferred Income Taxes. The Company records income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes,* as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Asset Impairment Judgments. 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 by changes in interest rates. When significant changes in interest rates occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance.

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

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

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

Comparison of Financial Condition at June 30, 2007 and June 30, 2006

Total Assets. Total assets increased by $103.8 million, or 1.9%, to $5.60 billion at June 30, 2007 from $5.50 billion at June 30, 2006. This increase was largely the result of the growth in our loan portfolio partially offset by the decrease in our securities portfolio. The cash flow from our securities portfolio is being used to fund our loan growth, consistent with our strategic plan.

Securities. Securities, in the aggregate, decreased by $522.3 million, or 22.8%, to $1.77 billion at June 30, 2007, from $2.29 billion at June 30, 2006. During the year ended June 30, 2007 the Company sold approximately $187.7 million in securities yielding 3.90%, representing 9% of the mortgage-backed securities portfolio, at a pretax loss of $3.7 million. The proceeds from the sale of these securities were used to reduce wholesale borrowings costing 5.35%. The majority of the securities ($164.4 million) sold were classified as available-for-sale with the remaining securities ($23.3 million) being sold from the held-to-maturity portion of the portfolio. The securities sold from the held-to-maturity portfolio qualified to be sold under SFAS No. 115 because more than 85% of the securities original face amounts were paid down. Additionally, the cash flows from our securities portfolio are being used to fund our loan growth. This 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.

Our decision to sell securities during the quarter ended December 31, 2006 was based on an increase in our wholesale borrowing cost of funds, an increase in our wholesale borrowing balances, and the outlook that the Federal Reserve Board may not be lowering rates in the near future.

The securities we chose to sell had similar risk characteristics to those remaining in the portfolio. They were high quality mortgage backed securities guaranteed by agencies of the U.S. government or U.S. government sponsored enterprises, or are rated AAA by nationally recognized rating agencies. The losses incurred were attributable to changes in interest rates and not the credit quality of the issuers.

The critical considerations in selecting the securities to be sold were identifying an amount by which it was prudent and necessary to reduce wholesale borrowings and the optimum securities that would provide the funding to accomplish this reduction. The sold securities had lower yields than those remaining in the portfolio and were chosen to be sold because selling them would improve net interest income by eliminating the negative spread between the yield on the securities sold and the cost of the borrowings repaid. The larger difference in negative spread would allow us to earn back the loss incurred in the shortest period of time.

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While the outlook for the interest rate environment also applies to the unsold portion of the portfolio, no conditions existed such as an adverse credit event in either the most current or prior quarters that affected the fair value of the securities and therefore would need to be considered in determining whether the impairments were other than temporary. The gross unrealized losses with respect to our mortgage-backed securities were caused by an increase in market yields attributed to the Federal Reserve s action of increasing the Federal Funds rate seventeen times over a two year period. The cash flows of these investments are guaranteed by agencies of the U.S. government or U.S. government-sponsored enterprises, or from securities which are rated AAA by nationally recognized rating services. The Company is not in possession of any public or private information indicating a material deterioration in the credit quality of these investments. As a result, the Company does not consider the remaining portfolio to be other than temporarily impaired. The Company has the ability and intent to hold the remaining securities until a recovery of fair value, which may be maturity. Our positive intent to hold the remaining available for sale securities until a recovery in fair value (which may be to maturity), is based on management s ongoing consideration of the current interest rate environment, including the outlook with respect to changes in absolute rates and the yield curve, as well as our current and projected net interest income.

Net Loans. Net loans, including loans held for sale, increased by $631.2 million, or 21.3%, to $3.59 billion at June 30, 2007 from $2.96 billion at June 30, 2006. This increase in loans reflects our continued focus on loan originations and purchases. The loans we originate and purchase are primarily secured by properties in New Jersey. To a lesser degree, we originate and purchase loans in states contiguous to New Jersey as a way to geographically diversify our residential loan portfolio. We do not originate or purchase and our loan portfolio does not include any sub-prime loans or option ARMs.

The majority of our loan growth was in residential mortgage loans. Total residential loan production for the year ended June 30, 2007 was $818.3 million. We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the year ended June 30, 2007 we originated $153.9 million in residential mortgage loans. In addition, we purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the year ended June 30, 2007 we purchased loans totaling $452.4 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 year ended June 30, 2007, we purchased loans totaling $212.0 million on a bulk purchase basis.

Additionally, for the year ended June 30, 2007, we originated $36.9 million in multi-family and commercial real estate loans and $116.3 million in construction loans. This is consistent with our strategy of originating multi-family, commercial real estate and construction loans to diversify our loan portfolio.

The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s contractually required payments due to the required amortization of the principal amount after the interest-only period. These payment increases could affect the borrower s ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at June 30, 2007 and 2006 was $287.9 million and $266.5 million, respectively. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately control the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

Total non-performing loans, defined as non-accruing loans, increased by $1.8 million to $5.1 million at June 30, 2007 from $3.3 million at June 30, 2006. This increase is primarily attributed to a $1.1 million non-accruing construction loan. As previously disclosed in our quarterly filings, the Company had two other residential construction loans totaling $7.6 million to a New Jersey based developer which were on non-accrual. In May 2007, the properties supporting the loans were sold and all amounts due to the Company were collected. At June 30, 2007, our construction loan portfolio consisted of 51 loans with an average balance of $3.0 million. We do not believe the activity in our non performing loans is indicative of a negative credit risk trend in the Company s construction loan portfolio. While there appears to have been some softening of the real estate market in general and we recognize construction lending carries a greater degree of risk than other types of lending, we believe our underwriting policies and standards have been crafted in a manner that attempts to protect the Company from risk of loss.

The ratio of non-performing loans to total loans was 0.14% at June 30, 2007 compared with 0.11% at June 30, 2006. The allowance for loan losses as a percentage of non-performing loans was 134.33% at June 30, 2007 compared with 192.18% at June 30, 2006. At June 30, 2007 and 2006 our allowance for loan losses as a percentage of total loans was 0.19% and 0.22%, respectively. Future increases in the allowance for loan losses may be necessary based on the growth and composition of our loan portfolio.

Although we believe we have established and maintained an adequate level of allowance for loan losses, additions may be necessary as multi-family, commercial real estate and construction lending increases and/or if future economic conditions differ substantially from the current operating environment. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See Critical Accounting Policies.

Deferred Tax Asset. The Company s net deferred tax asset increased by $11.2 million to $39.4 million at June 30, 2007 from $28.2 million at June 30, 2006. This increase is primarily the result of the reversal of previously established valuation allowances related to state taxes, partially offset by an additional valuation allowance related to the tax benefit from our contribution made to the Investors Savings Bank Charitable Foundation during our initial public offering.

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

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

During the year ended June 30, 2007, the Company s assessment of its ability to realize the deferred tax assets changed and management concluded that, based on current facts and circumstances, a portion of the associated valuation allowances was no longer necessary. Those facts and circumstances include but are not limited to the projected amount of taxable income the Company and its subsidiaries are expected to generate in future years, the Company s ability to generate capital gains, and the transfer of the REIT s assets to the Bank. As a result, the Company reduced the valuation allowance and recognized a deferred tax benefit. Benefits were recognized for the state net operating loss carry forwards and minimum tax assessment, and a portion of the capital losses on equity securities. This was partially offset by an additional valuation allowance related to the tax benefit from our contribution to the charitable foundation.

Bank Owned Life Insurance, Accrued Interest Receivable and Stock in the Federal Home Loan Bank. Bank owned life insurance increased by $9.1 million from $78.9 million at June 30, 2006 to $88.0 million at June 30, 2007. This includes an increase of $5.6 million due to adoption of a new accounting principle related to bank owned life insurance, as discussed in Note 3 of Notes to Consolidated Financial Statements in Item 15 of this report. In addition, there was an increase in accrued interest receivable of $3.2 million resulting from an increase in interest-earning assets and the timing of certain cash flows resulting from the change in the mix of our assets. The amount of stock we own in the FHLB decreased by $12.2 million from $46.1 million at June 30, 2006 to $33.9 million at June 30, 2007 as a result of a decrease in our level of borrowings.

Deposits. Deposits increased by $362.9 million, or 11.0%, to $3.66 billion at June 30, 2007 from $3.30 billion at June 30, 2006. The increase is primarily due to an increase in interest-bearing checking, savings

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and time deposits of $28.7 million, $94.6 million and $259.0 million, respectively, partially offset by a decrease in money market accounts of $29.9 million. We attribute the increase in deposits to new products being offered, increased sales efforts from our branch staff and higher rates on our CD s in response to market interest rates, consumer demands and competition.

Borrowed Funds. Borrowed funds decreased $207.0 million, or 16.6%, to $1.04 billion at June 30, 2007 from $1.25 billion at June 30, 2006. This decrease was primarily a result of using the proceeds from the sale of securities to reduce wholesale borrowings and the increase in our deposits.

Stockholders Equity. Stockholders equity decreased $56.8 million to $843.4 million at June 30, 2007 from $900.2 million at June 30, 2006. A number of significant transactions impacted our stockholders equity: the repurchase of our common stock at a cost totaling $96.7 million; a $5.6 million increase in retained earnings due to the adoption of a new accounting principle related to bank owned life insurance; a decrease of $4.2 million in accumulated other comprehensive loss; and net income of $22.3 million for the year ended June 30, 2007.

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.

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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 the Years Ended June 30,							
	2007			2006			2005	
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid
	(Dollars in thousands)							
arning assets:								
aring deposits	$ 19,555	$ 692	3.54%	$ 82,677	$ 2,863	3.46%	$ 20,162	$ 489
e agreements				16,387	613	3.74		
available-for-sale(1)	398,329	17,602	4.42	609,265	25,828	4.24	1,190,712	47,408
held-to-maturity	1,623,083	77,631	4.78	1,930,206	87,202	4.52	2,289,520	99,443
	3,269,196	180,859	5.53	2,427,506	126,613	5.22	1,502,704	76,857
HLB	40,106	2,905	7.24	54,834	2,949	5.38	72,388	2,327
est-earning assets	5,350,269	279,689	5.23	5,120,875	246,068	4.81	5,075,486	226,524
st-earning assets	163,024			135,799			139,856	
s	$ 5,513,293			$ 5,256,674			$ 5,215,342	
earing liabilities:								
posits	$ 261,992	4,412	1.68	$ 330,840	2,820	0.85	$ 279,953	2,349
aring checking	305,791	7,419	2.43	306,079	6,027	1.97	218,327	2,533
rket accounts	185,849	3,596	1.93	255,154	3,423	1.34	380,623	5,075
s of deposit	2,668,963	122,844	4.60	2,435,089	84,308	3.46	2,364,399	59,905
funds	1,121,697	55,127	4.91	1,115,723	45,218	4.05	1,500,671	56,817
est-bearing liabilities	4,544,292	193,398	4.26	4,442,885	141,796	3.19	4,743,973	126,679
st-bearing liabilities	84,837			62,803			70,468	
ities	4,629,129			4,505,688			4,814,441	
ers equity	884,164			750,986			400,901	
ities and rs equity	$ 5,513,293			$ 5,256,674			$ 5,215,342	
t income		$ 86,291			$ 104,272			$ 99,845
t rate spread(2)			0.97%			1.62%		

t-earning assets(3)	$ 805,977	$ 677,990	$ 331,513
t margin(4)	1.61%	2.04%	
terest-earning assets erest-bearing	1.18x	1.15x	1.07x

(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.

	Years Ended June 30, 2007 vs. 2006			Years Ended June 30, 2006 vs. 2005		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Interest-bearing deposits	$ (2,232)	$ 61	$ (2,171)	$ 2,086	$ 288	$ 2,374
Repurchase agreements	(613)		(613)	613		613
Securities available-for-sale	(9,131)	905	(8,226)	(23,464)	1,884	(21,580)
Securities held-to-maturity	(13,396)	3,825	(9,571)	(14,705)	2,464	(12,241)
Net loans	47,984	6,262	54,246	48,202	1,554	49,756
Stock in FHLB	(912)	868	(44)	(665)	1,287	622
Total interest-earning assets	21,700	11,921	33,621	12,067	7,477	19,544
Interest-bearing liabilities:						
Savings deposits	(687)	2,279	1,592	433	38	471
Interest-bearing checking	(6)	1,398	1,392	1,278	2,216	3,494
Money market accounts	(1,086)	1,259	173	(1,683)	31	(1,652)
Certificates of deposit	8,699	29,837	38,536	1,841	22,562	24,403
Total deposits	6,920	34,773	41,693	1,869	24,847	26,716
Borrowed funds	1,072	8,837	9,909	(15,286)	3,687	(11,599)
Total interest-bearing liabilities	7,992	43,610	51,602	(13,417)	28,534	15,117
Increase (decrease) in net interest income	$ 13,708	$ (31,689)	$ (17,981)	$ 25,484	$ (21,057)	$ 4,427

Comparison of Operating Results for the Years Ended June 30, 2007 and 2006

Net Income. Net income rose $7.3 million to $22.3 million for the year ended June 30, 2007 from $15.0 million for the year ended June 30, 2006. The increase in net income was primarily the result of a $9.9 million tax benefit recognized for the reversal of previously established valuation allowances on deferred tax assets. The Company s results of operations for the fiscal year ended June 30, 2006 were negatively impacted by a $20.7 million pre-tax charitable contribution expense and positively impacted by the investment of stock subscription proceeds received in its initial public offering.

Net Interest Income. Net interest income decreased by $18.0 million, or 17.2%, to $86.3 million for the year ended June 30, 2007 from $104.3 million for the year ended June 30, 2006. The decrease was caused primarily by a 107 basis point increase in our cost of interest-bearing liabilities to 4.26% for the year ended June 30, 2007 from 3.19% for the year ended June 30, 2006 and an increase in the average balance of interest-bearing liabilities of $101.4 million, or 2.3%, to $4.54 billion for the year ended June 30, 2007 from $4.44 billion for the year ended June 30, 2006. This was partially offset by a 42 basis point improvement in our yield on interest-earning assets to 5.23% for the year ended June 30, 2007 from 4.81% for the year ended June 30, 2006. Our net interest margin decreased by 43 basis points from 2.04% for the year ended June 30, 2006 to 1.61% for the year ended June 30, 2007.

The recent interest rate environment has had a negative impact on our results of operations and our net interest margin as the yields on our interest-earning assets have increased far less than the costs of our interest-bearing liabilities. In addition, our interest-bearing liabilities have repriced to current market interest rates faster than the yields earned on our interest-earning assets. The increase in the cost of our interest-bearing liabilities reflected the rising short-term interest rate environment, affecting both our deposits and borrowed funds, and the shift within our deposits to higher costing short-term time deposits. Our net interest margin is likely to decrease further if the yield curve remains inverted.

Interest and Dividend Income. Total interest and dividend income increased by $33.6 million, or 13.7%, to $279.7 million for the year ended June 30, 2007 from $246.1 million for the year ended June 30, 2006. This increase was primarily due to a 42 basis point increase in the weighted average yield on interest-earning assets to 5.23% for the year ended June 30, 2007 compared to 4.81% for the year ended June 30, 2006. In addition, the average balance of interest-earning assets increased $229.4 million, or 4.5%, to $5.35 billion for the year ended June 30, 2007 from $5.12 billion for the year ended June 30, 2006.

Interest income on loans increased by $54.2 million, or 42.8%, to $180.9 million for the year ended June 30, 2007 from $126.6 million for the year ended June 30, 2006, reflecting an $841.7 million, or 34.7%, increase in the average balance of net loans to $3.27 billion for the year ended June 30, 2007 from $2.43 billion for the year ended June 30, 2006. In addition, the average yield on loans increased to 5.53% for the year ended June 30, 2007 from 5.22% for the year ended June 30, 2006.

Interest income on all other interest-earning assets, excluding loans, decreased by $20.6 million, or 17.3%, to $98.8 million for the year ended June 30, 2007 from $119.5 million for the year ended June 30, 2006. This decrease reflected a $612.3 million decrease in the average balance of securities and other interest-earning assets, partially offset by a 31 basis point increase in the average yield on securities and other interest-earning assets to 4.75% for the year ended June 30, 2007 from 4.44% for the year ended June 30, 2006.

Interest Expense. Total interest expense increased by $51.6 million, or 36.4%, to $193.4 million for the year ended June 30, 2007 from $141.8 million for the year ended June 30, 2006. This increase was primarily due to a 107 basis point increase in the weighted average cost of total interest-bearing liabilities to 4.26% for the year ended June 30, 2007 compared to 3.19% for the year ended June 30, 2006. In addition, the average balance of total interest-bearing liabilities increased $101.4 million, or 2.3%, to $4.54 billion for the year ended June 30, 2007 from $4.44 billion for the year ended June 30, 2006.

Interest expense on interest-bearing deposits increased $41.7 million, or 43.2% to $138.3 million for the year ended June 30, 2007 from $96.6 million for the year ended June 30, 2006. This increase was due to a $95.4 million increase in the average balance of interest-bearing deposits and a 114 basis point increase in the average cost of interest-bearing deposits.

Interest expense on borrowed funds increased by $9.9 million, or 21.9%, to $55.1 million for the year ended June 30, 2007 from $45.2 million for the year ended June 30, 2006. This increase was primarily due to an 86 basis point increase in the average cost of borrowed funds to 4.91% for the year ended June 30, 2007 from 4.05% for the year ended June 30, 2006. In addition, the average balance of borrowed funds increased by $6.0 million or 0.5%, to $1.12 billion for the year ended June 30, 2007.

Provision for Loan Losses. Our provision for loan losses was $725,000 for the year ended June 30, 2007 compared to $600,000 for the year ended June 30, 2006. There were net charge-offs of $148,000 for the year ended June 30, 2007 compared to net recoveries of $46,000 for the year ended June 30, 2006. See discussion of the allowance for loan losses and non-accrual loans in Comparison of Financial Condition at June 30, 2007 and June 30, 2006 .

Non-Interest Income. Total non-interest income decreased by $2.7 million to $2.8 million for the year ended June 30, 2007 from $5.6 million for the year ended June 30, 2006. This decrease was largely the result of the $3.7 million loss on the sale of securities during the year ended June 30, 2007 compared to a $5,000 net gain on the

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sale of securities in the year ended June 30, 2006. This was partially offset by an $877,000 increase in the income associated with our bank owned life insurance contract, primarily from the adoption of a new accounting principle in fiscal 2007 related to investments in insurance contracts.

Non-Interest Expenses. Total non-interest expenses decreased by $13.3 million, or 15.3%, to $73.6 million for the year ended June 30, 2007 from $86.8 million for the year ended June 30, 2006. The decrease is primarily attributed to the $20.7 million contribution of cash and Company stock made to the Investors Savings Bank Charitable Foundation in the year ended June 30, 2006 as part of our initial public stock offering. This was partially offset by compensation and fringe benefits increasing by $6.7 million, or 16.0%, to $48.7 million for the year ended June 30, 2007. Expenses for the year ended June 30, 2007 included $5.7 million attributed to stock based awards granted in accordance with the shareholder-approved 2006 Equity Incentive Plan. In addition, the increase reflects staff additions in our commercial real estate and retail banking areas, as well as normal merit increases and increases in employee benefit costs.

Income Taxes. Income tax benefit was $7.4 million for the year ended June 30, 2007, as compared to income tax expense of $7.4 million for the year ended June 30, 2006. The tax benefit is largely attributable to an $8.7 million reduction in the deferred tax asset valuation allowance. This reduction is 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. In addition, pre-tax income decreased by $7.6 million to $14.8 million at June 30, 2007 from $22.4 million at June 30, 2006. See discussion of deferred tax asset in Comparison of Financial Condition at June 30, 2007 and June 30, 2006 .

Comparison of Operating Results for the Years Ended June 30, 2006 and 2005

Net Income. Operating results improved by $18.2 million, to a net income of $15.0 million for the year ended June 30, 2006 from a net loss of $3.1 million for the year ended June 30, 2005. The Company s results of operations for the fiscal year ended June 30, 2006 were negatively impacted by a $20.7 million pre-tax charitable contribution expense and positively impacted by the investment of stock subscription proceeds received in its initial public offering. With respect to the prior fiscal year, in March 2005 the Company executed a restructuring transaction in which it repaid $448.0 million in FHLB borrowings and sold approximately $500.0 million of securities with a book yield of 4.00% or less, to fund the repayment of these borrowings. This restructuring transaction resulted in charges to income of $54.0 million before taxes in March 2005, consisting of the losses on prepayment of the borrowings and sale of the securities.

Net Interest Income. Net interest income increased by $4.4 million, or 4.4%, to $104.3 million for the year ended June 30, 2006 from $99.8 million for the year ended June 30, 2005. The increase was caused primarily by a 35 basis point improvement in our yield on interest-earning assets to 4.81% for the year ended June 30, 2006 from 4.46% for the year ended June 30, 2005 and a reduction in the average balance of interest-bearing liabilities of $301.1 million, or 6.3%, to $4.44 billion for the year ended June 30, 2006 from $4.74 billion for the year ended June 30, 2005. This was partially offset by an increase in our cost of interest-bearing liabilities to 3.19% for the year ended June 30, 2006 from 2.67% for the year ended June 30, 2005.

Interest and Dividend Income. Total interest and dividend income increased by $19.5 million, or 8.6%, to $246.1 million for the year ended June 30, 2006 from $226.5 million for the year ended June 30, 2005. This increase was primarily due to a 35 basis point increase in the average yield on interest-earning assets to 4.81% for the year ended June 30, 2006 compared to 4.46% for the year ended June 30, 2005. There was also an increase in the average balance of interest-earning assets of $45.4 million, or 0.9%, to $5.12 billion for the year ended June 30, 2006 from $5.08 billion for the year ended June 30, 2005.

Interest income on loans increased by $49.8 million, or 64.7%, to $126.6 million for the year ended June 30, 2006 from $76.9 million for the year ended June 30, 2005, reflecting a $924.8 million, or 61.5%, increase in the average balance of net loans to $2.43 billion for the year ended June 30, 2006 from $1.50 billion for the year ended June 30, 2005. In addition, the average yield on loans increased to 5.22% for the year ended June 30, 2006 from 5.11% for the year ended June 30, 2005.

Interest income on all other interest-earning assets, excluding loans, decreased by $30.2 million, or 20.2%, to $119.5 million for the year ended June 30, 2006 from $149.7 million for the year ended June 30, 2005. This decrease reflected an $879.4 million decrease in the average balance of securities and other interest-earning assets, partially offset by a 25 basis point increase in the average yield on securities and other interest-earning assets to 4.44% for the year ended June 30, 2006 from 4.19% for the year ended June 30, 2005.

Interest Expense. Total interest expense increased by $15.1 million, or 11.9%, to $141.8 million for the year ended June 30, 2006 from $126.7 million for the year ended June 30, 2005. This increase was primarily due to a 52 basis point increase in the weighted average cost of total interest-bearing liabilities to 3.19% for the year ended June 30, 2006 compared to 2.67% for the year ended June 30, 2005. This was partially offset by a $301.1 million, or 6.3%, decrease in the average balance of total interest-bearing liabilities to $4.44 billion for the year ended June 30, 2006 from $4.74 billion for the year ended June 30, 2005. We reduced the average balance of wholesale borrowings during the year ended June 30, 2006 by $384.9 million to $1.12 billion which was partially offset by an increase in the average balance of interest-bearing deposits for the year ended June 30, 2006 of $83.9 million to $3.33 billion.

Interest expense on interest-bearing deposits increased $26.7 million, or 38.2% to $96.6 million for the year ended June 30, 2006 from $69.9 million for the year ended June 30, 2005. This increase was due to an $83.9 million increase in the average balance of interest-bearing deposits and a 75 basis point increase in the average cost of interest-bearing deposits.

Interest expense on borrowed funds decreased by $11.6 million, or 20.4%, to $45.2 million for the year ended June 30, 2006 from $56.8 million for the year ended June 30, 2005. The average balance of borrowed funds decreased by $384.9 million or 25.7%, to $1.12 billion for the year ended June 30, 2006 from $1.50 billion for the year ended June 30, 2005. This decrease was primarily attributed to the utilization of the proceeds from our initial public stock offering to reduce higher cost wholesale borrowings and to the restructuring transaction that took place in March 2005 in which we repaid wholesale borrowings. The average cost of borrowed funds increased by 26 basis points to 4.05% for the year ended June 30, 2006 from 3.79% for the year ended June 30, 2005.

Provision for Loan Losses. Our provision for loan losses was $600,000 for the year ended June 30, 2006 and 2005. There were net recoveries of $46,000 for the year ended June 30, 2006 and net charge-offs of $99,000 for the year ended June 30, 2005.

Non-Interest Income (Loss). Total non-interest income increased by $8.0 million to $5.6 million for the year ended June 30, 2006 from a loss of $2.4 million for the year ended June 30, 2005. This increase was largely the result of the losses recorded in the year ended June 30, 2005 on the sale of securities of $9.5 million, primarily attributed to the balance sheet restructuring. This was partially offset by a decrease in income associated with our bank owned life insurance of $1.3 million to $2.7 million for the year ended June 30, 2006.

Non-Interest Expenses. Total operating expenses decreased by $16.5 million, or 15.9%, to $86.8 million for the year ended June 30, 2006 from $103.3 million for the year ended June 30, 2005. The decrease was primarily attributed to the balance sheet restructuring in the year ended June 30, 2005, in which a loss of $43.6 million on the early extinguishment of debt was realized, partially offset by the $20.7 million contribution of cash and Company stock made to the Investors Savings Bank Charitable Foundation in the year ended June 30, 2006 as part of our initial public stock offering. In addition, compensation and fringe benefits increased by $6.3 million, or 17.6%, to $42.0 million for the year ended June 30, 2006. This increase was primarily due to staff additions in our commercial real estate and retail banking areas, as well as normal merit increases and increases in employee benefit costs. Additionally, $2.4 million is attributed to the recognition in fiscal year 2006 of expense related to the ESOP share allocations to employees for calendar year 2005 and the commitment of shares during the first half of calendar year 2006.

Income Taxes. Income tax expense was $7.4 million for the year ended June 30, 2006, as compared to income tax benefit of $3.3 million for the year ended June 30, 2005. Our effective tax expense rate was 33.0% for the year ended June 30, 2006.

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Management of Market Risk

Qualitative Analysis. We believe our most significant form of market risk is interest rate risk. Interest rate risk results from timing differences in the maturity or re-pricing of our assets, liabilities and off-balance sheet contracts (i.e., 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 maturities for constant or variable credit risk investments. Besides directly affecting our net interest income, changes in market interest rates can also affect the amount of new loan originations, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and refinancings, the carrying value of securities classified as available for sale and the mix and flow of deposits.

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

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. Historically, our lending activities have emphasized one- to four-family fixed- and variable- rate first mortgages. At June 30, 2007, approximately 42% of our residential portfolio was in variable rate products, while 58% was in fixed rate products. Our variable-rate mortgage related assets have helped to reduce our exposure to interest rate fluctuations and is expected to benefit our long-term profitability, as the rate earned in the mortgage loans will increase as prevailing market rates increase. However, the current interest rate environment, and the preferences of our customers, has resulted in more of a demand for fixed-rate products. This may adversely impact our net interest income, particularly in a rising rate environment. To help manage our interest rate risk, we have increased our focus on the origination of commercial real estate mortgage loans and adjustable-rate construction loans. In addition, we primarily invest in shorter-to-medium duration securities, which generally have shorter average lives and lower yields compared to longer term securities. Shortening the average lives of our securities, along with originating more adjustable-rate mortgages and commercial real estate mortgages, will help to reduce interest rate risk.

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

The net interest income analysis uses data derived from a dynamic asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations, if applicable, and the U.S. Treasury yield curve as of the balance sheet date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred gradually over a one year period. Net interest income analysis also adjusts the dynamic asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our dynamic asset and liability analysis determines the relative balance between the repricing of assets and liabilities over multiple periods of time (ranging from overnight to five years). This dynamic asset and liability analysis includes expected cash flows from loans and mortgage-backed securities, applying prepayment rates based on the differential between the current interest rate and the market interest rate for each loan and security type. This

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analysis identifies mismatches in the timing of asset and liability repricing but does not necessarily provide an accurate indicator of interest rate risk because it omits the factors incorporated into the net interest income analysis.

Quantitative Analysis. The table below sets forth, as of June 30, 2007, the estimated changes in the Company s NPV and the Company s net interest income that would result from the designated changes in the U.S. Treasury yield curve. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate increase or decrease of greater than 200 basis points.

	Net Portfolio Value(2)			Net Interest Income		
Change in Interest Rates (Basis Points)(1)	Estimated NPV	Estimated Increase (Decrease) Amount	Estimated Increase (Decrease) Percent	Estimated Net Interest Income(3)	Increase (Decrease) in Estimated Net Interest Income Amount	Increase (Decrease) in Estimated Net Interest Income Percent
	(Dollars in thousands)					
+200bp	$ 463,831	$ (309,201)	(40.0)%	$ 75,548	$ (11,447)	(13.16)%
0bp	773,032			86,995		
-200bp	930,318	157,286	20.3%	100,559	13,564	15.59%

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

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

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

The table set forth above indicates at June 30, 2007, in the event of a 200 basis points increase in interest rates, we would be expected to experience a 40.0% decrease in NPV and an $11.4 million decrease in net interest income. In the event of a 200 basis points decrease in interest rates, we would be expected to experience a 20.3% increase in NPV and a $13.6 million increase in net interest income. These data do not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

As mentioned above, we retain two nationally recognized firms to prepare our quarterly interest rate risk reports. Although we are confident of the accuracy of the results, certain shortcomings are inherent in any methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The NPV and net interest income table presented above assumes the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data do not reflect any actions we may take in response to changes in interest rates. The table also assumes a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the NPV and net interest income table provide an indication of our sensitivity to interest rate changes at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effects of changes in market interest rates on our NPV and net interest income.

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 were $410.5 million for the year ended June 30, 2007 and $351.9 million for the year ended June 30, 2006. Principal repayments on securities were $413.7 million and $817.6 million for the years ended June 30, 2007 and 2006, respectively. Additionally, during the year ended June 30, 2007, we received proceeds from the sale of securities of $184.1 million.

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 totaled $16.2 million during the year ended June 30, 2007 and $42.0 million during the year ended June 30, 2006. We experienced a net increase in total deposits of $362.9 million for the year ended June 30, 2007 and a net increase of $61.6 million for the year ended June 30, 2006. 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 decreased by $207.0 million during the year ended June 30, 2007 and $68.0 million during the year ended June 30, 2006. The decrease in fiscal 2007 is primarily the result of utilizing the proceeds from the sale of securities to repay borrowings. Additionally, our strategy has been to reduce the reliance on wholesale borrowings through normal cash flows.

Our primary use of funds is for the origination and purchase of loans and the purchase of securities. During the fiscal year 2007, we originated $377.4 million of loans, purchased $664.4 million of loans and purchased $69.1 million of securities. In fiscal year 2006, we originated $487.8 million of loans, purchased $833.4 million of loans, and purchased $410.4 million of securities. In addition, during fiscal 2007, we utilized $96.7 million to repurchase shares of our common stock under our stock repurchase plans.

At June 30, 2007, we had $273.7 million in loan commitments outstanding. In addition to commitments to originate and purchase loans, we had $212.1 million in unused lines of credit to borrowers and overdraft lines of credit. Certificates of deposit due within one year of June 30, 2007 totaled $2.34 billion, or 63.8% 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 June 30, 2008. 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 June 30, 2007, cash and cash equivalents totaled $24.8 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $252.0 million at June 30, 2007. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB and others, which provide an additional source of funds. At June 30, 2007, the Company had 12-month commitments for overnight and one month lines of credit with the FHLB and other institutions totaling $300.0 million, of which $200.0 million was outstanding under the overnight line of credit and $33.1 million was outstanding under the one month line. The lines of credit are priced at federal funds rate plus a spread (generally between 10 and 15 basis points) and reprice 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 June 30, 2007, 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.

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 June 30, 2007. 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(1)	$ 233,100	$ 100,000	$ 610	$	$ 333,710
Repurchase agreements(1)	240,000	165,000	300,000		705,000
Operating leases	3,793	7,914	8,088	19,766	39,561
Total	$ 476,893	$ 272,914	$ 308,698	$ 19,766	$ 1,078,271

(1) Reflects all debt with an original maturity of longer than one year.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments-an amendment of FASB statements No. 133 and 140. This statement permits fair value remeasurement of certain hybrid financial instruments, clarifies the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities regarding interest-only and principal-only strips, and provides further guidance on certain issues regarding beneficial interests in securitized financial assets, concentrations of credit risk and qualifying special purpose entities. SFAS No. 155 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The application of SFAS No. 155 is not expected to have an impact on the Company s financial condition or results of operations.

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

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

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007 with early adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007. The Company does not expect that the adoption of SFAS No. 159 will have a material impact on its 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). 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 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK*

For information regarding market risk see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The Financial Statements are included in Part IV, Item 15 of this Form 10-K.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not Applicable

ITEM 9A. *CONTROLS AND PROCEDURES*

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the Evaluation Date). Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) Changes in internal controls.

There were no changes in our internal controls over financial reporting that occurred during the Company s fourth fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION***

Not Applicable.

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PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVENANCE***

Information regarding directors, executive officers and corporate governance of the Company is presented under the headings Proposal 1 Election of Directors-General, Who Our Directors Are, Our Directors Backgrounds, No for Election as Directors, Continuing Directors, Meetings of the Board of Directors and Its Committees, Execu Officers, Director Compensation, Executive Officer Compensation, Corporate Governance and Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on October 23, 2007 and is incorporated herein by reference.

ITEM 11. ***EXECUTIVE COMPENSATION***

Information regarding executive compensation is presented under the headings Election of Directors-Director Compensation, Executive Officer Compensation, Summary Compensation Table, Employment Agreements, C of Control Agreements, and Benefit Plans in the Company s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on October 23, 2007 and is incorporated herein by reference.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Information regarding security ownership of certain beneficial owners and management is presented under the heading Security Ownership of Certain Beneficial Owners and Management in the Company s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on October 23, 2007 and is incorporated herein by reference. Information regarding equity compensation plans is presented in the Company s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, to be held on October 23, 2007, and incorporated herein by reference.

ITEM 13. ***CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***

Information regarding certain relationships and related transactions, and director independence is presented under the heading Certain Transactions with Members of our Board of Directors and Executive Officers and Corporate Governance in the Company s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on October 23, 2007 and is incorporated herein by reference.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

Information regarding principal accounting fees and services is presented under the heading Proposal 2 Ratification of Appointment of Independent Registered Public Accounting Firm in Investors Bancorp s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on October 23, 2007 and is incorporated herein by reference.

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

(a)(1) Financial Statements

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Investors Bancorp, Inc. and subsidiary (the Company) as of June 30, 2007 and 2006, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended June 30, 2007. 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 financial statements referred to above present fairly, in all material respects, the financial position of Investors Bancorp, Inc. and subsidiary as of June 30, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2007 in conformity with U.S. generally accepted accounting principles.

Short Hills, New Jersey
August 28, 2007

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets
June 30, 2007 and 2006

	2007	2006
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 24,810	39,824
Securities available-for-sale, at estimated fair value (notes 5 and 11)	251,970	528,876
Securities held-to-maturity, net (estimated fair value of $1,472,385 and $1,695,975 at June 30, 2007 and June 30, 2006, respectively) (notes 4 and 11)	1,517,664	1,763,032
Loans receivable, net (note 6)	3,589,373	2,960,583
Loans held-for-sale	3,410	974
Stock in the Federal Home Loan Bank (note 11)	33,887	46,125
Accrued interest receivable (note 7)	24,300	21,053
Office properties and equipment, net (note 9)	27,155	27,911
Net deferred tax asset (note 12)	39,399	28,176
Bank owned life insurance contract (note 3)	88,018	78,903
Other assets	1,102	1,789
	$ 5,601,088	5,497,246
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits (note 10)	$ 3,664,966	3,302,043
Borrowed funds (note 11)	1,038,710	1,245,740
Advance payments by borrowers for taxes and insurance	17,671	15,337
Other liabilities	36,376	33,939
Total liabilities	4,757,723	4,597,059
Stockholders equity (notes 2 and 16):		
Preferred stock, $0.01 par value, 50,000,000 authorized shares; none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized; 116,275,688 issued; 111,468,952 and 116,275,688 outstanding at June 30, 2007 and June 30, 2006, respectively	532	532
Additional paid-in capital	506,016	524,962
Retained earnings	453,751	426,233
Treasury stock, at cost; 4,806,736 shares at June 30, 2007	(70,973)	
Unallocated common stock held by the employee stock ownership plan	(38,996)	(40,414)
Accumulated other comprehensive loss	(6,965)	(11,126)
Total stockholders equity	843,365	900,187
Commitments and contingencies (notes 8 and 14)		

Total liabilities and stockholders equity	$ 5,601,088	5,497,246

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations
Years ended June 30, 2007, 2006 and 2005

		2007	2006	2005
		(In thousands, except per share data)		
Interest and dividend income:				
Loans receivable and loans held-for-sale	$	180,859	126,613	76,857
Securities:				
Government-sponsored enterprise obligations		5,355	6,843	5,496
Mortgage-backed securities		78,528	97,557	138,210
Equity securities available-for-sale		1,383	1,825	1,776
Municipal bonds and other debt		9,967	6,805	1,369
Interest-bearing deposits		692	2,863	489
Repurchase agreements			613	
Federal Home Loan Bank stock		2,905	2,949	2,327
Total interest and dividend income		279,689	246,068	226,524
Interest expense:				
Deposits (note 10)		138,271	96,578	69,862
Secured borrowings		55,127	45,218	56,817
Total interest expense		193,398	141,796	126,679
Net interest income		86,291	104,272	99,845
Provision for loan losses (note 6)		725	600	600
Net interest income after provision for loan losses		85,566	103,672	99,245
Non-interest income (loss):				
Fees and service charges		2,600	2,524	2,451
Income on bank owned life insurance contract (note 3)		3,551	2,674	3,977
Gain on sales of mortgage loans, net		244	289	406
(Loss) gain on securities transactions, net (notes 4 and 5)		(3,666)	5	(9,494)
Gain on sale of other real estate owned, net			5	38
Other income		114	83	191
Total non-interest income (loss)		2,843	5,580	(2,431)
Non-interest expenses:				
Compensation and fringe benefits (note 13)		48,689	41,963	35,695
Advertising and promotional expense		3,275	2,502	2,636
Office occupancy and equipment expense (notes 9 and 14)		9,969	10,306	10,340
Federal insurance premiums		437	470	470
Stationery, printing, supplies and telephone		1,579	1,756	1,711

Legal, audit, accounting, and supervisory examination fees		1,927	1,746	1,456
Data processing service fees		3,929	3,633	3,340
Amortization of premium on deposit acquisition				1,102
Loss on early extinguishment of debt (note 11)				43,616
Contribution to charitable foundation (note 2)			20,651	
Other operating expenses		3,768	3,803	2,936
Total non-interest expenses		73,573	86,830	103,302
Income (loss) before income tax (benefit) expense		14,836	22,422	(6,488)
Income tax (benefit) expense (note 12)		(7,430)	7,408	(3,346)
Net income (loss)	$	22,266	15,014	(3,142)
Earnings per share basic and diluted (fiscal 2007 represents a full year, fiscal 2006 represents the period from October 11, 2005 to June 30, 2006) (note 19)	$	0.20	0.06	n/a
Weighted average shares outstanding				
Basic		110,812,975	112,140,953	n/a
Diluted		110,831,942	112,140,953	n/a

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders Equity
Years ended June 30, 2007, 2006 and 2005

	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, 2004	$	25	414,361			(12,723)	401,663
Comprehensive income:							
Net loss			(3,142)				(3,142)
Change in minimum pension liability, net of tax benefit of $234						(346)	(346)
Unrealized gain on securities available-for-sale, net of tax expense of $2,307						3,212	3,212
Reclassification adjustment for losses included in net income, net of tax of $3,656						6,440	6,440
Total comprehensive income							6,164
Balance at June 30, 2005		25	411,219			(3,417)	407,827
Comprehensive income:							
Net income			15,014				15,014
Change in minimum pension liability, net of tax expense of $490						733	733
Unrealized loss on securities available-for-sale, net of tax benefit of $5,802						(8,442)	(8,442)
Total comprehensive income							7,305
Sale of 53,175,907 shares of common stock in the initial public offering and issuance of	532	524,642					525,174

63,099,781 shares to mutual holding company							
Purchase of common stock by the ESOP					(42,541)		(42,541)
ESOP shares allocated or committed to be released		295			2,127		2,422
Balance at June 30, 2006	532	524,962	426,233		(40,414)	(11,126)	900,187
Comprehensive income:							
Net income			22,266				22,266
Change in minimum pension liability, net of tax benefit of $510						(766)	(766)
Unrealized gain on securities available-for-sale, net of tax expense of $5,967						8,970	8,970
Reclassification adjustment for losses on securities available-for-sale included in net income, net of tax benefit of $1,347						(1,951)	(1,951)
Total comprehensive income							28,519
Cummulative 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 SFAS No. 158, net of tax benefit of $1,395						(2,092)	(2,092)
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	506,016	453,751	(70,973)	(38,996)	(6,965)	843,365

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years ended June 30, 2007, 2006 and 2005

	2007	2006	2005
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 22,266	15,014	(3,142)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Contribution of stock to charitable foundation		15,488	
ESOP and stock-based compensation expense	7,893	2,422	
Amortization of premiums and accretion of discounts on securities, net	1,552	1,441	5,542
Amortization of premium on deposit acquisition			1,102
Amortization of premium and accretion of fees and costs on loans, net	1,852	2,015	1,492
Provision for loan losses	725	600	600
Depreciation and amortization of office properties and equipment	2,777	2,883	2,807
Loss (gain) on securities transactions, net	3,666	(5)	9,494
Loss on early extinguishment of debt			43,616
Mortgage loans originated for sale	(41,887)	(28,355)	(53,548)
Proceeds from mortgage loan sales	39,934	31,082	51,970
Gain on sales of mortgage loans, net	(244)	(289)	(406)
Proceeds from sales of other real estate owned		5	315
Net gain on sales of other real estate owned		(5)	(38)
Death benefits on bank owned life insurance contract			(2,800)
Increase in bank owned life insurance contract	(3,551)	(2,674)	(1,177)
(Increase) decrease in accrued interest receivable	(3,247)	(2,790)	4,398
Deferred tax benefit	(13,938)	(9,738)	(69)
(Increase) decrease in other assets	(180)	856	570
(Decrease) increase in other liabilities	(1,459)	14,022	(18,201)
Total adjustments	(6,107)	26,958	45,667
Net cash provided by operating activities	16,159	41,972	42,525
Cash flows from investing activities:			
Purchases of loans receivable	(664,384)	(833,449)	(857,324)
Net repayments (originations) of loans receivable	32,778	(135,845)	(32,914)
Purchases of mortgage-backed securities held-to-maturity	(22,696)	(64,356)	(261,064)
Purchases of debt securities held-to-maturity	(46,362)	(346,005)	(23,000)
Purchases of mortgage-backed securities available-for-sale			(62,175)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	279,392	457,351	689,885
Proceeds from calls/maturities on debt securities held-to-maturity	10,137	229,495	25,351
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	89,170	130,760	242,890

Proceeds from sales of mortgage-backed securities held-to-maturity	22,942		46,942
Proceeds from sales of mortgage-backed securities available-for-sale	161,112		550,071
Proceeds from sales of equity securities available-for-sale			20,729
Proceeds from call of equity securities available-for-sale	35,000		
Proceeds from redemptions of Federal Home Loan Bank stock	48,889	87,748	82,376
Purchases of Federal Home Loan Bank stock	(36,651)	(73,185)	(61,074)
Purchases of office properties and equipment	(2,021)	(1,250)	(5,403)
Proceeds from death benefits on bank owned life insurance contract			3,291
Net cash (used in) provided by investing activities	(92,694)	(548,736)	358,581
Cash flows from financing activities:			
Net increase (decrease) in deposits	362,923	61,623	(26,515)
Net proceeds from sale of common stock		509,686	
Loan to ESOP for purchase of common stock		(42,541)	
Net (decrease) increase in funds borrowed under short-term repurchase agreements	(165,000)	325,000	
Proceeds from funds borrowed under other repurchase agreements	360,000	475,000	605,000
Repayments of funds borrowed under other repurchase agreements	(585,000)	(930,000)	(1,027,616)
Net increase in other borrowings	182,970	61,971	87,971
Net increase in advance payments by borrowers for taxes and insurance	2,334	4,520	3,730
Purchase of treasury stock	(96,706)		
Net cash provided by (used in) financing activities	61,521	465,259	(357,430)
Net (decrease) increase in cash and cash equivalents	(15,014)	(41,505)	43,676
Cash and cash equivalents at beginning of year	39,824	81,329	37,653
Cash and cash equivalents at end of year	$ 24,810	39,824	81,329
Supplemental cash flow information:			
Noncash investing activities:			
Real estate acquired through foreclosure	$		123
Cash paid during the year for:			
Interest	194,304	142,498	127,307
Income taxes	9,591	9,052	16,388

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
Years Ended June 30, 2007, 2006 and 2005

(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) and its wholly owned significant subsidiaries, ISB Mortgage Company LLC and ISB Asset Corporation. 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 2.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses during the reporting periods. Actual results may differ significantly from those estimates and assumptions. A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses. In connection with the determination of this allowance, management generally obtains independent appraisals for significant properties.

(b) 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.

(c) Cash Equivalents

Cash equivalents consist of cash on hand, amounts due from banks and interest-bearing deposits in other financial institutions.

(d) 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 and the Company has the ability to hold debt and mortgage-backed securities until 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. Realized gains and losses are recognized when securities are sold or called using the specific identification method. The estimated fair value of these securities is determined by use of quoted market prices.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment loss is charged to earnings and a new cost basis is established for the security. To determine whether an impairment is other-than-temporary, the Company considers, among other things, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the issuer and whether the Company has the ability and intent to hold the investment until a market price recovery.

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.

(e) 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 life of the loan as an adjustment to yield. Loans held-for-sale are recorded at lower of cost or fair value in the aggregate.

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 past due when a payment has not been received in accordance with the contractual terms. Loans for which interest is more than 90 days past due, including impaired loans, and other loans in the process of foreclosure are placed on non-accrual status. Interest income previously accrued on these loans, but not yet received, is credited to income in the period of recovery. 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 collectibility 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 has defined the population of impaired loans to be any multi-family, commercial or construction loans greater than $300,000 which are classified as substandard or below. 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 collectively evaluated for impairment, such as residential mortgage loans and installment loans, are specifically excluded from impaired loans.

(f) 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.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(g) Other Real Estate Owned

Other real estate owned consists of properties acquired in settlement of loans. Such assets are carried at the lower of cost or fair value, less estimated cost to sell, based on independent appraisals.

(h) Bank Owned Life Insurance Contract

The Company has purchased a bank owned life insurance contract in consideration of its obligation for certain employee benefit costs. The Company s investment in such insurance contract has been reported in 2007 at contract value determined in accordance with EITF Issue No. 06-5 (See Note 3) and in 2006 at cash surrender value. Beginning in fiscal 2007, changes in the contract value other than death benefit proceeds are recorded in non-interest income, based on EITF Issue No. 06-5. Prior to fiscal 2007, changes in the cash surrender value and death benefit proceeds received in excess of the related cash surrender value were recorded as non-interest income.

(i) Intangible Asset

Deposit acquisition premiums were amortized on a straight-line basis over ten years. There were no unamortized premiums remaining at June 30, 2007 and 2006.

(j) 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 a specified formula. The stock is carried at cost, less any impairment.

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

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(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 provides (i) health care benefits to retired employees hired prior to April 1, 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retirees. Accordingly, the Company accrues the cost of retiree health care and other benefits during the employee s period of active service.

As discussed in Note 13, the Company adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132R as of June 30, 2007. This statement requires an employer to: (a) recognize in its balance sheet an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year; and (c) recognize, in comprehensive income, changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end balance sheet will be effective for the Company as of June 30, 2009.

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 of Position No. 93-6, 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 s equity incentive plan is accounted for in accordance with SFAS No. 123R, Share-Based Payment . SFAS No. 123R requires companies to recognize in the statement of earnings the grant-date fair value of stock based awards issued to employees.

(n) Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. The weighted average common shares outstanding includes the average number of shares of common stock outstanding, including shares held by Investors Bancorp MHC and the Employee

Stock Ownership Plan shares previously allocated to participants and shares committed to be released for allocation to participants.

Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if stock options were exercised and converted into common stock. These potentially dilutive shares would then be included in the weighted average number of shares outstanding for the period using the treasury stock method. Shares issued and shares reacquired during the period are weighted for the portion of the period that they were outstanding.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(o) Reclassification

Certain reclassifications have been made in the consolidated financial statements for 2006 and 2005 to conform to the classification presented in 2007.

(2) 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 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 Investors Savings Bank Charitable Foundation resulting in a pre-tax expense charge of $20.7 million recorded in the quarter ended December 31, 2005. 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

In September 2006, the Company announced that its Board of Directors authorized a stock repurchase plan to acquire up to 10% of its publicly-held outstanding shares of common stock, or 5,317,590 shares, commencing October 12, 2006. At its April 2007 meeting, the Board of Directors approved a second stock repurchase program which authorizes the repurchase of an additional 10% of the Company s outstanding common stock, or 4,785,831 shares. During the year ended June 30, 2007, the Company purchased 6,473,695 shares at a cost of $96.7 million, or approximately $14.94 per share. Under our 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. Of the shares purchased, 1,666,959 shares were allocated to fund the restricted stock portion of the Company s 2006 Equity Incentive Plan. The remaining shares are held for general corporate use. At June 30, 2007, there are 3,629,726 shares yet to be purchased under the current plan.

(3) Bank Owned Life Insurance Contract

During fiscal 2002 and 2003, the Company purchased a bank owned life insurance contract at a total cost of $80,000,000. There are two components of the insurance contract value in addition to cash surrender value, referred to as deferred acquisition costs (DAC) and claims stabilization reserve (CSR). These components were not recognized as assets prior to the adoption of the EITF consensus described below. In fiscal 2005, $1,177,000 was credited to other income for the net increase in the cash surrender value and $2,800,000 was credited to other income for insurance proceeds received for death benefits during the year. In fiscal 2006, $2,674,000 was credited to other income for the net increase in the cash surrender value. These net increases in cash surrender values include the effect of transferring amounts from the cash surrender value to the CSR, in accordance with the contract terms, to segregate a portion of the total insurance contract value as CSR for the payment of future death benefit claims.

In September 2006, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 to address diversity in practice with respect to the calculation of the amount that could be realized. The EITF reached a consensus that a policyholder should consider any additional amounts, such as DAC and CSR, in determining the amount that could be realized under the insurance contract and therefore recognized as an asset. The EITF also agreed that fixed amounts that are recoverable by the policyholder in future periods in excess of one year from the surrender of the policy should be recognized at their present value. The consensus is effective for fiscal years

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of a fiscal year for periods in which interim or annual financial statements have not yet been issued. The Company elected early adoption of the EITF consensus as of July 1, 2006 and recorded an asset of $5.6 million for the guaranteed DAC and CSR balances, through a cumulative effect adjustment to retained earnings due to a change in accounting principle.

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

(4) Securities Held-to-Maturity

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

	June 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities:				
Government-sponsored enterprises	$ 119,900	8	4,233	115,675
Municipal bonds	14,048	207	19	14,236
Corporate and other debt securities	166,074	592	769	165,897
	300,022	807	5,021	295,808
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	641,452	506	23,544	618,414
Federal National Mortgage Association	438,830	748	14,574	425,004
Government National Mortgage Association	6,049	174	1	6,222

Federal housing authorities	3,027	224		3,251
Non-agency securities	128,284	39	4,637	123,686
	1,217,642	1,691	42,756	1,176,577
Total securities held-to-maturity	$ 1,517,664	2,498	47,777	1,472,385

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

	June 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities:				
Government-sponsored enterprises	$ 120,062	12	6,418	113,656
Municipal bonds	14,177	226	25	14,378
Corporate and other debt securities	130,111	37	409	129,739
	264,350	275	6,852	257,773
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	808,952	189	33,698	775,443
Federal National Mortgage Association	527,338	583	20,459	507,462
Government National Mortgage Association	8,249	203	10	8,442
Federal housing authorities	3,189	253		3,442
Non-agency securities	150,954		7,541	143,413
	1,498,682	1,228	61,708	1,438,202
Total securities held-to-maturity	$ 1,763,032	1,503	68,560	1,695,975

During the year ended June 30, 2007, proceeds from sales of securities from the held-to-maturity portfolio were $22,942,000 resulting in gross realized losses of $364,000. The Company also realized a $4,000 loss on the call of a debt security. There were no sales from the held-to-maturity portfolio during the year ended June 30, 2006, however the Company realized a $5,000 gain on the call of a debt security. During the year ended June 30, 2005, proceeds from sales of securities from the held-to-maturity portfolio were $46,942,000 resulting in gross realized gains of $616,000 and gross realized losses of $14,000. The held-to-maturity securities sold in fiscal 2007 and 2005 represented mortgage-backed securities for which principal payments had been received in an amount greater than 85% of the securities original amortized cost. Accordingly, these sales do not call into question the Company s intent to hold to maturity other securities classified as held-to-maturity.

The contractual maturities of mortgage-backed securities held-to-maturity generally exceed 20 years; however, the effective lives are expected to be shorter due to anticipated prepayments. The amortized cost and estimated fair value of debt securities at June 30, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	June 30, 2007	
	Amortized	Estimated

	Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 1,850	1,863
Due after one year through five years	66,285	63,829
Due after five years through ten years	59,163	57,446
Due after ten years	172,724	172,670
Total	$ 300,022	295,808

A portion of the Company s securities are pledged to secure borrowings. See Note 11 for additional information.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Gross unrealized losses on securities held-to-maturity and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2007 and 2006, were as follows:

	June 30, 2007					
	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)					
Debt securities:						
Government-sponsored enterprises	$		114,887	4,233	114,887	4,233
Municipal bonds			1,474	19	1,474	19
Corporate and other debt securities	44,160	528	9,891	241	54,051	769
	44,160	528	126,252	4,493	170,412	5,021
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	31,288	419	543,293	23,125	574,581	23,544
Federal National Mortgage Association	54,970	1,012	334,386	13,562	389,356	14,574
Government National Mortgage Association	581	1			581	1
Non-agency securities			115,141	4,637	115,141	4,637
	86,839	1,432	992,820	41,324	1,079,659	42,756
Total	$ 130,999	1,960	1,119,072	45,817	1,250,071	47,777

	June 30, 2006					
	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)					
Debt securities:						
Government-sponsored enterprises	$ 27,807	1,193	84,895	5,225	112,702	6,418
Municipal bonds			1,596	25	1,596	25

Corporate and other debt securities	53,041	409			53,041	409
	80,848	1,602	86,491	5,250	167,339	6,852
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	243,314	5,744	522,465	27,954	765,779	33,698
Federal National Mortgage Association	206,292	5,447	265,759	15,012	472,051	20,459
Government National Mortgage Association	929	7	320	3	1,249	10
Non-agency securities	32,326	1,335	111,087	6,206	143,413	7,541
	482,861	12,533	899,631	49,175	1,382,492	61,708
Total	$ 563,709	14,135	986,122	54,425	1,549,831	68,560

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The unrealized losses on investments in debt securities were attributable to increases in market interest rates subsequent to purchase. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Since the Company has the ability and intent to hold these investments to maturity, these investments are not considered other-than-temporarily impaired.

The unrealized losses on investments in mortgage-backed securities were attributable to increases in market interest rates subsequent to purchase. The contractual cash flows of 89.3%, or an estimated fair value of $963.9 million, of these securities are guaranteed by Freddie Mac and Fannie Mae (U.S. government-sponsored enterprises). Securities not guaranteed by these entities comply with the investment and credit standards set in the investment policy of the Company. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Since the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments to maturity, these investments are not considered other-than-temporarily impaired.

(5) Securities Available-for-Sale

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

	June 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	$ 68,635	15	1,427	67,223
Federal National Mortgage Association	70,059	162	1,365	68,856
Non-agency securities	119,598		3,707	115,891
Total securities available-for-sale	$ 258,292	177	6,499	251,970

	June 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Equity securities	$ 35,000	35		35,035
Mortgage-backed securities:				

Federal Home Loan Mortgage Corporation	124,845	14	4,095	120,764
Federal National Mortgage Association	208,545		6,751	201,794
Non-agency securities	178,446		7,163	171,283
	511,836	14	18,009	493,841
Total securities available-for-sale	$ 546,836	49	18,009	528,876

During the year ended June 30, 2007, proceeds from sales of securities from the available-for-sale portfolio were $161,112,000 resulting in gross realized losses of $3,298,000. There were no sales from the securities available-for-sale portfolio during the year ended June 30, 2006. During the year ended June 30, 2005, proceeds from sales of securities from the available-for-sale portfolio were $570,800,000 resulting in gross realized gains of $409,000 and gross realized losses of $10,505,000.

The contractual maturities of mortgage-backed securities available for sale generally exceed 20 years; however, the effective lives are expected to be shorter due to anticipated prepayments.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

A portion of the Company s securities are pledged to secure borrowings. See note 11 for additional information.

Gross unrealized losses on securities available-for-sale and the estimated fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2007 and 2006, were as follows:

	June 30, 2007						
	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)						
Mortgage-backed securities:							
Federal Home Loan Mortgage Corporation	$		50,031	1,427	50,031	1,427	
Federal National Mortgage Association			49,858	1,365	49,858	1,365	
Non-agency securities			115,891	3,707	115,891	3,707	
Total	$		215,780	6,499	215,780	6,499	

	June 30, 2006					
	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)					
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	$ 6,608	87	105,129	4,008	111,737	4,095
Federal National Mortgage Association	92,580	2,549	109,214	4,202	201,794	6,751
Non-agency securities	47,079	1,551	124,204	5,612	171,283	7,163
Total	$ 146,267	4,187	338,547	13,822	484,814	18,009

The unrealized losses on investments in mortgage-backed securities were attributed to increases in market rates subsequent purchase. The contractual cash flows of 46.3%, or an estimated fair value of $99.9 million, of these securities are guaranteed by Freddie Mac and Fannie Mae (U.S. government-sponsored enterprises). Securities not guaranteed by these entities comply with the investment and credit standards set forth in the investment policy of the Company. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Since the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery (which may occur at or near maturity), these investments are not considered other-than-temporarily impaired.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(6) Loans Receivable, Net

Loans receivable, net are summarized as follows:

	June 30, 2007	June 30, 2006
	(In thousands)	
Residential mortgage loans:		
One- to four-family	$ 3,134,690	2,646,056
FHA	18,522	20,503
Multi-family and commercial	107,350	76,976
Construction loans	152,670	65,459
Consumer and other loans	161,395	139,336
Total loans	3,574,627	2,948,330
Premiums on purchased loans	23,587	20,327
Deferred loan fees, net	(1,924)	(1,734)
Allowance for loan losses	(6,917)	(6,340)
	$ 3,589,373	2,960,583

A substantial portion of the Company s loans are secured by real estate located in New Jersey. Accordingly, as with most financial institutions in the market area, the ultimate collectibility of a substantial portion of the Company s loan portfolio is susceptible to changes in market conditions in this area. See Note 8 for further discussion of concentration of credit risk.

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

	Year Ended June 30, 2007	2006	2005
	(In thousands)		
Balance at beginning of year	$ 6,340	5,694	5,193
Loans charged off	(151)	(153)	(125)
Recoveries	3	199	26
Net charge-offs	(148)	46	(99)
Provision for loan losses	725	600	600

Balance at end of year	$ 6,917	6,340	5,694

A comparative summary of loans receivable contractually in arrears for three months or more is as follows:

	No. of Loans	Amount (In thousands)
June 30, 2007	35	$ 5,149
June 30, 2006	31	3,299
June 30, 2005	64	7,865

The total amount of interest income received on non-accrual loans outstanding and the additional interest income on non-accrual loans that would have been recognized if interest on all such loans had been recorded based upon the original contract terms were immaterial for each year presented. The Company is not committed to lend additional funds to borrowers on non-accrual status.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

At June 30, 2007 and 2006, impaired loans were primarily collateral dependent and totaled $1,488,000 and $345,000, for which allocations to the allowance for loan losses of $0 and $173,000, were identified, respectively. Interest income received and recognized on these loans was immaterial for each year presented. The average balance of impaired loans was $6,825,000, $348,000 and $478,000 during the years ended June 30, 2007, 2006 and 2005, respectively.

(7) Accrued Interest Receivable

Accrued interest receivable is summarized as follows:

	June 30, 2007	June 30, 2006
	(In thousands)	
Securities	$ 8,507	10,110
Loans receivable	15,793	10,943
	$ 24,300	21,053

(8) Financial Transactions with Off-Balance-Sheet Risk and Concentrations of Credit Risk

The Company is a party to transactions with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These transactions consist of commitments to extend credit. These transactions involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the accompanying consolidated balance sheets.

At June 30, 2007, the Company had commitments to originate fixed- and variable-rate loans of approximately $34,913,000 and $101,466,000, respectively; commitments to purchase fixed- and variable-rate loans of $111,739,000 and $25,583,000, respectively; and unused home equity, construction and overdraft lines of credit totaling approximately $212,061,000. No commitments are included in the accompanying consolidated financial statements. There is no exposure to credit loss in the event the other party to commitments to extend credit does not exercise its rights to borrow under the commitment.

The Company uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet loans. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management s credit evaluation of the borrower. Collateral held varies but primarily includes residential properties.

The Company principally grants residential mortgage loans and, to lesser extent, commercial real estate, construction and consumer loans to borrowers throughout New Jersey. Its borrowers abilities to repay their obligations are dependent upon various factors, including the borrowers income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company s lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company s control; the Company is, therefore, subject to risk of loss. The Company believes its lending policies and procedures adequately minimize the potential exposure to such risks, and adequate provisions for loan losses are provided for all probable and estimable losses. Collateral and/or government or private guarantees are required for virtually all loans.

The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

future increases in the borrower s contractually required payments due to the required amortization of the principal amount after the interest-only period. These payment increases could affect the borrower s ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at June 30, 2007 and 2006 was $287.9 million and $266.5 million, respectively. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately control the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

In connection with its mortgage banking activities, the Company has certain freestanding derivative instruments. At June 30, 2007, the Company had commitments of approximately $9,989,000 to fund loans which will be classified as held-for-sale with a like amount of commitments to sell such loans which are considered derivative instruments under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company also had commitments of $13,399,000 to sell loans at June 30, 2007. The fair values of these derivative instruments are immaterial to the Company s financial condition and results of operations.

(9) Office Properties and Equipment, Net

Office properties and equipment are summarized as follows:

	June 30, 2007	June 30, 2006
	(In thousands)	
Land	$ 5,458	5,458
Office buildings	11,247	11,247
Leasehold improvements	13,634	13,626
Furniture, fixtures and equipment	16,451	16,907
Construction in process	1,004	470
	47,794	47,708
Less accumulated depreciation and amortization	20,639	19,797
	$ 27,155	27,911

Depreciation and amortization expense for the years ended June 30, 2007, 2006 and 2005 was $2,777,000, $2,883,000 and $2,807,000, respectively.

(10) Deposits

Deposits are summarized as follows:

June 30,

	2007			2006		
	Weighted Average Rate	Amount	% of Total	Weighted Average Rate	Amount	% of Total
			(Dollars in thousands)			
Savings	2.30%	$ 320,880	8.76%	0.83%	$ 226,245	6.85%
Checking accounts	2.39	388,215	10.59	2.08	349,014	10.57
Money market deposits	2.37	182,274	4.97	1.56	212,200	6.43
Total transaction accounts	2.35	891,369	24.32	1.58	787,459	23.85
Certificates of deposit	5.06	2,773,597	75.68	4.06	2,514,584	76.15
	4.40%	$ 3,664,966	100.00%	3.47%	$ 3,302,043	100.00%

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Scheduled maturities of certificates of deposit are as follows:

	June 30, 2007 (In thousands)
Within one year	$ 2,338,658
One to two years	331,721
Two to three years	53,834
Three to four years	7,786
After four years	41,598
	$ 2,773,597

The aggregate amount of certificates of deposit in denominations of $100,000 or more totaled approximately $716,056,000 and $548,431,000 as of June 30, 2007 and 2006, respectively.

Interest expense on deposits consists of the following:

	Year Ended June 30,		
	2007	2006	2005
	(In thousands)		
Savings	$ 4,412	2,820	2,349
Checking accounts	7,419	6,027	2,533
Money market deposits	3,596	3,423	5,075
Certificates of deposit	122,844	84,308	59,905
	$ 138,271	96,578	69,862

(11) Borrowed Funds

Borrowed funds are summarized as follows:

June 30,			
2007		2006	
Principal	Weighted Average Rate	Principal	Weighted Average Rate
(Dollars in thousands)			

Funds borrowed under repurchase agreements:				
FHLB	$ 305,000	4.57%	$ 670,000	4.48%
Other brokers	400,000	4.94	425,000	5.02
Total funds borrowed under repurchase agreements	705,000	4.78	1,095,000	4.69
Other borrowed funds:				
FHLB advances	233,710	5.44	150,740	5.36
Other brokers	100,000	5.38		
Total other borrowed funds	333,710	5.42	150,740	5.36
Total borrowed funds	$ 1,038,710	4.98	$ 1,245,740	4.77

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Borrowed funds had scheduled maturities as follows:

	June 30, 2007 Principal	2007 Weighted Average Rate	June 30, 2006 Principal	2006 Weighted Average Rate
	(Dollars in thousands)			
Within one year	$ 473,100	5.09%	$ 850,000	4.88%
One to two years	165,000	4.66	80,104	3.62
Two to three years	100,000	5.08	65,000	3.85
Three to four years	250,000	5.00		
Four to five years	50,610	4.77	250,000	5.00
After five years			636	1.25
Total borrowed funds	$ 1,038,710	4.98	$ 1,245,740	4.77

Mortgage-backed securities have been sold, subject to repurchase agreements, to the FHLB and various brokers. Mortgage-backed securities sold, subject to repurchase agreements, are held by the FHLB for the benefit of the Company. Repurchase agreements require repurchase of the identical securities. Whole mortgage loans have been pledged to the FHLB as collateral for advances, but are held by the Company.

The amortized cost and fair value of the underlying securities used as collateral for securities sold under agreements to repurchase are as follows:

	June 30, 2007	June 30, 2006
	(In thousands)	
Amortized cost of collateral:		
Debt securities	$ 95,120	
Mortgage-backed securities	802,177	1,230,119
Total amortized cost of collateral	$ 897,297	1,230,119
Fair value of collateral:		
Debt securities	$ 91,595	
Mortgage-backed securities	776,039	1,179,806
Total fair value of collateral	$ 867,634	1,179,806

In addition to the above securities, the Company has also pledged mortgage loans as collateral for these borrowings.

During the years ended June 30, 2007 and 2006, the maximum month-end balance of the repurchase agreements was $1,095,000,000 and $1,160,000,000, respectively. The average amount of repurchase agreements outstanding during the years ended June 30, 2007 and 2006 was $925,280,000 and $1,008,406,000, respectively, and the average interest rate was 4.80% and 4.03%, respectively.

At June 30, 2007, the Company had a 12-month commitment for overnight and one month lines of credit with the FHLB totaling $200.0 million, of which $100.0 million was outstanding under the overnight line of credit. Both lines of credit are priced at federal funds rate plus a spread (generally between 10 and 15 basis points) and reprice daily.

During the year ended June 30, 2005, the Company prepaid $448,000,000 in borrowings from the FHLB under repurchase agreements and incurred a loss of $43,616,000 on early extinguishment of debt.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(12) Income Taxes

The components of income tax (benefit) expense are as follows:

	Year Ended June 30, 2007	2006	2005
	(In thousands)		
Current tax expense (benefit):			
Federal	$ 5,143	15,755	(4,179)
State	1,365	1,391	902
	6,508	17,146	(3,277)
Deferred tax expense (benefit):			
Federal	6,625	(9,584)	(25)
State	(20,563)	(154)	(44)
	(13,938)	(9,738)	(69)
Total income tax (benefit) expense	$ (7,430)	7,408	(3,346)

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

	Year Ended June 30, 2007	2006	2005
	(In thousands)		
Expected federal income tax expense (benefit)	$ 5,193	7,848	(2,271)
State tax, net	(12,479)	804	558
Bank owned life insurance	(1,243)	(936)	(1,392)
Change in valuation allowance for federal deferred tax assets	1,075		401
Dividend received deduction	(339)	(447)	(435)
Other	363	139	(207)
Total income tax (benefit) expense	$ (7,430)	7,408	(3,346)

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

	June 30, 2007	June 30, 2006
	(In thousands)	
Deferred tax asset:		
Employee benefits	$ 13,440	7,307
Deferred compensation	641	1,378
State net operating loss (NOL) carryforwards	9,885	6,939
Intangible assets	1,360	1,890
Allowance for loan losses	2,625	2,059
Net unrealized loss on securities available-for-sale	2,582	7,203
New Jersey alternative minimum assessment	2,724	2,750
Capital losses on equity securities	1,732	1,732
Contribution to charitable foundation	7,467	8,513
Federal NOL carryforwards		652
ESOP shares allocated	1,448	869
Other	1,079	1,416
Gross deferred tax asset	44,983	42,708
Valuation allowance	(3,947)	(12,624)
	41,036	30,084
Deferred tax liability:		
Discount accretion	366	443
Premises and equipment, differences in depreciation	53	427
ESOP loan amortization	1,218	1,038
Gross deferred tax liability	1,637	1,908
Net deferred tax asset	$ 39,399	28,176

A deferred tax asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred tax assets is reduced by the amount of any tax benefits that, based on available evidence, are more likely than not to be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforwards become deductible. During the year ended June 30, 2007, the Company performed an assessment of its ability to realize certain deferred tax assets and concluded that, based on current facts and circumstances, a portion of the associated valuation allowance was no longer required. Those facts and circumstances included, but were not limited to, the projected amount of taxable income the Company and its subsidiaries are expected to generate in future years, the Company s ability to generate capital gains, and the decision to discontinue the operations of the Company s Real Estate Investment Trust s (REIT) operations and transfer the REIT s assets to the Bank due to recently passed legislation in the State of New Jersey. As a result, the Company recognized a deferred tax benefit of $9.9 million during the year ended June 30, 2007 for the reversal of the previously established deferred tax asset valuation allowance. The reversal included the recognition of tax benefits associated with state net operating loss carryforwards and minimum tax assessment and a portion of the Company s capital losses related to the sale of equity securities. This benefit was partially offset by an additional valuation allowance established for the contribution to the charitable foundation.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

At June 30, 2007 and 2006, the Company has state net operating loss carryforwards of approximately $169,000,000 and $119,000,000, 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, net of the existing valuation allowances.

At June 30, 2007 and 2006 the valuation allowance was $3,947,000 and $12,624,000, respectively. These amounts relate to tax benefits which, as of those dates, were not more likely than not to be realized.

Retained earnings at June 30, 2007 included approximately $36,528,000 for which deferred income taxes of approximately $14,900,000 have not been provided. The retained earnings amount represents the base year allocation of income to bad debt deductions for tax purposes only. Base year reserves are subject to recapture if the Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. Under SFAS No. 109, this amount is treated as a permanent difference and deferred taxes are not recognized unless it appears that it will be reduced and result in taxable income in the foreseeable future. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes or distributions in complete or partial liquidation.

(13) Benefit Plans

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. The Company s required contribution and pension cost was $2,141,000, $2,831,000 and $2,610,000 in 2007, 2006 and 2005, respectively. The accrued pension liability was $450,000 and $476,000 at June 30, 2007 and 2006, respectively.

SERP, Directors Plan and Other Postretirement Benefits Plan

The Company adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) effective June 30, 2007. SFAS No. 158 requires an employer to: (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine its funded status as of the date of its year-end balance sheet; and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. SFAS No. 158 does not change how an employer determines the amount of net periodic benefit cost. The following table shows the impact of the adoption of SFAS No. 158 on the Company s consolidated balance sheet at June 30, 2007.

	Before Adoption of SFAS No. 158	Adjustments	After Adoption of SFAS No. 158
		(In thousands)	

Net deferred tax asset	$ 38,004	$ 1,395	$ 39,399
Other Assets	1,883	(781)	1,102
Total assets	5,600,474	614	5,601,088
Other liabilities	33,670	2,706	36,376
Total liabilities	4,755,017	2,706	4,757,723
Accumulated other comprehensive loss	4,873	2,092	6,965
Total stockholders equity	845,457	(2,092)	843,365

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

The following table sets forth information regarding the SERP and the directors defined benefit plan, and for the other postretirement benefits plan:

	SERP and Directors Plan June 30,		Other Benefits June 30,	
	2007	2006	2007	2006
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 15,711	$ 14,351	$ 8,596	$ 11,805
Service cost	1,184	1,381	159	196
Interest cost	898	801	539	497
Amendment to plan	(877)	976		
Actuarial (gain) loss	365	(1,048)	173	(3,631)
Benefits paid	(750)	(750)	(319)	(271)
Benefit obligation at end of year	$ 16,531	$ 15,711	$ 9,148	$ 8,596
Funded status	$ (16,531)	$ (15,711)	$ (9,148)	$ (8,596)

The underfunded pension benefits of $16.5 million and other postretirement benefits of $9.1 million at June 30, 2007 are included in other liabilities in our consolidated balance sheet. The components of accumulated other comprehensive loss related to pension plans and other postretirement benefits, on a pre-tax basis, at June 30, 2007 are summarized in the following table.

	SERP and Directors Plan	Other Benefits
	(In thousands)	
Prior service cost	$ 113	$
Net obligation		1,607
Net actuarial loss	2,918	739
Total amounts recognized in accumulated other comprehensive loss	$ 3,031	$ 2,346

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Information concerning the funded status of our SERP and director s plans and other postretirement benefits plan and the net amounts recognized in the consolidated balance sheet at June 30, 2006 prior to the adoption of SFAS No. 158, is summarized below.

	SERP and Directors Plan	Other Benefits
	(In thousands)	
Funded status	$ (15,711)	$ (8,596)
Unrecognized prior service cost	1,008	
Unrecognized net obligation		1,808
Unrecognized net actuarial loss	2,703	565
Net amount recognized	$ (12,000)	$ (6,223)
Components of net amount recognized:		
Accrued benefit liability	$ (13,480)	$ (6,223)
Intangible asset	867	
Accumulated other comprehensive loss (pre-tax)	613	
Net amount recognized	$ (12,000)	$ (6,223)

The accumulated benefit obligation for the SERP and directors defined benefit plan was $16,121,000 and $13,480,000 at June 30, 2007 and 2006, respectively. The measurement date for our SERP, directors plan and other postretirement benefits plan is June 30.

The weighted-average actuarial assumptions used in the plan determinations at June 30, 2007 and 2006 were as follows:

	SERP and Directors Plan		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.25%	6.25%	6.25%	6.25%
Rate of compensation increase	5.05	6.82		

The components of net periodic benefit cost are as follows:

	SERP and Directors Plan	Other Benefits

	Years Ended June 30,			Years Ended June 30,		
	2007	2006	2005	2007	2006	2005
	(In thousands)					
Service cost	$ 1,184	$ 1,381	$ 729	$ 159	$ 196	$ 217
Interest cost	898	801	751	539	497	572
Amortization of:						
Prior service cost	19	186	89			
Transition obligation				200	201	201
Net loss	150	325	199		94	86
Total net periodic benefit cost	$ 2,251	$ 2,693	$ 1,768	$ 898	$ 988	$ 1,076

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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

	SERP and Directors Plan Years Ended June 30,			Other Benefits Years Ended June 30,		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rate	6.25%	5.25%	6.25%	6.25%	5.25%	6.25%
Rate of compensation increase	6.82	7.21	6.60			

The assumed health care cost trend rate used to measure the expected cost of other postretirement benefits for fiscal 2007 was 8.00%. The rate was assumed to decrease gradually to 5.00% for 2012 and remain at that level thereafter. A 1% change in the assumed health care cost trend rate would have the following effects on other postretirement benefits:

	1% Increase	1% Decrease
	(In thousands)	
Effect on:		
Total service and interest cost	$ 125	$ (100)
Postretirement benefit obligations	1,508	(1,216)

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

	SERP and Directors Plan	Other Benefits
	(In thousands)	
2008	$ 3,753	$ 331
2009	1,268	366
2010	1,357	392
2011	1,306	410
2012	1,288	450
2013 through 2017	7,402	2,700

In December 2006, the Director Plan was amended to cap compensation at the current level and close the plan to new participants.

401(k) Plan

In February 2006, the Company instituted a 401(k) plan covering substantially all employees. The Company matches 50% of the first 6% contributed by the participants. The Company s aggregate contributions to the 401(k) plan for the years ended June 30, 2007 and 2006 were $406,000 and $163,000, respectively.

Employee Stock Ownership Plan

The ESOP is a tax-qualified plan designed to invest primarily in the Company s common stock that provides employees with the opportunity to receive a funded retirement benefit from the Bank, based primarily on the value of the Company s common stock. The ESOP was authorized to purchase, and did purchase, 4,254,072 shares of the Company s common stock at a price of $10.00 per share with the proceeds of a loan from the Company to the ESOP. The outstanding loan principal balance at June 30, 2007 was $39,558,000. Shares of the Company s common stock pledged as collateral for the loan are released from the pledge for allocation to participants as loan payments are made.

At June 30, 2007, shares allocated to participants were 283,605 since the plan s inception and shares committed to be released were 70,901. Shares that are committed to be released will be allocated to participants at

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

the end of the plan year (December 31). ESOP shares that were unallocated or not yet committed to be released totaled 3,899,566 at June 30, 2007, and had a fair market value of $52,371,000. ESOP compensation expense for the years ended June 30, 2007 and 2006, was $2,072,000 and $2,422,000, respectively, representing the fair market value of shares allocated or committed to be released during the year.

The Company also has established an ESOP restoration plan, which is a non-qualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the employee stock ownership plan s benefit formula. The supplemental payments consist of payments representing shares that cannot be allocated to participants under the ESOP due to the legal limitations imposed on tax-qualified plans. Compensation expense related to this plan amounted to $186,000 and $274,000 in 2007 and 2006, respectively.

Equity Incentive Plan

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

SFAS No. 123R also requires the Company to report as a financing cash flow the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. There were no such excess tax benefits in fiscal 2007. In accordance with SEC Staff Accounting Bulletin (SAB) No. 107, the Company classified share-based compensation for employees and outside directors within compensation and fringe benefits in the consolidated statements of operations to correspond with the same line item as the cash compensation paid.

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

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

During the year ended June 30, 2007 the Company recorded $5.8 million of share-based expense, comprised of stock option expense of $2.4 million and restricted stock expense of $3.4 million.

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Notes to Consolidated Financial Statements (Continued)

The following is a summary of the status of the Company s restricted shares as of June 30, 2007 and changes therein during the year then ended:

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2006		
Granted	1,666,959	$ 15.25
Vested		
Forfeited		
Non-vested at June 30, 2007	1,666,959	$ 15.25

Expected future compensation expense relating to the non-vested restricted shares at June 30, 2007 is $22.0 million over a weighted average period of 4.3 years.

The following is a summary of the Company s stock option activity and related information for its option plans for the year ended June 30, 2007:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at June 30, 2006				
Granted	4,447,401	$ 15.26		
Exercised				
Forfeited	(10,000)	15.35		
Outstanding at June 30, 2007	4,437,401	$ 15.26	9.4 years	$
Exercisable at June 30, 2007			N/A	N/A

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007

Expected dividend yield	0.86%
Expected volatility	17.81%
Risk-free interest rate	4.58%
Expected option life	6.5 years

The weighted average grant date fair value of options granted in fiscal 2007 was $4.17 per share. Expected future expense relating to the non-vested options outstanding as of June 30, 2007 is $16.1 million over a weighted average period of 4.3 years. Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares.

(14) Commitments and Contingencies

The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. Management and the Company s legal counsel are of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Company s financial condition, results of operations or liquidity.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

At June 30, 2007, the Company was obligated under noncancelable operating leases for premises. Rental expense under these leases aggregated approximately $3,823,000, $3,812,000 and $3,700,000 for the fiscal years 2007, 2006 and 2005, respectively. The projected minimum rental commitments are as follows:

Year Ending June 30,	Amount (In thousands)
2008	$ 3,793
2009	3,906
2010	4,008
2011	4,057
2012	4,031
Thereafter	19,766
	$ 39,561

(15) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company s financial instruments.

Cash and Cash Equivalents

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

Securities

The fair values of securities are estimated based on market values provided by an independent pricing service, where prices are available. If a quoted market price was not available, the fair value was estimated using quoted market values of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

FHLB Stock

The fair value of FHLB stock is its carrying value, since this is the amount for which it could be redeemed. There is no active market for this stock and the Bank is required to hold a minimum investment based upon the unpaid principal of home mortgage loans and/or FHLB advances outstanding.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

Fair value of performing loans was estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics, if applicable.

Fair value for significant nonperforming loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

Fair values of loans held-for-sale were estimated based on secondary market prices for loans with similar terms. For commitments to sell loans, fair value also considers the difference between current levels of interest rates and the committed rates.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Deposit Liabilities

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

Commitments to Extend Credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For commitments to originate fixed rate loans, fair value also considers the difference between current levels of interest rates and the committed rates.

The carrying amounts and estimated fair values of the Company s financial instruments are presented in the following table. The table does not include off-balance-sheet commitments since the fair values approximate the carrying amounts which are not significant.

	June 30,			
	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 24,810	24,810	39,824	39,824
Securities available-for-sale	251,970	251,970	528,876	528,876
Securities held-to-maturity	1,517,664	1,472,385	1,763,032	1,695,975
Stock in FHLB	33,887	33,887	46,125	46,125
Loans	3,592,783	3,444,884	2,961,557	2,803,581
Financial liabilities:				
Deposits	3,664,966	3,654,663	3,302,043	3,277,131
Borrowed funds	1,038,710	1,031,764	1,245,740	1,231,908

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred tax assets, premises and equipment and bank owned life insurance. Liabilities for pension and other postretirement benefits are not considered financial liabilities. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(16) Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2007 and 2006, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of June 30, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank s category.

The following is a summary of the Bank s actual capital amounts and ratios as of June 30, 2007 and 2006, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution.

	Actual		Minimum Requirements For Capital Adequacy Purposes		Minimum Requirements To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of June 30, 2007:						
Total capital (to risk-weighted assets)	$ 693,404	25.0%	$ 221,924	8.0%	$ 277,405	10.0%
Tier I capital (to risk-weighted assets)	686,487	24.8	110,962	4.0	166,443	6.0
Tier I capital (to average assets)	686,487	12.5	219,738	4.0	274,673	5.0
As of June 30, 2006:						
Total capital (to risk-weighted assets)	$ 663,141	26.5%	$ 200,354	8.0%	$ 250,443	10.0%

Tier I capital (to risk-weighted assets)	656,801	26.2	100,177	4.0	150,266	6.0
Tier I capital (to average assets)	656,801	12.3	214,446	4.0	268,057	5.0

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(17) Parent Company Only Financial Statements

The following condensed financial statements for Investors Bancorp, Inc. (parent company only) reflect the investment in its wholly-owned subsidiary, Investors Savings Bank, using the equity method of accounting.

Balance Sheets

	June 30, 2007	June 30, 2006
	(In thousands)	
Assets:		
Cash and due from bank	$ 120,833	211,794
Investment in subsidiary	682,749	646,910
ESOP loan receivable	39,558	39,999
Other assets	9,345	1,851
Total Assets	$ 852,485	900,554
Liabilities and Stockholders Equity:		
Total liabilities	$ 9,120	367
Total stockholders equity	843,365	900,187
Total Liabilities and Stockholders Equity	$ 852,485	900,554

Statements of Operations

	Year Ended June 30, 2007	2006	2005
	(In thousands)		
Income:			
Interest on ESOP loan receivable	$ 3,082	2,087	
Interest on deposit with subsidiary	2,929	3,549	
	6,011	5,636	
Expenses:			
Contribution to charitable foundation		20,651	
Interest expense on stock subscriptions		711	
Other expenses	798	350	

	798	21,712	
Income (loss) before income tax expense	5,213	(16,076)	
Income tax expense	1,168	346	
Income (loss) before undistributed earnings of subsidiary	4,045	(16,422)	
Equity in undistributed earnings (loss) of subsidiary	18,221	31,436	(3,142)
Net income (loss)	$ 22,266	15,014	(3,142)

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

Statements of Cash Flows

	Year Ended June 30,		
	2007	**2006**	**2005**
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$ 22,266	15,014	(3,142)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in (undistributed earnings) loss of subsidiary	(18,221)	(31,436)	3,142
Contribution of stock to charitable foundation		15,488	
Increase in other assets	(7,494)	(1,851)	
Increase in other liabilities	8,753	367	
Net cash provided by (used in) operating activities	5,304	(2,418)	
Cash flows from investing activities:			
Capital contribution to subsidiary		(255,500)	
Loan to ESOP		(42,541)	
Principal collected on ESOP loan	441	2,542	
Net cash provided by (used in) investing activities	441	(295,499)	
Cash flows from financing activities:			
Proceeds from stock offering, net		509,686	
Purchase of treasury stock	(96,706)		
Cash (used in) provided by financing activities	(96,706)	509,686	
Net change in cash and due from bank	(90,961)	211,769	
Cash and due from bank at beginning of year	211,794	25	25
Cash and due from bank at end of year	$ 120,833	211,794	25

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(18) Selected Quarterly Financial Data (Unaudited)

The following tables are a summary of certain quarterly financial data for the fiscal years ended June 30, 2007 and 2006.

	Fiscal 2007 Quarter Ended			
	September 30	December 31	March 31	June 30
	(In thousands, except per share data)			
Interest and dividend income	$ 69,031	69,973	69,298	71,387
Interest expense	46,564	48,979	47,668	50,187
Net interest income	22,467	20,994	21,630	21,200
Provision for loan losses	225	100	200	200
Net interest income after provision for loan losses	22,242	20,894	21,430	21,000
Other income	1,559	(2,191)	1,710	1,765
Operating expenses	17,087	18,247	19,104	19,135
Income before income tax expense (benefit)	6,714	456	4,036	3,630
Income tax expense (benefit)	2,363	(11,564)	1,042	729
Net income	$ 4,351	12,020	2,994	2,901
Basic earnings per common share	$ 0.04	0.11	0.03	0.03
Diluted earnings per common share	0.04	0.11	0.03	0.03

	Fiscal 2006 Quarter Ended			
	September 30	December 31	March 31	June 30
	(In thousands, except per share data)			
Interest and dividend income	$ 57,200	61,925	61,901	65,042
Interest expense	32,634	34,196	34,530	40,436
Net interest income	24,566	27,729	27,371	24,606
Provision for loan losses	100	100	200	200
Net interest income after provision for loan losses	24,466	27,629	27,171	24,406
Other income	589	2,014	1,358	1,619
Operating expenses	15,599	37,562	16,857	16,812
Income (loss) before income tax expense (benefit)	9,456	(7,919)	11,672	9,213

Income tax expense (benefit)		3,495	(2,980)	3,960	2,933
Net income (loss)	$	5,961	(4,939)	7,712	6,280
Basic (loss) earnings per common share	$	n/a	(0.06)	0.07	0.06
Diluted earnings per common share		n/a	n/a	0.07	0.06

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

(19) Earnings Per Share

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

	For the Year Ended June 30, 2007		
	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)		
Net Income	$ 22,266		
Basic earnings per share:			
Income attributable to common stockholders	$ 22,266	110,812,975	$ 0.20
Effect of dilutive common stock equivalents		18,967	
Diluted earnings per share:			
Income attributable to common stockholders	$ 22,266	110,831,942	$ 0.20

The Company completed its initial public stock offering on October 11, 2005. No common shares were issued or outstanding prior to that date. Basic and diluted earnings per common share for the period October 11, 2005 to June 30, 2006 was $0.06, calculated using net income of $7,258,000 and the weighted average common shares of 112,140,953 for the period. The number of shares for this purpose includes shares held by Investors Bancorp MHC and the Employee Stock Ownership Plan shares previously allocated to participants and shares committed to be released for allocation to participants.

(20) Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments-an amendment of FASB statements No. 133 and 140. This statement permits fair value remeasurement of certain hybrid financial instruments, clarifies the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities regarding interest-only and principal-only strips, and provides further guidance on certain issues regarding beneficial interests in securitized financial assets, concentrations of credit risk and qualifying special purpose entities. SFAS No. 155 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The application of SFAS No. 155 is not expected to have an impact on the Company s financial condition or results of operations.

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

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

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), to address

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

diversity in practice in quantifying financial statement misstatements. SAB 108 requires that registrants use a dual approach in quantifying misstatements based on their impact on the financial statements and related disclosures. SAB 108 was effective as of the end of the Company s 2007 fiscal year, allowing a one-time transitional cumulative effect adjustment to retained earnings as of July 1, 2006 for misstatements (if any) that were not previously deemed material, but are material under the guidance in SAB 108. The application of SAB 108 did not impact the Company s financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007 with early adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007. The Company does not expect that the adoption of SFAS No. 159 will have a material impact on its financial statements.

(21) Subsequent Events (unaudited)

On August 3, 2007, the Investors Bancorp, Inc. and Summit Federal Bankshares, Inc. (Summit Inc.) announced the signing of a definitive agreement under which Summit Federal Bankshares, MHC will merge into Investors Bancorp, MHC (Investors MHC), with Investors MHC surviving, to be followed by the merger of Summit Inc. into Investors Bancorp, Inc., with Investors Bancorp, Inc. surviving, and the merger of Summit Federal Savings Bank into Investors Savings Bank, with Investors Savings Bank surviving. Depositors of Summit Federal will become depositors of Investors Savings Bank, and will have the same rights and privileges in Investors MHC as if their accounts had been established in Investors Savings Bank on the date established at Summit Federal. The merger agreement and the related merger transactions are subject to the approval of Summit Federal depositors, regulatory approvals, and other customary closing conditions. As of June 30, 2007, Summit Federal Bank operates five branches in New Jersey and had assets of $120 million, deposits of $103 million and equity of $16 million.

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(a)(2) *Financial Statement Schedules*

None.

(a)(3) *Exhibits*

3.1	Certificate of Incorporation of Investors Bancorp, Inc.*
3.2	Bylaws of Investors Bancorp, Inc.*
4	Form of Common Stock Certificate of Investors Bancorp, Inc.*
10.1	Form of Employment Agreement*
10.2	Form of Change in Control Agreement*
10.3	Investors Savings Bank Director Retirement Plan*
10.4	Investors Savings Bank Supplemental ESOP and Retirement Plan*
10.5	Investors Savings Bank Executive Supplemental Retirement Wage Replacement Plan*
10.6	Investors Savings Bank Deferred Directors Fee Plan*
10.7	Investors Bancorp, Inc. Deferred Directors Fee Plan*
14	Code of Ethics**
21	Subsidiaries of Registrant*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference to the Registration Statement on Form S-1 of Investors Bancorp, Inc. (file no. 333-125703), originally filed with the Securities and Exchange Commission on June 10, 2005.

** Available on our website *www.isbnj.com*

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INVESTORS BANCORP, INC.

By: /s/ Robert M. Cashill

Robert M. Cashill
Chief Executive Officer and President
(Principal Executive Officer)
(Duly Authorized Representative)

Date: August 29, 2007

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Robert M. Cashill Robert M. Cashill	Chief Executive Officer and President (Principal Executive Officer)	August 29, 2007
/s/ Domenick A. Cama Domenick A. Cama	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 29, 2007
/s/ Doreen R. Byrnes Doreen R. Byrnes	Director	August 29, 2007
/s/ Brian D. Dittenhafer Brian D. Dittenhafer	Director	August 29, 2007
/s/ Patrick J. Grant Patrick J. Grant	Director, Chairman	August 29, 2007
/s/ John A. Kirkpatrick John A. Kirkpatrick	Director	August 29, 2007
/s/ Vincent D. Manahan, III	Director	August 29, 2007

Vincent D. Manahan, III		
/s/ Joseph H. Shepard III	Director	August 29, 2007
Joseph H. Shepard III		
/s/ Rose Sigler	Director	August 29, 2007
Rose Sigler		
/s/ Stephen J. Szabatin	Director	August 29, 2007
Stephen J. Szabatin		