

Investors Bancorp Inc  
Form 10-K  
March 01, 2011

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2010**

**or**

**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:**

**Common Stock, par value \$0.01 per share**

**The NASDAQ Stock Market LLC**

*(Title of Class)*

*(Name of each exchange on which registered)*

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

**None**

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

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  No

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  No

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

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.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of February 22, 2011, the registrant had 118,020,280 shares of common stock, par value \$0.01 per share, issued and 113,274,092 shares outstanding, of which 64,844,373 shares, or 57.3%, were held by Investors Bancorp, MHC, the registrant's mutual holding company.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2010, as reported by the NASDAQ Global Select Market, was approximately \$656.6 million.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Proxy Statement for the 2011 Annual Meeting of Stockholders of the Registrant (Part III).
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**INVESTORS BANCORP, INC.  
2010 ANNUAL REPORT ON FORM 10-K  
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**PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT**

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

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

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

the risk of continued economic slowdown that would adversely affect credit quality and loan originations.

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

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

**PART I**

**ITEM 1. BUSINESS**

**Investors Bancorp, Inc.**

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

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

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

On October 15, 2010, the Company completed its acquisition of Millennium bcpbank ( Millennium ) deposit franchise. In this transaction the Company acquired approximately \$600.0 million of deposits and seventeen branches in New Jersey, New York and Massachusetts for a deposit premium of 0.11%. In addition, the Company purchased a portion of Millennium s performing loan portfolio and entered into a loan servicing agreement to service those loans it did not purchase. The Company recorded a bargain purchase gain of \$1.8 million in connection with the purchase of the Millennium deposit franchise and servicing of their loan portfolio. The Company also entered into a definitive agreement to sell the Millennium branch locations in Massachusetts to Admirals Bank, headquartered in Cranston, Rhode Island. The transaction is anticipated to close during the second quarter 2011.

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

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

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

### **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 82 branch offices located throughout

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northern and central New Jersey, New York and Massachusetts. The telephone number at our main office is (973) 924-5100. At December 31, 2010, our assets totaled \$9.60 billion and our deposits totaled \$6.77 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, commercial real estate, construction, multi-family loans, commercial and industrial loans and consumer loans, the majority of which are home equity loans and home equity lines of credit. Securities, primarily U.S. Government and Federal Agency obligations, mortgage-backed and other securities represented 11.3% of our assets at December 31, 2010. We offer a variety of deposit accounts and emphasize quality customer service. Investors Savings Bank is subject to comprehensive regulation and examination by both the New Jersey Department



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of Banking and Insurance and the Federal Deposit Insurance Corporation and we are subject to regulations as a bank holding company by the Federal Reserve Board.

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

### **Market Area**

We are headquartered in Short Hills, New Jersey, and our primary deposit gathering area is concentrated in the communities surrounding our headquarters and our 82 branch offices located in the communities of Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey; Nassau and Queens, New York and Massachusetts. Our primary lending area is broader than our deposit-gathering area and includes 14 counties in New Jersey and 6 counties in New York. It is largely urban and suburban with a broad economic base as is typical for counties in and surrounding the New York metropolitan area. As one of the wealthiest states in the nation, New Jersey, with a population of 8.8 million, is considered one of the most attractive banking markets in the United States.

Our entry into the New York market, which started in 2010 with the the opening of our New York City lending office and the acquisition of the Millennium branches, allows us to continue to expand our retail operations and geographic footprint.

Many of the counties we serve are projected to experience strong to moderate population and household income growth through 2015. Though slower population growth is projected for some of the counties we serve, it is important to note that these counties represent some of the most densely populated counties. 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 14.12% to 17.54% through 2015. The December 2010 unemployment rates for New Jersey and New York, 8.7% and 8.0%, respectively, were slightly lower than the national rate of 9.4%.

### **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, 2010, the latest date for which statistics are available, our market share of deposits was 2.5% 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.

### **Lending Activities**

While our principal lending activity continues to be the origination and purchase of mortgage loans collateralized by residential real estate, in recent years we have focused on growing our commercial real estate portfolio. Residential mortgage loans represented \$4.94 billion, or 61.8% of our total loans at December 31, 2010 compared to \$2.69 billion, or 90.3% of our total loans at June 30, 2006. At December 31, 2010, commercial real estate totaled \$1.23 billion, or 15.3% of our total loan portfolio, multi-family loans totaled \$1.16 billion, or 14.5% of our total loan portfolio, construction loans totaled \$347.8 million, or 4.4% of our total loan portfolio, and commercial and industrial loans totaled \$60.9 million or 0.8% of our total loan portfolio. We also offer consumer loans, which consist primarily of

home equity loans and home equity lines of credit. At December 31, 2010, consumer loans totaled \$259.8 million or 3.3% 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.

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<b>December 31,</b>		<b>2009</b>		<b>2009</b>		<b>2008</b>		<b>June 30,</b>		<b>2007</b>		<b>20</b>
<b>2010</b>												
<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>
<b>(Dollars in thousands)</b>												
\$ 4,922,901	61.58%	\$ 4,756,042	71.50%	\$ 4,690,335	76.00%	\$ 3,989,334	85.54%	\$ 3,159,484	87.51%	\$ 2,669,72		
16,343	0.20	17,514	0.26	18,564	0.30	20,229	0.43	22,624	0.63	24,92		
4,939,244	61.78	4,773,556	71.76	4,708,899	76.30	4,009,563	85.97	3,182,108	88.14	2,694,65		
1,161,874	14.53	612,743	9.21	482,783	7.82	82,711	1.77	40,066	1.11	10,93		
1,225,256	15.33	730,012	10.97	433,204	7.02	142,396	3.06	69,282	1.92	68,08		
347,825	4.35	334,480	5.03	346,967	5.62	260,177	5.58	153,420	4.25	66,20		
60,903	0.76	23,159	0.35	15,665	0.25	47						
147,540	1.84	104,864	1.58	119,193	1.93	139,587	2.99	139,524	3.86	113,57		
108,356	1.36	70,341	1.06	61,664	1.00	27,270	0.59	23,927	0.66	28,06		
3,861	0.05	2,972	0.04	3,341	0.06	1,962	0.04	1,993	0.06	1,72		
259,757	3.25	178,177	2.68	184,198	2.99	168,819	3.62	165,444	4.58	143,35		
\$ 7,994,859	100.00%	\$ 6,652,127	100.00%	\$ 6,171,716	100.00%	\$ 4,663,713	100.00%	\$ 3,610,320	100.00%	\$ 2,983,24		
22,021		22,958		21,313		22,622		23,587		20,32		
(8,244)		(4,574)		(3,252)		(2,620)		(1,958)		(1,76		
(90,931)		(55,052)		(46,608)		(13,565)		(6,951)		(6,36		

\$ 7,917,705                      \$ 6,615,459                      \$ 6,143,169                      \$ 4,670,150                      \$ 3,624,998                      \$ 2,995,43

**Loan Portfolio Maturities.** The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2010. Overdraft loans are reported as being due in one year or less.

	<b>At December 31, 2010</b>						
	<b>Residential Mortgage</b>	<b>Multi-Family</b>	<b>Commercial</b>	<b>Construction Loans (In thousands)</b>	<b>Commercial and Industrial loans</b>	<b>Consumer and Other Loans</b>	<b>Total</b>
<b>Amounts Due:</b>							
One year or less	\$ 7,819	15,933	53,339	235,449	24,625	4,601	341,766
After one year:							
One to three years	14,302	195,727	254,443	93,618	4,698	16,553	579,341
Three to five years	8,415	175,800	139,809	13,145	6,920	14,828	358,917
Five to ten years	215,554	688,396	665,270	200	23,267	81,649	1,674,336
Ten to twenty years	906,174	82,557	108,567	5,413	1,393	75,231	1,179,335
Over twenty years	3,786,980	3,461	3,828			66,895	3,861,164
Total due after one year	4,931,425	1,145,941	1,171,917	112,376	36,278	255,156	7,653,093
Total loans	\$ 4,939,244	1,161,874	1,225,256	347,825	60,903	259,757	7,994,859
Premiums on purchased loans, net							22,021
Deferred loan fees, net							(8,244)
Allowance for loan losses							(90,931)
Net loans							\$ 7,917,705

The following table sets forth fixed- and adjustable-rate loans at December 31, 2010 that are contractually due after December 31, 2011.

	<b>Due After December 31, 2011</b>		
	<b>Fixed</b>	<b>Adjustable (In thousands)</b>	<b>Total</b>
<b>Residential mortgage loans</b>	\$ 2,895,662	2,035,763	4,931,425
<b>Multi-family</b>	562,321	583,620	1,145,941

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<b>Commercial</b>	777,570	394,347	1,171,917
<b>Construction loans</b>	12,607	99,769	112,376
<b>Commercial and industrial</b>	34,776	1,502	36,278
<b>Consumer and other loans:</b>			
Home equity loans	147,161		147,161
Home equity credit lines		107,646	107,646
Other		349	349
Total consumer and other loans	147,161	107,995	255,156
Total loans	\$ 4,430,097	3,222,996	7,653,093

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***Residential Mortgage Loans.*** Currently, our primary lending activity is originating and purchasing residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At December 31, 2010, \$4.94 billion, or 61.8%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, ISB Mortgage Company LLC ( ISB Mortgage ), for our loan portfolio and for sale to third parties. We also purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements call for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases we acquire the loans with servicing rights, but we have some arrangements in which the correspondent entity will sell us the loan without servicing rights. In addition, we 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.

Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property to a maximum loan amount of \$750,000. Loans over \$750,000 require a lower loan to value ratio. Loans in excess of 80% of value require private mortgage insurance and cannot exceed \$500,000. We will not make loans with a loan-to-value ratio in excess of 95% or 97% for programs to low or moderate-income borrowers. Fixed-rate mortgage loans are originated for terms of up to 30 years. Generally, all fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. At December 31, 2010, we held \$2.90 billion in fixed-rate residential mortgage loans which represented 58.8% of our residential mortgage loan portfolio.

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

Adjustable-rate mortgage loans decrease the Bank's risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates or a decline in housing values. The maximum periodic and lifetime interest rate adjustments may limit the effectiveness of adjustable-rate mortgages during periods of rapidly rising interest rates. At December 31, 2010, we held \$2.04 billion of adjustable-rate residential mortgage loans, of which \$529.1 million were interest-only one-to four-family mortgages. Adjustable-rate residential mortgage loans represented 41.2% of our residential mortgage loan portfolio.

To provide financing for low-and moderate-income home buyers, we also offer various loan programs some of which include down payment assistance for home purchases. Through these programs, qualified individuals receive a reduced rate of interest on most of our loan programs and have their application fee refunded at closing, as well as other incentives if certain conditions are met.

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

***Multi-family and Commercial Real Estate Loans.*** As part of our strategy to add to and diversify our loan portfolio, we offer mortgages on multi-family and commercial real estate properties. At December 31, 2010, \$1.16 billion, or 14.5%, of our total loan portfolio was multi-family and \$1.23 billion or 15.3% of our total loan

portfolio was commercial real estate loans. Our policy generally has been to originate multi-family and commercial real estate loans in New Jersey, New York and surrounding states. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. The multi-family and commercial real estate loans in our portfolio consist of both fixed-rate and adjustable-rate loans which were originated at prevailing market rates. Multi-family and commercial real estate loans are generally five to fifteen year term balloon loans amortized over fifteen to thirty years. The maximum loan-to-value ratio is 70% for our commercial real estate loans and 75% for multi-family loans. At December 31, 2010, our largest commercial real estate loan was \$30.0 million and is on an industrial building in New Jersey. Our largest multi-family loan was \$29.0 million and is on a high rise apartment building in New Jersey.

We consider a number of factors when we originate multi-family and commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan

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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.** We offer loans directly to builders and developers on income-producing properties and residential for-sale housing units. At December 31, 2010, we held \$347.8 million in construction loans representing 4.4% of our total loan portfolio. Construction loans are originated through our commercial lending department. If the loan applicant meets our criteria, we issue a letter of intent listing the terms and conditions of any potential loan. Primarily we offer adjustable-rate residential construction loans which can be structured with an option for permanent mortgage financing once the construction is completed. Generally, construction loans will be structured to be repaid over a three-year period and generally will be made in amounts of up to 70% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on inspections in accordance with a schedule reflecting the completion of portions of the project. Construction financing for sold units requires an executed sales contract.

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

At December 31, 2010, the Bank's largest construction loan was a \$34.0 million note on an apartment-rental project in New Jersey. The loan had an outstanding balance at December 31, 2010 of \$11.7 million and was performing in accordance with contractual terms.

**Commercial and Industrial Loans.** We offer commercial and industrial loans. These loans include term loans, lines of credit and owner occupied commercial real estate loans. These loans are generally secured by real estate or business assets and include personal guarantees. The loan to value limit is 75% and businesses will typically have at least a 2 year history. At December 31, 2010, \$60.9 million, or 0.76%, of our loan portfolio consisted of these types of loans.

**Consumer Loans.** We offer consumer loans, most of which consist of home equity loans and home equity lines of credit. Home equity loans and home equity lines of credit are secured by residences located in New Jersey and New York. At December 31, 2010, consumer loans totaled \$259.8 million or 3.3% 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 a maximum of 80%. Home equity loans are offered with fixed rates of interest, terms up to 30 years and to a maximum of \$500,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in *The Wall Street Journal*.

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



loans-held-for-sale are excluded from the table.

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	Year Ended December 31,		Six Months Ended December 31,	Year Ended June 30,	
	2010	2009	2009	2009	2008
	(In thousands)				
<b>Loan originations and purchases:</b>					
<b>Loan originations:</b>					
Residential mortgage loans:					
One- to four-family	\$ 800,497	548,880	359,118	407,381	284,386
FHA				244	483
Total residential mortgage loans	800,497	548,880	359,118	407,625	284,869
Multi-family	487,933	247,388	148,386	145,521	139,995
Commercial	412,623	439,531	301,603	221,964	
Construction loans	214,437	94,342	56,275	127,631	174,110
Commercial and industrial	59,636	21,579	14,637	9,961	
Consumer and other loans:					
Home equity loans	12,921	10,941	6,251	14,562	34,039
Home equity credit lines	59,731	46,064	26,018	32,190	21,759
Other	15,168	3,849	2,012	3,698	2,749
Total consumer and other loans	87,820	60,854	34,281	50,450	58,547
Total loan originations	\$ 2,062,946	1,412,574	914,300	963,152	657,521
<b>Loan purchases:</b>					
Residential mortgage loans:					
One- to four-family	\$ 862,311	794,989	452,295	1,063,616	995,753
FHA				274	567
Commercial	120,546				
Multi-family		100,000		200,914	
Consumer and other loans:					
Home equity loans	69,044				
Home equity credit lines	18,302				
Other					
Total consumer and other loans	87,346				
Total loan purchases	1,070,203	894,989	452,295	1,264,804	996,320
Loan principal repayments	(1,786,658)	(1,743,647)	(882,200)	(1,190,114)	(599,547)
Other items, net(1)	(44,245)	(37,417)	(12,105)	(35,598)	(9,142)
		470,775		470,775	

Net loans acquired in acquisition

Net increase in loan portfolio	\$ 1,302,246	\$ 997,274	\$ 472,290	\$ 1,473,019	\$ 1,045,152
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(1) Other items include charge-offs, loan loss provisions, loans transferred to other real estate owned, and amortization and accretion of deferred fees and costs and discounts and premiums.

**Loan Approval Procedures and Authority.** Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. In the approval process for residential loans we assess the borrower's ability to repay the loan and the value of the property securing the loan. To assess the borrower's ability to repay, we review the borrower's income and expenses and employment and credit history. In the case of commercial real estate loans we also review projected income, expenses and the viability of the project being financed. We generally require appraisals of all real property securing loans, except for home equity loans and home equity lines of credit, in which case we may use the tax-assessed value of the property securing such loan or a lesser form of valuation, such as a home value estimator or by a drive-by value estimated performed by an approved appraisal company. 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. All real estate secured loans require 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 \$250,000 may be approved by loan underwriters, provided the loan meets all of our underwriting guidelines. If the loan does not meet all of our underwriting guidelines, but can be considered for approval because of other compensating factors, the loan must be approved by an authorized member of management. Residential mortgage loans in excess of \$250,000 and up to \$1,000,000 must be approved by an authorized member of management. Residential mortgage loans in excess of \$1,000,000 and up to \$1,500,000 must be approved by three authorized members of management. Residential

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mortgage loans in excess of \$1,500,000 and up to \$3,000,000 must be approved by three authorized members of management, one of whom must be an Executive Officer.

All commercial real estate, multi-family and construction loan requests or total credit relationships in an amount up to \$3,000,000 may be approved by the Chief Lending Officer. All commercial real estate loan requests or total credit relationships in excess of \$3,000,000 and up to \$5,000,000 must be approved by any two of the following the Chief Lending Officer and the Chief Operating Officer or the Chief Executive Officer. All loan requests or total credit relationships in excess of \$5,000,000 must be approved by the Commercial Loan Committee, consisting of the Chief Executive Officer, Chief Operating Officer, Chief Lending Officer, Chief Financial Officer, Executive Vice President-Retail Banking and the Senior Vice President- Lending.

All business loans in an amount up to \$1,500,000 must be approved by the Vice President, Business Lending, Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All loan requests or total credit relationships in excess of \$1,500,000 and up to \$3,000,000 must be approved by the Vice President, Business Lending and the Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All loan requests or total credit relationships in excess of \$3,000,000 and up to \$5,000,000 must be approved by the Vice President, Business Lending and two of the following Chief Lending Officer and the Chief Operating Officer or the Chief Executive Officer. All loan requests or total credit relationships in excess of \$5,000,000 must be approved the Commercial Loan Committee, consisting of the Chief Executive Officer, Chief Operating Officer, Chief Lending Officer, Chief Financial Officer, Executive Vice President- Retail Banking and the Senior Vice President- 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 December 31, 2010, the regulatory lending limit was \$122.8 million. The Bank's internal policy limit is \$60.0 million, with the option to exceed that limit with the Board of Directors' approval, on total loans to a borrower or related borrowers. The Bank reviews these group exposures on a monthly basis. The Bank also sets additional limits on size of loans by loan type. At December 31, 2010, the Bank's largest relationship with an individual borrower and its related entities was \$68.0 million, consisting of a multi-family loan, a construction loan on an apartment rental project and a commercial line of credit on properties located in the State of New Jersey. The relationship was approved by the Board of Directors and was performing in accordance with contractual terms as of December 31, 2010.

### **Asset Quality**

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

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

***Collection Procedures.*** We send system-generated reminder notices to start collection efforts when a loan becomes fifteen days past due. Subsequent late charge and delinquency notices are sent and the account is monitored on a regular basis thereafter. Direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. We provide the Board of Directors with a summary report of loans 30 days or more past due on a monthly basis. When a loan is more than 60 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. Loans are placed on non-accrual status when they are 90 days delinquent, but may be placed on non-accrual status earlier if the timely collection of principal and/or income is doubtful. When loans are placed on

non-accrual status, unpaid accrued interest is fully reserved, and additional income is recognized in the period collected unless the ultimate collection of principal is considered doubtful. If our effort to cure the delinquency fails and a repayment plan is not in place, the file is referred to counsel for commencement of foreclosure or other collection efforts. We also own loans serviced by other entities and we monitor delinquencies on such loans using reports the servicers send to us. When we receive these past due reports, we review the data and contact the servicer to discuss the specific loans and the status of the collection process. We add the information from the servicer's delinquent loan reports to our own delinquent reports and provide a full summary report monthly to our Board of Directors.

Our collection procedure for non mortgage related consumer and other loans includes sending periodic late notices to a borrower once a loan is past due. We attempt to make direct contact with the borrower once a loan becomes 30 days past due. The Collection Manager reviews loans 60 days or more delinquent on a regular basis. If collection activity is unsuccessful after 90 days, we may refer

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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				Total	
	60-89 Days		90 Days and Over		Number	Amount
	Number	Amount	Number	Amount		
	(Dollars in thousands)					
<b>At December 31, 2010</b>						
Residential mortgage loans:						
One- to four-family	33	\$ 11,664	220	\$ 70,389	253	\$ 82,053
FHA	2	226	23	3,261	25	3,487
Total residential mortgage loans	35	11,890	243	73,650	278	85,540
Multi-family	3	12,898	3	2,748	6	15,646
Commercial	1	502	8	3,899	9	4,401
Construction loans	1	7,850	26	82,735	27	90,585
Commercial and industrial	2	640	5	1,829	7	2,469
Consumer and other loans:						
Home equity loans	3	8	11	507	14	515
Home equity credit lines	1	188	3	518	4	706
Other			6	8	6	8
Total consumer and other loans	4	196	20	1,033	24	1,229
Total	46	\$ 33,976	305	\$ 165,894	351	\$ 199,870
<b>At December 31, 2009</b>						
Residential mortgage loans:						
One- to four-family	47	\$ 13,273	143	\$ 47,582	190	\$ 60,855
FHA	4	384	19	2,507	23	2,891
Total residential mortgage loans	51	13,657	162	50,089	213	63,746
Multi-family			4	553	4	553
Commercial			10	3,417	10	3,417
Construction loans	3	19,056	21	53,468	24	72,524
Commercial and industrial	3	734			3	734
Consumer and other loans:						
Home equity loans			4	81	4	81
Home equity credit lines	5	191	11	1,074	16	1,265
Other	7	7	8	11	15	18
	12	198	23	1,166	35	1,364

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Total consumer and other loans

Total	69	\$ 33,645	220	\$ 108,693	289	\$ 142,338
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**At June 30, 2009**

Residential mortgage loans:

One- to four-family	30	\$ 8,165	82	\$ 27,837	112	\$ 36,002
FHA	6	721	15	1,904	21	2,625

Total residential mortgage loans

Multi-family	1	181	6	20,074	7	20,255
Commercial	3	784	6	2,820	9	3,604
Construction loans	3	11,263	17	58,550	20	69,813

Commercial and industrial Consumer and other loans:

Home equity loans	1	2	2	60	3	62
Home equity credit lines	4	659	3	150	7	809
Other	4	4	10	15	14	19

Total consumer and other loans

Total	52	\$ 21,779	141	\$ 111,410	193	\$ 133,189
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**At June 30, 2008**

Residential mortgage loans:

One- to four-family	8	\$ 1,608	18	\$ 5,060	26	\$ 6,668
FHA	1	66	15	1,631	16	1,697

Total residential mortgage loans

Multi-family and commercial			4	1,600	4	1,600
Construction loans	1	10,960			1	10,960

Commercial and industrial Consumer and other loans:

Home equity loans			3	88	3	88
Home equity credit lines			1	30	1	30
Other	2	2	2	2	4	4

Total consumer and other loans

Total	12	\$ 12,636	43	\$ 8,411	55	\$ 21,047
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**Non-Performing Assets.** Non-performing assets include non-accrual loans, mortgage loans delinquent 90 days or more and still accruing interest and real estate owned, or REO. We did not have any mortgage loans delinquent 90 days or more and still accruing interest at December 31, 2010. At December 31, 2010, we had REO of \$976,000 consisting of two properties. Non-performing loans increased \$45.7 million to \$165.9 million at December 31, 2010, from \$120.2 million at December 31, 2009. Although we have resolved a number of non-performing loans, the continued deterioration of the housing and real estate markets, as well as the overall weakness in the economy, continue to impact our non-performing loans. As a geographically concentrated residential lender, we have been affected by negative consequences arising from the ongoing economic recession and, in particular, the sharp downturn in the housing industry, as well as economic and housing industry weaknesses in the New Jersey/New York metropolitan area. We are particularly vulnerable to the impact of a severe job loss recession. We continue to closely monitor the local and regional real estate markets and other factors related to risks inherent in our loan portfolio. The ratio of non-performing loans to total loans increased to 2.08% at December 31, 2010, from 1.81% at December 31, 2009. Our ratio of non-performing assets to total assets increased to 1.74% at December 31, 2010, from 1.44% at December 31, 2009. The allowance for loan losses as a percentage of total non-performing loans increased to 54.81% at December 31, 2010, from 45.80% at December 31, 2009. For further discussion of our non-performing assets and non-performing loans and the allowance for loan losses, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	<b>December 31, 2010</b>	<b>December 31, 2009(1)</b>	<b>2009(2)</b>	<b>June 30, 2008(3)</b>	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>					
Non-accrual loans:						
Residential mortgage loans:						
One- to four-family	\$ 70,389	\$ 47,582	\$ 27,837	\$ 5,060	\$ 2,220	\$ 1,346
FHA	3,261	2,507	1,904	1,631	1,300	1,440
Total residential mortgage loans	73,650	50,089	29,741	6,691	3,520	2,786
Multi-family and commercial	6,647	3,970	22,894	1,600	452	477
Construction loans	82,735	64,968	68,826	10,960	1,146	
Commercial and industrial	1,829					
Consumer and other loans:						
Home equity loans	507	81	60	88	28	6
Home equity credit lines	518	1,074	150	30		30
Other	8	11	15	2	3	
Total consumer and other loans	1,033	1,166	225	120	31	36
Total	165,894	120,193	121,686	19,371	5,149	3,299
Total non-performing loans	165,894	120,193	121,686	19,371	5,149	3,299



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Real estate owned		976					
Total non-performing assets	\$	166,870	\$ 120,193	\$ 121,686	\$ 19,371	\$ 5,149	\$ 3,299
Total non-performing loans to total loans		2.08%	1.81%	1.97%	0.42%	0.14%	0.11%
Total non-performing loans to total assets		1.73%	1.44%	1.50%	0.30%	0.09%	0.06%
Total non-performing assets to total assets		1.74%	1.44%	1.50%	0.30%	0.09%	0.06%

- (1) An \$11.5 million construction loan that was 60-89 days delinquent at December 31, 2009 was classified as non-performing.
- (2) Two construction loans totaling \$10.3 million were 60-89 days delinquent at June 30, 2009 were classified as non-performing.
- (3) An \$11.0 million construction loan that is 60-89 days delinquent at June 30, 2008 is classified as non-performing. At December 31, 2010, we had \$4.8 million of residential mortgage loans identified as trouble debt restructurings, which were performing in accordance with restructured terms.

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For the year ended December 31, 2010, interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to \$8.1 million. We recognized interest income of \$1.9 million on such loans for the year ended December 31, 2010.

**Real Estate Owned.** Real estate we acquire as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired it is recorded at fair market value at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value result in charges to expense after acquisition. At December 31, 2010, we had REO of \$976,000 consisting of two properties. At December 31, 2009, June 30, 2009, 2008, 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 current 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 uncollectible 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 quarterly basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

**Impaired Loans.** The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. Loans we individually classify as impaired include commercial real estate, multi-family or construction loans with an outstanding balance greater than \$3.0 million and on non-accrual status. Impaired loans are individually assessed to determine that the loan's carrying value is not in excess of the fair value of the collateral or the present value of the expected future cash flows. A valuation allowance is established when it is determined there is a shortfall. At December 31, 2010, loans meeting the Company's definition of an impaired loan totaled \$69.3 million. The allowance for loan losses related to loans classified as impaired at December 31, 2010, amounted to \$5.0 million. Interest income received during the year ended December 31, 2010 on loans classified as impaired was \$206,000. For further detail on our impaired loans, see Note 1 and Note 5 of Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

**Allowance for Loan Losses**

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. In determining the allowance for loan losses, management considers the losses inherent in our loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. A description of our methodology in establishing our allowance for loan losses is set forth in the section Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Allowance for Loan Losses. The allowance for loan losses as of December 31, 2010 is 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.

	<b>December 31, 2010</b>	<b>Six Months Ended December 31, 2009</b>	<b>2009</b>	<b>2008</b>	<b>June 30, 2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>					
Allowance balance (beginning of period)	\$ 55,052	\$ 46,608	\$ 13,565	\$ 6,951	\$ 6,369	\$ 5,723
Provision for loan losses	66,500	23,425	29,025	6,646	729	600
Charge-offs:						
Residential mortgage loans						
One- to four-family FHA	6,432	1,587		18		
		4	14		141	143
Total residential mortgage loans	6,432	1,591	14	18	141	143
Multi-family and commercial loans	927					
Construction loans	23,160	13,411				
Commercial & industrial loans	269					
Consumer and other loans	41	23	11	15	10	10
Total charge-offs	30,829	15,025	25	33	151	153
Recoveries:						
Residential mortgage loans						
One- to four-family FHA	124					
		44				196
Total residential mortgage loans	124	44				196
Multi-family and commercial loans						
Construction loans	83					
Commercial & industrial loans						
Consumer and other loans	1			1	4	3
Total recoveries	208	44		1	4	199

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Net (charge-offs) recoveries	(30,621)	(14,981)	(25)	(32)	(147)	46
Allowance acquired in acquisition			4,043			
Allowance balance (end of period)	\$ 90,931	\$ 55,052	\$ 46,608	\$ 13,565	\$ 6,951	\$ 6,369
Total loans outstanding	\$ 7,994,859	\$ 6,652,127	\$ 6,171,716	\$ 4,663,713	\$ 3,610,320	\$ 2,983,242
Average loans outstanding	\$ 7,197,608	\$ 6,370,350	\$ 5,482,009	\$ 4,043,398	\$ 3,305,807	\$ 2,462,270
Allowance for loan losses as a percent of total loans outstanding	1.14%	0.83%	0.76%	0.29%	0.19%	0.21%
Net loans charged off as a percent of average loans outstanding	0.43%	0.24%	%	%	%	%
Allowance for loan losses to non-performing loans	54.81%	45.80%	38.30%	70.03%	135.00%	193.06%

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

	December 31, 2010		2009		June 30, 2009		2008	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
<b>End of period allocated to:</b>								
Residential mortgage loans	\$ 20,489	61.78%	\$ 13,741	71.76%	\$ 10,841	76.30%	\$ 4,585	85.97%
Multi-family	10,454	14.53%	3,227	9.21%	1,518	7.82%	223	1.77%
Commercial	16,432	15.33%	10,208	10.97%	6,223	7.02%	1,454	3.06%
Construction loans	34,669	4.35%	25,194	5.03%	23,437	5.62%	4,836	5.58%

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Commercial and industrial	2,189	0.76%	558	0.35%	351	0.25%		%
Consumer and other loans	866	3.25%	510	2.68%	459	2.99%	254	3.62%
Unallocated	5,832		1,614		3,779		2,213	
Total allowance	\$ 90,931	100.00%	\$ 55,052	100.00%	\$ 46,608	100.00%	\$ 13,565	100.00%

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	June 30,			
	2007	Percent of Loans in Each Category to Total Loans	2006	Percent of Loans in Each Category to Total Loans
	Allowance for Loan Losses	(Dollars in thousands)	Allowance for Loan Losses	
<b>End of period allocated to:</b>				
Residential mortgage loans	\$ 3,444	88.14%	\$ 2,910	90.33%
Multi-family and commercial	956	3.03%	1,591	2.65%
Construction loans	1,896	4.25%	820	2.22%
Consumer and other loans	247	4.58%	354	4.80%
Unallocated	408		694	
<b>Total allowance</b>	<b>\$ 6,951</b>	<b>100.00%</b>	<b>\$ 6,369</b>	<b>100.00%</b>

**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.

At December 31, 2010, our securities portfolio totaled \$1.08 billion representing 11.3% of our total assets. Securities are classified as held-to-maturity or available-for-sale when purchased. At December 31, 2010, \$478.5 million of our securities were classified as held-to-maturity and reported at amortized cost and \$602.7 million were classified as available-for-sale and reported at fair value.

**Mortgage-Backed Securities.** We purchase mortgage-backed pass through and collateralized mortgage obligation ( CMO ) securities insured or guaranteed by Fannie Mae, Freddie Mac (government-sponsored enterprises) and Ginnie

Mae (government agency), and to a lesser extent, a variety of federal and state housing authorities (collectively referred to below as agency-issued mortgage-backed securities ). At December 31, 2010, agency-issued mortgage-backed securities including CMOs, totaled \$949.1 million, or 87.8%, of our total securities portfolio.

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



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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 4.1% at December 31, 2010. The estimated fair value of our mortgage-backed securities at December 31, 2010 was \$1.04 billion, which is \$19.3 million greater than the amortized cost of \$1.02 billion.

We also invest in securities issued by non-agency or private mortgage originators, provided those securities are rated AAA by nationally recognized rating agencies at the time of purchase. Our non-agency mortgage-backed securities are not guaranteed by GSE entities and complied with the investment and credit standards set forth in the investment policy of the Company at the time of purchase. At December 31, 2010, the significant portion of the portfolio was comprised of 23 non-agency mortgage-backed securities with an amortized cost of \$78.1 million and an estimated fair value of \$77.7 million. These securities were originated in the period 2002-2004 and substantially all are performing in accordance with contractual terms. For securities with larger decreases in fair values, management estimates the loss projections for each security by stressing the individual loans collateralizing the security with a range of expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on those specific assumptions, a range of possible cash flows were identified to determine whether other-than-temporary impairment existed as of December 31, 2010. Under certain stress scenarios estimated future losses may arise. Management determined that no additional other-than-temporary impairment existed as of December 31, 2010.

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

At December 31, 2010, the portfolio consisted of 33 securities with an amortized cost of \$23.6 million and a fair value of \$41.3 million. Only two of the 33 securities maintain an investment grade (BAA and higher). For December 31, 2010, we engaged an independent valuation firm to value our TruPS portfolio and prepare our OTTI analysis. The valuation firm assisted us in evaluating the credit and performance for each remaining issuer to derive probabilities and assumptions for default, recovery and prepayment/amortization for the expected cashflows for each security. At December 31, 2010, management deemed that there was no deterioration in projected discounted cashflows since the prior period for each of its TruPS and did not recognize an OTTI charge for the year ended December 31, 2010. The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the debt securities before the recovery of their amortized cost basis or maturity.

At December 31, 2008, we recorded a pre-tax \$156.7 million other-than-temporary impairment, or OTTI, charge to reduce the carrying amount of our investment bank pooled trust preferred securities to the securities' market values totaling \$20.7 million. The decision to recognize the OTTI charge was based on the severity of the decline in the market values of these securities at that time and the unlikelihood of any near-term market value recovery. The significant decline in the market value occurred primarily as a result of deteriorating national economic conditions, rapidly increasing amounts of non-accrual and delinquent loans at some of the underlying issuing banks, and credit rating downgrades by Moody's.

The Company adopted ASC 320, Recognition and Presentation of Other-Than-Temporary Impairments, which was incorporated into ASC 320, Investments Debt and Equity Securities, on April 1, 2009. Under this guidance, the difference between the present value of the cash flows expected to be collected and the amortized cost basis is deemed

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

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

**Government Sponsored Enterprises.** At December 31, 2010, bonds issued by Government Sponsored Enterprises held in our security portfolio totaled \$15.2 million representing 1.4% of our total securities portfolio. While these securities may generally provide lower yields than other securities in our securities portfolio, we hold for liquidity purposes, as collateral for certain borrowings, to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by these issuers.

**Marketable Equity Securities.** At December 31, 2010, we had \$2.2 million in equity securities representing 0.2% of our total securities portfolio. Equity securities are not insured or guaranteed investments and are affected by market interest rates and stock market fluctuations. Such investments (when held) are carried at their fair value and fluctuations in the fair value of such investments, including temporary declines in value, directly affect our net capital position.

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

	At December 31,				At June 30,			
	2010		2009		2009		2008	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In thousands)								
Available-for-sale:								
Equity securities	\$ 2,025	\$ 2,232	\$ 1,832	\$ 2,053	\$ 1,583	\$ 1,598	\$ 6,655	\$ 6,514
GSE debt securities			25,013	25,039	30,051	30,079		
Mortgage-backed securities:								
Federal Home Loan Mortgage Corporation	248,403	248,335	206,877	209,522	151,450	152,718	51,256	51,197
Federal National Mortgage Association	306,745	308,957	158,678	160,427	94,967	96,617	49,393	49,364
Government National Mortgage Association	9,202	9,445	10,504	10,450	275	300		
Non-agency securities	34,640	33,764	67,290	63,752	80,523	73,704	101,555	95,957
Total mortgage-backed securities available for sale	598,990	600,501	443,349	444,151	327,215	323,339	202,204	196,518
Total securities available-for-sale	\$ 601,015	\$ 602,733	\$ 470,194	\$ 471,243	\$ 358,849	\$ 355,016	\$ 208,859	\$ 203,032
Held-to-maturity:								
Debt securities:								

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Government Sponsored Enterprises	\$ 15,200	\$ 15,446	\$ 15,226	\$ 15,956	\$ 18,238	\$ 19,161	\$ 46,703	\$ 47,052
Municipal bonds	13,951	13,907	10,259	10,451	10,420	10,624	10,574	10,773
Corporate and other debt securities	23,552	41,289	21,411	37,809	20,727	20,129	178,669	135,527
	52,703	70,642	46,896	64,216	49,385	49,914	235,946	193,352
Mortgage-backed securities:								
Federal Home Loan Mortgage Corporation	210,544	218,230	358,998	369,404	429,969	440,088	551,708	544,834
Government National Mortgage Association	3,243	3,530	3,880	4,157	4,269	4,617	5,052	5,322
Federal National Mortgage Association	166,251	175,456	236,109	245,353	278,272	286,820	354,493	351,003
Federal housing authorities	2,324	2,476	2,549	2,780	2,654	2,908	2,849	3,077
Non-agency securities	43,471	43,889	69,009	67,495	81,494	76,955	105,006	100,465
Total mortgage-backed securities held-to-maturity	425,833	443,581	670,545	689,189	796,658	811,388	1,019,108	1,004,701
Total securities held-to-maturity	\$ 478,536	\$ 514,233	\$ 717,441	\$ 753,405	\$ 846,043	\$ 861,302	\$ 1,255,054	\$ 1,198,053
Total securities	\$ 1,079,551	\$ 1,116,956	\$ 1,187,635	\$ 1,224,648	\$ 1,204,892	\$ 1,216,318	\$ 1,463,913	\$ 1,401,085

At December 31, 2010, we had no investment in the securities of any issuer that had an aggregate book value in excess of 10% of our equity.

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**Portfolio Maturities and Yields.** The composition and maturities of the securities portfolio at December 31, 2010 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 Weighted Amortized Average		More than One Year through Five Years Weighted Amortized Average		More than Five Years through Ten Years Weighted Amortized Average		More than Ten Years Weighted Amortized Average		Total Securities Weighted Amortized Average				
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Fair Value			
(Dollars in thousands)													
<b>Available-for-Sale:</b>													
Equity securities	\$	%					%\$ 2,025	%	%\$ 2,025	\$ 2,232	%		
GSE debt securities		%					%	%			%		
Mortgage-backed securities:													
Federal Home Loan Mortgage Corporation			%	2,556	4.00%	62,831	3.68%	183,016	4.10%	248,403	248,335	3.99%	
Government National Mortgage Association			%					%	9,202	4.00%	9,202	9,445	4.00%
Federal National Mortgage Association			%	8,914	4.05%	238,262	3.54%	59,569	4.05%	306,745	308,957	3.65%	
Non-agency securities			%			%	21,006	4.55%	13,634	3.74%	34,640	33,764	4.23%
Total mortgage-backed securities	\$	%	11,470	4.04%	322,099	3.64%	265,421	3.93%	598,990	600,501	3.83%		
Total securities available-for-sale	\$	%	\$ 11,470	4.04%	\$ 322,099	3.64%	\$ 267,446	3.90%	\$ 601,015	\$ 602,733	3.82%		
<b>Held-to-Maturity:</b>													
Debt securities:													
Government sponsored enterprises	\$ 15,000	4.50%	\$		%\$ 200	1.25%	\$		%\$ 15,200	\$ 15,446	4.46%		
Municipal bonds	5,049	2.13%	3,752	6.88%	20	7.17%	5,130	9.08%	13,951	13,907	5.97%		
Corporate and other debt securities		%		%		%	23,552	1.83	23,552	41,289	1.83%		
	20,049	3.90%	3,752	6.88%	220	1.79%	28,682	3.13%	52,703	70,642	3.68%		

Mortgage-backed securities:												
Federal Home Loan Mortgage Corporation	%	6,252	4.00%	115,543	4.24%	88,749	4.08%	210,544	218,230	4.16%		
Government National Mortgage Association	%		%	3	9.50%	3,240	7.24%	3,243	3,530	7.24%		
Federal National Mortgage Association	%	80	7.50%	82,317	4.66%	83,854	4.64%	166,251	175,456	4.65%		
Federal and state housing authorities	%	1,478	8.88%	846	8.90%		%	2,324	2,476	8.88%		
Non-agency securities				40,362	4.88%	3,109	2.70%	43,471	43,889	4.72%		
Total mortgage-backed securities	%	7,810	4.96%	239,071	4.51%	178,952	4.37%	425,833	443,581	4.46%		
Total securities held-to-maturity	\$	20,049	3.90%	\$ 11,562	5.59%	\$ 239,291	4.51%	\$ 207,634	4.20%	\$ 478,536	\$ 514,223	4.35%

### Sources of Funds

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

**Deposits.** At December 31, 2010, we held \$6.77 billion in total deposits, representing 77.9% of our total liabilities. Historically we have emphasized a more wholesale strategy for generating funds, in particular, by offering high cost certificates of deposit. At December 31, 2010, \$3.44 billion, or 50.8%, of our total deposit balances were certificates of deposit which included \$8.0 million in brokered deposits. In recent years, we have focused on changing the mix of our deposits from one focused on attracting certificates of deposit to one focused on core deposits. The impact of these efforts has been a continuing shift in deposit mix to lower cost core

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products. We remain committed to our plan of attracting more core deposits because core deposits represent a more stable source of low cost funds and are less sensitive to changes in market interest rates. At December 31, 2010, we held \$3.33 billion in core deposits, representing 49.2% of total deposits. This is an increase of \$787.2 million, or 30.9%, when compared to December 31, 2009, when our core deposits were \$2.55 billion. We intend to continue to invest in branch staff training and to aggressively market and advertise our core deposit products and will attempt to generate our deposits from a diverse client group within our primary market area. We remain focused on attracting deposits from municipalities and C&I businesses which operate in our marketplace.

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

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

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

	<b>At December 31,</b>					
	<b>Balance</b>	<b>2010 Percent of Total Deposits</b>	<b>Weighted Average Rate</b>	<b>Balance</b>	<b>2009 Percent of Total Deposits</b>	<b>Weighted Average Rate</b>
			<b>(Dollars in thousands)</b>			
Savings	\$ 1,135,091	16.75%	0.93%	\$ 877,421	15.02%	1.64%
Checking accounts	1,367,282	20.18	0.37	927,675	15.88	0.81
Money market deposits	832,514	12.29	0.81	742,618	12.72	1.26
Total transaction accounts	3,334,887	49.22	0.65	2,547,714	43.62	1.21
Certificates of deposit	3,440,043	50.78	1.78	3,292,929	56.38	2.18
Total deposits	\$ 6,774,930	100.00%	1.22%	\$ 5,840,643	100.00%	1.77%

	<b>At June 30,</b>					
	<b>Balance</b>	<b>2009 Percent of Total Deposits</b>	<b>Weighted Average Rate</b>	<b>Balance</b>	<b>2008 Percent of Total Deposits</b>	<b>Weighted Average Rate</b>
			<b>(Dollars in thousands)</b>			
Savings	\$ 779,678	14.16%	1.99%	\$ 417,196	10.51%	1.96%
Checking	898,816	16.33	0.84	401,100	10.10	1.28
Money market deposits	521,425	9.47	1.76	229,018	5.77	2.06
Total transaction accounts	2,199,919	39.96	1.46	1,047,314	26.38	1.72

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Certificates of deposit	3,305,828	60.04	2.80	2,922,961	73.62	3.71
Total deposits	\$ 5,505,747	100.00%	2.27%	\$ 3,970,275	100.00%	3.18%

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

	At December 31,		At June 30,	
	2010	2009	2009	2008
	(Dollars in thousands)			
<b>Certificates of Deposits</b>				
1% or less	\$ 853,183	276,876	2,102	279
1.01% 2.00%	1,447,556	1,595,292	596,657	45,005
2.01% 3.00%	761,101	850,129	1,501,821	566,007
3.01% 4.00%	95,106	267,519	866,050	1,188,461
4.01% 5.00%	244,912	268,460	311,509	769,010
Over 5.00%	38,185	34,653	27,689	354,199
Total	\$ 3,440,043	3,292,929	3,305,828	2,922,961



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The following table sets forth, by rate category, the remaining period to maturity of certificates of deposit outstanding at December 31, 2010

	<b>Within Three Months</b>	<b>Over Three to Six Months</b>	<b>Over Six Months to One Year</b>	<b>Over One Year to Two Years</b>	<b>Over Two Years to Three Years</b>	<b>Over Three Years</b>	<b>Total</b>
<b>(Dollars in thousands)</b>							
<b>Certificates of Deposits</b>							
1% or less	\$ 389,145	186,798	221,779	55,461			853,183
1.01% 2.00%	297,520	271,096	415,962	436,808	23,860	2,310	1,447,556
2.01% 3.00%	40,518	74,789	196,888	322,002	39,115	87,789	761,101
3.01% 4.00%	10,860	2,310	10,955	23,700	7,050	40,231	95,106
4.01% 5.00%	1,657	1,704	68,618	137,984	15,956	18,993	244,912
Over 5.00%	2,170	3,455	9,087	13,837	903	8,733	38,185
<b>Total</b>	<b>\$ 741,870</b>	<b>540,152</b>	<b>923,289</b>	<b>989,792</b>	<b>86,884</b>	<b>158,056</b>	<b>3,440,043</b>

The following table sets forth the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 and the respective maturity of those certificates as of December 31, 2010.

	<b>At December 31, 2010 (In thousands)</b>
Three months or less	\$ 269,821
Over three months through six months	174,873
Over six months through one year	312,766
Over one year	492,684
<b>Total</b>	<b>\$ 1,250,145</b>

**Borrowings.** We 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.

<b>At or for the Year Ended</b>		<b>At or for the Six Months Ended December</b>		<b>At or for the Year Ended June 30,</b>	
<b>December 31, 2010</b>	<b>2009</b>	<b>31, 2009</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>(Dollars in thousands)</b>					
\$ 1,326,514	\$ 850,542	\$ 850,542	\$ 870,555	\$ 563,583	\$ 333,710

Balance at end of period						
Average balance during period	1,168,808	861,388	819,585	989,855	208,866	196,417
Maximum outstanding at any month end	1,326,514	903,060	870,553	1,348,574	563,583	333,710
Weighted average interest rate at end of period	3.09%	3.79%	3.79%	3.66%	3.50%	5.42%
Average interest rate during period	3.53%	3.69%	3.82%	3.34%	4.41%	5.46%

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

	<b>At or for the Year Ended</b>		<b>At or for the Six Months Ended</b>	<b>At or for the Year Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in thousands)</b>				
Balance at end of period	\$ 500,000	\$ 750,000	\$ 750,000	\$ 910,000	\$ 860,000
Average balance during period	611,397	857,017	823,620	894,348	902,326
Maximum outstanding at any month end	675,000	910,000	860,000	1,085,000	960,000
Weighted average interest rate at end of period	4.45%	4.36%	4.36%	4.31%	4.32%
Average interest rate during period	4.46%	4.36%	4.43%	4.43%	4.38%

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### **Subsidiary Activities**

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

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

Investors Savings Bank has the following subsidiaries.

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

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

**Investors Commercial, Inc.** Investors Commercial, Inc. is a New Jersey corporation that was formed in 2010 as an operating subsidiary of Investors Saving Bank. The purpose of this subsidiary is to originate and purchase residential mortgage loans, commercial real estate and multi family mortgage loans.

Investors Savings Bank has four additional subsidiaries which are inactive.

### **Personnel**

As of December 31, 2010, we had 844 full-time employees and 48 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

## **SUPERVISION AND REGULATION**

### **General**

Investors Savings Bank is a New Jersey-chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation ( FDIC ) under the Deposit Insurance Fund ( DIF ). Investors Savings Bank is subject to extensive regulation, examination and supervision by the Commissioner of the New Jersey Department of Banking and Insurance (the Commissioner ) as the issuer of its charter, and, as a non-member state chartered savings bank, by the FDIC as the deposit insurer and its primary federal regulator. Investors Savings Bank must file reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC each conduct periodic examinations to assess Investors Savings Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank may engage and is intended primarily for the protection of the DIF and its 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. and Investors Bancorp MHC, as bank holding companies controlling Investors Savings Bank, are subject to the Bank Holding Company Act of 1956, as amended ( BHCA ), and the rules and regulations of the Federal Reserve Board under the BHCA and to the provisions of the New Jersey Banking Act of 1948 (the New Jersey Banking Act ) and the regulations of the Commissioner under the New Jersey Banking Act applicable to bank holding companies. Investors Savings Bank and Investors Bancorp, Inc. are required to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve Board, the Commissioner and the FDIC. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company's compliance with various regulatory requirements. Investors Bancorp, Inc. files certain reports with, and otherwise complies with, the rules and regulations of the Securities and Exchange Commission under the federal securities laws and the listing

requirements of NASDAQ.

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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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ) made extensive changes in the regulation of depository institutions and their holding companies. Certain provisions of the Dodd-Frank Act are expected to have a near term impact on Investors Savings Bank and Investors Bancorp, Inc. For example, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than \$10 billion in assets, such as Investors Savings Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulator, although the Consumer Financial Protection Bureau will have back-up authority to examine and enforce consumer protection laws against all institutions, including institutions with less than \$10 billion in assets.

In addition to creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of tougher consolidated capital requirements on holding companies, requires originators of securitized loans to retain a percentage of the risk for the transferred loans, imposes regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations can not yet be fully assessed. However, there is significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for Investors Savings Bank and Investors Bancorp, Inc.

Some of the laws and regulations applicable to Investors Savings Bank and Investors Bancorp, Inc. including some of the changes made by the Dodd-Frank Act, 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 the actual laws and regulations.

**New Jersey Banking Regulation**

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

real estate mortgages;

consumer and commercial loans;

specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;

certain types of corporate equity securities; and

certain other assets.

A savings bank may also invest pursuant to a leeway power that permits investments not otherwise permitted by the New Jersey Banking Act, subject to certain restrictions imposed by the FDIC. Leeway investments must comply with a number of limitations on the individual and aggregate amounts of leeway investments. A savings bank may also exercise trust powers upon approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers are limited by federal law and the related regulations. See Federal Banking

Regulation Activity Restrictions on State-Chartered Banks below.

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

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

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

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

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**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.





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The following table shows Investors Savings Bank's Total capital, Tier 1 risk-based capital, and Total risk-based capital ratios as of December 31, 2010:

	<b>As of December 31, 2010</b>	
	<b>Capital</b>	<b>Percent of Assets(1)</b>
	<b>(Dollars in thousands)</b>	
Total capital	\$ 881,413	13.8%
Tier 1 risk-based capital	\$ 801,171	12.5%
Total risk-based capital	\$ 801,171	8.6%

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

As of December 31, 2010, 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 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 chosen to engage in such activities.

The Dodd-Frank Act removed the federal prohibition on the payment of interest on commercial demand deposit accounts, effective July 21, 2011.

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

Investors Savings Bank, as a member of the FHLB of New York is currently required to acquire and hold shares of FHLB Class B stock. The Class B stock has a par value of \$100 per share and is redeemable upon five years notice, subject to certain conditions. The Class B stock has two subclasses, one for membership stock purchase requirements and the other for activity-based stock purchase requirements. The minimum stock investment requirement in the FHLB Class B stock is the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For Investors Savings Bank, the membership stock purchase requirement is 0.2% of the Mortgage-Related Assets, as defined by the FHLB, which consists principally of residential mortgage loans and mortgage-backed securities, including CMOs, held by Investors Savings Bank. The activity-based stock purchase requirement for Investors Savings Bank is equal to the sum of: (1) 4.5% of outstanding borrowing from the FHLB; (2) 4.5% of the outstanding principal balance of Acquired Member Assets, as defined by the FHLB, and delivery commitments for Acquired Member Assets; (3) a specified dollar amount related to certain off-balance sheet items, for which Investors Savings Bank is zero; and (4) a specified percentage ranging from 0 to 5% of the carrying value on the FHLB balance sheet of derivative contracts between the FHLB and its members, which for Investors Savings Bank is also zero. The FHLB can adjust the specified percentages and dollar amount from time to time within the ranges established by the FHLB capital plan. At December 31, 2010, the amount of FHLB stock held by us satisfies these requirements.

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

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

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

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

An institution will be treated as well capitalized if:

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

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

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%;



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its Tier 1 capital is less than 3%; or

its leverage ratio is less than 3%.

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

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

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

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

existence of an unsafe or unsound condition to transact business;

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

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

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

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

**Deposit Insurance.** Investors Savings Bank is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts in the Bank are insured by the FDIC, previously up to a maximum of \$100,000 for each separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. However, in view of the recent economic crisis, the FDIC temporarily increased the deposit insurance available on all deposit accounts to \$250,000. The Dodd-Frank Act made that level of coverage permanent. In addition, certain non-interest-bearing transaction accounts maintained with depository institutions are fully insured regardless of the dollar amount until December 31, 2012.

The FDIC imposes an assessment for deposit insurance against all insured depository institutions. That assessment is based on the risk category of the institution and, prior to 2009, ranged from five to 43 basis points of the institution's deposits. On December 22, 2008, the FDIC issued a final rule that raised the deposit insurance assessment rates uniformly for all institutions by seven basis points (to a range from 12 to 50 basis points) effective for the first quarter of 2009. On February 27, 2009, the FDIC issued a final rule that altered the way it calculated federal deposit insurance assessment rates beginning in the second quarter of 2009 and thereafter.

Under the rule, the FDIC first establishes an institution's initial base assessment rate. That initial base assessment rate ranges, depending on the risk category of the institution, from 12 to 45 basis points. The FDIC then adjusts the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate are based upon an institution's levels of unsecured debt, secured liabilities and brokered deposits. The total base assessment rate ranges, including adjustments, from 7 to 77.5 basis points of the institution's assessable deposits.

On May 22, 2009, the FDIC issued a final rule that imposed a special five basis point assessment on each FDIC-insured depository institution's assets, minus its Tier 1 capital on June 30, 2009, which was collected on September 30, 2009. That special assessment was deemed necessary in view of the stress on the Deposit Insurance Fund. The special assessment was capped at 10 basis points of an institution's domestic deposits.

In lieu of further special assessments, the FDIC adopted a rule pursuant to which all insured depository institutions were required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Each institution's base assessment rate for each period was calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. The pre-payment

has been recorded as a prepaid expense at December 31, 2009 and will be amortized to expense over three years.

Most recently, the Dodd-Frank Act required the FDIC to revise its assessment procedures to base it on average total assets less tangible capital, rather than deposits. The FDIC has issued a final rule that will implement that directive effective April 1, 2011.

Insurance of deposits may be terminated by the FDIC upon a finding that an 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. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

In addition to the FDIC assessments, the Financing Corporation ( FICO ) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2010, the annualized FICO assessment was equal to 1.04 basis points for each \$100 in domestic deposits maintained at an institution.

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

Section 23A:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Loans to a Bank's Insiders**

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

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

In addition, federal law prohibits extensions of credit to a bank's insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on



substantially the same terms as those

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prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

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

### **Federal Reserve System**

The Federal Reserve Board regulations require all depository institutions to maintain reserves at specified levels against their transaction accounts (primarily NOW and regular checking accounts). At December 31, 2010, 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's discount window. Investors Savings Bank is deemed by the Federal Reserve Board to be generally sound and thus is eligible to obtain primary credit from its Federal Reserve Bank. Generally, primary credit is extended on a very short-term basis to meet the liquidity needs of an institution. Loans must be secured by acceptable collateral and carry a rate of interest of 100 basis points above the Federal Open Market Committee's federal funds target rate.

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

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

We originate and purchase interest only loans. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. At December 31, 2010, our residential mortgage loan portfolio included approximately \$529.1 million of interest only loans.

### **Anti-Money Laundering and Customer Identification**

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Investors Savings Bank is subject to FDIC regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank

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Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

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

Establishment of anti-money laundering programs.

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

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

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

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

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

### **Sarbanes-Oxley Act of 2002**

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

### **Holding Company Regulation**

**Federal Regulation.** Bank holding companies, like Investors Bancorp, Inc. and Investors Bancorp, MHC, are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for Investors Savings Bank. As of December 31, 2010, Investors Bancorp, Inc.'s total capital and Tier 1 capital ratios exceeded these minimum capital requirements. See *Regulatory Capital Compliance*. The Dodd-Frank Act requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate the inclusion of certain instruments from tier 1 capital, such as trust preferred securities, that are currently

includable for bank holding companies. Any instruments issued by mutual holding companies by May 19, 2012, are grandfathered.

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. The Dodd-Frank Act codified the source of strength policy and requires the issuance of implementing regulations. 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

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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. In addition, Federal Reserve Board policy is that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is consistent with the company's capital needs, asset quality and overall financial condition. Prior Federal Reserve Board approval will be required for Investors Bancorp, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

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

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

making or servicing loans;

performing certain data processing services;

providing discount brokerage services; or acting as fiduciary, investment or financial advisor;

leasing personal or real property;

making investments in corporations or projects designed primarily to promote community welfare; and

acquiring a savings and loan association.

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

each of its depository institution subsidiaries is well capitalized ;

each of its depository institution subsidiaries is well managed ;

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

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

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

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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.

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

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

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

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

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



of 1934.

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

**Table of Contents****TAXATION****Federal Taxation**

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

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

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

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

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

As a result of the 1996 Act, bad debt reserves accumulated after 1987 are required to be recaptured into income over a six-year period. However, all pre-base year reserves are subject to recapture if Investors Savings Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. At December 31, 2010, our total federal pre-base year reserve was approximately \$40.7 million.

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

**Net Operating Loss Carryforwards and Charitable Contribution Carryforward.** A financial institution may carry back net operating losses to the preceding five taxable years and forward to the succeeding 20 taxable years. As of December 31, 2010, the Company had a \$4.6 million carryback claim and a federal net operating loss carryforward of approximately \$360,000.

At December 31, 2010, the Company had utilized all of its charitable contribution carryforwards.

**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.



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

Investors Bancorp, Inc is required to file a New Jersey income tax return and will generally be subject to a state income tax at a 9% rate. However, if Investors Bancorp, Inc. meets certain requirements, it may be eligible to elect to be taxed as a New Jersey Investment Company, which would allow it to be taxed at a rate of 3.6%.

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

At December 31, 2009, the Company had state net operating loss carryforwards of approximately \$44.2 million which was fully utilized as of December 31, 2010. 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.

***New York State Taxation.*** New York State imposes an annual franchise tax on banking corporations, based on net income allocable to New York State at a rate of 7.1%. If, however, the application of an alternative minimum tax (based on taxable assets allocated to New York, alternative net income, or a flat minimum fee) results in a greater tax, an alternative minimum tax will be imposed. In addition, New York State imposes a tax surcharge of 17% of the New York State Franchise Tax, calculating using an annual franchise tax of 9.00% (which represents the 2000 annual franchise rate), allocable to business activities carried on in the Metropolitan Commuter Transportation District. These taxes apply to Investors Savings Bank.

***New York City Taxation.*** Investors Savings Bank is also subject to the New York City Financial Corporation Tax calculated, subject to a New York City income and expense allocation, on a similar basis as the New York State Franchise Tax. A significant portion of Investors Savings Bank's entire net income is derived from outside of the New York City jurisdiction which has the effect of significantly reducing the New York City taxable income of Investors Savings Bank.

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

**ITEM 1A. RISK FACTORS**

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

**Financial reform legislation recently enacted will, among other things, create a new Consumer Financial Protection Bureau, tighten capital standards and result in new laws and regulations that are expected to increase our costs of operations.**

On July 21, 2010 the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impacts of the Dodd-Frank Act may not be known for many months or years.

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The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than \$10 billion in assets. Banks with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

The new law provides that the Office of Thrift Supervision will cease to exist one year from the date of the new law's enactment. The Office of the Comptroller of the Currency, which is currently the primary federal regulator for national banks, will become the primary federal regulator for federal thrifts. The Board of Governors of the Federal Reserve System will supervise and regulate all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision.

Effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and authorizes the Securities and Exchange Commission to promulgate rules that allow stockholders to nominate their own candidates using a company's proxy materials. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose clawback policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

**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

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reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest the funds from faster prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Conversely, an increase in interest rates generally reduces prepayments. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2010, the fair value of our total securities portfolio was \$1.12 billion. Unrealized net losses on securities-available-for-sale are reported as a separate component of equity. To the extent interest rates increase and the value of our available-for-sale portfolio decreases, our stockholders' equity will be adversely affected.

We evaluate interest rate sensitivity using models that estimate the change in our net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At December 31, 2010, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no action to mitigate the effect of such change, the model projects that we would experience an 5.6% or \$17.7 million decrease in net interest income.

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

At December 31, 2010, our portfolio of commercial real estate, multi-family, construction and C&I loans totaled \$3.06 billion, or 38.22% of our total loans. We intend to increase our originations of commercial real estate, multi-family construction and C&I loans, which generally have more risk than one- to four-family residential mortgage loans. As the repayment of commercial real estate loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. We anticipate that several of our borrowers will have more than one commercial real estate loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

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

Both nationally and in the State of New Jersey we are experiencing an economic downturn that is having a significant impact on the prices of real estate and related assets. The residential and commercial real estate sectors have been adversely affected by weakening economic conditions and may negatively impact our loan portfolio. Total non-performing assets increased from \$120.2 million at December 31, 2009 to \$165.9 million at December 31, 2010, and total non-performing loans as a percentage of total assets increased to 1.73% at December 31, 2010 as compared to 1.44% at December 31, 2009. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses, which would have an adverse impact on our financial condition and results of operations.

In addition, the impact of the continued economic downturn could negatively impact the carrying values of our securities portfolio. At December 31, 2010, our securities portfolio contains approximately \$77.2 million in non-agency mortgage backed securities. Continued economic weakness could result additional other-than-temporary impairment which would have an adverse impact on our financial condition and results of operations.

**Any Future FDIC Insurance Premiums Will Adversely Impact Our Earnings.**

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. We recorded an expense of \$3.6 million during the quarter ended June 30, 2009, to reflect the special assessment. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the



appropriate period. In addition, the Federal Deposit Insurance Corporation increased the general assessment rate and, therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase compared to prior periods.

The Federal Deposit Insurance Corporation also issued a final rule pursuant to which all insured depository institutions were required to prepay on December 30, 2009 their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. The assessment rate for the fourth quarter of 2009 and for 2010 was based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire

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third quarter, and the assessment rate for 2011 and 2012 would be equal to the modified third quarter assessment rate plus an additional three basis points. In addition, each institution's base assessment rate for each period was calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. We made a payment of \$35.9 million to the Federal Deposit Insurance Corporation on December 30, 2009, and recorded the payment as a prepaid expense. At December 31, 2010, we had a remaining \$24.4 million of prepaid expense.

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

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income. Our allowance for loan losses of \$90.9 million was 1.14% of total loans and 54.81% of non-performing loans at December 31, 2010.

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

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

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

**Growing By Acquisition Entails Integration and Certain Other Risks**

In October 2010, we completed our fourth acquisition in a 28 month period by purchasing the deposit franchise of Millennium bcbank. This acquisition consisted of 17 branch locations, approximately \$600 million in deposits and approximately \$200 million in loans. The success of our acquisitions may depend on, among other things, our ability to realize anticipated cost savings and to integrate the businesses of the acquired company with our businesses in a manner that does not result in disrupting existing customer relationships of the acquired companies or diverting management's attention from core operations. If we are not able to achieve these objectives, the anticipated benefits of an acquisition may not be realized fully or may take longer to realize than planned.

**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.

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

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

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

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

**Future Acquisition Activity Could Dilute Book Value**

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

At December 31, 2010, the Company and the Bank conducted business from its corporate headquarters in Short Hills, New Jersey, and 82 full-service branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey; Nassau and Queens, New York and Massachusetts.

**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. [REMOVED AND RESERVED]**

**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 February 22, 2011 was 12,000. Certain shares of Investors Bancorp, Inc. are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for Investors Bancorp, Inc.'s common stock for the periods indicated. The following information was provided by the NASDAQ Global Select Market.

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	<b>Year Ended</b>		<b>Year Ended</b>	
	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 13.90	\$ 10.99	\$ 13.29	\$ 6.86
Second Quarter	14.37	12.62	9.71	8.14
Third Quarter	13.53	10.59	10.94	8.72
Fourth Quarter	13.50	11.65	11.15	10.25

Investors Bancorp, Inc. did not pay a dividend during the year ended December 31, 2010 or December 31, 2009.

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

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

**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 Inc. began trading as a public company as reported by the NASDAQ Global Select Market through December 31, 2010, (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.

**Table of Contents****INVESTORS BANCORP, INC.**

<b>Index</b>	<b>Period Ending 10/12/05</b>	<b>12/31/05</b>	<b>12/31/06</b>	<b>12/31/07</b>	<b>12/31/08</b>	<b>12/31/09</b>	<b>12/31/10</b>
Investors Bancorp, Inc.	100.00	110.08	156.99	141.12	134.03	109.18	130.94
SNL Bank and Thrift Index	100.00	110.59	129.22	98.54	56.67	55.91	62.42
SNL Thrift Index	100.00	112.84	131.54	78.91	50.22	46.83	48.94

\* Source : SNL Financial LC, Charlottesville, VA

The following table reports information regarding repurchases of our common stock during the quarter ended December 31, 2010 and the stock repurchase plans approved by our Board of Directors.

<b>Period</b>	<b>Total Number of Shares Purchased(1)</b>	<b>Average Price paid Per Share</b>	<b>As part of Publicly Announced Plans or Programs</b>	<b>Yet Be Purchased Under the Plans or Programs</b>
October 1, 2010 through October 31, 2010	303,500	\$ 12.11	303,500	1,346,482
November 1, 2010 through November 30, 2010	545,638	12.19	545,638	800,844
December 1, 2010 through December 31, 2010	15,000	12.45	15,000	785,844
Total	864,138		864,138	

(1) On January 22, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares. This stock repurchase program commenced upon the completion of the second program on May 7, 2008. This program has no expiration date and has 785,844 shares yet to be purchased as of December 31, 2010.

**Table of Contents****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 December 31,		At June 30,			
	2010	2009	2009	2008	2007	2006
	(In thousands)					
<b>Selected Financial Condition Data:</b>						
Total assets	\$ 9,602,131	\$ 8,357,816	\$ 8,136,432	\$ 6,419,142	\$ 5,722,026	\$ 5,631,809
Loans receivable, net	7,917,705	6,615,459	6,143,169	4,670,150	3,624,998	2,995,435
Loans held-for-sale	35,054	27,043	61,691	9,814	3,410	974
Securities held to maturity, net	478,536	717,441	846,043	1,255,054	1,578,922	1,835,581
Securities available for sale, at estimated fair value	602,733	471,243	355,016	203,032	257,939	538,526
Bank owned life insurance	117,039	114,542	113,191	96,170	92,198	82,603
Deposits	6,774,390	5,840,643	5,505,747	3,970,275	3,768,188	3,419,361
Borrowed funds	1,826,514	1,600,542	1,730,555	1,563,583	1,038,710	1,245,740
Stockholders' equity	901,279	850,213	819,283	828,538	858,859	916,291

	Year Ended December 31,		Six Months Ended December 31,		Year Ended June 30,		2006(3)
	2010	2009	2009	2009(1)	2008	2007(2)	
	(In thousands)						
<b>Selected Operating Data:</b>							
Interest and dividend income	\$ 428,703	\$ 384,385	\$ 198,272	\$ 368,060	\$ 312,807	\$ 285,223	\$ 252,050
Interest expense	159,293	192,096	90,471	201,924	207,695	195,263	143,594
Net interest income	269,410	192,289	107,801	166,136	105,112	89,960	108,456
Provision for loan losses	66,500	39,450	23,425	29,025	6,646	729	600
Net interest income after provision for loan losses	202,910	152,839	84,376	137,111	98,466	89,231	107,856
Non-interest income (loss)	26,525	14,835	9,007	(148,430)	7,373	3,175	5,972
Non-interest expenses	130,813	109,118	56,500	97,799	80,780	77,617	90,877

Income (loss) before income tax expense (benefit)	98,622	58,556	36,883	(109,118)	25,059	14,789	22,951
Income tax expense (benefit)	36,603	23,444	14,321	(44,200)	9,030	(7,477)	7,610
Net income (loss)	\$ 62,019	\$ 35,112	\$ 22,562	\$ (64,918)	\$ 16,029	\$ 22,266	\$ 15,341
Earnings (loss) per share basic (4)	\$ 0.57	\$ 0.33	\$ 0.21	\$ (0.62)	\$ 0.15	\$ 0.20	\$ 0.07
Earnings (loss) per share diluted(4)	\$ 0.56	\$ 0.33	\$ 0.21	\$ (0.62)	\$ 0.15	\$ 0.20	\$ 0.07

- (1) June 30, 2009 year end results reflect a \$158.0 million pre-tax OTTI charge related to investments in trust preferred securities.
- (2) June 30, 2007 year end results reflect a \$9.9 million reversal of previously established valuation allowances for deferred tax assets.
- (3) June 30, 2006 year end results reflect a pre-tax expense of \$20.7 million for the charitable contribution made to Investors Savings Bank Charitable Foundation as part of our initial public offering.
- (4) Basic and diluted earnings per share for the year ended June 30, 2006 include the results of operations from October 11, 2005, the date the Company completed its initial public offering.



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	At or for the Year Ended December		At or for the Six Months Ended December	At or for the Year Ended June, 30			
	31, 2010	2009	31, 2009	2009	2008	2007	2006
<b>Selected Financial Ratios and Other Data:</b>							
<b>Performance Ratios:</b>							
Return (loss) on assets (ratio of net income or loss to average total assets)	0.70%	0.45%	0.55%	(0.90)%	0.27%	0.39%	0.28%
Return (loss) on equity (ratio of net income or loss to average equity)	6.95%	4.40%	5.46%	(8.14)%	1.92%	2.47%	2.00%
Net interest rate spread(1)	2.97%	2.28%	2.49%	2.06%	1.28%	1.02%	1.65%
Net interest margin(2)	3.17%	2.53%	2.72%	2.38%	1.81%	1.65%	2.06%
Efficiency ratio(3)	44.20%	52.68%	48.37%	552.35%	71.81%	83.34%	79.42%
Efficiency ratio (excluding OTTI and FDIC special assessment)(4)	44.20%	50.60%	48.33%	54.39%	71.55%	83.34%	79.42%
Non-interest expenses to average total assets	1.47%	1.38%	1.37%	1.35%	1.35%	1.38%	1.68%
Average interest-earning assets to average interest-bearing liabilities	1.10x	1.10x	1.10x	1.11x	1.15x	1.18x	1.15x
<b>Asset Quality Ratios:</b>							
Non-performing assets to total assets	1.74%	1.44%	1.44%	1.50%	0.30%	0.09%	0.06%
Non-performing loans to total loans	2.08%	1.81%	1.81%	1.97%	0.42%	0.14%	0.11%
Allowance for loan losses to non-performing loans	54.81%	45.80%	45.80%	38.30%	70.03%	135.00%	193.06%
Allowance for loan losses to total loans	1.14%	0.83%	0.83%	0.76%	0.29%	0.19%	0.21%
<b>Capital Ratios:</b>							

Risk-based capital (to risk-weighted assets)(5)	13.75%	15.78%	15.78%	16.88%	21.77%	25.18%	26.63%
Tier I risk-based capital (to risk-weighted assets)(5)	12.50%	14.70%	14.70%	15.86%	21.37%	24.93%	26.38%
Total capital (to average assets)(5)	8.56%	9.03%	9.03%	9.52%	11.93%	12.52%	12.25%
Equity to total assets	9.39%	10.17%	10.17%	10.07%	12.91%	15.01%	16.27%
Average equity to average assets	10.02%	10.11%	9.99%	11.05%	13.94%	15.97%	14.21%
Book value per common share	\$ 8.23	\$ 7.67	\$ 7.67	\$ 7.38	\$ 7.87	\$ 7.86	\$ 8.04
<b>Other Data:</b>							
Number of full service offices	82	65	65	58	52	51	51
Full time equivalent employees	869	704	704	647	537	509	510

- (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 expense divided by the sum of net interest income and non-interest income.
- (4) Excludes OTTI of \$91,000 for the six months ended December 31, 2009 and \$158.5 million and \$409,000 for the years ended June 30, 2009 and 2008, respectively. Also excludes FDIC special assessment of \$3.6 million at June 30, 2009.
- (5) Ratios are for Investors Savings Bank and do not include capital retained at the holding company level.

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

Investors Bancorp s fundamental business strategy is to be a well capitalized, full service, community bank which provides high quality customer service and competitively priced products and services to individuals and businesses in the communities we serve.

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily time deposits, interest-bearing transaction accounts and borrowed funds. Net interest income is affected by the shape of the market yield curve, the timing of the placement and re-pricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rate on our mortgage-related assets.

The Company s net interest spread and net interest margin were favorably impacted during the year ended December 31, 2010 as interest rates remained at historically low levels and the interest rate yield curve continued to be steep. Net interest margin expanded to 3.17% for the year ended 2010 compared to 2.53% for year ended 2009 while our net interest rate spread expanded to 2.97% for the year ended 2010 compared to 2.28% for the year ended 2009.



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The Company's results of operations are also significantly affected by general economic conditions. The national and regional unemployment rates remain at elevated levels. This factor coupled with the weakness in the housing and real estate markets have resulted in the Company recognizing higher credit costs on the loan portfolio during the year ended December 31, 2010. Despite this our overall level of non-performing loans remains low compared to our national and regional peers and we attribute this to our conservative underwriting standards.

In October 2010, we completed the acquisition of the deposit franchise of Millennium bcpbank consisting of 17 branch locations and approximately \$600 million in deposits. We also purchased approximately \$200 million in performing loans and provide loan servicing for the remainder of Millennium's loan portfolio. As a result of this acquisition, the Company has expanded its branch network outside its home state of New Jersey with three branch locations in New York. As part of the acquisition we also acquired four branches in Massachusetts which are scheduled to be sold to another financial institution pending regulatory approval.

The branch expansion into New York complements our New York City loan production office which opened in January 2010. This office, along with our New Jersey lending team continues to help diversify our loan mix, and expand our market share for commercial and multi-family loans. Net loans increased to \$7.92 billion at December 31, 2010 from \$6.62 billion at December 31, 2009, an increase of 19.7%. This increase was primarily attributed to increases in the commercial real estate and multi-family loan portfolios.

Increasing deposits, with particular emphasis on core deposits, remains one of our primary objectives. During the year ended December 31, 2010, total deposits increased by \$943.3 million, or 16.0% to \$6.77 billion. Core deposits represented 84.3%, or \$787.2 million, of this growth which resulted in a core deposit to total deposit ratio to 49.2%.

During 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Reform Act) was signed into law. The Reform Act is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. It is not clear what the full impact of the Reform Act will be. See Risk Factors .

Despite the challenges surrounding the financial services sector, we believe, with our strong capital and liquidity positions we can continue to grow organically or through bank or branch acquisitions.

**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

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specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

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

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

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

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

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its

commercial lending officers and its loan workout department's knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

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For homogeneous residential mortgage loans, the Company's policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every two years if the loan remains in non-performing status and the foreclosure process has not been completed. Management does not typically make adjustments to the appraised value of residential loans other than to reduce the value for estimated selling costs, if applicable.

In determining the allowance for loan losses, management believes the potential for outdated appraisals has been mitigated for impaired loans and other non-performing loans. As described above, the loans are individually assessed to determine that the loan's carrying value is not in excess of the fair value of the collateral. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt.

Based on the composition of our loan portfolio, we believe the primary risks are a decline in the general economy, a decline in real estate market values in New Jersey and surrounding states and increases in interest rates. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

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

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

**Deferred Income Taxes.** The Company records income taxes in accordance with ASC 740, *Income Taxes*, 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.** 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. While the Company does not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before their anticipated recovery of the remaining amortized cost basis, the Company has the ability to sell the securities. Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary.

Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return,



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adjustments for nonperformance and liquidity, and liquidation values. Management is required to use a significant degree of judgment when the valuation of investments includes inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations.

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

If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

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

At December 31, 2010, the carrying amount of our goodwill totaled \$21.6 million. On November 1, 2010, we performed our annual goodwill impairment test and determined the estimated fair value of our reporting unit to be in excess of its carrying amount. Accordingly, as of our annual impairment test date, there was no indication of goodwill impairment. We would test our goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. No events that have occurred and no circumstances have changed since our annual impairment test date that would more likely than not reduce the fair value of our reporting unit below its carrying amount. The identification of additional reporting units or the use of other valuation techniques could result in materially different evaluations of impairment.

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

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

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

time.

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

We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These

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assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

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

**Comparison of Financial Condition at December 31, 2010 and December 31, 2009**

**Total Assets.** Total assets increased by \$1.24 billion, or 14.9%, to \$9.60 billion at December 31, 2010 from \$8.36 billion at December 31, 2009. This increase was largely the result of a \$1.31 billion increase in our net loans, including loans held for sale, to \$7.95 billion at December 31, 2010 from \$6.64 billion at December 31, 2009. This was partially offset by a \$107.4 million, or 9.0%, decrease in securities to \$1.08 billion at December 31, 2010 from \$1.19 billion at December 31, 2009.

**Net Loans.** Net loans, including loans held for sale, increased by \$1.31 billion, or 19.7%, to \$7.95 billion at December 31, 2010 from \$6.64 billion at December 31, 2009. This increase in loans reflects our continued focus on loan originations and purchases, which was partially offset by paydowns and payoffs of loans. The loans we originate and purchase, which are collateralized by real estate, are on properties in New Jersey and states in close proximity to New Jersey. We do not originate or purchase, and our loan portfolio does not include, any sub-prime loans or option ARMs.

We originate residential mortgage loans through our mortgage subsidiary, ISB Mortgage Co. During the year ended December 31, 2010, ISB Mortgage Co. originated \$1.50 billion in residential mortgage loans of which \$696.0 million were originated for sale to third party investors and \$800.5 million remained in our portfolio. We also purchased 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 year ended December 31, 2010, we purchased loans totaling \$814.9 million from these entities. We also purchase, on a bulk purchase basis, pools of mortgage loans that meet our underwriting criteria from several well-established financial institutions in the secondary market. During the year ended December 31, 2010, we purchased \$47.4 million of residential mortgage loans on a bulk purchase basis.

Additionally, during 2010, we originated \$487.9 million in multi-family loans, \$412.6 million in commercial real estate loans, \$214.4 million in construction loans, \$87.8 million in consumer and other loans, and \$59.6 million in commercial and industrial loans. We also purchased approximately \$200 million in performing commercial real estate and home equity loans from Millennium bcpbank.

The allowance for loan losses increased by \$35.9 million to \$90.9 million at December 31, 2010 from \$55.1 million at December 31, 2009. The increase in the allowance is primarily attributable to the higher current period loan loss provision which reflects the overall growth in the loan portfolio, particularly residential, multi family and commercial real estate loans; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; and internal downgrades of the risk ratings on certain construction loans; our increased level of non-performing loans; and the adverse economic environment, offset partially by net charge offs of \$30.6 million. These charge offs were primarily in the construction loan portfolio.

The triggering events or other circumstances that led to the significant credit deterioration resulting in our construction loan charge-offs were caused by a variety of economic factors including, but not limited to: continued deterioration of the housing and real estate markets in which we lend, significant and continuing declines in the value of real estate which collateralize our construction loans, the overall weakness of the economy in the New York/New Jersey metropolitan area, and unemployment in our lending area which increased during 2010.

The Company's historical loan charge-off history was immaterial prior to September 30, 2009. We have aggressively attempted to collect our delinquent loans while establishing specific loan loss reserves to properly value these loans. We record a charge-off when the likelihood of collecting the amounts specifically reserved becomes less

likely, due to a variety of reasons that are specific to each loan. For example, some of the reasons that were determining factors in recording charge-offs were as follows: declining liquidity of the borrower/guarantors, prospects of selling finished inventory outside of prime selling season in real estate markets with limited activity (prime selling season of real estate is in the spring/summer months), no additional collateral that could be posted by borrowers that could be utilized to satisfy the borrower's obligations, and decisions to move forward with note sales on a select basis in order to reduce levels of non-performing loans.

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Non-performing loans increased \$45.7 million to \$165.9 million at December 31, 2010, from \$120.2 million at December 31, 2009. Although we have resolved a number of non-performing loans, the continued deterioration of the housing and real estate markets, as well as the overall weakness in the economy, continue to impact our non-performing loans. As a geographically concentrated residential lender, we have been affected by negative consequences arising from the ongoing economic recession and, in particular, the sharp downturn in the housing industry, as well as economic and housing industry weaknesses in the New Jersey/New York metropolitan area. We are particularly vulnerable to the impact of a severe job loss recession. We continue to closely monitor the local and regional real estate markets and other factors related to risks inherent in our loan portfolio.

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

	December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010	
	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount
				(Dollars in millions)				
Residential and consumer	263	\$ 74.7	239	\$ 68.7	210	\$ 60.4	199	\$ 57.1
Construction	26	82.8	21	67.1	21	67.6	22	61.6
Multi-family	3	2.7	6	3.5	3	2.7	2	2.5
Commercial	8	3.9	8	4.6	8	4.6	9	3.5
Commercial and industrial	5	1.8	2	1.0	2	0.6		
Total non-performing loans	305	\$ 165.9	276	\$ 144.9	244	\$ 135.9	232	\$ 124.7
Non-performing loans to total loans		2.08%		1.94%		1.88%		1.82%
Allowance for loan loss as a percent of non-performing loans		54.81%		58.39%		52.23%		50.47%
Allowance for loan loss as a percent of total loans		1.14%		1.13%		1.00%		0.92%

In addition to non-performing loans we continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans about which we have concerns as to the ability of the borrower to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of December 31, 2010, the Company has 20 loans totaling \$35.1 million that it deems potential problem loans. Management is actively monitoring these loans.

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

**Securities.** Securities, in the aggregate, decreased by \$107.4 million, or 9.0%, to \$1.08 billion at December 31, 2010, from \$1.19 billion at December 31, 2009. The decrease in the portfolio was due to paydowns, calls or maturities and was partially offset by the purchase of \$346.8 million of agency issued mortgage backed securities during the year ended December 31, 2010.

The securities portfolio includes non-agency, private label mortgage backed securities with an amortized cost of \$77.7 million and a fair value of \$78.1 million. These securities were originated in the period 2002-2004 and are performing in accordance with contractual terms. Management will continue to monitor these securities for possible OTTI.

**Other Assets, Stock in the Federal Home Loan Bank, Bank Owned Life Insurance, and Intangible Assets.** Other assets decreased \$8.3 million to \$28.8 million at December 31, 2010 from \$37.1 million at December 31, 2009 which is primarily attributed to prepaid FDIC insurance premiums amortizing \$9.8 million during the period. The amount of FHLB stock we own increased by \$14.2 million from \$66.2 million at December 31, 2009 to \$80.4 million at December 31, 2010 as a result of an increase in our level of borrowings since December 31, 2009. Bank owned life insurance increased by \$2.5 million from \$114.5 million at December 31, 2009 to \$117.0 million at December 31, 2010, primarily due to the increase in the cash surrender value of the underlying policies. Intangible assets increased \$7.3 million from \$31.7 million at December 31, 2009 to \$39.0 million at December 31, 2010 primarily due to the core deposit intangible asset recorded related to our Millennium branch acquisition, as well as an increase in our mortgage servicing rights.

**Deposits.** Deposits increased by \$934.3 million, or 16.0%, to \$6.77 billion at December 31, 2010 from \$5.84 billion at December 31, 2009. This increase reflects the acquisition of Millennium deposit franchise of approximately \$600 million and the continued growth in our markets. Core deposits represented \$787.2 million or 84.3% of the growth while certificates of deposit represented \$147.1 million, or 15.7% of the growth.

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***Borrowed Funds.*** Borrowed funds increased \$226.0 million, or 14.1%, to \$1.83 billion at December 31, 2010 from \$1.60 billion at December 31, 2009 as new loan originations have outpaced the deposit growth and principal run-off from the securities portfolio.

***Stockholders Equity.*** Stockholders equity increased \$51.0 million to \$901.3 million at December 31, 2010 from \$850.2 million at December 31, 2009. The increase is primarily attributed to the \$62.0 million net income for year ended December 31, 2010, \$9.5 million of compensation cost related to equity incentive plans, partially offset by \$24.5 million in purchases of treasury stock.

**Analysis of Net Interest Income**

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

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

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	<b>For the Year Ended December 31,</b>					
	<b>2010</b>	<b>2009</b>	<b>(In thousands)</b>			
	<b>Average Outstanding Balance</b>	<b>Interest Earned/ Paid</b>	<b>Average Yield/ Rate</b>	<b>Average Outstanding Balance</b>	<b>Interest Earned/ Paid</b>	<b>Average Yield/ Rate</b>
<b>Interest-earning assets:</b>						
Interest-bearing deposits	\$ 132,365	\$ 238	0.18%	\$ 301,293	\$ 700	0.23%
Securities available-for-sale(1)	497,094	12,430	2.50	303,507	10,404	3.43
Securities held-to-maturity	604,238	28,600	4.73	861,627	41,097	4.77
Net loans	7,197,608	383,531	5.33	6,049,981	328,481	5.43
Stock in FHLB	76,368	3,904	5.11	70,263	3,701	5.27
 Total interest-earning assets	 8,507,673	 428,703	 5.04	 7,586,671	 384,383	 5.07
Non-interest-earning assets	397,436			303,561		
Total assets	\$ 8,905,109			\$ 7,890,232		
<b>Interest-bearing liabilities:</b>						
Savings deposits	\$ 944,894	13,958	1.48%	\$ 728,182	14,533	2.00%
Interest-bearing checking	908,567	6,406	0.71	780,309	13,252	1.70
Money market accounts	748,707	7,299	0.97	483,565	7,834	1.62
Certificates of deposit	3,321,671	63,148	1.90	3,194,240	87,383	2.74
 Total interest-bearing deposits	 5,923,839	 90,811	 1.53	 5,186,296	 123,002	 2.37
Borrowed funds	1,780,205	68,482	3.85	1,718,405	69,094	4.02
Total interest-bearing liabilities	7,704,044	159,293	2.07	6,904,701	192,096	2.78
Non-interest-bearing liabilities	308,785			187,955		
Total liabilities	8,012,829			7,092,656		
Stockholders equity	892,280			787,576		
Total liabilities and stockholders equity	\$ 8,905,109			\$ 7,890,232		
Net interest income		\$ 269,410			\$ 192,287	
Net interest rate spread(2)			2.97%			2.28%



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Net interest-earning assets(3)	\$ 803,629	\$ 681,970	
Net interest margin(4)		3.17%	2.53%
Ratio of interest-earning assets to total interest-bearing liabilities	1.10x	1.10x	

- (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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	<b>For Six Months Ended December 31,</b>					
	<b>2009</b>			<b>2008</b>		
	<b>Average Outstanding Balance</b>	<b>Interest Earned/ Paid</b>	<b>Average Yield/ Rate</b>	<b>Average Outstanding Balance</b>	<b>Interest Earned/ Paid</b>	<b>Average Yield/ Rate</b>
	<b>(In thousands)</b>					
<b>Interest-earning assets:</b>						
Interest-bearing deposits	\$ 304,293	\$ 346	0.23%	\$ 19,221	\$ 39	0.41%
Securities available-for-sale(1)	406,462	5,926	2.92	196,848	4,491	4.56
Securities held-to-maturity	779,405	17,404	4.47	1,203,268	27,222	4.52
Net loans	6,370,350	172,575	5.42	5,241,754	148,771	5.68
Stock in FHLB	68,122	2,021	5.93	79,496	1,424	3.58
 Total interest-earning assets	 7,928,632	 198,272	 5.00	 6,740,587	 181,947	 5.40
Non-interest-earning assets	335,411			191,168		
Total assets	\$ 8,264,043			\$ 6,931,755		
<b>Interest-bearing liabilities:</b>						
Savings deposits	\$ 835,109	7,615	1.82%	\$ 395,448	3,650	1.85%
Interest-bearing checking	802,474	4,426	1.10	371,200	2,842	1.53
Money market accounts	608,710	4,392	1.44	265,074	3,024	2.28
Certificates of deposit	3,321,607	40,144	2.42	2,968,288	53,421	3.60
 Total interest-bearing deposits	 5,567,900	 56,577	 2.03	 4,000,010	 62,937	 3.15
Borrowed funds	1,643,205	33,894	4.13	1,990,807	37,362	3.75
Total interest-bearing liabilities	7,211,105	90,471	2.51	5,990,817	100,299	3.35
Non-interest-bearing liabilities	226,956			114,409		
Total liabilities	7,438,061			6,105,226		
Stockholders equity	825,982			826,529		
Total liabilities and stockholders equity	\$ 8,264,043			\$ 6,931,755		
Net interest income		\$ 107,801			\$ 81,648	
Net interest rate spread(2)			2.49%			2.05%

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Net interest-earning assets(3)	\$ 717,527	\$ 749,770
Net interest margin(4)	2.72%	2.42%
Ratio of interest-earning assets to total interest-bearing liabilities	1.10x	1.13x

- (1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.
- (2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.

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	For the Year Ended June 30,					
	Average Outstanding Balance	2009 Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	2008 Interest Earned/ Paid	Average Yield/ Rate
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Interest-bearing deposits	\$ 158,743	\$ 393	0.25%	\$ 32,948	\$ 974	2.96%
Repurchase agreements and federal funds sold				5,798	162	2.79
Securities available-for-sale(1)	197,824	8,968	4.53	235,385	10,826	4.60
Securities held-to-maturity	1,074,279	50,917	4.74	1,438,804	67,977	4.72
Net loans	5,482,009	304,678	5.56	4,043,398	229,634	5.68
Stock in FHLB	75,938	3,104	4.09	44,939	3,234	7.20
Total interest-earning assets	6,988,793	368,060	5.27	5,801,272	312,807	5.39
Non-interest-earning assets	231,122			185,705		
Total assets	\$ 7,219,915			\$ 5,986,977		
<b>Interest-bearing liabilities:</b>						
Savings deposits	\$ 507,132	10,568	2.08%	\$ 372,846	7,718	2.07%
Interest-bearing checking	565,278	11,668	2.06	353,564	7,329	2.07
Money market accounts	310,656	6,466	2.08	204,952	5,005	2.44
Certificates of deposit	3,015,955	100,660	3.34	2,909,550	132,693	4.56
Total interest-bearing deposits	4,399,021	129,362	2.94	3,840,912	152,745	3.98
Borrowed funds	1,892,181	72,562	3.83	1,208,529	54,950	4.55
Total interest-bearing liabilities	6,291,202	201,924	3.21	5,049,441	207,695	4.11
Non-interest-bearing liabilities	131,219			102,828		
Total liabilities	6,422,421			5,152,269		
Stockholders equity	797,494			834,708		
Total liabilities and stockholders equity	\$ 7,219,915			\$ 5,986,977		
Net interest income		\$ 166,136			\$ 105,112	

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Net interest rate spread(2)		2.06%	1.28%
Net interest-earning assets(3)	\$ 697,591	\$ 751,831	
Net interest margin(4)		2.38%	1.81%
Ratio of interest-earning assets to total interest-bearing liabilities	1.11x	1.15x	

- (1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.
- (2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.

**Table of Contents****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 December 31, 2010 vs. 2009		Six Months Ended December 31, 2009 vs. 2008				Years Ended June 30, 2009 vs. 2008		
	Increase (Decrease) Due to Volume	Net Increase (Decrease) Rate	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Net Increase (Decrease)	Increase (Decrease) Due to Volume	Net Increase (Decrease) Rate		
<b>Interest-earning assets:</b>									
Interest-bearing deposits	\$ (329)	\$ (133)	\$ (462)	\$ 365	\$ (58)	\$ 307	\$ 971	\$ (1,552)	\$ (581)
Repurchase agreements							(162)		(162)
Securities available-for-sale	4,413	(2,387)	2,026	3,799	(2,364)	1,435	(1,818)	(40)	(1,858)
Securities held-to-maturity	(10,491)	(2,006)	(12,497)	(15,169)	5,351	(9,818)	(17,644)	584	(17,060)
Net loans	68,386	(13,336)	55,050	44,655	(20,851)	23,804	82,755	(7,711)	75,044
Stock in FHLB	314	(111)	203	(562)	1,159	597	1,638	(1,768)	(130)
Total interest-earning assets	62,293	(17,973)	44,320	33,088	(16,763)	16,325	65,740	(10,487)	55,253
<b>Interest-bearing liabilities:</b>									
Savings deposits	3,725	(4,300)	(575)	4,097	(132)	3,965	2,798	52	2,850
Interest-bearing checking	1,899	(8,745)	(6,846)	3,839	(2,255)	1,584	4,370	(31)	4,339
Money market accounts	3,305	(3,840)	(535)	4,530	(3,162)	1,368	2,285	(824)	1,461
Certificates of deposit	3,363	(27,598)	(24,235)	15,138	(28,415)	(13,277)	4,697	(36,730)	(32,033)
Total deposits	12,292	(44,483)	(32,191)	27,604	(33,964)	(6,360)	14,150	(37,533)	(23,383)
Borrowed funds	(38)	(574)	(612)	(10,322)	6,854	(3,468)	22,283	(4,671)	17,612
Total interest-bearing liabilities	12,254	(45,057)	(32,803)	17,282	(27,110)	(9,828)	36,433	(42,204)	(5,771)

Increase  
(decrease) in net

interest income	\$ 50,039	\$ 27,084	\$ 77,123	\$ 15,806	\$ 10,347	\$ 26,153	\$ 29,307	\$ 31,717	\$ 61,024
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### Comparison of Operating Results for the Twelve Months Ended December 31, 2010 and 2009

**Net Income.** The net income for the year ended December 31, 2010 was \$62.0 million compared to \$35.1 million for the year ended December 31, 2009.

**Net Interest Income.** Net interest income increased by \$77.1 million, or 40.1%, to \$269.4 million for the year ended December 31, 2010 from \$192.3 million for the year ended December 31, 2009. The increase was primarily due to a 71 basis point decrease in our cost of interest-bearing liabilities to 2.07% for the year ended December 31, 2010 from 2.78% for the year ended December 31, 2009. This was partially offset by the yield on our interest-earning assets decreasing 3 basis points to 5.04% for the year ended December 31, 2010 from 5.07% for the year ended December 31, 2009. Short term interest rates remaining at historically low levels resulted in many of our deposits repricing downward. This had a positive impact on our net interest margin which improved by 64 basis points from 2.53% for the year ended December 31, 2009 to 3.17% for the year ended December 31, 2010.

**Interest and Dividend Income.** Total interest and dividend income increased by \$44.3 million, or 11.5%, to \$428.7 million for the year ended December 31, 2010 from \$384.4 million for the year ended December 31, 2009. This increase is attributed to the average balance of interest-earning assets increasing \$921.0 million, or 12.1%, to \$8.51 billion for the year ended December 31, 2010 from \$7.59 billion for the year ended December 31, 2009. This was partially offset by a 3 basis point decrease in the weighted average yield on interest-earning assets to 5.04% for the year ended December 31, 2010 compared to 5.07% for the year ended December 31, 2009.

Interest income on loans increased by \$55.1 million, or 16.8%, to \$383.5 million for the year ended December 31, 2010 from \$328.5 million for the year ended December 31, 2009, reflecting a \$1.15 billion, or 19.0%, increase in the average balance of net loans to \$7.20 billion for the year ended December 31, 2010 from \$6.05 billion for the year ended December 31, 2009. The increase is primarily attributed to the average balance of commercial real estate loans and multi-family loans increasing by \$497.4 million and \$378.8 million, respectively, consistent with our strategy to diversify our loan portfolio by adding more commercial real estate and multi-family loans. In addition, the yield was favorably impacted by commercial real estate prepayment penalties totaling \$1.1 million. These increases were partially offset by a 10 basis point decrease in the average yield on loans to 5.33% for the year ended December 31, 2010 from 5.43% for the year ended December 31, 2009.

Interest income on all other interest-earning assets, excluding loans, decreased by \$10.7 million, or 19.2%, to \$45.2 million for the year ended December 31, 2010 from \$55.9 million for the year ended December 31, 2009. This decrease reflected a \$226.6

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million decrease in the average balance of all other interest-earning assets, excluding loans to \$1.31 billion for the year ended December 31, 2010 from \$1.54 billion for the year ended December 31, 2009. In addition, the weighted average yield on interest-earning assets, excluding loans, decreased 19 basis point to 3.45% for the year ended December 31, 2010 from 3.64% for the year ended December 31, 2009. The decrease in yield is primarily attributed to the purchase of additional securities at lower yields and the repricing of our adjustable rate securities.

**Interest Expense.** Total interest expense decreased by \$32.8 million, or 17.1%, to \$159.3 million for the year ended December 31, 2010 from \$192.1 million for the year ended December 31, 2009. This decrease is attributed to the weighted average cost of total interest-bearing liabilities decreasing 71 basis points to 2.07% for the year ended December 31, 2010 compared to 2.78% for the year ended December 31, 2009. This was partially offset by the average balance of total interest-bearing liabilities increasing by \$799.3 million, or 11.6%, to \$7.70 billion for the year ended December 31, 2010 from \$6.90 billion for the year ended December 31, 2009.

Interest expense on interest-bearing deposits decreased \$32.2 million, or 26.2% to \$90.8 million for the year ended December 31, 2010 from \$123.0 million for the year ended December 31, 2009. This decrease is attributed to an 84 basis point decrease in the average cost of interest-bearing deposits to 1.53% for the year ended December 31, 2010 from 2.37% for the year ended December 31, 2009 as deposit rates decreased to reflect the current interest rate environment. This was partially offset by the average balance of total interest-bearing deposits increasing \$737.5 million, or 14.2% to \$5.92 billion for the year ended December 31, 2010 from \$5.19 billion for the year ended December 31, 2009. Core deposit growth represented 82.7%, or \$610.1 million of the increase in the average balance of total interest-bearing deposits.

Interest expense on borrowed funds decreased by \$612,000, or 0.9%, to \$68.5 million for the year ended December 31, 2010 from \$69.1 million for the year ended December 31, 2009. This decrease is attributed to the average cost of borrowed funds decreasing 17 basis points to 3.85% for the year ended December 31, 2010 from 4.02% for the year ended December 31, 2009 due to the lower interest rate environment. This was partially offset by the average balance of borrowed funds increasing by \$61.8 million or 3.6%, to \$1.78 billion for the year ended December 31, 2010 from \$1.72 billion for the year ended December 31, 2009.

**Provision for Loan Losses.** Our provision for loan losses for year ended December 31, 2010 was \$66.5 million compared to \$39.5 million for the year ended December 31, 2009. Net charge-offs totaled \$30.6 million for the year ended December 31, 2010 compared to net charge-offs of \$14.9 million for the year ended December 31, 2009. The increase in our provision is due to continued growth in the loan portfolio; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in non-performing loans and loan delinquency; and the adverse economic conditions in our lending area.

**Non-Interest Income.** Total non-interest income was \$26.5 million for the year ended December 31, 2010 compared to \$14.8 million for the year ended December 31, 2009. The increase of \$11.7 million is primarily attributed to a \$4.1 million increase in fees and service charges, \$4.1 million increase in gain on loan sales and a \$1.8 million gain on bargain purchase in connection with the Millenium deposit acquisition. The year ended December 31, 2009 included a \$1.8 million gain from the sale of our largest non-performing loan and a \$1.3 million pre-tax other-than-temporary impairment ( OTTI ) non-cash charge on certain pooled trust preferred securities ( TruPS ).

**Non-Interest Expenses.** Total non-interest expenses increased by \$21.7 million, or 19.9%, to \$130.8 million for the year ended December 31, 2010 from \$109.1 million for the year ended December 31, 2009. Compensation and fringe benefits increased \$9.9 million as a result of staff additions in our retail banking areas due to acquisitions and de novo growth, staff additions in our mortgage company and commercial real estate lending department, as well as normal merit increases. Occupancy expense increased \$5.7 million as a result of the costs associated with expanding our branch network including the one time charge of \$700,000 for the consolidation and closing of two Millennium branches. Professional fees increased \$2.0 million for initiatives supporting the Company's growth. Advertising increased \$1.8 million due to marketing efforts relative to our business expansion and data processing increased \$1.2 million primarily due to increased volume of accounts. These increases were partially offset by a reduction of \$1.4 million in FDIC insurance premiums as the year ended December 31, 2009 included a \$3.7 million special assessment on insured financial institutions to rebuild the Deposit Insurance Fund.



**Income Tax Expense.** Income tax expense was \$36.6 million for the year ended December 31, 2010, representing a 37.11% effective tax rate. For the year ended December 31, 2009, there was an income tax expense of \$23.4 million representing a 40.04% effective tax rate. The decrease in the effective tax rate is due to the gain on bargain purchase which is not taxable and more revenue generated in states other than New Jersey.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Management of Market Risk**

**Qualitative Analysis.** We believe one 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

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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 December 31, 2010, approximately 41.2% of our residential portfolio was in variable rate products, while 58.8% 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, particularly multi-family loans, as these loan types reduce our interest rate risk due to their shorter term compared to residential mortgage 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 an independent, nationally recognized consulting firm who specializes in asset and liability management to complete our quarterly interest rate risk reports. We also retain a second nationally recognized consulting firm to prepare independently comparable interest rate risk reports for the purpose of validation. Both firms 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 an asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations and the U.S. Treasury yield curve as of the balance sheet date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred gradually. Net interest income analysis also adjusts the asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our 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 asset and liability analysis includes expected cash flows from loans and mortgage-backed securities, applying prepayment rates based on the differential between the current interest rate and the market interest rate for each loan and security type. This analysis identifies mismatches in the timing of asset and liability but does not necessarily provide an accurate indicator of interest rate risk because the assumptions used in the analysis may not reflect the actual response to market changes.

**Quantitative Analysis.** The table below sets forth, as of December 31, 2010, the estimated changes in our NPV and our net interest income that would result from the designated changes in interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points or increase of greater than 200 basis points.



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Change in Interest Rates (basis points)(1)	Net Portfolio Value(2)			Net Interest Income Increase (Decrease) in Estimated Net Interest Income		
	Estimated NPV	Estimated Increase (Decrease) Amount	Percent (Dollars in thousands)	Estimated Net Interest Income(3)	Estimated Net Interest Income Amount	Percent
+ 200bp	\$ 873,375	\$ (324,755)	(27.1)%	\$ 299,708	\$ (17,726)	(5.6)%
0bp	\$ 1,198,130			\$ 317,434		
- 100bp	\$ 1,250,393	\$ 52,263	4.4%	\$ 324,118	\$ 6,684	2.1%

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

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

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

The table set forth above indicates at December 31, 2010, in the event of a 200 basis points increase in interest rates, we would be expected to experience a 27.1% decrease in NPV and a \$17.7 million, or 5.6%, decrease in net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 4.4% increase in NPV and a \$6.7 million, or 2.1%, 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 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.

**Liquidity and Capital Resources**

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

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

Our primary source of funds is cash provided by principal and interest payments on loans and securities. Principal repayments on loans for the year ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the fiscal years ended June 30, 2009 and 2008 were \$1.79 billion, \$1.74 billion, \$882.2 million, \$1.19 billion, and \$599.5 million, respectively. Principal repayments on securities for the year ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the fiscal years ended June 30, 2009 and 2008 were \$443.4 million, \$356.2 million, \$194.5 million, \$408.6 million, and \$402.1 million, respectively. There were sales of securities during year ended December 31, 2010 of \$12.0 million and no sales for the year and six month periods ended December 31, 2009 and year ended June 30, 2009. During the year ended June 30, 2008 we received proceeds from the sale of securities of \$250,000.

In addition to cash provided by principal and interest payments on loans and securities, our other sources of funds include cash provided by operating activities, deposits and borrowings. Net cash provided by operating activities for the year ended December 31, 2010 and 2009, six month period ended December 31, 2009 and for fiscal years ended June 30, 2009 and 2008 totaled \$163.5 million, \$51.5 million, \$40.9 million, \$39.1 million, and \$23.7 million, respectively. Excluding deposits from the acquisition of Millennium

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bcpsbank, total deposits had net increases of \$301.2 million for the year ended December 31, 2010 and 2009, deposits increased \$862.3 million excluding deposits from the Banco Popular and American Bancorp acquisition, for the six month period ended December 31, 2009, a net increase of \$107.4 million excluding Banco Popular. Excluding deposits from the acquisition of American Bancorp, total deposits had net increases of \$1.02 billion for the fiscal year ended June 30, 2009 and \$202.1 million for fiscal year ended June 30, 2008. Deposit flows are affected by the overall level of market interest rates, the interest rates and products offered by us and our local competitors, and other factors.

Our net borrowings at December 31, 2010, December 31, 2009, and at June 30, 2009, 2008 increased/(decreased) \$226.0 million, \$(533) million (twelve month change), \$(130) million (six month change), \$570.0 million and \$524.9 million, respectively. The increase in borrowings was largely due new loan originations outpacing the deposit growth and principal run-off from the securities portfolio.

Our primary use of funds is for the origination and purchase of loans and the purchase of securities. During the year ended December 31, 2010 and 2009, for the six month period ended December 31, 2009 and for the fiscal years ended June 30, 2009 and 2008, we originated loans of \$2.06 billion, \$1.41 billion, \$914.3 million, \$963.2 million, and \$657.5 million, respectively. During the year ended December 31, 2010 and 2009, for the six month period ended December 31, 2009 and for the fiscal years ended June 30, 2009 and 2008, we purchased loans of \$1.07 billion, \$895.0 million, \$452.3 million, \$1.26 billion, and \$996.3 million, respectively. During the year ended December 31, 2010 and 2009, for the six month period ended December 31, 2009 and for the fiscal years ended June 30, 2009 and 2008, we purchased securities of \$350.8 million, \$284.2 million, \$180.0 million, \$214.3 million, and \$24.5 million, respectively. In addition, we utilized \$24.5 million, \$5.8 million, \$2.4 million, \$4.5 million, and \$60.1 million, during the year ended December 31, 2010 and 2009, for the six month period ended December 31, 2009 and for the fiscal years ended June 30, 2009 and 2008, respectively, to repurchase shares of our common stock under our stock repurchase plans.

At December 31, 2010, we had \$423.7 million in loan commitments outstanding. In addition to commitments to originate and purchase loans, we had \$496.4 million in unused home equity, overdraft lines of credit, and undisbursed business and construction loans. Certificates of deposit due within one year of December 31, 2010 totaled \$2.21 billion, or 32.6% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and FHLB advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2011. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. Our most liquid assets are cash and cash equivalents. The levels of these assets depend upon our operating, financing, lending and investing activities during any given period. At December 31, 2010, cash and cash equivalents totaled \$76.2 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$602.7 million at December 31, 2010. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB and other financial institutions, which provide an additional source of funds. At December 31, 2010, the Company participated in the FHLB's Overnight Advance program. This program allows members to borrow overnight up to their maximum borrowing capacity at the FHLB. At December 31, 2010 our borrowing capacity at the FHLB was \$2.77 billion, of which \$1.44 billion was outstanding. The overnight advances are priced at the federal funds rate plus a spread (generally between 20 and 40 basis points) and re-price daily. In addition, the Bank had a 12-month commitment for overnight borrowings with other institutions totaling \$50 million, of which no balance was outstanding at December 31, 2010.

Investors Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2010, 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.



**Table of Contents****Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

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

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

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2010. 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.

Contractual Obligations	Payments Due by Period				Total
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	
			(In thousands)		
Other borrowed funds	\$ 501,000	370,514	405,000	50,000	1,326,514
Repurchase agreements	250,000	250,000			500,000
Operating leases	7,961	13,958	13,140	41,196	76,255
Total	\$ 758,961	634,472	418,140	91,196	1,902,769

**Recent Accounting Pronouncements**

In July 2010, the FASB issued Accounting Standards Update ( ASU ) 2010-20 to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The objective of the ASU is to provide disclosures that assist financial statement users in their evaluation of (1) the nature of an entity's credit risk associated with its financing receivables, (2) how the entity analyzes and assesses that risk in arriving at the allowance for credit losses and (3) the changes in the allowance for credit losses and the reasons for those changes. Disclosures provided to meet the objective above should be provided on a disaggregated basis. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. In January 2011, the FASB issued ASU No. 2011-01 Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 which defers the effective date of the loan modification disclosures. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations. The disclosures required by this pronouncement can be found in Note 5 of the Notes to Consolidated Financial Statements.

In April 2010, the FASB issued ASU 2010-18, which states that modifications of loans that are accounted for within a pool under ASC 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of ASC 310-30 that are not accounted for within pools. Loans accounted for individually under ASC 310-30 continue to be subject to the troubled debt restructuring accounting provisions within ASC 310-40, Receivables Troubled Debt Restructurings by Creditors. The amendments are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The adoption of this pronouncement did not have a

material impact on the Company's financial condition, results of operations or financial statement disclosures.

In February 2010, the FASB issued ASU 2010-09, which amended the subsequent events pronouncement issued in May 2009. The amendment removed the requirement to disclose the date through which subsequent events have been evaluated. This pronouncement became effective immediately upon issuance and is to be applied prospectively. The adoption of this pronouncement did not have a material impact on the Company's financial condition, results of operations or financial statement disclosures.

In January 2010, the FASB issued ASU 2010-06 to improve disclosures about fair value measurements. This guidance requires new disclosures on transfers into and out of Level 1 and 2 measurements of the fair value hierarchy and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after

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December 15, 2010. The adoption of this pronouncement did not have a material impact on the Company's financial condition, results of operations or financial statement disclosures.

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

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

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

In June 2008, ASC 260-10 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2009. The adoption of ASC 260-10 on July 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In February 2008, ASC 820-10, "Effective Date of ASC 820", was issued. ASC 820-10 delayed the application of ASC 820 Fair Value Measurements and Disclosures for non-financial assets and non-financial liabilities until July 1, 2009. The adoption of ASC 820-10 did not have a material impact on the Company's consolidated financial statements.

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

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**Impact of Inflation and Changing Prices**

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

**ITEM 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.

With the participation of management, the Principal Executive Officer and Principal Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2010. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of that date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting and we identified no material weaknesses requiring corrective action with respect to those controls.

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

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

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



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

Investors Bancorp's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

Investors Bancorp's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. This report appears on page 66.

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

**ITEM 9B. OTHER INFORMATION**

Not Applicable.

**PART III**

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

Information regarding directors, executive officers and corporate governance of the Company is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the 2011 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

Information regarding executive compensation is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the 2011 Annual Meeting of Stockholders.

**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 incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the 2010 Annual Meeting of Stockholders. Information regarding equity compensation plans is incorporated here in by reference in the Company's definitive Proxy Statement to be filed with respect to the 2011 Annual Meeting of Stockholders.

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

Information regarding certain relationships and related transactions, and director independence is incorporated herein by reference in the Company's definitive Proxy Statement to be filed with respect to the 2011 Annual Meeting of Stockholders.

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

Information regarding principal accounting fees and services is incorporated herein by reference in Investors Bancorp's definitive Proxy Statement to be filed with respect to the 2011 Annual Meeting of Stockholders.

**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 and Stockholders

Investors Bancorp, Inc.

Short Hills, New Jersey:

We have audited the accompanying consolidated balance sheets of Investors Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for the year ended December 31, 2010, the six-month period ended December 31, 2009, and for each of the years in the two-year period ended June 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Investors Bancorp, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the year ended December 31, 2010, the six-month period ended December 31, 2009, and for each of the years in the two-year period ended June 30, 2009, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

March 1, 2011

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Investors Bancorp, Inc.

Short Hills, New Jersey:

We have audited the internal control over financial reporting of Investors Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Investors Bancorp, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Investors Bancorp, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2010, the six-month period ended December 31, 2009 and for each of the years in the two-year period ended June 30, 2009, and our report dated March 1, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey  
March 1, 2011

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**  
Consolidated Balance Sheets

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 76,224	73,606
Securities available-for-sale, at estimated fair value (notes 4 and 9)	602,733	471,243
Securities held-to-maturity, net (estimated fair value of \$514,223 and \$753,405 at December 31, 2010 and December 31, 2009, respectively) (notes 4 and 9)	478,536	717,441
Loans receivable, net (note 5)	7,917,705	6,615,459
Loans held-for-sale	35,054	27,043
Stock in the Federal Home Loan Bank	80,369	66,202
Accrued interest receivable (note 6)	40,541	36,942
Other Real Estate Owned	976	
Office properties and equipment, net (note 7)	56,927	49,384
Net deferred tax asset (note 10)	128,210	117,143
Bank owned life insurance (note 1)	117,039	114,542
Intangible assets	39,004	31,668
Other assets	28,813	37,143
	<b>\$ 9,602,131</b>	<b>8,357,816</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Deposits (note 8)	\$ 6,774,930	5,840,643
Borrowed funds (note 9)	1,826,514	1,600,542
Advance payments by borrowers for taxes and insurance	34,977	29,675
Other liabilities	64,431	36,743
Total liabilities	8,700,852	7,507,603
Commitments and contingencies (note 12)		
Stockholders' equity (notes 3 and 15):		
Preferred stock, \$0.01 par value, 50,000,000 authorized shares; none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 112,851,127 and 114,448,888 outstanding at December 31, 2010 and December 31, 2009, respectively	532	532
Additional paid-in capital	533,720	530,133
Retained earnings	483,269	422,211
Treasury stock, at cost; 5,169,153 and 3,571,392 shares at December 31, 2010 and December 31, 2009, respectively	(62,033)	(44,810)
Unallocated common stock held by the employee stock ownership plan	(34,033)	(35,451)
Accumulated other comprehensive loss	(20,176)	(22,402)
Total stockholders' equity	901,279	850,213

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Total liabilities and stockholders' equity	\$ 9,602,131	8,357,816
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See accompanying notes to consolidated financial statements.

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**  
Consolidated Statements of Operations

	<b>Year Ended December 31,</b>		<b>Six-Month Period Ended December 31,</b>	<b>Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>				
	<b>(In thousands, except per share data)</b>				
Interest and dividend income:					
Loans receivable and loans held-for-sale	\$ 383,531	328,482	172,575	304,678	229,634
Securities:					
Government-sponsored enterprise obligations	710	1,049	453	1,587	4,662
Mortgage-backed securities	35,857	44,690	21,431	49,531	62,919
Equity securities available-for-sale				64	287
Municipal bonds and other debt	4,463	5,763	1,446	8,703	10,935
Interest-bearing deposits	238	700	346	393	974
Repurchase agreements					162
Federal Home Loan Bank stock	3,904	3,701	2,021	3,104	3,234
<b>Total interest and dividend income</b>	<b>428,703</b>	<b>384,385</b>	<b>198,272</b>	<b>368,060</b>	<b>312,807</b>
Interest expense:					
Deposits (note 8)	90,811	123,002	56,577	129,362	152,745
Borrowed funds	68,482	69,094	33,894	72,562	54,950
<b>Total interest expense</b>	<b>159,293</b>	<b>192,096</b>	<b>90,471</b>	<b>201,924</b>	<b>207,695</b>
<b>Net interest income</b>	<b>269,410</b>	<b>192,289</b>	<b>107,801</b>	<b>166,136</b>	<b>105,112</b>
Provision for loan losses (note 5)	66,500	39,450	23,425	29,025	6,646
<b>Net interest income after provision for loan losses</b>	<b>202,910</b>	<b>152,839</b>	<b>84,376</b>	<b>137,111</b>	<b>98,466</b>
Non-interest income (loss):					
Fees and service charges	8,757	4,660	2,938	3,174	3,022
Income on bank owned life insurance (note 1)	2,497	2,227	1,301	2,910	3,972
Gain on sales of mortgage loans, net	12,785	8,731	4,454	4,343	605
	35	(1,407)	(112)	(159,266)	(682)

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Gain (loss) on securities, net (note 4)(a)					
Other income	2,451	624	426	409	456
Total non-interest income (loss)	26,525	14,835	9,007	(148,430)	7,373
Non-interest expenses:					
Compensation and benefits (note 11)	72,953	63,055	32,713	60,085	53,886
Advertising and promotional expense	5,572	3,735	1,860	3,635	2,736
Office occupancy and equipment expense (notes 7 and 12)	19,632	13,900	7,778	11,664	10,888
Federal deposit insurance premiums	10,650	12,015	4,815	8,557	445
Stationery, printing, supplies and telephone	2,899	2,422	1,369	2,088	1,869
Professional fees	4,970	2,990	1,861	2,319	2,008
Data processing service fees	6,276	5,082	2,729	4,588	4,730
Other operating expenses	7,861	5,919	3,375	4,863	4,218
Total non-interest expenses	130,813	109,118	56,500	97,799	80,780
Income (loss) before income tax expense (benefit)	98,622	58,556	36,883	(109,118)	25,059
Income tax expense (benefit) (note 10)	36,603	23,444	14,321	(44,200)	9,030
Net income (loss)	\$ 62,019	35,112	22,562	(64,918)	16,029
Basic earnings (loss) per share	\$ 0.57	0.33	0.21	(0.62)	0.15
Diluted earnings (loss) per share	\$ 0.56	0.33	0.21	(0.62)	0.15
Weighted average shares outstanding (note 18)					
Basic	109,713,516	107,550,061	109,862,617	104,530,402	105,447,910
Diluted	109,878,252	107,618,226	109,989,048	104,530,402	105,601,764

(a) Loss on securities of \$35.7 million in fiscal year ended June 30, 2009 was determined to be a non-credit related other than temporary impairment charge upon the adoption of ASC 320. For the six-month period ended December 31, 2009, a \$1.1 million non-credit related loss is reflected in accumulated other comprehensive income.

See accompanying notes to consolidated financial statements.

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**  
 Consolidated Statements of Stockholders Equity  
 Year Ended December 31, 2010, Six-Months Ended December 31, 2009 and  
 Years ended June 30, 2009 and 2008

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Unallocated Common Stock Held by ESOP</b>	<b>Accumulated Other Comprehensiv Loss</b>	<b>Total Stockholders Equity</b>
	<b>(In thousands)</b>						
Balance at June 30, 2007	\$ 532	506,026	470,205	(70,973)	(38,996)	(7,935)	858,859
Comprehensive income:							
Net income			16,029				16,029
Change in funded status of postretirement plan due to plan curtailment and settlement, net of tax expense of \$891						1,337	1,337
Change in funded status of retirement obligations, net of tax benefit of \$107						(169)	(169)
Unrealized loss on securities available-for-sale, net of tax expense of \$260						(208)	(208)
Reclassification adjustment for losses included in net income						679	679
Total comprehensive income							17,668
Cumulative effect adjustment upon adoption of FIN 48			300				300
Purchase of treasury stock (4,339,530 shares)				(60,124)			(60,124)
Treasury stock allocated to restricted stock plan		(1,830)	(290)	2,120			
Compensation cost for stock options and restricted stock		9,814					9,814
ESOP shares allocated or committed to be released		603			1,418		2,021
Balance at June 30, 2008	\$ 532	514,613	486,244	(128,977)	(37,578)	(6,296)	828,538
Comprehensive income:							
Net loss			(64,918)				(64,918)
Change in funded status of retirement obligations, net						(638)	(638)



of tax benefit of \$431							
Unrealized gain on securities available-for-sale, net of tax expense of \$728						808	808
Reclassification adjustment for losses included in net income						457	457
Total comprehensive loss							(64,291)
Cumulative effect of initial application of ASC 320 on other-than-temporary-impairment net of tax benefit of \$14,577			21,108			(21,108)	
Common stock issued out of treasury stock to finance acquisition (6,503,897 shares)			(42,520)	93,250			50,730
Purchase of treasury stock (947,633 shares)				(8,673)			(8,673)
Treasury stock allocated to restricted stock plan	(1,711)		(242)	1,953			
Compensation cost for stock options and restricted stock	11,330						11,330
ESOP shares allocated or committed to be released	231				1,418		1,649
Balance at June 30, 2009	\$ 532	524,463	399,672	(42,447)	(36,160)	(26,777)	819,283
Comprehensive income:							
Net income			22,562				22,562
Change in funded status of retirement obligations, net of tax expense of \$645						969	969
Unrealized gain on securities available-for-sale, net of tax expense of \$1,875						2,917	2,917
Reclassification adjustment for losses included in net income, net of tax expense of \$37						54	54
Other-than-temporary impairment accretion on debt securities, net of tax expense of \$300						435	435
Total comprehensive income							26,937
Purchase of treasury stock (248,132 shares)				(2,436)			(2,436)

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Treasury stock allocated to restricted stock plan		(50)	(23)	73			
Compensation cost for stock options and restricted stock		5,708					5,708
ESOP shares allocated or committed to be released		12			709		721
Balance at December 31, 2009	\$ 532	530,133	422,211	(44,810)	(35,451)	(22,402)	850,213
Comprehensive income:							
Net income			62,019				62,019
Change in funded status of retirement obligations, net of tax expense of \$573						857	857
Unrealized gain on securities available-for-sale, net of tax expense of \$254						419	419
Reclassification adjustment for gains included in net income, net of tax expense of \$11						(15)	(15)
Other-than-temporary impairment accretion on debt securities, net of tax expense of \$666						965	965
Total comprehensive income							64,245
Purchase of treasury stock (2,092,960 shares)				(24,458)			(24,458)
Treasury stock allocated to restricted stock plan		(6,272)	(961)	7,233			
Compensation cost for stock options and restricted stock		9,489					9,489
ESOP shares allocated or committed to be released		370		2	1,418		1,790
Balance at December 31, 2010	\$ 532	533,720	483,269	(62,033)	(34,033)	(20,176)	901,279

See accompanying notes to consolidated financial statements.

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows

	<b>Year Ended December 31,</b>		<b>Six-Month</b>	<b>Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>Period</b>	<b>2009</b>	<b>2008</b>
		<b>(Unaudited)</b>	<b>Ended</b>		
			<b>December 31,</b>		
			<b>2009</b>		
			<b>(In thousands)</b>		
Cash flows from operating activities:					
Net income (loss)	\$ 62,019	35,112	22,562	(64,918)	16,029
Adjustments to reconcile net income to net cash provided by operating activities:					
ESOP and stock-based compensation expense	11,279	13,144	6,429	12,979	11,835
Accretion of discounts and amortization of premiums on securities, net	5,009	2,464	3,242	(520)	993
Amortization of premiums and accretion of fees and costs on loans, net	8,366	8,914	3,564	6,599	2,389
Amortization of intangible assets	979	436	366	70	
Provision for loan losses	66,500	39,450	23,425	29,025	6,646
Depreciation and amortization of office properties and equipment	4,732	3,700	1,980	2,725	2,760
(Gain)/loss on securities, net	(35)	1,407	112	159,266	682
Mortgage loans originated for sale	(695,968)	(838,183)	(288,647)	(753,264)	(139,487)
Proceeds from mortgage loan sales	698,253	841,550	325,928	712,295	133,688
Gain on sales of mortgage loans, net	(10,296)	(6,910)	(2,633)	(4,343)	(605)
Gain on sale of REO		(38)	(38)		
Gain on bargain purchase	(1,846)				
Income on bank owned life insurance	(2,497)	(2,227)	(1,301)	(2,910)	(3,972)
(Increase) decrease in accrued interest receivable	(2,913)	(1,559)	349	(7,123)	(2,898)
Deferred tax benefit	(14,441)	2,523	1,595	(65,275)	(1,602)
Decrease (increase) in other assets	5,886	(36,613)	(36,604)	242	(1,742)
Increase (decrease) in other liabilities	28,445	(11,647)	(19,394)	14,232	(1,038)
Total adjustments	101,453	16,411	18,373	103,998	7,649
Net cash provided by operating activities	163,472	51,523	40,935	39,080	23,678

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Cash flows from investing activities:

Purchases of loans receivable	(1,070,203)	(894,989)	(452,295)	(1,264,804)	(996,320)
Net (originations) repayments of loans receivable	(308,379)	300,768	(66,342)	226,936	(58,005)
Net proceeds from sale of foreclosed real estate		106	106		138
Proceeds from sale of non performing loan	2,984	21,178	21,178		
Gain on disposition of loans held for investment	(2,489)	(1,820)	(1,820)		
Mortgage-backed securities available-for-sale received in like-kind exchange		3,911			
Purchases of mortgage-backed securities held-to-maturity	(3,690)				
Purchases of debt securities held-to-maturity	(3,884)				(23,118)
Purchases of mortgage-backed securities available for sale	(343,073)	(283,942)	(179,756)	(104,186)	
Purchases of other investments available-for-sale	(150)	(250)	(250)	(100)	(1,400)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	247,896	251,965	125,721	221,680	247,018
Proceeds from calls/maturities on debt securities held-to-maturity	2,415	2,601	2,660	19,553	98,876
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	168,052	96,658	61,110	56,345	56,205
Proceeds from sales of mortgage-backed securities held-to-maturity					
Proceeds from sales of mortgage-backed securities available-for-sale	12,004				
Proceeds from maturities of US Government and Agency Obligations available-for-sale	25,000	5,000	5,000		
Purchase of US Government and Agency Obligations held to maturity		(109,997)		(109,997)	
Proceeds from maturities of US Government and Agency Obligations held to maturity	170	120,275	155	120,120	
Redemption of equity securities available-for-sale		(3,911)		863	
Proceeds from sales of equity securities available-for-sale					250

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Proceeds from call of equity securities available-for-sale					
Proceeds from redemptions of Federal Home Loan Bank stock	42,323	33,527	10,756	53,349	35,208
Purchases of Federal Home Loan Bank stock	(56,490)	(10,627)	(4,905)	(61,950)	(62,074)
Purchases of office properties and equipment	(10,393)	(9,372)	(5,122)	(9,055)	(3,818)
Purchase of bank owned life insurance					
Cash consideration paid for acquisitions, net of cash received	629,081	216,719	220,944	(4,225)	
Net cash used in investing activities	(668,826)	(262,200)	(262,860)	(855,471)	(707,040)
Cash flows from financing activities:					
Net increase in deposits	301,156	862,280	107,387	1,017,256	202,087
Net (decrease) increase in funds borrowed under short-term repurchase agreements				(25,000)	(135,000)
Proceeds from funds borrowed under other repurchase agreements		35,000		90,000	640,000
Repayments of funds borrowed under other repurchase agreements	(250,000)	(195,000)	(110,000)	(205,000)	(210,000)
Net (decrease) increase in other borrowings	475,972	(444,750)	(20,013)	235,249	229,873
Net increase in advance payments by borrowers for taxes and insurance	5,302	5,879	2,836	3,299	3,767
Purchase of treasury stock	(24,458)	(5,818)	(2,436)	(4,479)	(60,124)
Net cash (used in) provided by financing activities	507,972	257,591	(22,226)	1,111,325	670,603
Net (decrease) increase in cash and cash equivalents	2,618	46,914	(244,151)	294,934	(12,759)
Cash and cash equivalents at beginning of year	73,606	26,692	317,757	22,823	35,582
Cash and cash equivalents at end of year	\$ 76,224	73,606	73,606	317,757	22,823
Supplemental cash flow information:					
Noncash investing activities:					
Real estate acquired through foreclosure	\$ 976	68	68		138
Cash paid during the year for:					
Interest	\$ 160,024	194,010	91,055	201,081	205,660

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Income taxes	\$	53,670	28,748	14,574	22,989	9,217
Fair value of assets acquired	\$	2,742	631,077	2,230	628,847	
Goodwill and core deposit intangible	\$	1,981	26,399	4,850	21,549	
Liabilities assumed	\$	633,804	823,464	228,024	595,440	
Common stock issued for American Bancorp of NJ acquisition	\$		50,730		50,730	

See accompanying notes to consolidated financial statements.

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009 and June 30, 2009 and 2008

**(1) Summary of Significant Accounting Policies**

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

**(a) *Basis of Presentation***

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

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

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

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

***Business***

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

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

**(b) *Cash Equivalents***

Cash equivalents consist of cash on hand, amounts due from banks and interest-bearing deposits in other financial institutions. The Company is required by the Federal Reserve System to maintain cash reserves equal to a percentage of certain deposits. The reserve requirement totaled \$5.2 million at December 31, 2010 and \$2.0 million at December 31, 2009. Prior to October 2008, we did not receive interest on our cash reserves at the Federal Reserve Bank.

(c) *Securities*

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



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

**(d) *Loans Receivable, Net***

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

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

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

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

**(e) *Loans Held-for-Sale***

Loans held-for-sale are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Net unrealized losses, if any, are recognized in a valuation allowance through charges to earnings. Premiums and discounts and origination fees and costs on loans held-for-sale are deferred and recognized as a component of the gain or loss on sale. Gains and losses on sales of loans held-for-sale are recognized on settlement dates

and are determined by the difference between the sale proceeds and the carrying value of the loans. These transactions are accounted for as sales based on our satisfaction of the criteria for such accounting which provide that, as transferor, we have surrendered control over the loans.

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009 and June 30, 2009 and 2008

**(f) *Federal Home Loan Bank Stock***

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

**(g) *Office Properties and Equipment, Net***

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

**(h) *Bank Owned Life Insurance***

Bank owned life insurance is carried at the amount that could be realized under the Company's life insurance contracts as of the date of the consolidated balance sheets and is classified as a non-interest earning asset. Increases in the carrying value are recorded as non-interest income in the consolidated statements of income and insurance proceeds received are generally recorded as a reduction of the carrying value. The carrying value consists of cash surrender value of \$108.6 million at December 31, 2010 and \$106.7 million at December 31, 2009, claims stabilization reserve of \$8.1 million at December 31, 2010 and \$7.2 million at December 31, 2009, and deferred acquisition costs of \$342,000 at December 31, 2010 and \$685,000 at December 31, 2009. Repayment of the claims stabilization reserve (funds transferred from the cash surrender value to provide for future death benefit payments) and the deferred acquisition costs (costs incurred by the insurance carrier for the policy issuance) is guaranteed by the insurance carrier provided that certain conditions are met at the date of a contract is surrendered. The Company satisfied these conditions at December 31, 2010 and 2009.

**(i) *Intangible Assets***

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

At December 31, 2010, the carrying amount of our goodwill totaled \$21.6 million. On November 1, 2010, we performed our annual goodwill impairment test and determined the estimated fair value of our reporting unit to be in excess of its carrying amount. Accordingly, as of our annual impairment test date, there was no indication of goodwill impairment. We would test our goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. No events that have occurred and no circumstances have changed since our annual impairment test date that would more likely than not reduce the fair value of our reporting unit below its carrying amount.

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

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**INVESTORS BANCORP, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009 and June 30, 2009 and 2008

to the amount of the previously recognized valuation allowance. Fees earned for servicing loans are reported as income when the related mortgage loan payments are collected.

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

**(j) *Real Estate Owned***

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

**(k) *Borrowed Funds***

The Bank 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.

The Bank also 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.

**(l) *Income Taxes***

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

**(m) *Employee Benefits***

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

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

The Company also provided (i) postretirement health care benefits to retired employees hired prior to April 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retired employees. During the year ended June 30, 2008, the Company curtailed the benefits to current employees and settled its obligations to retired employees related to the postretirement benefit plan and recognized a pre-tax gain of \$2.3 million as a reduction of compensation and fringe benefits expense in the consolidated statements of income.

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

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

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

**(n) Earnings Per Share**

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

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

**(2) Business Combinations**

On October 15, 2010, the Company completed the acquisition of Millennium bcpbank ( Millennium ) deposit franchise. In this transaction the Company acquired approximately \$600 million of deposits and seventeen branch offices in New Jersey, New York and Massachusetts for a deposit premium of 0.11%. The acquisition was accounted for under the acquisition method of accounting as prescribed by ASC 805, Business Combinations, as amended. The transaction resulted in a bargain purchase gain of \$1.8 million, net of tax. In a separate transaction the Company purchased a portion of Millennium's performing loan portfolio and entered into a Loan Servicing Agreement to service those loans it did not purchase. Upon acquisition, the Company entered into a definitive agreement with a third party to sell the Massachusetts branch offices. The four branches, with deposits of approximately \$85 million, will be sold for a premium of 0.11%. This transaction is subject to regulatory approval.

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

On May 31, 2009, the Company completed the acquisition of American Bancorp of New Jersey, Inc. ( American ), the holding company of American Bank of New Jersey, a federal savings bank with approximately \$670 million in assets and five full-service branches in northern New Jersey. The acquisition was accounted for under the purchase method of accounting as prescribed by ASC 805, Business Combinations, as amended. Accordingly, American's results of operations have been included in the Company's results of operations since the date of acquisition. Under this method of accounting, the purchase



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price is allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired is recorded as goodwill. The purchase price of \$98.2 million was paid through a combination of the Company's common stock (6,503,897 shares) and cash of \$47.5 million. The transaction generated approximately \$17.6 million in goodwill and \$3.9 million in core deposit intangibles subject to amortization beginning June 1, 2009. American Bank was merged into the Bank as of the acquisition date.

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

**(3) Stock Transactions**

***Stock Offering***

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

***Stock Repurchase Programs***

At its January 2008 meeting, the Board of Directors approved a third share repurchase program which authorizes the repurchase of an additional 10% of the Company's publicly-held outstanding common stock, or 4,307,248 shares. Under the stock repurchase programs, shares of the Company's common stock may be purchased in the open market and through privately negotiated transactions, from time to time, depending on market conditions. During the year ended December 31, 2010, the Company purchased 2,092,960 shares at a cost of \$24.5 million, or approximately \$11.69 per share. Of the shares purchased through December 31, 2010, 2,428,701 shares were allocated to fund the restricted stock portion of the Company's 2006 Equity Incentive Plan. The remaining shares are held for general corporate use. At December 31, 2010, there are 785,844 shares yet to be purchased under the current plan.

**(4) Securities**

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

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	Amortized Cost	At December 31, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In thousands)		
Available-for-sale				
Equity securities	\$ 2,025	207		2,232
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	248,403	3,485	3,553	248,335
Federal National Mortgage Association	306,745	4,297	2,085	308,957
Government National Mortgage Association	9,202	243		9,445
Non-agency securities	34,640	532	1,408	33,764
Total mortgage-backed securities available for sale	598,990	8,557	7,046	600,501
Total securities available-for-sale	\$ 601,015	8,764	7,046	602,733
Held-to-maturity				
Debt securities:				
Government Sponsored Enterprises	\$ 15,200	246		15,446
Municipal bonds	13,951	46	90	13,907
Corporate and other debt securities	23,552	19,330	1,593	41,289
	52,703	19,622	1,683	70,642
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	210,544	7,964	278	218,230
Federal National Mortgage Association	166,251	9,218	13	175,456
Government National Mortgage Association	3,243	287		3,530
Federal housing authorities	2,324	152		2,476
Non-agency securities	43,471	573	155	43,889
Total mortgage-backed securities held-to-maturity	425,833	18,194	446	443,581
Total securities held-to-maturity	\$ 478,536	37,816	2,129	514,223
Total securities	\$ 1,079,551	46,580	9,175	1,116,956
		At December 31, 2009		
		Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		

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

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

Gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009, were as follows:

	Less than 12 Months		December 31, 2010 12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
(In thousands)						
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	\$ 99,704	3,553			99,704	3,553
Federal National Mortgage Association	134,853	2,085			134,853	2,085
Non-agency securities			12,226	1,408	12,226	1,408
Total available-for sale	234,557	5,638	12,226	1,408	246,783	7,046
Held-to-maturity:						
Debt securities:						
Municipal bonds			7,699	90	7,699	90
Corporate and other debt securities	185	806	825	787	1,010	1,593
	185	806	8,524	877	8,709	1,683
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	2,034	8	20,413	270	22,447	278
Federal National Mortgage Association			2,067	13	2,067	13
Non-agency securities	2,960	149	4,558	6	7,518	155
	4,994	157	27,038	289	32,032	446
Total held-to-maturity	5,179	963	35,562	1,166	40,741	2,129
Total	\$ 239,736	6,601	47,788	2,574	287,524	9,175

	Less than 12 Months		December 31, 2009 12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
(In thousands)						
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	\$ 33,595	80			33,595	80
Federal National Mortgage Association	63,527	446	16	2	63,543	448
Government National Mortgage Association	10,168	79			10,168	79
Non-agency securities	4,563	370	26,736	3,452	31,299	3,822
Total available-for sale	111,853	975	26,752	3,454	138,605	4,429
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises			225	1	225	1
Municipal bonds			1,035	4	1,035	4
Corporate and other debt securities	1,024	1,617			1,024	1,617
	1,024	1,617	1,260	5	2,284	1,622
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	5,860	159			5,860	159
Federal National Mortgage Association	2,699	5	5,392	19	8,091	24
Non-agency securities	16,352	257	42,308	1,304	58,660	1,561
	24,911	421	47,700	1,323	72,611	1,744
Total held-to-maturity	25,935	2,038	48,960	1,328	74,895	3,366
Total	\$ 137,788	3,013	75,712	4,782	213,500	7,795

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For our debt securities that have an estimated fair value less than the amortized cost basis, the gross unrealized losses were primarily in our available-for-sale mortgage-backed securities, which accounted for 76.8% of the gross unrealized losses at December 31, 2010. The total estimated fair value of our available-for-sale mortgage-backed securities represented 53.8% of our total investment portfolio at December 31, 2010. The estimated fair value of our non-agency mortgage-backed and our corporate and other debt securities portfolios have been adversely impacted by the current economic environment, current market rates, wider credit spreads and credit deterioration subsequent to the purchase of these securities.

Our non-agency mortgage-backed securities are not guaranteed by GSE entities and complied with the investment and credit standards set forth in the investment policy of the Company at the time of purchase. At December 31, 2010, the significant portion of the portfolio was comprised of 23 non-agency mortgage-backed securities with an amortized cost of \$78.1 million and an estimated fair value of \$77.7 million. These securities were originated in the period 2002-2004 and substantially all are performing in accordance with contractual terms. For securities with larger decreases in fair values, management estimates the loss projections for each security by stressing the individual loans collateralizing the security with a range of expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on those specific assumptions, a range of possible cash flows were identified to determine whether other-than-temporary impairment existed as of December 31, 2010. Under certain stress scenarios estimated future losses may arise. Management determined that no additional other-than-temporary impairment existed as of December 31, 2010.

Our corporate and other debt securities portfolio consists of 33 pooled trust preferred securities, (TruPS) principally issued by banks, of which 3 securities were rated AAA and 30 securities were rated A at the date of purchase and through June 30, 2008. Subsequently, due to adverse economic conditions, the majority of these securities have been downgraded below investment grade. At December 31, 2010, the amortized cost and estimated fair values of the trust preferred portfolio was \$23.6 million and \$41.3 million, respectively. Through the use of a valuation specialist, we evaluated the credit and performance of each underlying issuer by deriving probabilities and assumptions for default, recovery and prepayment/ amortization for the expected cashflows for each security. At December 31, 2010, management deemed that the present value of projected cashflows for each security was greater than the book value and did not recognize any OTTI charges for the year ended December 31, 2010. The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the debt securities before the recovery of their amortized cost basis or maturity.

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The following table summarizes the Company's pooled trust preferred securities which are at least one rating below investment grade as of December 31, 2010. In addition, at December 31, 2010 the Company held 2 pooled trust preferred securities with a book value of \$4.0 million and a fair value of \$6.4 million which are investment grade. The Company does not own any single-issuer trust preferred securities.

Description	Class	Book Value	Fair Value	Unrealized Gains (Losses)	Number of Issuers Currently Performing	Current	Expected	Excess Subordination	Moody's / Fitch Credit Ratings
						Deferrals and Defaults as a % of Total Collateral (1)	Deferrals and Defaults as a % of Remaining Collateral (2)		
Alesco PF II	B1	\$ 182.8	\$ 312.7	\$ 129.9	33	20.3%	17.8%	0.0%	Ca / C
Alesco PF III	B1	378.2	699.5	321.3	37	25.6%	17.6%	0.0%	Ca / C
Alesco PF III	B2	151.4	279.8	128.4	37	25.6%	17.6%	0.0%	Ca / C
Alesco PF IV	B1	251.4	229.4	(22.0)	44	25.4%	20.8%	0.0%	C / C
Alesco PF VI	C2	334.8	851.5	516.7	44	27.7%	22.3%	0.0%	Ca / C
MM Comm III	B	1,056.3	3,633.6	2,577.3	7	41.2%	12.9%	12.8%	Ba1 / CC
MM Comm IX	B1	53.2	25.3	(27.9)	19	26.5%	29.0%	0.0%	Caa3 / C
MMCaps XVII	C1	801.5	1,906.8	1,105.3	42	7.5%	18.5%	0.0%	Ca / C
MMCaps XIX	C	410.7	4.5	(406.2)	29	28.4%	26.6%	0.0%	C / C
Tpref I	B	1,087.0	2,185.7	1,098.7	14	37.4%	19.8%	0.0%	Ca / D
Tpref II	B	2,450.9	4,531.2	2,080.3	19	26.9%	26.3%	0.0%	Caa3 / C
US Cap I	B2	549.0	1,269.3	720.3	36	8.3%	14.9%	0.0%	Caal / C
US Cap I	B1	1,625.5	3,807.9	2,182.4	36	8.3%	14.9%	0.0%	Caal / C
US Cap II	B1	796.5	2,309.0	1,512.5	47	11.8%	15.9%	0.0%	Ca / C
US Cap III	B1	976.4	2,001.8	1,025.4	35	20.4%	14.1%	0.0%	Ca / C

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US Cap IV	B1	779.1	126.0	(653.1)	47	30.6%	26.9%	0.0%	C / D
Trapeza XII	C1	815.1	909.6	94.5	35	18.9%	23.2%	0.0%	C / C
Trapeza XIII	C1	771.3	1,266.0	494.7	43	14.8%	26.9%	0.0%	Ca / C
Pretsl IV	Mezzanine	113.6	127.8	14.2	5	27.1%	16.0%	19.0%	Ca / CCC
Pretsl V	Mezzanine	6.1	14.4	8.3	0	65.5%	0.0%	0.0%	Caa3 / D
Pretsl VII	Mezzanine	1,035.2	1,602.0	566.8	6	37.4%	72.6%	0.0%	Ca / C
Pretsl XV	B1	623.3	970.2	346.9	55	23.2%	20.8%	0.0%	C / C
Pretsl XVII	C	364.9	311.0	(53.9)	37	19.0%	27.1%	0.0%	Ca / C
Pretsl XVIII	C	773.5	1,612.9	839.4	60	17.4%	15.0%	0.0%	Ca / C
Pretsl XIX	C	296.2	462.3	166.1	55	18.6%	17.1%	0.0%	C / C
Pretsl XX	C	170.9	76.9	(94.0)	48	22.8%	18.0%	0.0%	C / C
Pretsl XXI	C1	248.2	320.2	72.0	54	23.5%	22.5%	0.0%	C / C
Pretsl XXIII	A-FP	1,692.4	2,519.1	826.7	98	19.1%	18.9%	18.3%	B1 / B
Pretsl XXIV	C1	409.5	103.5	(306.0)	65	24.3%	24.5%	0.0%	Ca / C
Pretsl XXV	C1	163.0	133.3	(29.7)	54	22.3%	23.1%	0.0%	C / C
Pretsl XXVI	C1	148.0	240.9	92.9	56	24.2%	19.0%	0.0%	C / C
		\$ 19,515.9	\$ 34,844.1	\$ 15,328.2					

- (1) At December 31, 2010, assumed recoveries for current deferrals and defaulted issuers ranged from 0.0% to 9.5%.
- (2) At December 31, 2010, assumed recoveries for expected deferrals and defaulted issuers ranged from 6.2% to 12.4%.
- (3) Excess subordination represents the amount of remaining performing collateral that is in excess of the amount needed to payoff a specified class of bonds and all classes senior to the specified class. Excess subordination reduces an investor's potential risk of loss on their investment as excess subordination absorbs principal and interest shortfalls in the event underlying issuers are not able to make their contractual payments.



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The following table presents the changes in the credit loss component of the amortized cost of debt securities that the Company has written down for such loss as an other-than-temporary impairment recognized in earnings.

	<b>For the Year Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
		<b>(Unaudited)</b>
	<b>(In thousands)</b>	
Balance of credit-related OTTI, beginning of period	\$ 122,410	121,110
Additions:		
Initial credit impairments		
Subsequent credit impairments		1,300
Reductions		
Balance at end of year	\$ 122,410	122,410

The credit loss component of the amortized cost represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to the period presented. If other-than-temporary impairment is recognized in earnings for credit impaired debt securities, they would be presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) the Company receives the cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

At December 31, 2010, noncredit-related OTTI was \$33.3 million (\$19.7 million after-tax) on securities not expected to be sold and for which it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis. As of April 1, 2009, we reclassified \$21.1 million after-tax as a cumulative effect adjustment for the noncredit-related portion of OTTI losses previously recognized in earnings. During the year ended December 31, 2009, the Company recorded \$1.3 million pre-tax credit related OTTI charge on TruPs.

There were no sales from the held-to-maturity portfolio during the years ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and for the years ended June 30, 2009 and 2008; however, the Company realized a \$3,000 loss and an \$18,000 gain on the call of debt securities for the years ended December 31, 2010 and June 30, 2008, respectively.

For year ended December 31, 2010, proceeds from sales of securities from the available-for-sale portfolio were \$12.0 million, which resulted in gross realized gains and gross realized losses of \$284,000 and \$258,000, respectively. In addition, the Company realized a \$30,000 loss on paydowns of securities previously written down through OTTI and gross realized gains and gross realized losses of \$56,000 and \$14,000, respectively, on capital funds. There were no sales from the available-for-sale portfolio during the six month period ended December 31, 2009 and for the year ended June 30, 2009. For the year ended June 30, 2008, proceeds from sales of securities from the available-for-sale portfolio was \$250,000, which resulted in gross realized losses of \$27,000.

The contractual maturities of mortgage-backed securities 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 all other debt securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	<b>December 31, 2010</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
	<b>(In thousands)</b>	
Due in one year or less	\$ 20,049	20,290
Due after one year through five years	3,752	3,792
Due after five years through ten years	220	221
Due after ten years	28,682	46,339
<b>Total</b>	<b>\$ 52,703</b>	<b>70,642</b>

A portion of the Company's securities are pledged to secure borrowings. See Note 9 for additional information.

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**(5) Loans Receivable, Net**

Loans receivable, net are summarized as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Residential mortgage loans:		
One- to four-family	\$ 4,922,901	4,756,042
FHA	16,343	17,514
Multi-family loans	1,161,874	612,743
Commercial real estate loans	1,225,256	730,012
Construction loans	347,825	334,480
Commercial & industrial loans	60,903	23,159
Consumer and other loans	259,757	178,177
<b>Total loans</b>	<b>7,994,859</b>	<b>6,652,127</b>
Premiums on purchased loans, net	22,021	22,958
Deferred loan fees, net	(8,244)	(4,574)
Allowance for loan losses	(90,931)	(55,052)
	<b>\$ 7,917,705</b>	<b>6,615,459</b>

A substantial portion of the Company's loans are secured by real estate located in New Jersey and surrounding states. Accordingly, as with most financial institutions in the market area, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in this area. See Note 12 for further discussion of concentration of credit risk.

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

	<b>Year Ended December</b>		<b>Six Month</b>	<b>Year Ended June</b>	
	<b>31,</b>	<b>2009</b>	<b>Period</b>	<b>31,</b>	<b>30,</b>
	<b>2010</b>	<b>2009</b>	<b>Ended</b>	<b>2009</b>	<b>2008</b>
	<b>(unaudited)</b>		<b>December</b>		
			<b>31,</b>		
			<b>2009</b>		
	<b>(In thousands)</b>				
Balance at beginning of year	\$ 55,052	26,549	46,608	13,565	6,951
Loans charged off	(30,829)	(15,034)	(15,025)	(25)	(33)
Recoveries	208	44	44		1
Net charge-offs	(30,621)	(14,990)	(14,981)	(25)	(32)
Allowance from acquisition		4,043		4,043	
Provision for loan losses	66,500	39,450	23,425	29,025	6,646

Balance at end of year	\$ 90,931	55,052	55,052	46,608	13,565
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The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, we make significant estimates and therefore, have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

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

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding

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

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

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

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

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its commercial lending officers and its loan workout department's knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes

in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

For homogeneous residential mortgage loans, the Company's policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every two years if the

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loan remains in non-performing status and the foreclosure process has not been completed. Management does not typically make adjustments to the appraised value of residential loans other than to reduce the value for estimated selling costs, if applicable.

In determining the allowance for loan losses, management believes the potential for outdated appraisals has been mitigated for impaired loans and other non-performing loans. As described above, the loans are individually assessed to determine that the loan's carrying value is not in excess of the fair value of the collateral. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Based on the composition of our loan portfolio, we believe the primary risks are a decline in the general economy, a decline in real estate market values in New Jersey and surrounding states and increases in interest rates. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

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

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

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010.

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	<b>Residential</b>	<b>Multi-</b>	<b>Commercial</b>	<b>Construction</b>	<b>Commercial and Industrial</b>	<b>Consumer and Other</b>	<b>Unallocated</b>	<b>Total</b>
	<b>Mortgage</b>	<b>Family</b>	<b>Commercial</b>	<b>Loans</b>	<b>Loans</b>	<b>Loans</b>		
	<b>(In thousands)</b>							
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 13,741	3,227	10,208	25,194	558	510	1,614	55,052
Charge-offs	(6,432)	(829)	(98)	(23,160)	(269)	(41)		(30,829)
Recoveries	124			83	1			208
Provision	13,056	8,056	6,322	32,552	1,899	397	4,218	66,500
Ending balance	\$ 20,489	10,454	16,432	34,669	2,189	866	5,832	90,931
Ending balance Individually evaluated for impairment	\$ 1,214			3,775				4,989
Collectively evaluated for impairment	19,275	10,454	16,432	30,894	2,189	866	5,832	85,942
Loans acquired with deteriorated credit quality								
	\$ 20,489	10,454	16,432	34,669	2,189	866	5,832	90,931
<b>Loans:</b>								
Ending balance Individually evaluated for impairment	\$ 4,822			64,453				69,275
Collectively evaluated for impairment	4,933,813	1,161,874	1,223,479	276,306	60,798	259,548		7,915,818
Loans acquired with deteriorated	609		1,777	7,066	105	209		9,766



credit quality

\$ 4,939,244	1,161,874	1,225,256	347,825	60,903	259,757	7,994,859
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The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. For non-homogeneous loans, such as commercial and commercial real estate loans the Company analyzes the loans individually by classifying the loans as to credit risk and assesses the probability of collection for each type of class. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

**Pass** Pass assets are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

**Special Mention** A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

**Substandard** A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

**Loss** An asset or portion thereof, classified Loss is considered uncollectible and of such little value that its continuance on the institution's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery will occur. As such, it is not practical or desirable to defer the write-off.

As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

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	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard (In thousands)</b>	<b>Doubtful</b>	<b>Loss</b>	<b>Total</b>
Multi-Family	\$ 1,122,102	2,202	37,570			1,161,874
Commercial	1,183,831	16,616	24,809			1,225,256
Construction Loans	143,669	32,185	162,255	9,716		347,825
Commercial and Industrial	54,068	465	6,370			60,903
<b>Total</b>	<b>\$ 2,503,670</b>	<b>51,468</b>	<b>231,004</b>	<b>9,716</b>		<b>2,795,858</b>

Residential and consumer loans are managed on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more are considered non-accrual. A specific reserve is established for residential loans meeting this criteria if the net realizable value is determined to be less than the loan balance. The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2010:

	<b>Performing</b>	<b>Non-accrual (In thousands)</b>	<b>Total</b>
Residential	\$ 4,865,594	73,650	4,939,244
Consumer and other	258,724	1,033	259,757
<b>Total</b>	<b>\$ 5,124,318</b>	<b>74,683</b>	<b>5,199,001</b>

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans:

	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>Greater than 90 Days</b>	<b>Total Past Due (In thousands)</b>	<b>Current</b>	<b>Total Loans Receivable</b>
Residential Mortgage	\$ 16,510	11,890	73,650	102,050	4,837,194	4,939,244
Multi-Family	4,678	12,898	2,748	20,324	1,141,550	1,161,874
Commercial	709	502	3,899	5,110	1,220,146	1,225,256
Construction Loans		7,850	82,735	90,585	257,240	347,825
Commercial and Industrial	150	640	1,829	2,619	58,284	60,903
Consumer and Other	1,260	196	1,033	2,489	257,268	259,757
<b>Total</b>	<b>\$ 23,307</b>	<b>33,976</b>	<b>165,894</b>	<b>223,177</b>	<b>7,771,682</b>	<b>7,994,859</b>

Included in loans receivable were non-accrual loans totaling \$165.9 million at December 31, 2010 and \$120.2 million at December 31, 2009. During the year ended December 31, 2010 and 2009, six month period ended December 31, 2009 and the year ended June 30, 2009, the total amount of interest income received on non-accrual loans outstanding totaled \$1.9 million, \$2.0 million (unaudited), \$1.0 million, and \$1.1 million, respectively, 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 totaled \$8.1 million, \$4.9 million (unaudited), \$2.3 million, and \$7.5 million, respectively. During the years ended June 30, 2008, 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. The Company has no loans past due 90 days or more that are still accruing interest

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At December 31, 2010 and 2009 loans meeting the Company's definition of an impaired loan were primarily collateral dependent and totaled \$69.3 million, and \$48.4 million, respectively, with allocations of the allowance for loan losses of \$5.0 million, and \$6.1 million, respectively. During the year ended December 31, 2010 and 2009, six month period ended December 31, 2009 and the year ended June 30, 2009, interest income received and recognized on these loans totaled \$206,000, \$1.8 million (unaudited) \$680,000 and \$534,000, respectively. For the year ended June 30, 2008, the interest income received and recognized on these loans was immaterial. The average balance of impaired loans was \$54.8 million, \$50.0 million (unaudited), \$58.2 million, \$48.2 million, and \$2.2 million during the year ended December 31, 2010 and 2009, six month period ended December 31, 2009 and years ended June 30, 2009, and 2008, respectively. At December 31, 2010 there are 13 residential loans totaling \$4.8 million which are deemed troubled debt restructurings. These loans are performing under the restructured terms.

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The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance (In thousands)</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>With no related allowance:</b>					
Residential Mortgage	\$ 288	288			8
Multi-Family					
Commercial					
Construction Loans	26,146	42,936			
Commercial and Industrial					
Consumer and Other					
<b>With an allowance recorded:</b>					
Residential Mortgage	4,534	4,534	1,214		176
Multi-Family					
Commercial					
Construction Loans	38,307	46,557	3,775		22
Commercial and Industrial					
Consumer and Other					
<b>Total:</b>					
Residential Mortgage	4,822	4,822	1,214		184
Multi-Family					
Commercial					22
Construction Loans	64,453	89,493	3,775		
Commercial and Industrial					
Consumer and Other					
Total impaired loans	\$ 69,275	94,315	4,989		206

During the year ended June 30, 2008, the Company began selling loans on a servicing-retained basis. Loans that were sold on this basis, amounted to \$979.8 million, \$620.4 million, \$365.7 million and \$62.6 million at December 31, 2010, December 31, 2009, June 30, 2009 and 2008, respectively, all of which relate to residential mortgage loans. At December 31, 2010 and 2009, the servicing asset, included in intangible assets, had an estimated fair value of \$9.3 million and \$5.5 million, respectively. Fair value was based on expected future cash flows considering a weighted average discount rate of 9.0%, a weighted average constant prepayment rate on mortgages of 12.9% and a weighted average life of 5.9 years.

**(6) Accrued Interest Receivable**

Accrued interest receivable is summarized as follows:

**December 31,**  
**2010            2009**  
**(In thousands)**

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Securities	\$ 4,221	4,543
Loans receivable	36,320	32,399
	\$ 40,541	36,942

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**(7) Office Properties and Equipment, Net**

Office properties and equipment are summarized as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Land	\$ 9,339	9,339
Office buildings	24,499	23,637
Leasehold improvements	23,449	17,239
Furniture, fixtures and equipment	22,253	17,131
Construction in process	1,653	3,190
	81,193	70,536
Less accumulated depreciation and amortization	24,266	21,152
	<b>\$ 56,927</b>	<b>49,384</b>

Depreciation and amortization expense for the year ended December 31, 2010 and 2009, six month period ended December 31, 2009 and years ended June 30, 2009 and 2008 was \$4.7 million, \$3.7 million (unaudited), \$2.0 million, \$2.7 million and \$2.8 million, respectively.

**(8) Deposits**

Deposits are summarized as follows:

	<b>2010</b>		<b>December 31,</b>		<b>2009</b>	
	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>% of Total</b>	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>% of Total</b>
			<b>(Dollars in thousands)</b>			
Savings	0.93%	\$ 1,135,091	16.75%	1.64%	\$ 877,421	15.02%
Checking accounts	0.37	1,367,282	20.18	0.81	927,675	15.88
Money market deposits	0.81	832,514	12.29	1.26	742,618	12.72
Total transaction accounts	0.65	3,334,887	49.22	1.21	2,547,714	43.62
Certificates of deposit	1.78	3,440,043	50.78	2.18	3,292,929	56.38
Total deposits	1.22%	\$ 6,774,930	100.00%	1.77%	\$ 5,840,643	100.00%

Scheduled maturities of certificates of deposit are as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Within one year	\$ 2,205,311	2,373,901
One to two years	989,792	610,301

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Two to three years	86,884	188,260
Three to four years	80,851	29,516
After four years	77,205	90,951
	\$ 3,440,043	3,292,929

The aggregate amount of certificates of deposit in denominations of \$100,000 or more totaled approximately \$1.25 billion and \$1.10 billion at December 31, 2010 and December 31, 2009.



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Interest expense on deposits consists of the following:

	Year Ended December		Six Month	Year Ended June 30,	
	2010	31, 2009 (Unaudited)	Period Ended December 31, 2009	2009	2008
	(In thousands)				
Savings	\$ 13,958	14,533	7,615	10,568	7,718
Checking accounts	6,406	13,252	4,426	11,668	7,329
Money market deposits	7,299	7,834	4,392	6,466	5,005
Certificates of deposit	63,148	87,383	40,144	100,660	132,693
	\$ 90,811	123,002	56,577	129,362	152,745

**(9) Borrowed Funds**

Borrowed funds are summarized as follows:

	December 31,		2009	Weighted Average Rate
	2010	2009		
	Principal	Weighted Average Rate (Dollars in thousands)	Principal	Weighted Average Rate
Funds borrowed under repurchase agreements:				
FHLB	\$ 110,000	3.77%	\$ 310,000	3.94%
Other brokers	390,000	4.64	440,000	4.65
Total funds borrowed under repurchase agreements	500,000	4.45	750,000	4.36
Other borrowed funds:				
FHLB advances	1,326,514	3.09	850,542	3.79
Total borrowed funds	\$ 1,826,514	3.47	\$ 1,600,542	4.05

Borrowed funds had scheduled maturities as follows:

	December 31		2009	Weighted Average Rate
	2010	2009		
	Principal	Weighted Average Rate (Dollars in thousands)	Principal	Weighted Average Rate
Within one year	\$ 751,000	3.11%	\$ 355,000	4.05%

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One to two years	380,514	3.92	520,000	4.32
Two to three years	240,000	3.90	380,542	3.92
Three to four years	105,000	3.08	240,000	3.90
Four to five years	300,000	3.50	55,000	3.38
After five years	50,000	3.86	50,000	3.86
Total borrowed funds	\$ 1,826,514	3.47	\$ 1,600,542	4.05

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.

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

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
Amortized cost of collateral:		
Debt securities	\$ 15,000	25,004
Mortgage-backed securities	715,612	993,133
Total amortized cost of collateral	\$ 730,612	1,018,137
Fair value of collateral:		
Debt securities	\$ 15,245	25,752
Mortgage-backed securities	736,302	1,014,226
Total fair value of collateral	\$ 751,547	1,039,978

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

During the years ended December 31, 2010 and 2009, six month period ended December 31, 2009 and years ended June 30, 2009 and 2008, the maximum month-end balance of the repurchase agreements was \$675.0 million, \$910.0 million (unaudited), \$860.0 million, \$960.0 million and \$1.11 billion, respectively. The average amount of repurchase agreements outstanding during the years ended December 31, 2010 and 2009, six month period ended December 31, 2009 and years ended June 30, 2009 and 2008, was \$611.4 million, \$857.0 million (unaudited), \$823.6 million, \$902.3 million and \$999.7 million, respectively, and the average interest rate was 4.46%, 4.36% (unaudited), 4.43%, 4.38% and 4.58%, respectively.

At December 31, 2010, the Company participated in the FHLB's Overnight Advance program. This program allows members to borrow overnight up to their maximum borrowing capacity at the FHLB. At December 31, 2010 our borrowing capacity at the FHLB was \$2.77 billion, of which \$1.44 billion was outstanding. The overnight advances are priced at the federal funds rate plus a spread (generally between 20 and 40 basis points) and re-price daily. In addition, the Bank had a 12-month commitment for overnight with other institutions totaling \$50 million, of which no balance was outstanding at December 31, 2010.

**(10) Income Taxes**

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

	<b>Year Ended December</b>		<b>Six Month</b>	<b>Year Ended June 30,</b>	
	<b>31,</b>	<b>2009</b>	<b>Period</b>	<b>2009</b>	<b>2008</b>
	<b>2010</b>	<b>(Unaudited)</b>	<b>Ended</b>		
			<b>December 31,</b>		
			<b>2009</b>		
			<b>(In thousands)</b>		
Current tax expense:					

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Federal	\$ 48,622	26,027	15,850	22,925	10,020
State	2,422	32	16	106	612
	51,044	26,059	15,866	23,031	10,632
Deferred tax (benefit) expense:					
Federal	(15,757)	(8,001)	(4,935)	(57,386)	(1,335)
State	1,316	5,386	3,390	(9,845)	(267)
	(14,441)	(2,615)	(1,545)	(67,231)	(1,602)
Total income tax expense (benefit)	\$ 36,603	23,444	14,321	(44,200)	9,030

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

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	Year Ended December 31,		Six Month Period Ended December 31,	Year Ended June 30,	
	2010	2009 (Unaudited)	2009	2009	2008
	(In thousands)				
Expected federal income tax expense	\$ 34,517	20,495	12,909	(38,191)	8,770
State tax, net	2,430	3,522	2,214	(6,330)	224
Bank owned life insurance	(874)	(766)	(455)	(1,005)	(1,391)
Gain on acquisition	(646)				
Expiration of loss carry forward	1,484				
Change in valuation allowance for federal deferred tax assets	(1,455)	(879)	(1,110)	407	281
ESOP fair market value adjustment	129	(15)	4	81	211
Non-deductible compensation	760	981	697	742	455
Other	258	106	62	96	480
Total income tax expense (benefit)	\$ 36,603	23,444	14,321	(44,200)	9,030

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

	December 31,	
	2010	2009
	(In thousands)	
Deferred tax asset:		
Employee benefits	\$ 16,191	13,605
Deferred compensation	1,187	1,016
State net operating loss (NOL) carryforwards		2,585
Intangible assets		16
Allowance for loan losses	33,604	19,725
Net unrealized loss on securities	13,029	13,960
Net other than temporary impairment loss on securities	49,312	49,479
New Jersey alternative minimum assessment	1,037	2,402
Capital losses on securities	807	2,533
Contribution to charitable foundation		1,418
ESOP	1,380	1,517
Allowance for delinquent interest	9,102	4,807
Federal NOL carryforwards	126	4,391
Fair value adjustments related to acquisition	1,824	2,539
Other	3,071	592
Gross deferred tax asset	130,670	120,585

Valuation allowance	(807)	(3,642)
	129,863	116,943
Deferred tax liability:		
Intangible assets	1,196	
Discount accretion	255	(12)
Premises and equipment, differences in depreciation	202	(188)
Gross deferred tax liability	1,653	(200)
Net deferred tax asset	\$ 128,210	117,143

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.

As of December 31, 2010 the Company had utilized the State net operating loss carry forwards balance of which was \$44.2 million at December 31, 2009.

At December 31, 2010, the Company had gross unrealized losses totaling \$158.0 million pertaining to our trust preferred securities which were recognized as OTTI charges during the year ended June 30, 2009. Based upon projections of future taxable

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income and the ability to carry back losses for two years, management believes it is more likely than not the Company will realize the deferred tax asset.

A valuation allowance is recorded for tax benefits which management has determined are not more likely than not to be realized. At December 31, 2010 and 2009, the valuation allowance was \$807,000 and \$3.6 million, respectively. During the year ended December 31, 2010, the Company removed the deferred tax asset related to the \$4.2 million FHLMC capital loss carryforward and the related valuation reserve of \$1.7 million as they expired on December 31, 2010. In addition, the Company removed the \$19.5 million state charitable deduction and the related valuation allowance of \$1.1 million, as they expired December 31, 2010. During the six months ended December 31, 2009, the Company reversed a previously established federal valuation allowance related to the contribution to the charitable foundation as management believes that is more likely than not that the Company will realize the deferred tax asset based on the projection of future taxable income.

Retained earnings at December 31, 2010 included approximately \$40.7 million for which deferred income taxes of approximately \$16.6 million 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 ASC 740, 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.

The Company had no unrecognized tax benefits or related interest or penalties at December 31, 2010 and 2009. The Company files income tax returns in the United States federal jurisdiction and in the states of New Jersey, New York and Massachusetts. With few exceptions, the Company is no longer subject to federal and state income tax examinations by tax authorities for years prior to 2006. Currently, the Company is not under examination by any taxing authority.

**(11) 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 \$1.2 million, \$2.0 million (unaudited), \$941,000, \$1.7 million and \$2.0 million in the years ended December 31, 2010 and 2009, the six month period ended December 31, 2009, and fiscal 2009 and 2008, respectively. The accrued pension liability was \$2.5 million and \$1.2 million at December 31, 2010 and 2009, respectively.

***SERP, Directors' Plan and Other Postretirement Benefits Plan***

The Company has a Supplemental Executive Retirement Wage Replacement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to employees as designated by the Compensation Committee of the Board of Directors 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 certain directors. The SERP and the directors' plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The Company also provided (i) postretirement health care benefits to retired employees hired prior to April 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retired employees. During the year ended June 30, 2008, the Company curtailed the benefits to current employees and settled its obligations to retired employees, recorded as benefits paid, related to the postretirement benefit plan and recognized a pre-tax gain of \$2.3 million as a reduction of compensation and fringe benefits expense in the consolidated statements of income.





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The following table sets forth information regarding the SERP and the directors' defined benefit plan:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 16,060	17,307
Service cost	721	293
Interest cost	879	525
Actuarial (gain) loss	(1,014)	(1,423)
Benefits paid	(675)	(642)
Benefit obligation at end of year	\$ 15,971	16,060
Funded status	\$ (15,971)	(16,060)

The underfunded pension benefits of \$16.0 million and \$16.1 million at December 31, 2010 and 2009, respectively, are included in other liabilities in the consolidated balance sheets. The components of accumulated other comprehensive loss related to pension plans, on a pre-tax basis, at December 31, 2010 and 2009, are summarized in the following table.

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Prior service cost	\$ 439	\$ 537
Net actuarial loss	976	2,044
Total amounts recognized in accumulated other comprehensive income	\$ 1,415	\$ 2,581

The accumulated benefit obligation for the SERP and directors' defined benefit plan was \$13.0 million and \$14.3 million at December 31, 2010 and 2009, respectively. The measurement date for our SERP, directors' plan is December 31 for the years ended December 31, 2010 and 2009 and the six month period ended December 31, 2009 and June 30 for fiscal years 2009 and 2008.

The weighted-average actuarial assumptions used in the plan determinations at December 31, 2010 and 2009 were as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Discount rate	5.18%	5.61%
Rate of compensation increase	3.63	3.58

The components of net periodic benefit cost are as follows:

	<b>Year Ended</b>	<b>Six Month</b>	<b>Year Ended</b>
	<b>December 31,</b>	<b>Period</b>	<b>June 30,</b>
		<b>Ended</b>	

	<b>2010</b>	<b>2009</b> <b>(Unaudited)</b>	<b>December 31, 2009</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>				
Service cost	\$ 721	564	293	543	456
Interest cost	879	1,052	525	1,054	958
Amortization of:					
Prior service cost	97	98	49	97	98
Net loss	54	160	91	138	114
<b>Total net periodic benefit cost</b>	<b>\$ 1,751</b>	<b>1,874</b>	<b>958</b>	<b>1,832</b>	<b>1,626</b>

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

	<b>Year Ended December 31, 2010</b>	<b>2009</b> <b>(Unaudited)</b>	<b>Six Month Period Ended December 31, 2009</b>	<b>Year Ended June 30, 2009</b>	<b>2008</b>
Discount rate	5.61%	6.46%	6.18%	6.75%	6.25%
Rate of compensation increase	3.58	3.60	3.56	3.64	5.05

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

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	<b>Amount (In thousands)</b>
2011	\$ 884
2012	926
2013	931
2014	918
2015	905
2016 through 2020	5,358
<b><i>Summit Federal Benefit Plans</i></b>	

Summit Federal, at the time of merger, had a funded non-contributory defined benefit pension plan covering all eligible employees and an unfunded, non-qualified defined benefit SERP for the benefit of certain key employees. At December 31, 2010 and 2009, the pension plan had an accrued liability of \$681,000 and \$990,000, respectively. At December 31, 2010 and 2009, the charges recognized in accumulated other comprehensive loss for the pension plan were \$934,000 and \$1.2 million, respectively. At December 31, 2010 and 2009, the SERP plan had an accrued liability of \$1.1 million and \$911,000, respectively. At December 31, 2010 and 2009, the charges recognized in accumulated other comprehensive loss for the SERP plan were \$152,000 and \$98,000, respectively. For the years ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009 and 2008, the expense related to these plans was \$340,000, \$283,000 (unaudited), \$131,000, \$561,000 and \$140,000, respectively.

***401(k) Plan***

The Company has a 401(k) plan covering substantially all employees providing they meet the eligibility age requirement of age 21. 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 December 31, 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009 and 2008 were \$761,000, \$628,000 (unaudited), \$305,000, \$572,000, and \$477,000, 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 December 31, 2010 was \$36.7 million. 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 December 31, 2010, shares allocated to participants were 850,815 since the plan inception. ESOP shares that were unallocated or not yet committed to be released totaled 3,403,257 at December 31, 2010, and had a fair market value of \$44.7 million. ESOP compensation expense for the years ended December 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009 and 2008 was \$1.8 million, \$1.4 million (unaudited), \$722,000, \$1.6 million, and \$2.0 million, respectively, representing the fair market value

of shares allocated or committed to be released during the year.

The Company also has established an Amended and Restated Supplemental ESOP and Retirement Plan, which is a non-qualified plan that provides supplemental benefits to certain executives as designated by the Compensation Committee of the Board of Directors who are prevented from receiving the full benefits contemplated by the retirement plan and/or employee stock ownership plan's benefit formula. With regards to the Supplemental ESOP, the supplemental benefits consist of payments representing shares that cannot be allocated to participants under the ESOP due to the legal limitations imposed on tax-qualified plans. During the years ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009, and 2008 compensation expense (benefit) related to this plan amounted to \$200,000, \$(50,000) (unaudited), \$100,000, \$0, and \$225,000, 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. The Company adopted ASC 718, Compensation- Stock Compensation, upon approval of the Plan, and began to expense the fair value of all share-based compensation granted over the requisite service periods.

During the year ended December 31, 2010, the Compensation and Benefits Committee approved the issuance of an additional 495,000 restricted stock awards and 5,000 stock options to certain officers. During the year ended December 31, 2009, the

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Compensation and Benefits Committee approved the issuance of an additional 5,000 restricted stock awards and 10,000 stock options to one officer.

ASC 718 also requires the Company to report as a financing cash flow the benefits of realized tax deductions in excess of the deferred tax benefits previously recognized for compensation expense. There were no such excess tax benefits in the years ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009 and 2008. In accordance with ASC 718, the Company classified share-based compensation for employees and outside directors within compensation and fringe benefits in the consolidated statements of income 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 ASC 718. 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 or seven year performance based 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 years ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009 and 2008, the Company recorded \$9.5 million, \$11.8 million (unaudited), \$5.7 million, \$11.3 million and \$9.8 million, respectively, of share-based compensation expense, comprised of stock option expense of \$3.7 million, \$4.9 million (unaudited), \$2.4 million, \$4.7 million and \$4.1 million, respectively, and restricted stock expense of \$5.8 million, \$6.8 million (unaudited), \$3.3 million, \$6.6 million and \$5.7 million, respectively.

The following is a summary of the status of the Company's restricted shares as of December 31, 2010 and changes therein during the year then ended:

	<b>Number of Shares Awarded</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested at December 31, 2009	759,415	\$ 14.82
Granted	495,000	12.67
Vested	(388,368)	14.93
Forfeited	(5,000)	12.67
Non-vested at December 31, 2010	861,047	\$ 13.55

Expected future compensation expense relating to the non-vested restricted shares at December 31, 2010 is \$10.3 million over a weighted average period of 3.8 years.

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The following is a summary of the Company's stock option activity and related information for its option plan for the year ended December 31, 2010:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2009	5,146,752	\$ 15.01	7.1 years	\$
Granted	5,000	12.67		
Exercised				
Forfeited	(434,184)	14.99		
Outstanding at December 31, 2010	4,717,568	\$ 15.01	6.1 years	\$
Exercisable at December 31, 2010	3,491,455	\$ 15.08	6.0 years	\$

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:

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	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Expected dividend yield	0.63%	0.90%
Expected volatility	32.48%	34.35%
Risk-free interest rate	2.48%	2.71%
Expected option life	6.5 years	6.5 years

The weighted average grant date fair value of options granted during the years ended December 31, 2010 and 2009 was \$4.40, \$3.55 per share, respectively. Expected future expense relating to the non-vested options outstanding as of December 31, 2010 is \$3.7 million over a weighted average period of 1.8 years. Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares.

**(12) 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. At December 31, 2010, the Company was obligated under various non-cancelable operating leases on buildings and land used for office space and banking purposes. These operating leases contain escalation clauses which provide for increased rental expense, based primarily on increases in real estate taxes and cost-of-living indices. Rental expense under these leases aggregated approximately \$7.2 million, \$4.9 million (unaudited), \$2.6 million, \$4.4 million and \$4.1 million for the year ended December 31, 2010 and 2009, six month period ended December 31, 2009 and fiscal years 2009 and 2008, respectively. The projected annual minimum rental commitments are as follows:

	<b>Amount (In thousands)</b>
2011	\$ 7,961
2012	7,269
2013	6,689
2014	6,596
2015	6,544
Thereafter	41,196
	\$ 76,255

***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 December 31, 2010, the Company had commitments to originate fixed- and variable-rate loans of approximately \$258.5 million and \$200.8 million, respectively; commitments to purchase fixed- and variable-rate loans of \$76.0 million and \$54.4 million, respectively; and unused home equity and overdraft lines of credit, and undisbursed business and construction loans, totaling approximately \$496.4 million. No commitments are included in the accompanying consolidated financial statements. The Company has no exposure to credit loss if the

customer 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, commercial real estate, multi-family, construction, C&I and consumer loans to borrowers throughout New Jersey and states in close proximity to New Jersey. Its borrowers' abilities to repay



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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 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 December 31, 2010 and December 31, 2009 was \$529.1 million, and \$560.7 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 the normal course of business the Company sells residential mortgage loans to third parties. These loan sales are subject to customary representations and warranties. In the event that we are found to be in breach of these representations and warranties, we may be obligated to repurchase certain of these loans.

In connection with its mortgage banking activities, the Company has certain freestanding derivative instruments. At December 31, 2010, the Company had commitments of approximately \$49.7 million 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 ASC 815, Derivatives and Hedging. The Company also had commitments of \$41.6 million to sell loans at December 31, 2010. The fair values of these derivative instruments are immaterial to the Company's financial condition and results of operations.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. The guarantees generally extend for a term of up to one year and are fully collateralized. For each guarantee issued, if the customer defaults on a payment or performance to the third party, we would have to perform under the guarantee. Outstanding standby letters of credit totaled \$10.3 million at December 31, 2010. The fair values of these obligations were immaterial at December 31, 2010. In addition at December 31, 2010, we had \$203,000 in commercial letters of credit outstanding.

**(13) Fair Value Measurements**

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

In accordance with Financial Accounting Standards Board ( FASB ) ASC 820, *Fair Value Measurements and Disclosures* , we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

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We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

**Securities available-for-sale**

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Approximately 99% of our securities available-for-sale portfolio consists of mortgage-backed and government-sponsored enterprise securities. The fair values of these securities are obtained from an independent nationally recognized pricing service, which is then compared to a second independent pricing source for reasonableness. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the majority of securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed and government-sponsored enterprise securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The remaining 1% of our securities available-for-sale portfolio is comprised primarily of private fund investments for which the issuer provides us prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis at December 31, 2010 and December 31, 2009, respectively.

	Carrying Value at December 31, 2010		
	Total	Level 1	Level 2
			Level 3
		(In thousands)	
Securities available for sale:			
Mortgage-backed securities	\$ 600,501		600,501
Equity securities	2,232		2,232
	\$ 602,733		602,733

	Carrying Value at December 31, 2009		
	Total	Level 1	Level 2
			Level 3
		(In thousands)	
Securities available for sale:			
Mortgage-backed securities	\$ 444,151		444,151
GSE debt securities	25,039		25,039
Equity securities	2,053		2,053
	\$ 471,243		471,243

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

**Securities held-to-maturity**

Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the held-to-maturity portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

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***Mortgage Servicing Rights, net***

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

***Loans Receivable***

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than \$3.0 million and on non-accrual status and all loans subject to a troubled debt restructuring. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. In order to estimate fair value, once interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful an updated appraisal is obtained. Thereafter, in the event the most recent appraisal does not reflect the current market conditions due to the passage of time and other factors, management will obtain an updated appraisal or make downward adjustments to the existing appraised value based on their knowledge of the property, local real estate market conditions, recent real estate transactions, and for estimated selling costs, if applicable. Therefore, these adjustments are generally classified as Level 3.

***Other Real Estate Owned***

Other Real Estate Owned is recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a writedown is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Operating costs after acquisition are generally expensed.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at December 31, 2010 and December 31, 2009, respectively.

	<b>Carrying Value at December 31, 2010</b>			
	<b>Total</b>	<b>Level</b>		
		<b>1</b>	<b>Level 2</b>	<b>Level 3</b>
		<b>(In thousands)</b>		
MSR, net	\$ 9,262			9,262
Impaired loans	53,920			53,920
Other real estate owned	976			976
	\$ 64,158			64,158

	<b>Carrying Value at December 31, 2009</b>			
	<b>Total</b>	<b>Level</b>		
		<b>1</b>	<b>Level 2</b>	<b>Level 3</b>
		<b>(In thousands)</b>		
MSR, net	\$ 5,496			5,496
Impaired loans	39,437			39,437

\$ 44,933

44,933

**(14) Fair Value of Financial Instruments**

Effective April 1, 2009, the Company adopted new accounting guidance by the FASB, which requires disclosures about fair value of financial instruments for annual financial statements for publicly traded companies. 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.

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**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.

The fair value of performing loans, except residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources adjusted to reflect differences in servicing and credit costs, 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.

**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 which approximate currently offered for deposits of similar remaining maturities.

**Borrowings**

The fair value of borrowings are based on securities dealers' estimated market values, when available, or estimated using discounted contractual cash flows using rates which approximate the rates offered for borrowings 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. Due to the short-term nature of our outstanding commitments, the fair values of these commitments are immaterial to our financial condition.

The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following table.

	December 31,			
	2010		2009	
	Carrying	Fair	Carrying	Fair Value
	Amount	Value	Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 76,224	76,224	73,606	73,606
Securities available-for-sale	602,733	602,733	471,243	471,243

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Securities held-to-maturity	478,536	514,223	717,441	753,405
Stock in FHLB	80,369	80,369	66,202	66,202
Loans	7,952,759	8,231,847	6,642,502	6,821,767
Financial liabilities:				
Deposits	6,774,930	6,819,659	5,840,643	5,881,083
Borrowed funds	1,826,514	1,887,471	1,600,542	1,666,513
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**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.

**(15) 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 December 31, 2010 and December 31, 2009, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010, 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 December 31, 2010 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		To be Well Capitalized Under Prompt Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)					

**As of December 31, 2010:**

Total capital (to risk-weighted assets)	\$ 881,413	13.8%	\$ 512,691	8.0%	\$ 640,864	10.0%
Tier I capital (to risk-weighted assets)	801,171	12.5	256,346	4.0	384,518	6.0
Tier I capital (to average assets)	801,171	8.6	374,406	4.0	468,007	5.0

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	Actual		For Capital Adequacy Purposes (Dollars in thousands)		Minimum Requirements To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2009:</b>						
Total capital (to risk-weighted assets)	\$ 804,637	15.8%	\$ 407,909	8.0%	\$ 509,886	10.0%
Tier I capital (to risk-weighted assets)	749,585	14.7	203,955	4.0	305,932	6.0
Tier I capital (to average assets)	749,585	9.0	332,129	4.0	415,162	5.0

**(16) 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**

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	(In thousands)	
Assets:		
Cash and due from bank	\$ 5,911	14,640
Securities available-for-sale, at estimated fair value	2,232	2,053
Investment in subsidiary	818,818	758,079
ESOP loan receivable	36,689	37,690
Other assets	37,762	37,859
<b>Total Assets</b>	<b>\$ 901,412</b>	<b>850,321</b>
Liabilities and Stockholders' Equity:		
Total liabilities	\$ 133	108
Total stockholders' equity	901,279	850,213
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 901,412</b>	<b>850,321</b>

**Statements of Operations**

**Six Month  
Period  
Ended**

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	<b>Year End December 31, 2010</b>	<b>2009 (Unaudited)</b>	<b>December 31, 2009 (In thousands)</b>	<b>Year Ended June 30, 2009</b>	<b>2008</b>
<b>Income:</b>					
Interest on ESOP loan receivable	\$ 1,225	1,282	628	2,077	3,055
Dividend from subsidiary	10,000				
Interest on deposit with subsidiary	74	61	59		
Income (loss) on securities transactions	43	5		6	(21)
	11,342	1,348	687	2,083	3,034
<b>Expenses:</b>					
Other expenses	1,139	960	509	954	827
	1,139	960	509	954	827
Income before income tax expense	10,203	388	178	1,129	2,207
Income tax (benefit) expense	(88)	(1,068)	(1,142)	452	893
Income before undistributed earnings of subsidiary	10,115	1,456	1,320	677	1,314
Equity in undistributed earnings (losses) of subsidiary	51,904	33,656	21,242	(65,595)	14,715
Net income (loss)	\$ 62,019	35,112	22,562	(64,918)	16,029



Net cash provided by (used in) financing activities	(19,773)	18,150	335	20,884	(55,398)
Net decrease in cash and due from bank	(8,729)	(38,920)	(3,949)	(39,808)	(62,446)
Cash and due from bank at beginning of year	14,640	53,560	18,589	58,397	120,843
Cash and due from bank at end of year	\$ 5,911	14,640	14,640	18,589	58,397

**(17) Selected Quarterly Financial Data (Unaudited)**

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2010 and 2009.

	<b>2010 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>(In thousands, except per share data)</b>			
Interest and dividend income	\$ 103,068	105,871	109,418	110,346
Interest expense	41,138	40,724	38,978	38,452
Net interest income	61,930	65,147	70,440	71,894
Provision for loan losses	13,050	15,450	19,000	19,000
Net interest income after provision for loan losses	48,880	49,697	51,440	52,894
Non-interest income	3,933	4,139	7,014	11,439
Non-interest expenses	30,426	30,773	31,654	37,961
Income before income tax expense	22,387	23,063	26,800	26,372
Income tax expense	9,077	7,787	10,242	9,497
Net income	\$ 13,320	15,276	16,558	16,875
Basic and diluted earnings per common share	\$ 0.12	0.14	0.15	0.16

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	March 31	2009 Quarter Ended		December 31
		June 30 (In thousands, except per share data)	September 30	
Interest and dividend income	\$ 92,749	93,364	98,631	99,641
Interest expense	51,591	50,034	47,176	43,295
Net interest income	41,158	43,330	51,455	56,346
Provision for loan losses	8,000	8,025	12,375	11,050
Net interest income after provision for loan losses	33,158	35,305	39,080	45,296
Non-interest income	3,417	2,411	5,359	3,648
Non-interest expenses	24,455	28,163	26,611	29,889
Income before income tax expense	12,120	9,553	17,828	19,055
Income tax expense	5,042	4,081	7,355	6,966
Net income	7,078	5,472	\$ 10,473	12,089
Basic and diluted earnings per common share	0.07	0.05	0.10	0.11

**(18) 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.

	Year Ended December 31, 2010		Year Ended December 31, 2009 (Unaudited)		For the Six Month Period Ended December 31, 2009				
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Net income (loss)	\$ 62,019		\$ 35,112			\$ 22,562			
Basic earnings (loss) per share: Income (loss) available to common stockholders	\$ 62,019	109,713,516	\$ 0.57	\$ 35,112	107,550,061	\$ 0.33	\$ 22,562	109,862,617	\$ 0.21

Effect of dilutive common stock equivalents(1)		164,736		68,165		126,431	
Diluted earnings (loss) per share:							
Income (loss) available to common stockholders	\$ 62,019	109,878,252	\$ 0.56	\$ 35,112	107,618,226	\$ 0.33	
					\$ 22,562	109,989,048	\$ 0.21

	For the Years Ended June 30,					
	2009			2008		
	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount
(In thousands, except per share data)						
Net income (loss)	\$ (64,918)			\$ 16,029		
Basic earnings (loss) per share:						
Income (loss) available to common stockholders	\$ (64,918)	104,530,402	\$ (0.62)	\$ 16,029	105,447,910	\$ 0.15
Effect of dilutive common stock equivalents(1)					153,854	
Diluted earnings (loss) per share:						
Income (loss) available to common stockholders	\$ (64,918)	104,530,402	\$ (0.62)	\$ 16,029	105,601,764	\$ 0.15

(1) For the years ended December 31, 2010 and 2009, the six month period ended December 31, 2009 and the years ended June 30, 2009 and 2008, there were 5.3 million, 5.8 million (unaudited), 5.3 million, 5.3 million and 4.9 million equity awards, respectively, that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

#### (19) Recent Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update ( ASU ) 2010-29, which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15,



2010. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations.

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In December 2010, the FASB issued ASU 2010-28, which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations.

In July 2010, the FASB issued ASU 2010-20 to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The objective of the ASU is to provide disclosures that assist financial statement users in their evaluation of (1) the nature of an entity's credit risk associated with its financing receivables, (2) how the entity analyzes and assesses that risk in arriving at the allowance for credit losses and (3) the changes in the allowance for credit losses and the reasons for those changes. Disclosures provided to meet the objective above should be provided on a disaggregated basis. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. In January 2011, the FASB issued ASU No. 2011-01 Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 which defers the effective date of the loan modification disclosures. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations. The disclosures required by this pronouncement can be found in Note 5 of the Notes to Consolidated Financial Statements.

In April 2010, the FASB issued ASU 2010-18, which states that modifications of loans that are accounted for within a pool under ASC 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of ASC 310-30 that are not accounted for within pools. Loans accounted for individually under ASC 310-30 continue to be subject to the troubled debt restructuring accounting provisions within ASC 310-40, Receivables Troubled Debt Restructurings by Creditors. The amendments are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The adoption of this pronouncement did not have a material impact on the Company's financial condition, results of operations or financial statement disclosures.

In February 2010, the FASB issued ASU 2010-09, which amended the subsequent events pronouncement issued in May 2009. The amendment removed the requirement to disclose the date through which subsequent events have been evaluated. This pronouncement became effective immediately upon issuance and is to be applied prospectively. The adoption of this pronouncement did not have a material impact on the Company's financial condition, results of operations or financial statement disclosures.

In January 2010, the FASB issued ASU 2010-06 to improve disclosures about fair value measurements. This guidance requires new disclosures on transfers into and out of Level 1 and 2 measurements of the fair value hierarchy and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this pronouncement did not have a material impact on the Company's financial condition, results of operations or

financial statement disclosures.

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

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

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

In June 2008, ASC 260-10 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2009. The adoption of ASC 260-10 on July 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In February 2008, ASC 820-10, *Effective Date of ASC 820*, was issued. ASC 820-10 delayed the application of ASC 820 Fair Value Measurements and Disclosures for non-financial assets and non-financial liabilities until July 1, 2009. The adoption of ASC 820-10 did not have a material impact on the Company's consolidated financial statements.

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

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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 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 ESOP and Retirement Plan\*
- 10.5 Investors Bancorp, Inc. Supplemental Wage Replacement Plan\*
- 10.6 Investors Savings Bank Deferred Directors Fee Plan\*
- 10.7 Investors Bancorp, Inc. Deferred Directors Fee Plan\*
- 10.8 Executive Officer Annual Incentive Plan\*\*
- 10.9 Agreement and Plan of Merger by and Between Investors Bancorp, Inc and American Bancorp of New Jersey, Inc.\*\*\*
- 10.10 Purchase and Assumption Agreement by and among Millennium and Investors Savings Bank\*\*\*\*
- 14 Code of Ethics\*\*\*\*\*
- 21 Subsidiaries of Registrant\*
- 23.1 Consent of Independent Registered Public Accounting Firm
- 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
- 101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text. \*\*\*\*\*

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- \* 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.
- \*\* Incorporated by reference to Appendix A of the Company's definitive proxy statement filed with the Securities and Exchange Commission on September 26, 2008.
- \*\*\* Incorporated by reference to Form 8-Ks originally filed with the Securities and Exchange Commission on December 15, 2008 and March 18, 2009.
- \*\*\*\* Incorporated by reference to Form 8-K originally filed with the Securities and Exchange Commission on March 30, 2010.
- \*\*\*\*\* Available on our website [www.isbnj.com](http://www.isbnj.com)
- \*\*\*\*\* Furnished, not filed

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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.**

Date: March 1, 2011

By: /s/ Kevin Cummings  
 Kevin Cummings  
 Chief Executive Officer and President  
 (Principal Executive Officer)  
 (Duly Authorized Representative)

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.

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
/s/ Kevin Cummings Kevin Cummings	Chief Executive Officer and President (Principal Executive Officer)	March 1, 2011
/s/ Thomas F. Splaine, Jr. Thomas F. Splaine, Jr.	Chief Financial Officer and Senior Vice President (Principal Financial and Accounting Officer)	March 1, 2011
/s/ Doreen R. Byrnes Doreen R. Byrnes	Director	March 1, 2011
/s/ Domenick Cama Domenick Cama	Director, Chief Operating Officer and Senior Executive Vice President	March 1, 2011
/s/ Robert M. Cashill Robert M. Cashill	Director, Chairman	March 1, 2011
/s/ Brian D. Dittenhafer Brian D. Dittenhafer	Director	March 1, 2011
/s/ Vincent D. Manahan, III Vincent D. Manahan, III	Director	March 1, 2011
/s/ Richard Petroski Richard Petroski	Director	March 1, 2011

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/s/ Stephen J. Szabatin	Director	March 1, 2011
Stephen J. Szabatin		
/s/ James H. Ward III	Director	March 1, 2011
James H. Ward III		

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