Investors Bancorp Inc
Form 10-Q
May 12, 2006

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

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

For the quarterly period ended: March 31, 2006

Commission file number: 0-51557

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

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

101 JFK Parkway, Short Hills, New Jersey 07078
(Address of principal executive offices)
(973) 924-5100
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large Accelerated Filer Yes o No o Accelerated Filer Yes o No o Non-Accelerated Filer Yes þ No o

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

As of May 10, 2006, there were 116,275,688 shares of the registrant s common stock, par value $0.01 per share, outstanding, of which 63,099,781 shares, or 54.27% of the registrant s outstanding common stock, were held by Investors Bancorp, MHC, the registrant s mutual holding company.

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Part I. Financial Information

Item 1. Financial Statements

INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

March 31, 2006 (Unaudited) and June 30, 2005

	March 31, 2006	June 30, 2005
	(In thousands)	
Assets		
Cash and cash equivalents	$ 24,539	81,329
Securities available-for-sale, at estimated fair value	559,128	673,951
Securities held-to-maturity, net (estimated fair value of $1,769,073 and $2,032,939 at March 31, 2006 and June 30, 2005, respectively)	1,824,780	2,040,882
Loans receivable, net	2,616,825	1,993,904
Loans held-for-sale	2,607	3,412
Stock in the Federal Home Loan Bank	55,834	60,688
Accrued interest receivable	21,150	18,263
Office properties and equipment, net	28,272	29,544
Net deferred tax asset	20,765	13,128
Bank owned life insurance contract	78,005	76,229
Other assets	956	1,423
Total assets	$ 5,232,861	4,992,753
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$ 3,291,215	3,240,420
Borrowed funds	1,019,247	1,313,769
Advance payments by borrowers for taxes and insurance	12,896	10,817
Other liabilities	16,527	19,920
Total liabilities	4,339,885	4,584,926
Stockholders equity:		
Preferred stock, $0.01 par value, 500,000 authorized shares; none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized; 116,275,688 issued and outstanding at March 31, 2006, and $0.10 par value, 3,000 shares authorized; 50 issued and outstanding at June 30, 2005	532	
Additional paid-in capital	524,751	25
Unallocated common stock held by the employee stock ownership plan	(41,123)	
Retained earnings	419,953	411,219
Accumulated other comprehensive loss:		
Net unrealized loss on securities available for sale, net of tax	(10,036)	(2,316)
Minimum pension liability, net of tax	(1,101)	(1,101)
	(11,137)	(3,417)

Total stockholders equity	892,976	407,827
Total liabilities and stockholders equity	$ 5,232,861	4,992,753

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
Interest and dividend income:				
Loans receivable and loans held-for-sale	$ 33,177	19,604	89,554	53,524
Securities:				
Government-sponsored enterprise obligations	1,341	1,466	5,505	4,155
Mortgage-backed securities	23,878	35,120	74,542	109,085
Equity securities available-for-sale	460	464	1,370	1,302
Municipal bonds and other debt	2,105	344	4,520	994
Interest-bearing deposits	184	149	2,675	343
Repurchase agreements			613	
Federal Home Loan Bank stock	756	577	2,247	1,463
Total interest and dividend income	61,901	57,724	181,026	170,866
Interest expense:				
Deposits	24,343	17,551	69,114	50,831
Secured borrowings	10,187	14,982	32,246	45,683
Total interest expense	34,530	32,533	101,360	96,514
Net interest income	27,371	25,191	79,666	74,352
Provision for loan losses	200	200	400	400
Net interest income after provision for loan losses	27,171	24,991	79,266	73,952
Other income (loss):				
Fees and service charges	598	559	1,886	1,778
Increase (decrease) in and death benefits on bank owned life insurance contract	646	(361)	1,776	4,333
Gain on sales of mortgage loans, net	93	136	232	382
Loss on securities transactions, net		(10,352)		(9,750)
Gain on sale of other real estate owned, net		7	5	12
Other income	21	59	62	176
Total other income (loss)	1,358	(9,952)	3,961	(3,069)
Operating expenses:				
Compensation and fringe benefits	10,696	9,282	31,323	26,693
Advertising and promotional expense	666	701	1,752	2,161
Office occupancy and equipment expense	2,528	2,605	7,797	7,332
Federal insurance premiums	141	117	359	354

Stationery, printing, supplies and telephone	419	361	1,327	1,323
Legal, audit, accounting, and supervisory examination fees	384	309	1,183	981
Data processing service fees	910	852	2,726	2,584
Amortization of premium on deposit acquisition		130		1,102
Loss on early extinguishment of debt		43,616		43,616
Contribution to charitable foundation			20,651	
Other operating expenses	1,113	792	2,900	2,177
Total operating expenses	16,857	58,765	70,018	88,323
Income (loss) before income tax expense (benefit)	11,672	(43,726)	13,209	(17,440)
Income tax expense (benefit)	3,960	(14,770)	4,475	(7,299)
Net income (loss)	$ 7,712	(28,956)	8,734	(10,141)
Earnings per share basic and diluted	$ 0.07	n/a	n/a	n/a
Weighted average shares outstanding basic and diluted	112,163,418	n/a	n/a	n/a

See accompanying notes to consolidated financial statements.

INVESTORS BANCORP, INC.
Consolidated Statements of Stockholders Equity
Nine months ended March 31, 2006 and 2005
(Unaudited)

					Accumulated other comprehensive loss		
	Common stock	Additional paid-in capital	Unallocated common stock Held by ESOP	Retained earnings	Unrealized losses on securities	Minimum pension liability	Total stockholders equity
				(In thousands)			
Balance at June 30, 2004	$	25		414,361	(11,968)	(755)	401,663
Comprehensive loss:							
Net loss				(10,141)			(10,141)
Unrealized loss on securities available-for-sale, net of tax benefit of $214					(383)		(383)
Reclassification adjustment for losses included in net income, net of tax of $3,885					6,778		6,778
Comprehensive loss							(3,746)
Balance at March 31, 2005	$	25		404,220	(5,573)	(755)	397,917
Balance at June 30, 2005	$	25		411,219	(2,316)	(1,101)	407,827
Comprehensive income:							
Net income				8,734			8,734
Unrealized loss on securities available-for-sale, net of tax benefit of $5,356					(7,720)		(7,720)
Comprehensive income							1,014

Sale of 53,175,907 shares of common stock in the initial public offering and issuance of 63,099,781 shares to the mutual holding company	532	524,642					525,174
Purchase of common stock by the ESOP			(42,541)				(42,541)
Allocation of ESOP stock		84	1,418				1,502
Balance at March 31, 2006	$ 532	524,751	(41,123)	419,953	(10,036)	(1,101)	892,976

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended March 31, 2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 8,734	(10,141)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Contribution of stock to charitable foundation	15,488	
Allocation of ESOP shares	1,502	
Amortization of premiums and accretion of discounts on securities, net	888	10,160
Amortization of premium on deposit acquisition		1,102
Provision for loan losses	400	400
Depreciation and amortization of office properties and equipment	2,199	2,279
Loss on securities transactions, net		9,750
Loss on early extinguishment of debt		43,616
Mortgage loans originated for sale	(21,323)	(44,923)
Proceeds from mortgage loan sales	22,360	42,862
Gain on sales of mortgage loans, net	(232)	(382)
Proceed from sales of other real estate ownd	5	166
Net gain on sales of other real estate owned	(5)	(12)
Death benefits on bank owned life insurance contract		(2,732)
Increase in bank owned life insurance contract	(1,776)	(1,601)
(Increase) decrease in accrued interest	(2,887)	4,018
Deferred tax benefit	(2,280)	(2,201)
Decrease (increase) in other assets	467	(3,264)
Decrease in other liabilities	(3,393)	(21,281)
Total adjustments	11,413	37,957
Net cash provided by operating activities	20,147	27,816
Cash flows from investing activities:		
Net increase in loans receivable	(623,321)	(558,743)
Purchases of mortgage-backed securities held-to-maturity	(39,458)	(260,782)
Purchases of debt securities held-to-maturity	(344,484)	(17,000)
Purchases of mortgage-backed securities available-for-sale		(62,175)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	373,839	515,154
Proceeds from calls/maturities on debt securities held-to-maturity	225,397	25,328
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	101,666	204,539
Proceeds from sales of mortgage-backed securities held-to-maturity		46,942
Proceeds from sales of mortgage-backed securities available-for-sale		470,828
Proceeds from sale of equity securities available-for-sale		20,729

Proceeds from redemptions of Federal Home Loan Bank stock	62,807	74,776
Purchases of Federal Home Loan Bank stock	(57,953)	(47,500)
Purchases of office properties and equipment	(927)	(5,980)
Proceeds from death benefits on bank owned life insurance contract		3,291
Net cash (used in) provided by investing activities	(302,434)	409,407
Cash flows from financing activities:		
Net increase in deposits	50,795	6,502
Net proceeds from sale of common stock	509,686	
Loan to ESOP	(42,541)	
Net increase in funds borrowed under short-term repurchase agreements	250,000	55,000
Proceeds from funds borrowed under other repurchase agreements		420,000
Repayments of funds borrowed under other repurchase agreements	(515,000)	(947,616)
(Repayments of) proceeds from Federal Home Loan Bank advances	(29,522)	18,478
Net increase in advance payments by borrowers for taxes and insurance	2,079	2,004
Net cash provided by (used in) financing activities	225,497	(445,632)
Net decrease in cash and cash equivalents	(56,790)	(8,409)
Cash and cash equivalents at beginning of period	81,329	37,653
Cash and cash equivalents at end of period	$ 24,539	29,244
Supplemental cash flow information:		
Noncash investing activities:		
Real estate acquired through foreclosure	$	123
Cash paid during the period for:		
Interest	104,437	96,514
Income taxes	5,022	15,700

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. **Basis of Presentation**

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

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three and nine-month periods ended March 31, 2006 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2006.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with Company s audited consolidated financial statements and notes to consolidated financial statements included in Company s June 30, 2005 Special Financial Report on Form 10-K.

2. **Stock Offering**

The Company completed its initial public stock offering on October 11, 2005. The Company 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 Investors Savings Bank Employee Stock Ownership Plan. Investors Bancorp, MHC, the Company s New Jersey chartered mutual holding company parent holds 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 its common stock, or 1.33% of its outstanding shares, to the 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. Investors Bancorp, Inc. contributed $255.0 million of the net proceeds to Investors Savings Bank. Stock subscription proceeds of $557.9 million were returned to subscribers.

3. **Recent Accounting Pronouncements**

Financial Accounting Standards Board (FASB) Staff Position No. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (the FSP), was issued on November 3, 2005 and addresses the determination of when an investment is considered impaired; whether the impairment is other than temporary; and how to measure an impairment loss. The FSP also addresses accounting considerations subsequent to the recognition of an other-than-temporary impairment on a debt security, and requires certain disclosures about unrealized losses that

have not been recognized as other-than-temporary impairments. The FSP replaces the impairment guidance in EITF Issue No. 03-1 with references to existing authoritative literature concerning other-than-temporary determinations (principally Statement of Financial Accounting Standards (SFAS) No. 115 and SEC Staff Accounting Bulletin 59). Under the FSP, impairment losses must be recognized in earnings equal to the entire difference between the security s cost and its fair value at the financial statement date, without considering partial recoveries subsequent to that date. The FSP also requires that an investor recognize an other-than-temporary impairment loss when a decision to sell a security has been made and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale. The FSP is effective for reporting periods beginning after December 15, 2005. The application of the FSP did not have a material impact on our financial condition or results of operations.

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 fiscal year that begins after September 15, 2006. The application of SFAS No. 155 is not expected to have an impact on our financial condition or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140. This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset, and that the servicing assets and servicing liabilities be initially measured at fair value. The statement also permits an entity to choose a subsequent measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of the fiscal year that begins after September 15, 2006. The application of SFAS No. 156 is not expected to have a material impact on our financial condition or results of operations.

4. Earnings Per Share

The Company completed its initial public stock offering on October 11, 2005. Basic and diluted earnings per common share for the three months ended March 31, 2006 were $0.07, calculated using the weighted average common shares of 112,163,418 for the period. The number of shares for this purpose includes shares issued to Investors Bancorp, MHC but excludes unallocated ESOP shares.

5. Loans Receivable, Net

Loans receivable, net are summarized as follows:

	March 31, 2006	June 30, 2005
	(In thousands)	
Residential mortgage loans	$ 2,400,234	1,881,079
Multi-family and commercial	42,366	17,181
Construction loans	41,692	6,465
Consumer and other loans	121,673	81,641
Total loans	2,605,965	1,986,366
Premiums on purchased loans	18,460	14,113
Deferred loan fees, net	(1,429)	(881)
Allowance for loan losses	(6,171)	(5,694)
	$ 2,616,825	1,993,904

6. Deposits

Deposits are summarized as follows:

	March 31, 2006	June 30, 2005
	(In thousands)	
Savings acounts	$ 239,285	271,071
Checking accounts	343,480	277,317
Money market accounts	219,191	318,432
Total core deposits	801,956	866,820
Certificates of deposit	2,489,259	2,373,600
	$ 3,291,215	3,240,420

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

Certain statements contained herein are not based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar te variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic

environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations or interpretations of regulations affecting financial institutions, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

Executive Summary

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

Our goal is to enhance shareholder value while building a strong retail banking franchise. We remain committed to our business strategy of reducing wholesale assets and liabilities, namely, securities and borrowings, and replacing them with more retail assets and liabilities, namely, loans and deposits. During the nine months ended March 31, 2006 we grew net loans, including loans held for sale by $622.1 million, an increase of approximately 31.1% over June 30, 2005. We attribute this growth to our continued focus on originating and purchasing residential and commercial mortgage loans.

Deposits also grew by $50.8 million to $3.29 billion at March 31, 2006 from $3.24 billion at June 30, 2005. We attribute this growth in deposits to the attractiveness of both our high yield checking account product and our certificates of deposit. Growth and retention of all core deposits, but particularly savings and money market accounts, is challenging due to the significant increase in interest rates being offered by competitors to attract these deposits.

Our securities and borrowing portfolios decreased $330.9 million and $294.5 million, respectively at March 31, 2006 from June 30, 2005 consistent with our plan to reduce wholesale assets and borrowings. We believe reducing or limiting the growth of wholesale borrowings, especially in the current flat yield curve environment, is a prudent strategy.

We reported net income of $7.7 million for the three months ended March 31, 2006 compared to a net loss of $29.0 million for the three months ended March 31, 2005.

Short term interest rates continued to increase during the most recent quarter. The Federal Open Market Committee of the Federal Reserve Bank raised the Fed Funds or overnight lending rate to 5.0% at its May 10, 2006 meeting, making it the sixteenth consecutive increase. While the yield curve recently took on a more positive slope and both short term and long term rates reached their highest level in almost four years, the curve is still relatively flat and we believe it will remain that way throughout 2006. This interest rate environment and the fierce competition for deposits in our marketplace will continue to put pressure on our net interest income.

Despite this pressure on our net interest income, our net interest margin increased to 2.17% and 2.09% for the three and nine month periods ended March 31, 2006, respectively, compared to 1.94% and 1.92% for the three and nine month periods ended March 31, 2005, respectively. We attribute this increase to the additional capital raised in our intial public stock offering, our continued focus on adding more retail assets and liabilities to our balance sheet and the restructuring transaction we executed in March 2005. As part of that restructuring transaction we 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. Our net interest spread fell to 1.64% and 1.71% for the three and nine month periods ended March 31, 2006, respectively, compared to 1.76% and 1.74% for the three and nine month periods ended March 31, 2005, respectively.

For the remainder of 2006 we will remain focused on our strategy of adding more retail assets and liabilities to our balance sheet. We expect this strategy will help to improve the quality of the balance sheet and will help position us to improve earnings when and if the yield curve assumes a more positive shape.

Comparison of Financial Condition at March 31, 2006 and June 30, 2005

Total Assets. Total assets increased by $240.1 million, or 4.8%, to $5.23 billion at March 31, 2006 from $4.99 billion at June 30, 2005. 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 which is consistent with our strategic plan.

Cash and Cash Equivalents. Cash and cash equivalents decreased by $56.8 million, or 69.8%, to $24.5 million at March 31, 2006 from $81.3 million at June 30, 2005. This decrease is a result of utilizing cash to fund loan growth and repay maturing wholesale borrowings.

Securities. Securities, both available-for-sale and held-to-maturity, decreased by $330.9 million, or 12.2%, to $2.38 billion at March 31, 2006, from $2.71 billion at June 30, 2005. This decrease is consistent with our strategy to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio. The cash flows from our securities portfolio were used primarily to fund our loan growth.

Net Loans. Net loans, including loans held for sale, increased by $622.1 million, or 31.1%, to $2.62 billion at March 31, 2006 from $2.00 billion at June 30, 2005. The majority of our loan growth was in residential mortgage loans. We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. 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 nine months ended March 31, 2006, we purchased loans totaling $565.3 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 nine months ended March 31, 2006, we purchased loans totaling $94.6 million on a bulk purchase basis.

Additionally, for the nine months ended March 31, 2006, we originated $28.7 million in multi-family and commercial real estate loans and $65.8 million in construction loans. These originations are consistent with our strategy of originating multi-family, commercial real estate and construction loans to diversify our loan portfolio.

The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s loan repayment when the contractually required repayments increase due to the required amortization of the principal amount. These payment increases could affect the borrower s ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at March 31, 2006 was $229.9 million. The ability of borrowers to repay their obligations is dependent upon various factors including the borrowers income and net worth, value of the underlying collateral and priority of the Company s lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company s control. The Company is, therefore, subject to risk of loss. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately control the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

Our asset quality continues to improve in fiscal 2006. Total non-performing loans, defined as non-accruing loans, decreased by $3.7 million to $4.2 million at March 31, 2006 from $7.9 million at June 30, 2005. The ratio of non-performing loans to total loans was 0.16% at March 31, 2006 compared with 0.40% at June 30, 2005. The allowance for loan losses as a percentage of non-performing loans was 147.77% at March 31, 2006 compared with 72.41% at June 30, 2005. At March 31, 2006 our allowance for loan losses as a percentage of total loans was 0.24% compared to 0.29% at June 30, 2005.

Although we believe we have established and maintained an adequate level of allowance for loan losses, additions may be necessary as commercial real estate 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.

Stock in the Federal Home Loan Bank and Other Assets. The amount of stock we own in the Federal Home Loan Bank (FHLB) decreased by $4.9 million from $60.7 million at June 30, 2005 to $55.8 million at March 31, 2006 reflecting a lower stock ownership requirement which was primarily due to a decrease in our level of borrowings. There was also an increase in accrued interest receivable of $2.9 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.

Deposits. Deposits increased by $50.8 million, or 1.6%, to $3.29 billion at March 31, 2006 from $3.24 billion at June 30, 2005. The increase was primarily due to an increase in interest-bearing checking and time deposits of $62.0 million and $115.7 million, respectively, partially offset by a decrease in savings and money market accounts of $31.8 million and $99.2 million, respectively. We attribute the increase and shift in deposits to new products being offered and higher rates on our CD s in response to consumer demands.

Borrowed Funds. Borrowed funds decreased $294.5 million, or 22.4%, to $1.02 billion at March 31, 2006 from $1.31 billion at June 30, 2005. This decrease was primarily a result of utilizing the proceeds from the stock offering to reduce higher cost, longer-term wholesale borrowings.

Other Liabilities. Other liabilities decreased $3.4 million, or 17.0%, to $16.5 million at March 31, 2006 from $19.9 million at June 30, 2005. This decrease is due mainly due to a $2.4 million decrease in accrued interest payable as a result of the decrease in borrowed funds.

Stockholders Equity. Stockholders equity increased $485.1 million, or 119.0%, to $893.0 million at March 31, 2006 from $407.8 million at June 30, 2005. The increase in stockholders equity was primarily due to $525.3 million of capital raised in our initial public stock offering, which was completed on October 11, 2005. This was partially offset by the purchase of 4,254,072 shares for our employee stock ownership plan at a cost of $42.5 million.

Average Balance Sheets for the Three and Nine Months ended March 31, 2006 and 2005

The tables on the following pages present certain information regarding Investors Bancorp, Inc. s financial condition and net interest income for the three months and nine months ended March 31, 2006 and 2005. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

INVESTORS BANCORP, INC. AND SUBSIDIARY
Average Balance Sheet and Yield/Rate Information
Three months ended March 31, 2006 and 2005

	For Three Months Ended					
	March 31, 2006			March 31, 2005		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Due from banks	$ 21,399	$ 184	3.44%	$ 16,850	$ 149	3.54%
Securities available-for-sale	590,557	6,309	4.27%	1,232,448	12,310	4.00%
Securities held-to-maturity	1,855,879	21,475	4.63%	2,307,974	25,084	4.35%
Net loans	2,526,027	33,177	5.25%	1,554,336	19,604	5.04%
Stock in FHLB	54,265	756	5.57%	74,592	577	3.09%
Total interest-earning assets	5,048,127	61,901	4.90%	5,186,200	57,724	4.45%
Non-interest earning assets	136,258			139,669		
Total assets	$ 5,184,385			$ 5,325,869		
Interest-bearing liabilities:						
Savings	$ 242,607	500	0.82%	$ 277,876	575	0.83%
Interest-bearing checking	310,379	1,562	2.01%	212,009	588	1.11%
Money market accounts	234,939	770	1.31%	371,839	1,221	1.31%
Certificates of deposit	2,449,034	21,511	3.51%	2,384,017	15,167	2.54%
Borrowed funds	1,000,433	10,187	4.07%	1,595,646	14,982	3.76%
Total interest-bearing liabilities	4,237,392	34,530	3.26%	4,841,387	32,533	2.69%
Non-interest bearing liabilities	62,264			79,111		
Total liabilities	4,299,656			4,920,498		
Stockholders equity	884,729			405,371		
Total liabilities and stockholders equity	$ 5,184,385			$ 5,325,869		

Net interest income		$ 27,371			$ 25,191	
Net interest rate spread			1.64%			1.76%
Net interest earning assets	$ 810,735			$ 344,813		
Net interest margin			2.17%			1.94%
Ratio of interest-earning assets to total interest-bearing liabilities	1.19X			1.07X		

INVESTORS BANCORP, INC. AND SUBSIDIARY
Average Balance Sheet and Yield/Rate Information
Nine months ended March 31, 2006 and 2005

	For Nine Months Ended					
	March 31, 2006			March 31, 2005		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Due from banks	$ 103,433	$ 2,675	3.45%	$ 20,916	$ 343	2.19%
Repurchase agreements	21,849	613	3.74%			
Securities available-for-sale	624,285	19,809	4.23%	1,326,722	39,160	3.94%
Securities held-to-maturity	1,974,576	66,129	4.47%	2,344,685	76,376	4.34%
Net loans	2,310,207	89,553	5.17%	1,401,132	53,524	5.09%
Stock in FHLB	56,909	2,247	5.26%	77,057	1,463	2.53%
Total interest-earning assets	5,091,259	181,026	4.74%	5,170,512	170,866	4.41%
Non-interest earning assets	135,903			142,084		
Total assets	$ 5,227,162			$ 5,312,596		
Interest-bearing liabilities:						
Savings	$ 363,670	2,335	0.86%	$ 281,437	1,773	0.84%
Interest-bearing checking	301,786	4,206	1.86%	213,820	1,799	1.12%
Money market accounts	269,985	2,697	1.33%	394,484	3,949	1.33%
Certificates of deposit	2,418,144	59,876	3.30%	2,358,996	43,310	2.45%
Borrowed funds	1,108,272	32,246	3.88%	1,579,222	45,683	3.86%
Total interest-bearing liabilities	4,461,857	101,360	3.03%	4,827,959	96,514	2.67%
Non-interest bearing liabilities	60,610			75,674		
Total liabilities	4,522,467			4,903,633		
Stockholders equity	704,695			408,963		
	$ 5,227,162			$ 5,312,596		

Total liabilities and stockholders equity				
Net interest income		$ 79,666		$ 74,352
Net interest rate spread		1.71%		1.74%
Net interest earning assets	$ 629,402		$ 342,553	
Net interest margin		2.09%		1.92%
Ratio of interest-earning assets to total interest- bearing liabilities	1.14X		1.07X	

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

Net Income. Operating results improved by $36.7 million, to a net income of $7.7 million for the three months ended March 31, 2006 from a net loss of $29.0 million for the three months ended March 31, 2005. 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 ($35.5 million after taxes) consisting of the losses on prepayment of the borrowings and sale of securities.

Net Interest Income. Net interest income increased by $2.2 million, or 8.7%, to $27.4 million for the three months ended March 31, 2006 from $25.2 million for the three months ended March 31, 2005. The increase was caused primarily by a 45 basis point improvement in our yield on interest-earning assets to 4.90% for the three months ended March 31, 2006 from 4.45% for the three months ended March 31, 2005 and a reduction in the average balance of interest-bearing liabilities of $604.0 million, or 12.5%, to $4.24 billion for the three months ended March 31, 2006 from $4.84 billion for the three months ended March 31, 2005. This was partially offset by an increase in our cost of interest-bearing liabilities to 3.26% for the three months ended March 31, 2006 from 2.69% for the three months ended March 31, 2005.

Interest and Dividend Income. Total interest and dividend income increased by $4.2 million, or 7.2%, to $61.9 million for the three months ended March 31, 2006 from $57.7 million for the three months ended March 31, 2005. This increase was primarily due to a 45 basis point increase in the weighted average yield on interest-earning assets to 4.90% for the three months ended March 31, 2006 compared to 4.45% for the three months ended March 31, 2005, partially offset by a $138.1 million, or 2.7%, decrease in the average balance of interest-earning assets to $5.05 billion for the three months ended March 31, 2006 from $5.19 billion for the three months ended March 31, 2005.

Interest income on loans increased by $13.6 million, or 69.2%, to $33.2 million for the three months ended March 31, 2006 from $19.6 million for the three months ended March 31, 2005, reflecting a $971.7 million, or 62.5%, increase in the average balance of net loans to $2.53 billion for the three months ended March 31, 2006 from $1.55 billion for the three months ended March 31, 2005. In addition, the average yield on loans increased to 5.25% for the three months ended March 31, 2006 from 5.04% for the three months ended March 31, 2005.

Interest income on all other interest-earning assets, excluding loans, decreased by $9.4 million, or 24.7%, to $28.7 million for the three months ended March 31, 2006 from $38.1 million for the three months ended March 31, 2005. This decrease reflected a $1.11 billion decrease in the average balance of securities and other interest-earning assets, partially offset by a 36 basis point increase in the average yield on securities and other interest-earning assets to 4.56% for the three months ended March 31, 2006 from 4.20% for the three months ended March 31, 2005. The yield on securities was negatively affected in 2005 by the accelerated write-off of premiums on mortgage-backed securities, caused by faster prepayments on the underlying mortgages when compared to 2006.

Interest Expense. Total interest expense increased by $2.0 million, or 6.1%, to $34.5 million for the three months ended March 31, 2006 from $32.5 million for the three months ended March 31, 2005. This increase was primarily due to a 57 basis point increase in the weighted average cost of total interest-bearing liabilities to 3.26% for the three months ended March 31, 2006 compared to 2.69% for the three months ended March 31, 2005. This was partially offset by a $604.0 million, or 12.5%, decrease in the average balance of total interest-bearing liabilities to $4.24 billion for the three months ended March 31, 2006 from $4.84 billion for the three months ended March 31, 2005. Consistent with our strategic plan of reducing our reliance on wholesale funding, the average balance of wholesale borrowings decreased by $595.2 million for the three months ended March 31, 2006 compared to the average balance for the three months ended March 31, 2005.

The average balance of core deposits (which consist of savings, money market and interest-bearing checking accounts) decreased by $73.8 million to $787.9 million for the three months ended March 31, 2006 from $861.7 million for the three months ended March 31, 2005. Interest expense on interest-bearing checking accounts increased $974,000 to $1.6 million for the three months ended March 31, 2006 from $588,000 for the three months ended March 31, 2005. The increase in interest expense on interest-bearing checking accounts was primarily due to growth of $98.4 million in the average balance of interest-bearing checking accounts to $310.4 million for the three months ended March 31, 2006. In addition, the average cost of interest-bearing checking accounts increased 90 basis points to 2.01% for the three months ended March 31, 2006. This increase in interest-bearing checking expense is attributed to the growth in our recently introduced Investors High Yield Checking Account. Interest expense on certificates of deposit increased $6.3 million to $21.5 million for the three months ended March 31, 2006 from $15.2 million for the three months ended March 31, 2005. The average cost of certificates of deposit increased 97 basis points to 3.51% for the three months ended March 31, 2006 from 2.54% for the three months ended March 31, 2005. In addition, the average balance of certificates of deposit increased by $65.0 million to $2.45 billion for the three months ended March 31, 2006. Interest expense on savings and money market accounts decreased by $75,000 and $451,000, respectively, to $500,000 and $770,000, respectively, for the three months ended March 31, 2006 from $575,000 and $1.2 million, respectively, for the three months ended March 31, 2005. The decrease in interest expense on savings accounts was primarily due to a decrease in the average balance of savings accounts of $35.3 million to $242.6 million for the three months ended March 31, 2006 from $277.9 million for the three months ended March 31, 2005, partially offset by a 1 basis point decrease in the average cost of savings to 0.82% for the three months ended March 31, 2006. While the cost of money market accounts remained consistent at 1.31%, there was a $136.9 million, or 36.8%, decrease in the average balance of money market accounts to $234.9 million for the three months ended March 31, 2006 from $371.8 million for the three months ended March 31, 2005.

Interest expense on borrowed funds decreased by $4.8 million, or 32.0%, to $10.2 million for the three months ended March 31, 2006 from $15.0 million for the three months ended March 31, 2005. The average balance of borrowed funds decreased by $595.2 million or 37.3%, to $1.00 billion for the three months ended March 31, 2006 from $1.60 billion for the three months ended March 31, 2005, which was primarily attributed to the utilization of the proceeds from our initial public stock offering to reduce higher cost wholesale borrowings and the restructuring that took

place in March 2005 in which the Company repaid wholesale borrowings. The average cost of borrowed funds increased by 31 basis points to 4.07% for the three months ended March 31, 2006 from 3.76% for the three months ended March 31, 2005.

Provision for Loan Losses. Our provision for loan losses was $200,000 for each of the three month periods ended March 31, 2006 and 2005. There were net charge-offs of $48,000 and $63,000 for the three months ended March 31, 2006 and March 31, 2005, respectively. See discussion of the allowance for loan losses and non-accrual loans in Comparison of Financial Condition at March 31, 2006 and June 30, 2005 .

Other Income (Loss). Total other income (loss) increased by $11.3 million to $1.4 million for the three months ended March 31, 2006 from a loss of $10.0 million for the three months ended March 31, 2005. There were no gains or losses on sales of securities during the three months ended March 31, 2006 compared to a net loss on the sale of securities of $10.4 million in the three months ended March 31, 2005 primarily due to the restructuring transaction.

Operating Expenses. Total operating expenses decreased by $41.9 million, or 71.3%, to $16.9 million for the three months ended March 31, 2006 from $58.8 million for the three months ended March 31, 2005. The most significant cause of the decrease was the balance sheet restructuring in which a loss of $43.6 million on the early extinguishment of debt was realized in the three-month period ended March 31, 2005. This decrease was partially offset by an increase in compensation and fringe benefits of $1.4 million, or 15.2%, to $10.7 million for the three months ended March 31, 2006. This increase included $439,000 in ESOP expenses recorded during the three months ended March 31, 2006. In addition, the increase also reflects staff additions in our commercial real estate and retail banking areas, as well as normal merit increases and increases in employee benefit costs. Professional fees also increased $75,000, or 24.3%, to $384,000 for the three months ended March 31, 2006 from $309,000 for the three months ended March 31, 2005. This increase was primarily attributed to additional professional fees associated with being a public company.

Income Taxes. Income tax expense was $4.0 million for the three months ended March 31, 2006, as compared to income tax benefit of $14.8 million for the three months ended March 31, 2005. Our effective tax expense rate was 33.9% for the three months ended March 31, 2006, compared to an effective tax benefit rate of 33.8% for the three months ended March 31, 2005.

Comparison of Operating Results for the Nine Months Ended March 31, 2006 and 2005

Net Income. Operating results improved by $18.9 million, to net income of $8.7 million for the nine months ended March 31, 2006 from a net loss of $10.1 million for the nine months ended March 31, 2005. The Company s results of operations for the nine month period ended March 31, 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 ($35.5 million after taxes) consisting of the losses on prepayment of the borrowings and sale of the securities.

Net Interest Income. Net interest income increased by $5.3 million, or 7.1%, to $79.7 million for the nine months ended March 31, 2006 from $74.4 million for the nine months ended March 31, 2005. The increase was caused primarily by a 33 basis point improvement in our yield on interest-earning assets to 4.74% for the nine months ended March 31, 2006 from 4.41% for the nine months ended March 31, 2005 and a reduction in the average balance of interest-bearing liabilities of $366.1 million, or 7.6%, to $4.46 billion for the nine months ended March 31, 2006 from $4.83 billion for the nine months ended March 31, 2005. This was partially offset by an increase in our cost of interest-bearing liabilities to 3.03% for the nine months ended March 31, 2006 from 2.67% for the nine months ended March 31, 2005.

Interest and Dividend Income. Total interest and dividend income increased by $10.2 million, or 5.9%, to $181.0 million for the nine months ended March 31, 2006 from $170.9 million for the nine months ended March 31, 2005. This increase was primarily due to a 33 basis point increase in the weighted average yield on interest-earning assets to 4.74% for the nine months ended March 31, 2006 compared to 4.41% for the nine months ended March 31, 2005. This was partially offset by a decrease in the average balance of interest-earning assets of $79.3 million, or 1.5%, to $5.09 billion for the nine months ended March 31, 2006 from $5.17 billion for the nine months ended March 31, 2005.

Interest income on loans increased by $36.0 million, or 67.3%, to $89.6 million for the nine months ended March 31, 2006 from $53.5 million for the nine months ended March 31, 2005, reflecting a $909.1 million, or 64.9%, increase in the average balance of net loans to $2.31 billion for the nine months ended March 31, 2006 from $1.40 billion for the nine months ended March 31, 2005. In addition, the average yield on loans increased to 5.17% for the nine months ended March 31, 2006 from 5.09% for the nine months ended March 31, 2005.

Interest income on all other interest-earning assets, excluding loans, decreased by $25.9 million, or 22.0%, to $91.5 million for the nine months ended March 31, 2006 from $117.3 million for the nine months ended March 31, 2005. This decrease reflected a $988.3 million decrease in the average balance of securities and other interest-earning assets, partially offset by a 24 basis point increase in the average yield on securities and other interest-earning assets to 4.39% for the nine months ended March 31, 2006 from 4.15% for the nine months ended March 31, 2005.

Interest Expense. Total interest expense increased by $4.8 million, or 5.0%, to $101.4 million for the nine months ended March 31, 2006 from $96.5 million for the nine months ended March 31, 2005. This increase was primarily due to a 36 basis point increase in the weighted average cost of total interest-bearing liabilities to 3.03% for the nine months ended March 31, 2006 compared to 2.67% for the nine months ended March 31, 2005. This was partially offset by a $366.1 million, or 7.6%, decrease in the average balance of total interest-bearing liabilities to $4.46 billion for the nine months ended March 31, 2006 from $4.83 billion for the nine months ended March 31, 2005. We reduced the average balance of wholesale borrowings during the nine months ended March 31, 2006 by $471.0 million which was partially offset by an increase

in the average balance of interest-bearing deposits for the nine months ended March 31, 2006 of $104.8 million to $3.35 billion.

The average balance of core deposits (which consist of savings, money market and interest-bearing checking accounts) grew by $45.7 million to $935.4 million for the nine months ended March 31, 2006 from $889.7 million for the nine months ended March 31, 2005. Interest expense on savings and interest-bearing checking accounts increased $562,000 and $2.4 million, respectively, to $2.3 million and $4.2 million, respectively, for the nine months ended March 31, 2006 from $1.8 million and $1.8 million, respectively, for the nine months ended March 31, 2005. The increase in interest expense on savings and interest-bearing checking accounts was mainly attributed to growth in the average balances for these product types of $82.2 million and $88.0 million, respectively, to $363.7 million and $301.8 million, respectively, for the nine months ended March 31, 2006. We attribute the growth in the average balances of savings accounts primarily to the stock subscription proceeds held during the subscription period. In addition, the average cost of savings accounts increased 2 basis points to 0.86% and the average cost of interest-bearing checking accounts increased 74 basis points to 1.86% for the nine months ended March 31, 2006. This increase in interest-bearing checking expense is attributed to the growth in our recently introduced Investors High Yield Checking Account. Interest expense on certificates of deposit increased $16.6 million to $59.9 million for the nine months ended March 31, 2006 from $43.3 million for the nine months ended March 31, 2005. The average cost of certificates of deposit increased 85 basis points to 3.30% for the nine months ended March 31, 2006 from 2.45% for the nine months ended March 31, 2005. In addition, the average balance of certificates of deposit increased by $59.1 million to $2.42 billion for the nine months ended March 31, 2006. Interest expense on money market accounts decreased by $1.3 million to $2.7 million for the nine months ended March 31, 2006 from $3.9 million for the nine months ended March 31, 2005. While the cost of money market accounts remained consistent at 1.33%, there was a $124.5 million, or 31.6% decrease in the average balance of money market accounts to $270.0 million for the nine months ended March 31, 2006 from $394.5 million for the nine months ended March 31, 2005.

Interest expense on borrowed funds decreased by $13.4 million, or 29.4%, to $32.2 million for the nine months ended March 31, 2006 from $45.7 million for the nine months ended March 31, 2005. The average balance of borrowed funds decreased by $471.0 million or 29.8%, to $1.11 billion for the nine months ended March 31, 2006 from $1.58 billion for the nine months ended March 31, 2005, which is primarily attributed 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 2 basis points to 3.88% for the nine months ended March 31, 2006 from 3.86% for the nine months ended March 31, 2005.

Provision for Loan Losses. Our provision for loan losses was $400,000 for each of the nine month periods ended March 31, 2006 and 2005. For the nine months ended March 31, 2006 net recoveries totaled $77,000. There were net charge-offs of $68,000 for the nine months ended March 31, 2005. See discussion of the allowance for loan losses and non-accrual loans in Comparison of Financial Condition at March 31, 2006 and June 30, 2005 .

Other Income (Loss). Total other income (loss) increased by $7.0 million to $4.0 million for the nine months ended March 31, 2006 from a loss of $3.1 million for the nine months ended March 31, 2005. There were no gains or losses on sales of securities during the nine months ended March 31, 2006 compared to net losses on the sale of securities of $9.8 million in the nine months ended March 31, 2005, primarily due to the $10.4 million loss on sale of securities as part of the balance sheet restructuring. This was partially offset by income associated with our bank owned life insurance contract decreasing by $2.6 million to $1.8 million for the nine months ended March 31, 2006 from $4.3 million for the nine months ended March 31, 2005. During the nine months ended March 31, 2005, the Bank received a life insurance death benefit of $3.3 million.

Operating Expenses. Total operating expenses decreased by $18.3 million, or 20.7%, to $70.0 million for the nine months ended March 31, 2006 from $88.3 million for the nine months ended March 31, 2005. The decrease was primarily attributed to the balance sheet restructuring in which a loss of $43.6 million on the early extinguishment of debt was realized in the nine-month period ended March 31, 2005, partially offset by the $20.7 million contribution of cash and Company stock made to the Investors Savings Bank Charitable Foundation in the nine-month period ended March 31, 2006 as part of our initial public stock offering. Compensation and fringe benefits increased by $4.6 million, or 17.3%, to $31.3 million for the nine months ended March 31, 2006. ESOP expense for the nine month period totaled $1.9 million, comprised of $1.5 million for the entire 2005 calendar year and $439,000 for the first quarter of calendar year 2006. In addition, the increase also reflects staff additions in our commercial real estate and retail banking areas, as well as normal merit increases and increases in employee benefit costs. Office occupancy and equipment also increased by $465,000 to $7.8 million for the nine months ended March 31, 2006 from $7.3 million for the nine months ended March 31, 2005. The principal causes of this increase were the addition of a new branch in March 2005 and normal increases in the cost of operating our branch network. Professional fees also increased $202,000, or 20.6%, to $1.2 million for the nine months ended March 31, 2006 from $981,000 for the nine months ended March 31, 2005. This increase is primarily attributed to additional professional fees associated with being a public company.

Income Taxes. Income tax expense was $4.5 million for the nine months ended March 31, 2006, as compared to income tax benefit of $7.3 million for the nine months ended March 31, 2005. Our effective tax expense rate was 33.9% for the nine months ended March 31, 2006, compared to an effective tax benefit rate of 41.9% for the nine months ended March 31, 2005, which was primarily due to the pre-tax loss and the higher level of tax-exempt income during the period for death benefits from the bank owned life insurance contracts.

Liquidity and Capital Resources

The Company s primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank (FHLB) and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including an overnight line of credit and advances from the FHLB.

At March 31, 2006, the Company had outstanding overnight borrowings from the FHLB of $58.5 million as compared to no outstanding overnight borrowings at June 30, 2005. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company had total FHLB borrowings, including overnight borrowings, of $1.02 billion at March 31, 2006, a decrease from $1.31 billion at June 30, 2005. This decrease was primarily a result of utilizing the proceeds from the stock offering to reduce higher-cost, longer-term wholesale borrowings.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At March 31, 2006, outstanding commitments to originate loans totaled $314.8 million and outstanding unused lines of credit totaled $118.0 million. The Company expects to have sufficient funds available to meet current commitments in the normal course of business. The Company also had outstanding commitments to sell loans totaling $11.6 million.

Time deposits scheduled to mature in one year or less totaled $1.94 billion at March 31, 2006. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The net proceeds from the Company s stock offering significantly increased our liquidity and capital resources. Over time, this initial level of liquidity will be reduced as net proceeds from the offering are used for general corporate purposes, including the funding of loans and repayment of higher-cost, longer-term wholesale borrowings. Our financial condition and results of operations will be enhanced by the net proceeds from the offering, resulting in increased net interest-earning assets and net income. However, due to the increase in equity resulting from the net proceeds raised in the offering, return on equity has been adversely impacted following the offering.

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

	As of March 31, 2006			
	Actual		Required	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total capital (to risk-weighted assets)	$658,008	28.5%	$184,783	8.0%
Tier I capital (to risk-weighted assets)	651,837	28.2	92,392	4.0
Tier I capital (to average assets)	651,837	12.5	207,950	4.0

Critical Accounting Policies

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

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

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

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

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

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan

loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances is presented to the Board of Directors on a quarterly basis.

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

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

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

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established.

We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amounts of taxes recoverable through loss carry back declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense that would adversely affect our operating results.

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

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Our held-to-maturity portfolio, consisting of debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. The market values of our securities are affected by changes in interest rates. When significant changes in interest rates occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance. In the opinion of management, unrealized losses in our securities portfolio are related to the changes in interest rates and are therefore temporary in nature and no charge to income has been recorded at March 31, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The general objective of our interest rate risk management is to determine the appropriate level of risk given our business model and then manage that risk in a manner consistent with our

policy to reduce, to the extent possible, the exposure of our net interest income to changes in market interest rates. Our Interest Rate Risk Committee, which consists of senior management, evaluates the interest rate risk inherent in certain assets and liabilities, our operating environment and capital and liquidity requirements and modifies our lending, investing and deposit gathering strategies accordingly. On a quarterly basis, our Board of Directors reviews the Interest Rate Risk Committee report, the aforementioned activities and strategies, the estimated effect of those strategies on our net interest margin and the estimated effect that changes in market interest rates may have on the economic value of our loan and securities portfolios, as well as the intrinsic value of our deposits and borrowings.
We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. To better manage our interest rate risk, we have increased our focus on the origination of adjustable-rate mortgages, as well as the more recent origination of commercial real estate mortgage loans and adjustable-rate construction loans. In addition, we primarily invest in shorter-to-medium duration securities, which generally have shorter average lives and lower yields compared to longer term securities. Shortening the average lives of our securities, along with originating more adjustable-rate mortgages and commercial real estate mortgages, will help to reduce interest rate risk.
We retain two independent, nationally recognized consulting firms who specialize in asset and liability management to complete our quarterly interest rate risk reports. They use a combination of analyses to monitor our exposure to changes in interest rates. The economic value of equity analysis is a model that estimates the change in net portfolio value (NPV) over a range of immediately changed interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. In calculating changes in NPV, assumptions estimating loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes are used.
The net interest income analysis uses data derived from a dynamic asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations such as interest rate floors and caps, and the U.S. Treasury yield curve as of the balance sheet date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred 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 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 March 31, 2006, the estimated changes in our NPV and our annual 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 gradually changed over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease or increase of greater than 200 basis points.

	Net Portfolio Value (2)			Net Interest Income		
		Estimated Increase (Decrease)			Increase (Decrease) in Estimated Net Interest Income	
Change in Interest Rates (basis points) (1)	Estimated NPV	Amount	Percent	Estimated Net Interest Income(3)	Amount	Percent
	(Dollars in thousands)					
+200bp	$ 603,528	282,431	-31.88%	$ 85,564	-13,244	-13.36%
0bp	885,959			98,808		
-200bp	1,030,453	144,494	16.31%	112,006	13,198	13.40%

(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 March 31, 2006 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 31.88% decrease in NPV and a $13.2 million decrease in annual net interest income. In the event of a 200 basis points decrease in interest rates, we would be expected to experience a 16.31% increase in NPV and a $13.2 million increase in annual net interest income. These data do not reflect any future

actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

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

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no significant changes made in the Company s internal controls over financial reporting or in other factors that could significantly affect the Company s internal controls over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. At March 31, 2006, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes from the Risk Factors in the Company s Prospectus filed with the Securities and Exchange Commission on August 19, 2005.

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

(a) There were no sales of unregistered securities during the period covered by the Report.

(b) In connection with its plan of stock issuance, the Company registered 53,175,907 shares of common stock, par value $0.01 per share, on a Registration Statement on Form S-1 (File Number 333-125703). The registration statement was declared effective by the Securities and Exchange Commission on August 12, 2005. The stock offering commenced on August 19, 2005 and was completed on September 12, 2005. On October 12, 2005, the Common stock began trading on the Nasdaq National Market under the symbol ISBC.

The stock offering resulted in gross proceeds of $516,270,940, with the sale of 51,627,094 shares at a price of $10.00 per share. Expenses related to the offering were $6,584,000, including the fee paid to Sandler O Neill & Partners, L.P.

Net proceeds of the offering were $509.7 million. Approximately $254.7 million of the net proceeds of the offering were retained by the Company and $255.0 million were contributed to the Bank. The Company loaned $42.5 million to the Bank s employee stock ownership plan to enable it to purchase 4,254,072 shares of common stock in the stock offering. The remainder of the net proceeds were temporarily invested in short term liquid investments and interest-bearing accounts.

(c) There were no issuer repurchases of securities during the past three years.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

During the period covered by this report, the Company did not submit any matters to the vote of security holders.

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

3.1 Certificate of Incorporation of Investors Bancorp, Inc.*

3.2 Bylaws of Investors Bancorp, Inc.*

4 Form of Common Stock Certificate of Investors Bancorp, Inc.*

10.1 Form of Employment Agreement between Investors Bancorp, Inc. and certain executive officers*

10.2 Form of Change in Control Agreement between Investors Bancorp, Inc. and certain executive officers *

10.3 Investors Savings Bank Director Retirement Plan*

10.4 Investors Savings Bank Supplemental Retirement Plan*

10.5 Investors Bancorp, Inc. Supplemental Wage Replacement Plan*

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Investors Bancorp, Inc.

Dated: May 12, 2006	/s/ Robert M. Cashill
	Robert M. Cashill President and Chief Executive Officer
Dated: May 12, 2006	/s/ Domenick A. Cama
	Domenick A. Cama Executive Vice President and Chief Financial Officer