VALLEY NATIONAL BANCORP
Form 10-K
March 01, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	**22-2477875**
(State or other jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
1455 Valley Road Wayne, NJ	**07470**
(Address of principal executive office)	**(Zip code)**

973-305-8800

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, no par value	New York Stock Exchange
VNB Capital Trust I 7.75% Trust Preferred Securities (and the Guarantee by Valley National Bancorp with respect thereto)	New York Stock Exchange
Warrants to purchase Common Stock	New York Stock Exchange
Warrants to purchase Common Stock	NASDAQ Capital Market

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 þ 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 þ

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes þ 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. ¨

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

Large accelerated filer þ	Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) 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 þ

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $2.1 billion on June 30, 2010.

There were 161,589,341 shares of Common Stock outstanding at February 23, 2011.

Documents incorporated by reference:

Certain portions of the registrant s Definitive Proxy Statement (the 2011 Proxy Statement) for the 2011 Annual Meeting of Shareholders to be held April 13, 2011 will be incorporated by reference in Part III. The 2011 proxy statement will be filed within 120 days of December 31, 2010.

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PART I

Item 1. *Business*

The disclosures set forth in this item are qualified by Item 1A Risk Factors and the section captioned Cautionary Statement Concerning Forward-Looking Statements in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended (Holding Company Act). The words Valley, the Company, we, our and us refer to Valley National Bancorp and its wholly owned subsidi unless we indicate otherwise. At December 31, 2010, Valley had consolidated total assets of $14.1 billion, total loans of $9.4 billion, total deposits of $9.4 billion and total shareholders equity of $1.3 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the Bank in this report), Valley owns all of the voting and common shares of VNB Capital Trust I and GCB Capital Trust III, through which trust preferred securities were issued. VNB Capital Trust I and GCB Capital Trust III are not consolidated subsidiaries. See Note 12 to the consolidated financial statements.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 198 full-service banking offices located throughout northern and central New Jersey and the New York City boroughs of Manhattan, Brooklyn and Queens. The Bank provides a full range of commercial, retail and wealth management financial services products. The Bank provides a variety of banking services including automated teller machines, telephone and internet banking, overdraft facilities, drive-in and night deposit services, and safe deposit facilities. The Bank also provides certain international banking services to customers including standby letters of credit, documentary letters of credit and related products, and certain ancillary services such as foreign exchange, documentary collections, foreign wire transfers and the maintenance of foreign bank accounts.

Valley National Bank s wholly-owned subsidiaries are all included in the consolidated financial statements of Valley (See Exhibit 21 at Part IV, Item 15 for a complete list of subsidiaries). These subsidiaries include:

- a mortgage servicing company;
- a title insurance agency;
- asset management advisors which are Securities and Exchange Commission (SEC) registered investment advisors;
- an all-line insurance agency offering property and casualty, life and health insurance;
- subsidiaries which hold, maintain and manage investment assets for the Bank;
- a subsidiary which owns and services auto loans;
- a subsidiary which specializes in asset-based lending;
- a subsidiary which offers financing for general aviation aircraft and servicing for existing commercial equipment leases; and

a subsidiary which specializes in health care equipment and other commercial equipment leases.

The Bank s subsidiaries also include real estate investment trust subsidiaries (the REIT subsidiaries) which own real estate related investments and a REIT subsidiary, which owns some of the real estate utilized by the Bank and related real estate investments. Except for Valley s REIT subsidiaries, all subsidiaries mentioned above are directly or indirectly wholly owned by the Bank. Because each REIT must have 100 or more shareholders to qualify as a REIT, each REIT has issued less than 20 percent of their outstanding non-voting preferred stock to individuals, most of whom are non-senior management Bank employees. The Bank owns the remaining preferred stock and all the common stock of the REITs.

Valley National Bank reports the results of its operations and manages its business through four business segments: commercial lending, consumer lending, investment management, and corporate and other adjustments. Valley s Wealth Management Division comprised of trust, asset management and insurance services, is included in the consumer lending segment. See Note 19 to the consolidated financial statements for details of the financial performance of our business segments. We offer a variety of products and services within the commercial and consumer lending segments as described below.

Commercial Lending Segment

Commercial and Industrial Loans. We make commercial loans to small and middle market businesses most often located in the New Jersey and New York area. Our borrowers tend to be companies and individuals with clear credit histories that demonstrate a historic ability to repay current and proposed future debts. Our loan decisions will include consideration of a borrower s standing in the community, willingness to repay debts, collateral coverage and other forms of support. Strong consideration is given to long term existing customers that have maintained a favorable relationship. Commercial loan products offered consist of term loans for equipment purchases, working capital lines of credit that assist our customer s financing of accounts receivable and inventory, and commercial mortgages for owner occupied properties. Working capital advances are generally used to finance seasonal requirements and are repaid at the end of the cycle by the conversion of short-term assets into cash. Short-term commercial business loans may be collateralized by a lien on accounts receivable, inventory, equipment and/or, partly collateralized by real estate. Unsecured loans, when made, are granted to the Bank s most credit worthy borrowers. In addition, through our subsidiaries we make aviation loans, provide financing to the diamond and jewelry industry, the medical equipment leasing market, and engage in asset based accounts receivable and inventory financing.

Commercial Real Estate. We originate commercial real estate loans that are secured by multi-unit residential property and non-owner occupied commercial, industrial, and retail property within New Jersey, New York and Pennsylvania. Loans are generally written on an adjustable basis with rates tied to a specifically identified market rate index. Adjustment periods generally range between five to ten years and repayment is structured on a fully amortizing basis for terms up to thirty years. When underwriting a commercial real estate loan, primary consideration is given to the financial strength and ability of the borrower to service the debt, and the experience and qualifications of the borrower s management and/or guarantors. The underlying collateral value of the mortgaged property and/or financial strength of the guarantors are considered secondary sources of repayment.

Consumer Lending Segment

Residential Mortgage. We will offer a full range of residential mortgage loans for the purpose of purchasing or refinancing one-to-four family residential properties. Residential mortgage loans are secured by 1-4 family properties generally located in counties where we have branch presence and counties contiguous thereto (including Pennsylvania). We do provide mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Underwriting policies that are based on Fannie Mae and Freddie Mac guidelines are adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2010 was 53 percent while FICO® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 768. Terms of first mortgages range from 10 years for interest only loans, to 30 years for fully amortizing loans. In deciding whether to make a residential real estate loan, we consider the qualifications of the borrower as well as the value of the underlying property.

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Other Consumer. Our other consumer loan portfolio is primarily comprised of direct and indirect automobile loans, home equity loans and lines of credit, credit card loans, and to a lesser extent, secured and unsecured other consumer loans. Valley is a auto lender in New Jersey, New York, Pennsylvania, and Connecticut offering direct auto loans secured by either new or used automobiles. Auto loans may be originated directly with the purchasers of the automobile and indirect auto loans are purchased from approved automobile dealers. Home equity lines of credit are secured by 1 to 4 family residential properties and are generally provided as a convenience to our residential mortgage borrowers. Home equity loans and home equity lines of credit may have a variety of terms, interest rates and amortization features. Other consumer loans include direct consumer term loans, both secured and unsecured. From time to time, the Bank will also purchase prime consumer loans originated by and serviced by other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies.

Wealth Management. Our Wealth Management Division provides coordinated and integrated delivery of asset management advisory, trust, brokerage, insurance including title insurance agency, asset management advisory, and asset-based lending support services. Trust services include living and testamentary trusts, investment management, custodial and escrow services, and estate administration, primarily to individuals. Asset management advisory services include investment services for individuals and small to medium sized businesses, trusts and custom tailored investment strategies designed for various types of retirement plans.

SEC Reports and Corporate Governance

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available on our website at www.valleynationalbank.com without charge as soon as reasonably practicable after filing or furnishing them to the SEC. Also available on the website are Valley s Code of Conduct and Ethics that applies to all of our employees including our executive officers and directors, Valley s Audit and Risk Committee Charter, Valley s Compensation and Human Resources Committee Charter, Valley s Nominating and Corporate Governance Committee Charter, Valley s Corporate Governance Guidelines and Valley s Categorical Standards of Independence.

Additionally, we will provide without charge, a copy of our Annual Report on Form 10-K or the Code of Conduct and Ethics to any shareholder by mail. Requests should be sent to Valley National Bancorp, Attention: Shareholder Relations, 1455 Valley Road, Wayne, NJ 07470.

Competition

The market for banking and bank-related services is highly competitive and we face substantial competition in all phases of our operations. We compete with other providers of financial services such as other bank holding companies, commercial banks, savings institutions, credit unions, mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national institutions which offer financial services. De novo branching by several national financial institutions and mergers between financial institutions within New Jersey and New York City, as well as other neighboring states have heightened the competitive pressure in our primary markets. We compete by offering quality products and convenient services at competitive prices (including interest rates paid on deposits, interest rates charged on loans and fees charged for other non-interest related services). We continually review our pricing, products, locations, alternative delivery channels and various acquisition prospects and periodically engage in discussions regarding possible acquisitions to maintain and enhance our competitive position.

Employees

At December 31, 2010, Valley National Bank and its subsidiaries employed 2,720 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

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Executive Officers

Names	Age at December 31, 2010	Executive Officer Since	Office
Gerald H. Lipkin	69	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	53	1991	Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	62	1993	Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	62	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	64	1990	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	67	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	64	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	52	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	63	1991	Executive Vice President of Valley and Valley National Bank
Elizabeth E. De Laney	46	2007	First Senior Vice President of Valley National Bank
Kermit R. Dyke	63	2001	First Senior Vice President of Valley National Bank
Richard P. Garber	67	1992	First Senior Vice President of Valley National Bank
Eric W. Gould	42	2001	First Senior Vice President of Valley National Bank
Russell C. Murawski	61	2007	First Senior Vice President of Valley National Bank
John H. Noonan	64	2006	First Senior Vice President of Valley National Bank
Ira D. Robbins	36	2009	First Senior Vice President of Valley National Bank
Stephen P. Davey	55	2002	Senior Vice President of Valley National Bank
Robert A. Ewing	56	2007	Senior Vice President of Valley National Bank

All officers serve at the pleasure of the Board of Directors.

SUPERVISION AND REGULATION

The Banking industry is highly regulated. Statutory and regulatory controls increase a bank holding company s cost of doing business and limit the options of its management to deploy assets and maximize income. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on Valley or Valley National Bank. It is intended only to briefly summarize some material provisions.

Bank Holding Company Regulation

Valley is a bank holding company within the meaning of the Holding Company Act. As a bank holding company, Valley is supervised by the Board of Governors of the Federal Reserve System (FRB) and is required to file reports with the FRB and provide such additional information as the FRB may require.

The Holding Company Act prohibits Valley, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks, except that it may, upon application, engage in, and may own shares of companies engaged in, certain businesses found by the FRB to be so closely related to banking as to be a proper incident thereto. The Holding Company Act requires prior approval by the FRB of the acquisition by Valley of more than five percent of the voting stock of any other bank. Satisfactory capital ratios and Community Reinvestment Act ratings and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions. The policy of the FRB provides that a bank holding company is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support the subsidiary bank in circumstances in which it might not do so absent that policy. Acquisitions through the Bank require approval of the Office of the Comptroller of the Currency of the United States (OCC). The Holding Company Act does not place territorial restrictions on the activities of non-bank subsidiaries of bank holding companies. The Gramm-Leach-Bliley Act, discussed below, allows Valley to expand into insurance, securities, merchant banking activities, and other activities that are financial in nature if Valley elects to become a financial holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking and Branching Act) enables bank holding companies to acquire banks in states other than its home state, regardless of applicable state law. The Interstate Banking and Branching Act also authorizes banks to merge across state lines, thereby creating interstate banks with branches in more than one state. Under the legislation, each state had the opportunity to opt-out of this provision. Furthermore, a state may opt-in with respect to de novo branching, thereby permitting a bank to open new branches in a state in which the Bank does not already have a branch. Without de novo branching, an out-of-state commercial bank can enter the state only by acquiring an existing bank or branch. States generally have not opted out of interstate banking by merger but several states have not authorized de novo branching.

New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks which meet certain conditions may branch de novo into a state, regardless of state law.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Act, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees;

- After a three-year phase-in period which begins January 1, 2013, removes trust preferred securities as a permitted component of Tier 1 capital for bank holding companies with assets of $15 billion or more, however, bank holding companies with assets of less than $15 billion (including Valley) will be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital;

- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more (such as Valley), increases the minimum reserve ratio for the deposit insurance fund from 1.15 percent to 1.35 percent and changes the basis for determining FDIC premiums from deposits to assets (See Insurance of Deposit Accounts section below);

- Creates a new Consumer Financial Protection Bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws;

- Requires public companies to give shareholders a non-binding vote on executive compensation at their first annual meeting following enactment and at least every three years thereafter and on golden parachute payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders;

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Authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company s proxy materials;

Directs federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion, regardless of whether the company is publicly traded or not;

Prohibits a depository institution from converting from a state to a federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days;

Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;

Provides mortgage reform provisions regarding a customer s ability to repay, requiring the ability to repay for variable-rate loans to be determined by using the maximum rate that will apply during the first five years of the loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;

Creates a Financial Stability Oversight Council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

Makes permanent the $250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions;

Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts; and

Authorizes de novo interstate branching, subject to non-discriminatory state rules, such as home office protection.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is likely to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, is very unpredictable at this time. Our management is actively reviewing the provisions of the Dodd-Frank Act, many of which are phased-in over time, and assessing its probable impact on our business, financial condition, and results of operations. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and us in particular, is uncertain at this time.

Troubled Asset Relief Capital Purchase Program

The Emergency Economic Stabilization Act of 2008 (EESA) was signed into law on October 3, 2008 and authorized the U.S. Treasury to provide funds to be used to restore liquidity and stability to the U.S. financial system. Under the authority of EESA, Treasury instituted the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program) to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy.

In November 2008, we decided to enter into a Securities Purchase Agreement with the U.S. Treasury that provided for our participation in the TARP Capital Purchase Program. On November 14, 2008, Valley issued and sold to the U.S. Treasury 300,000 shares of Valley Fixed Rate Cumulative Perpetual Preferred Stock, with a

liquidation preference of $1 thousand per share, and a ten-year warrant to purchase up to approximately 2.5 million shares of Valley common shares (at $17.77 per share, adjusted for the 5 percent stock dividend issued on May 21, 2010).

During 2009, we incrementally repurchased all 300,000 preferred shares from the U.S. Treasury for an aggregate purchase price of $300 million (excluding accrued and unpaid dividends paid at the date of redemption). After negotiation with the U.S. Treasury, we could not agree on a redemption price for the warrants with the U.S. Treasury. As a result, the U.S. Treasury sold the warrants through a public auction completed on May 24, 2010. The warrants are currently traded on the New York Stock Exchange under the ticker symbol VLY WS . Valley did not receive any of the proceeds of the warrant offering and is no longer a participant in the TARP program.

Regulation of Bank Subsidiary

Valley National Bank is subject to the supervision of, and to regular examination by, the OCC. Various laws and the regulations thereunder applicable to Valley and its bank subsidiary impose restrictions and requirements in many areas, including capital requirements, the maintenance of reserves, establishment of new offices, the making of loans and investments, consumer protection, employment practices, bank acquisitions and entry into new types of business. There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company s non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

Dividend Limitations

Valley is a legal entity separate and distinct from its subsidiaries. Valley s revenues (on a parent company only basis) result in substantial part from dividends paid by the Bank. The Bank s dividend payments, without prior regulatory approval, are subject to regulatory limitations. Under the National Bank Act, dividends may be declared only if, after payment thereof, capital would be unimpaired and remaining surplus would equal 100 percent of capital. Moreover, a national bank may declare, in any one year, dividends only in an amount aggregating not more than the sum of its net profits for such year and its retained net profits for the preceding two years. However, declared dividends in excess of net profits in either of the preceding two years can be offset by retained net profits in the third and fourth years preceding the current year when determining the Bank s dividend limitation. In addition, the bank regulatory agencies have the authority to prohibit the Bank from paying dividends or otherwise supplying funds to Valley if the supervising agency determines that such payment would constitute an unsafe or unsound banking practice.

Loans to Related Parties

Valley National Bank s authority to extend credit to its directors, executive officers and 10 percent stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of the National Bank Act, Sarbanes-Oxley Act and Regulation O of the FRB thereunder. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank s capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank s Board of Directors. Under the Sarbanes-Oxley Act, Valley and its subsidiaries, other than the Bank, may not extend or arrange for any personal loans to its directors and executive officers.

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Community Reinvestment

Under the Community Reinvestment Act (CRA), as implemented by OCC regulations, a national bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OCC, in connection with its examination of a national bank, to assess the association s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such association. The CRA also requires all institutions to make public disclosure of their CRA ratings. Valley National Bank received a satisfactory CRA rating in its most recent examination.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting, to increase corporate responsibility and to protect investors. Among other things, the Sarbanes-Oxley Act of 2002 has:

- required our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and required our auditors to issue a report on our internal control over financial reporting;
- imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, including certification of financial statements within the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q by the chief executive officer and the chief financial officer;
- established independence requirements for audit committee members and outside auditors;
- created the Public Company Accounting Oversight Board (PCAOB); and
- increased various criminal penalties for violations of securities laws.

Each of the national stock exchanges, including the New York Stock Exchange (NYSE) where Valley common securities are listed and the NASDAQ Capital Market, where certain Valley warrants are listed, have corporate governance listing standards, including rules strengthening director independence requirements for boards, and requiring the adoption of charters for the nominating, corporate governance and audit committees.

USA PATRIOT Act

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the Anti Money Laundering Act). The Anti Money Laundering Act authorizes the Secretary of the U.S. Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country.

Regulations implementing the due diligence requirements, require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking

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agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of concentration accounts, and requires all covered financial institutions to have in place an anti-money laundering compliance program. The OCC, along with other banking agencies, have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (Gramm-Leach-Bliley Act) became effective in early 2000. The Gramm-Leach-Bliley Act provides for the following:

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was previously permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies;

- allows insurers and other financial services companies to acquire banks;

- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and

- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

If a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals. Valley has not elected to become a financial holding company.

The OCC adopted rules to allow national banks to form subsidiaries to engage in financial activities allowed for financial holding companies. Electing national banks must meet the same management and capital standards as financial holding companies but may not engage in insurance underwriting, real estate development or merchant banking. Sections 23A and 23B of the Federal Reserve Act apply to financial subsidiaries and the capital invested by a bank in its financial subsidiaries will be eliminated from the Bank s capital in measuring all capital ratios. Valley National Bank sold its one wholly owned financial subsidiary, Glen Rauch Securities, Inc, on March 31, 2008.

The Gramm-Leach-Bliley Act modified other financial laws, including laws related to financial privacy and community reinvestment.

Insurance of Deposit Accounts

The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC). Under the FDIC s risk-based system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors with less risky institutions paying lower assessments on their deposits.

In 2009, the FDIC imposed a special emergency assessment on all insured institutions in order to cover losses to the Deposit Insurance Fund resulting from bank failures. Valley National Bank recorded an expense of $6.5 million during the quarter ended June 30, 2009, to reflect the special assessment. In addition, in lieu of further special assessments, the FDIC required all insured depository institutions to prepay on December 30, 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. Estimated assessments for the fourth quarter of 2009 and for all of 2010 were based upon the assessment rate in effect on September 30, 2009, with three basis points added for the 2011 and 2012 assessment rates. In addition, a 5 percent annual growth in the assessment base was assumed. Prepaid assessments are to be applied against the actual quarterly assessments until exhausted, and may not be applied to any special assessments that may occur in the future. Any unused prepayments will be returned to the institution on June 30, 2013. On December 30, 2009, Valley National Bank prepaid approximately $45.5 million in estimated assessment fees. Because the prepaid assessments represent the prepayment of future expense, they do not affect Valley National Bank s capital (the prepaid asset will have a risk-weighting of zero percent) or tax obligations. The balance of prepaid FDIC assessment fees at December 31, 2010 was $33.4 million.

In February 2011, as required by the Dodd Frank Act, the Federal Deposit Insurance Corporation approved a final rule that revised the assessment base to consist of average consolidated total assets during the assessment period minus the average tangible equity during the assessment period. In addition, the final revisions eliminate the adjustment for secured borrowings, including Federal Home Loan Bank advances, and make certain other changes to the impact of unsecured borrowings and brokered deposits on an institution s deposit insurance assessment. The rule also revises the assessment rate schedule to provide assessments ranging from 2.5 to 45 basis points. The changes will go into effect beginning April 1, 2011 and the first new assessment will be payable as a reduction to our prepaid FDIC assessment fees in the third quarter of 2011. We are currently evaluating the final rule s impact on the level of Valley National Bank s FDIC assessment fees and can provide no assurance that such fees will not materially increase in the future.

As previously noted above, the Dodd-Frank Act makes permanent the $250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions. On January 18, 2011, the FDIC issued a final rule to include Interest on Lawyer Trust Accounts (IOLTAs) in the temporary unlimited deposit coverage for non-interest bearing demand transactions accounts.

The FDIC has authority to further increase insurance assessments. A significant increase in insurance premiums may have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Temporary Liquidity Guarantee Program

The FDIC s Transaction Account Guarantee (TAG) Program, one of two components of the Temporary Liquidity Guarantee Program, provides full federal deposit insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount. Valley National Bank opted to participate in this program, which was initially set to expire on December 31, 2009. On August 26, 2009, the FDIC extended the program until June 30, 2010, and revised the annualized assessment rate charged for the guarantee to between 15 and 25 basis points, depending on the institution s risk category, on balances in non-interest bearing transaction accounts that exceed the existing deposit insurance limit of $250,000. On April 13, 2010, the FDIC announced a second extension of the program until December 31, 2010. We opted out of the second extension and ended our participation in the TAG Program effective June 30, 2010.

The Dodd Frank-Wall Street Reform and Consumer Protection Act included a two-year extension of the TAG Program, though the extension does not apply to all accounts covered under the current program. The extension through December 31, 2012 applies only to non-interest bearing transaction accounts. Beginning January 1, 2011, low-interest consumer checking (NOW) accounts and IOLTAs will no longer be eligible for the unlimited guarantee. Unlike the original TAG Program, which allowed banks to opt in, the extended program will apply at all FDIC-insured institutions and will no longer be funded by separate premiums. The FDIC will account for the additional TAG insurance coverage in determining the amount of the general assessment it charges under the risk-based assessment system.

The second component of the Temporary Liquidity Guarantee Program, the Debt Guarantee Program, guarantees certain senior unsecured debt of participating organizations. Valley National Bank opted to participate in this component of the Temporary Liquidity Guarantee Program. However, we have not issued debt under the TLG Program.

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FIRREA

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. These provisions have commonly been referred to as FIRREA s cross guarantee provisions. Further, under FIRREA, the failure to meet capital guidelines could subject a bank to a variety of enforcement remedies available to federal regulatory authorities.

FIRREA also imposes certain independent appraisal requirements upon a bank s real estate lending activities and further imposes certain loan-to-value restrictions on a bank s real estate lending activities. The Bank regulators have promulgated regulations in these areas.

FDICIA

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be well capitalized. The financial holding company of a national bank will be put under directives to raise its capital levels or divest its activities if the depository institution falls from that level.

The OCC s regulations implementing these provisions of FDICIA provide that an institution will be classified as well capitalized if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. An institution will be classified as adequately capitalized if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent or (b) at least 3.0 percent if the institution was rated 1 in its most recent examination, and (iv) does not meet the definition of well capitalized. An institution will be classified as undercapitalized if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent or (b) less than 3.0 percent if the institution was rated 1 in its most recent examination. An institution will be classified as significantly undercapitalized if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. Valley National Bank s capital ratios were all above the minimum levels required for it to be considered a well capitalized financial institution at December 31, 2010.

In addition, significant provisions of FDICIA required federal banking regulators to impose standards in a number of other important areas to assure bank safety and soundness, including internal controls, information systems and internal audit systems, credit underwriting, asset growth, compensation, loan documentation and interest rate exposure.

Basel III

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III . Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

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The Basel III final capital framework, among other things, (i) introduces as a new capital measure Common Equity Tier 1 (CET1), (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, Basel III requires banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%). The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios: 3.5% CET1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2011 with final adoption of implementing regulations in mid-2012. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, Dodd-Frank requires or permits the Federal banking agencies to adopt regulations affecting banking institutions capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact our net income and return on equity.

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Item 1A. ***Risk Factors***

An investment in our securities is subject to risks inherent to our business. The material risks and uncertainties that management believes affect Valley are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing Valley. Additional risks and uncertainties that management is not aware of or that management currently believes are immaterial may also impair Valley s business operations. The value or market price of our securities could decline due to any of these identified or other risks, and you could lose all or part of your investment. This report is qualified in its entirety by these risk factors.

Negative Impact of a Persistently Weak Economy.

The United States experienced a severe economic recession in 2008 and 2009. While modest economic growth has recently resumed, the rate of growth has been slow and unemployment remains at very high levels and is not expected to improve in the near future. Much of Valley s lending is in northern and central New Jersey, and Manhattan, Brooklyn and Queens, New York. As a result of this geographic concentration, a further significant broad-based deterioration in economic conditions in New Jersey and the New York City metropolitan area could have a material adverse impact on the quality of Valley s loan portfolio, results of operations and future growth potential. Prolonged weakened economic conditions and unemployment in our market area could restrict borrowers ability to pay outstanding principal and interest on loans when due, and, consequently, adversely affect the cash flows and results of operation of Valley s business. Additionally, such weak conditions may also continue to adversely affect our ability to originate loans.

A Significant Portion of Our Loan Portfolio Is Secured By Real Estate, And Events That Negatively Impact The Real Estate Market Could Hurt Our Business.

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2010, approximately 69 percent of our loans that are not covered by loss-sharing agreements with the FDIC had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A continued weakening of the real estate market in our primary market areas could continue to result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and shareholders equity could be adversely affected. The declines in home prices in the New Jersey and New York metropolitan markets we serve, along with the reduced availability of mortgage credit, also may result in increases in delinquencies and losses in our loan portfolios. Further declines in home prices coupled with a deepened economic recession and continued rises in unemployment levels could drive losses beyond that which is provided for in our allowance for loan losses. In that event, our earnings could be adversely affected.

Additionally, recent weakness in the secondary market for residential lending could have an adverse impact on our profitability. Significant ongoing disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of most mortgage loans other than conforming Fannie Mae and Freddie Mac loans. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans held, mortgage loan originations and gains on sale of mortgage loans. Continued declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which could adversely affect our financial condition or results of operations. For additional risks related to our sales of residential mortgages in the secondary market, see the We May Incur Future Losses in Connection With Repurchases and Indemnification Payments Related to Mortgages That We Have Sold Into the Secondary Market risk section below.

Our Allowance For Loan Losses May Not Be Sufficient to Cover Loan Losses in Our Loan Portfolio.

We maintain an allowance for loan losses based on, among other things, national and regional economic conditions, historical loss experience, and our assumptions regarding delinquency trends and future loss expectations. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio. Bank regulators review the classification of our loans in their examination of us and we may be required in the future to change the classification on certain of our loans, which may require us to increase our provision for loan losses or loan charge-offs. Valley s management could also decide that the allowance for loan losses should be increased. If actual net charge-offs were to exceed Valley s allowance, its earnings would be negatively impacted by additional provisions for loan losses. Any increase in our allowance for loan losses or loan charge-offs as required by the OCC or otherwise could have an adverse effect on our results of operations or financial condition.

Further Increases in Our Non-performing Assets May Occur and Adversely Affect Our Results of Operations and Financial Condition.

As a result of the economic downturn, particularly during 2009 and the beginning of 2010, we are facing historically high levels of delinquencies on our loans. Our non-performing assets (which consist of non-accrual loans, other real estate owned and other repossessed assets) increased from 0.45 percent of loans and non-performing assets at December 31, 2008 to 1.04 percent and 1.24 percent of loans and non-performing assets at December 31, 2009 and 2010, respectively.

Until economic and market conditions improve at a more rapid pace, we expect to incur charge-offs to our allowance for loan losses and lost interest income relating to an increase in non-performing loans. Our non-performing assets adversely affect our net income in various ways. Adverse changes in the value of our non-performing assets, or the underlying collateral, or in the borrowers performance or financial conditions could adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience further increases in non-performing loans in the future, or that our non-performing assets will not result in lower financial returns in the future.

Changes in Interest Rates Can Have an Adverse Effect on Our Profitability.

Valley s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond Valley s control, including general economic conditions, competition, and policies of various governmental and regulatory agencies and, in particular, the policies of the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest Valley receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Valley s ability to originate loans and obtain deposits, (ii) the fair value of Valley s financial assets and liabilities, including the held to maturity, available for sale, and trading securities portfolios, and (iii) the average duration of Valley s interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk).

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on Valley s results of operations, any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on Valley s financial condition and results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act May Affect Our Business Activities, Financial Position and Profitability By Increasing Our Regulatory Compliance Burden and Associated Costs, Placing Restrictions on Certain Products and Services, and Limiting Our Future Capital Raising Strategies.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by the President of the United States. The Dodd-Frank Act implements significant changes in financial regulation and will impact all financial institutions, including Valley and the Bank. Among the Dodd-Frank Act s significant regulatory changes, it creates a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the Bureau), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The Bureau has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. The Bureau will also have exclusive supervision over our consumer compliance examinations, replacing our current examinations by the Comptroller of the Currency in this area. Moreover, the Dodd-Frank Act permits states to adopt stricter consumer protection laws and authorizes state attorney generals to enforce consumer protection rules issued by the Bureau. The Dodd-Frank Act also restricts the authority of the Comptroller of the Currency to preempt state consumer protection laws applicable to national banks, such as the Bank, and may affect the preemption of state laws as they affect subsidiaries and agents of national banks, changes the scope of federal deposit insurance coverage, and potentially increases the FDIC assessment payable by the Bank. We expect that the Bureau and certain other provisions in the Dodd-Frank Act will significantly increase our regulatory compliance burden and costs and may restrict the financial products and services we offer to our customers.

The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new issuances of trust preferred securities from counting as Tier 1 capital. These restrictions will limit our future capital strategies. Under the Dodd-Frank Act, our outstanding trust preferred securities will continue to count as Tier 1 capital but we will be unable to issue replacement or additional trust preferred securities which would count as Tier 1 capital. The Dodd-Frank Act also increases regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

Because many of the Dodd-Frank Act s provisions require regulatory rulemaking, we are uncertain as to the impact that some of the provisions of the Dodd-Frank Act will have on Valley and the Bank and cannot provide assurance that the Dodd-Frank Act will not adversely affect our financial condition and results of operations for other reasons.

Regulatory Changes May Reduce Our Fee Income.

On July 6, 2010, final rules implemented by the Federal Reserve took effect, which impose overdraft fee restrictions and may reduce our non-interest income. The new rules prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one time debit card transactions, unless a consumer consents to the overdraft service for those types of transactions. During the second half of 2010, a large number of customers opted in to our standard overdraft practice, which has partially mitigated the negative impact of this rule change on the level of service charges on deposit accounts recognized in non-interest income for the year ended December 31, 2010.

In addition, pursuant to Section 1075 of the Dodd-Frank Act, the Federal Reserve has proposed rules, which may limit the debit card interchange fees that we are permitted to charge. These rules, applicable to debit card issuers with assets of over $10 billion such as the Bank, would establish standards for determining whether a debit card interchange fee is reasonable and proportional to the cost incurred for the transaction. Although the new rules are in preliminary form, if they are adopted substantially as proposed we expect that our interchange fees from debit card transactions would substantially decrease. The new rules are scheduled to become effective on July 21, 2011.

We can provide no assurance that the change in regulation will not materially restrict or continue to reduce our ability to generate these fees in the future periods.

Extensive Regulation and Supervision May Have a Material Effect on Our Business.

Valley, primarily through its principal subsidiary and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole. Many of the federal laws and regulations are not designed to protect Valley shareholders. Many affect Valley s lending practices, capital structure, investment practices, dividend policy and growth, among other things. They require Valley to focus lending in defined areas, and establish and maintain comprehensive programs relating to anti-money laundering and customer identification. Congress, state legislatures, and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect Valley in substantial and unpredictable ways. Such changes could subject Valley to additional costs, limit the types of financial services and products it may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on Valley s business, financial condition and results of operations. Valley s compliance with certain of these laws will be considered by banking regulators when reviewing bank merger and bank holding company acquisitions.

Changes in Accounting Policies or Accounting Standards.

Valley s accounting policies are fundamental to understanding its financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of Valley s assets or liabilities and financial results. Valley identified its accounting policies regarding the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time, the FASB and the SEC change their guidance governing the form and content of Valley s external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles (GAAP), such as the FASB, SEC, banking regulators and Valley s outside auditors, may change or even reverse their previous interpretations or positions on how these standards should be applied. Such changes are expected to continue, and may accelerate based on the FASB and International Accounting Standards Board commitments to achieving convergence between U.S. GAAP and International Financial Reporting Standards. Changes in U.S. GAAP and changes in current interpretations are beyond Valley s control, can be hard to predict and could materially impact how Valley reports its financial results and condition. In certain cases, Valley could be required to apply a new or revised guidance retroactively or apply existing guidance differently (also retroactively) which may result in Valley restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel, and other expenses that will negatively impact our results of operations.

Declines in Value May Adversely Impact the Investment Portfolio.

As of December 31, 2010, we had approximately $1.9 billion, $1.0 billion, and $31.9 million in held to maturity, available for sale, and trading investment securities, respectively. We may be required to record impairment charges in earnings related to credit losses on our investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, (a) if we intend to sell a security or (b) it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we will be required to recognize an other-than-temporary impairment charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

Among other securities, our investment portfolio includes private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled securities), perpetual preferred securities issued by banks, and bank issued corporate bonds. These investments pose a risk of future impairment charges by us as a result of the slow recovery in the U.S. economy and its negative effect on the performance of these issuers and/or the underlying mortgage loan collateral. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon requirements or recommendations by bank regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley s investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management.

If an impairment charge is significant enough it could affect the ability of the Bank to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios.

Currently, we own $55.0 million in trust preferred securities (with unrealized losses totaling $38.1 million at December 31, 2010) of one issuer who has elected to defer interest payments since the latter half of 2009 based upon the conditions of an agreement with its bank regulator. At this time, we are uncertain whether in future periods we will be required to take impairment charges with regard to these securities. See Note 4 to the consolidated financial statements for further information.

An Increased Valuation of Our Junior Subordinated Debentures Issued to VNB Capital Trust I May Adversely Impact Our Net Income and Earnings Per Share.

Effective January 1, 2007, we elected to carry the junior subordinated debentures issued to VNB Capital Trust I at fair value. We measure the fair value of these junior subordinated debentures using exchange quoted prices in active markets for similar assets, specifically the trust preferred securities issued by VNB Capital Trust I, which contain identical terms as our junior subordinated debentures (see Note 12 to the consolidated financial statements). As a result, any increase in the market quoted price, or fair market value, of our trust preferred securities will result in a commensurate increase in the liability required to be recorded for the junior subordinated debentures with an offsetting non-cash charge against our earnings. We recognized non-cash charges totaling $5.8 million ($3.8 million after taxes) and $15.8 million ($10.3 million after taxes) during 2010 and 2009, respectively, due to the change in the fair value of the junior subordinated debentures caused by an increase in the market price of the trust preferred securities. The non-cash charges against our earnings do not impact our liquidity or our regulatory capital. We cannot predict whether or to what extent we would be required to take a non-cash charge against earnings related to the change in fair value of our junior subordinated debentures in future periods. Furthermore, changes in the law and regulations or other factors could require us to redeem the junior subordinated debentures at par value. If we are carrying the junior subordinated debentures at a fair value below par value when such redemption occurs, we will be required to record a charge against earnings in the period in which the redemption occurred.

Increased FDIC Assessments will Adversely Affect Our Financial Condition.

The recent economic downturn has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $6.5 million. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012 in December 2009. We prepaid a total assessment of $48.5 million in December 2009. Notwithstanding this prepayment, the FDIC may impose additional special assessments for future quarters or may increase the FDIC standard assessments. Furthermore, the Dodd-Frank Act changed the FDIC assessment standards which may cause our assessments to increase. We cannot provide you with any assurances that we will not be required to pay additional FDIC insurance assessments, which could have an adverse effect on our results of operations.

We May be Adversely Affected by the Soundness of Other Financial Institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including the Federal Home Loan Bank of New York, commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Liquidity Risk.

Liquidity risk is the potential that Valley will be unable to meet its obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to persistent weakness, or downturn, in the economy or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not necessarily specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Our Deposit Base May Be Adversely Affected by the Loss of Lower-Cost Funding Sources.

Checking and savings, NOW, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market or money market or fixed income mutual funds, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, Valley could lose a relatively low cost source of funds, increasing its funding costs and reducing Valley s net interest income and net income.

We Are a Holding Company and Depend on Our Subsidiaries for Dividends, Distributions and Other Payments.

We are a separate and distinct legal entity from our banking and non-banking subsidiaries and depend on dividends, distributions, and other payments from the Bank and its non-banking subsidiaries to fund cash dividend payments on our common stock and to fund most payments on our other obligations. Regulations relating to capital requirements affect the ability of the Bank to pay dividends and other distributions to us and to make loans to us. Additionally, if our subsidiaries earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common shareholders or interest payments on our junior subordinated debentures issued to capital trusts. Furthermore, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

We May Reduce or Eliminate the Cash Dividend on Our Common Stock.

Our common cash dividend payout per common share was approximately 88.9 percent of our earnings per share for the year ended December 31, 2010. Our low retention rate resulted from earnings being negatively impacted by net trading losses caused primarily by to mark-to-market losses on the fair value of our junior subordinated debentures, net impairment losses on certain investment securities, and the lack of loan growth mainly caused by the current economic conditions. A prolonged economic recovery or a downturn in the economy, an increase in our costs to comply with current and future changes in banking laws and regulations, and other factors may negatively impact our future earnings and ability to maintain our dividend at current levels.

Holders of our common stock are only entitled to receive such cash dividends, as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock cash dividend in the future. This could adversely affect the market price of our common stock. Also, as a bank holding company, our ability to declare and pay dividends is dependent on federal regulatory considerations including the guidelines of the OCC and the FRB regarding capital adequacy and dividends.

Competition in the Financial Services Industry.

Valley faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than Valley. Valley competes with other providers of financial services such as commercial and savings banks, savings and loan associations, credit unions, money market and mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a large list of other local, regional and national institutions which offer financial services. Mergers between financial institutions within New Jersey and in neighboring states have added competitive pressure. If Valley is unable to compete effectively, it will lose market share and its income generated from loans, deposits, and other financial products will decline.

Future Offerings of Common Stock, Debt or Other Securities May Adversely Affect the Market Price of Our Stock.

In the future, we may increase our capital resources or, if our or the Bank s capital ratios fall below the prevailing regulatory required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of common stock, preferred stock, trust preferred securities and debt securities. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Potential Acquisitions May Disrupt Valley s Business and Dilute Shareholder Value.

Valley regularly evaluates merger and acquisition opportunities, including FDIC-assisted transactions, and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Valley s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on Valley s financial condition and results of operations.

We Are Subject to Certain Risks in Connection With Our Strategy of Growing Through Mergers and Acquisitions Including FDIC-Assisted Transactions.

We continue to pursue a strategy of enhancing our growth by acquiring other financial institutions or their assets and liabilities. Accordingly, it is possible that we could acquire other financial institutions, financial service providers, or branches of banks in the future, including additional acquisitions from the FDIC acting in its capacity as receiver for such financial institutions. However, our ability to engage in future mergers and acquisitions depends on our ability to identify potential opportunities, our ability to finance and complete such transactions on acceptable terms and at acceptable prices, our ability to bid competitively for FDIC-assisted transactions, and our ability to receive the necessary regulatory and, where required, shareholder approvals.

The acquisition of assets and liabilities of financial institutions in FDIC-sponsored or assisted transactions involves risks similar to those faced when acquiring existing financial institutions, even though the FDIC might provide assistance to mitigate certain risks, e.g., entering into loss-sharing arrangements. However, because such transactions are structured in a manner that does not allow the time normally associated with evaluating and preparing for the integration of an acquired institution, we face the additional risk that the anticipated benefits of such an acquisition may not be realized fully or at all, or within the time period expected.

Furthermore, mergers and acquisitions involve a number of risks and challenges, including:

- Potential exposure to asset quality issues or unknown contingent liabilities of the banks, businesses, assets and liabilities we acquire;
- Our success in deploying any cash received in a transaction into assets bearing sufficiently high yields without incurring unacceptable credit or interest rate risk;
- Our ability to earn acceptable levels of interest and non-interest income, including fee income, from the acquired banks, businesses, assets or branches;
- Our ability to control the incremental non-interest expense from the acquired banks, businesses, assets or branches in a manner that enables us to maintain a favorable overall efficiency ratio; and
- Our need to finance an acquisition by borrowing funds or raising additional capital, which could diminish our liquidity or dilute the interests of our existing stockholders.

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Loans Acquired in Our Recent FDIC-Assisted Transactions May Not Be Covered By Loss-Sharing Agreements if the FDIC Determines That We Have Not Adequately Managed These Agreements.

In connection with the acquisitions of certain assets and liabilities of LibertyPointe Bank and The Park Avenue Bank, we entered into loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreement with the FDIC in the LibertyPointe Bank transaction, the FDIC is obligated to reimburse us for: (i) 80 percent of any future losses on loans covered by the loss-sharing agreement up to $55.0 million, after we absorb such losses up to the first loss tranche of $11.7 million; and (ii) 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement with the FDIC in The Park Avenue Bank transaction, the FDIC is obligated to reimburse us for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. Although the FDIC has agreed to reimburse us for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if the loss-sharing agreements are not managed in accordance with their terms. In addition, reimbursable losses are based on the book value of the relevant loans as determined by the FDIC as of the effective dates of the transactions. The amount that we realize on these loans could differ materially from the carrying value that will be reflected in our financial statements, based upon the timing and amount of collections on the covered loans in future periods.

Failure to Successfully Manage Risks Related to Our Implementation of Growth Strategies Could Have a Material Adverse Effect on Our Business.

Valley has a strategic branch expansion initiative to expand its physical presence in Brooklyn and Queens, as well as add locations within its New Jersey and Manhattan markets. We may also expand our branch network into markets outside of these areas based upon changes in management strategy and/or bank acquisition opportunities that may become available in the future. Valley has opened a combined total of 14 branch locations within Brooklyn and Queens since starting its initiative in these new markets during 2007. Valley s ability to successfully execute in these markets depends upon a variety of factors, including its ability to attract and retain experienced personnel, the continued availability of desirable business opportunities and locations, the competitive responses from other financial institutions in the new market areas, and the ability to manage growth. These initiatives could cause Valley s expenses to increase faster than revenues. Valley can provide no assurances that it will successfully implement or continue these initiatives.

There are considerable initial and on-going costs involved in opening branches, growing loans in new markets, and attracting new deposit relationships. These expenses could negatively impact future earnings. For example, it takes time for new branches and relationships to achieve profitability. Expenses could be further increased if there are delays in the opening of new branches or if attraction strategies are more costly than expected. Delays in opening new branches can be caused by a number of factors such as the inability to find suitable locations, zoning and construction delays, and the inability to attract qualified personnel to staff the new branch. In addition, there is no assurance that a new branch will be successful even after it has been established.

From time to time, Valley may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. Valley may invest significant time and resources to develop and market new lines of business and/or products and services. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting customer preferences, may also impact the successful implementation of a new line of business or a new product or service. Additionally, any new line of business and/or new product or service could have a significant impact on the effectiveness of Valley s system of internal controls. Failure to successfully manage these risks could have a material adverse effect on Valley s business, results of operations and financial condition.

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The Price of Our Common Stock May Fluctuate.

The price of our common stock on the NYSE constantly changes and recently, given the uncertainty in the financial markets, has fluctuated widely and may continue to fluctuate. Holders of our common stock will be subject to the risk of volatility and changes in prices.

Our common stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly fluctuations in our operating and financial results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- events negatively impacting the financial services industry which result in a general decline in the market valuation of our common stock;
- announcements of material developments affecting our operations or our dividend policy;
- future sales of our equity securities;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles; and
- general domestic economic and market conditions.

In addition, recently the stock market generally has experienced extreme price and volume fluctuations, and industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

Encountering Continuous Technological Change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Valley s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in Valley s operations. Many of Valley s competitors have substantially greater resources to invest in technological improvements. Valley may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on Valley s business and, in turn, Valley s financial condition and results of operations.

Operational Risk.

We face the risk that the design of our controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as us) and to the risk that our (or our vendors) business continuity and data security systems prove to be inadequate. We maintain a system of comprehensive policies and a control framework designed to monitor vendor risks including, among other things, (i) changes in the vendor s organizational structure or internal controls, (ii) changes in the vendor s financial condition, (iii) changes in the vendor s support for existing products and services and (iv) changes in the vendor s strategic focus. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, we face increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Our business operations could be adversely affected if we are unable to attract new employees and retain and motivate our existing employees.

Severe Weather, Acts of Terrorism and Other External Events Could Significantly Impact Our Business.

A significant portion of our primary markets are located near coastal waters which could generate naturally occurring severe weather, or in response to climate change, that could have a significant impact on our ability to conduct business. Additionally, New York City and New Jersey remain central targets for potential acts of terrorism against the United States. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although we have established disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We Are Subject to Environmental Liability Risk Associated With Lending Activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review prior to originating certain commercial real estate loans, as well as before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

We May Incur Future Losses in Connection With Repurchases and Indemnification Payments Related to Mortgages That We Have Sold Into the Secondary Market.

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. The substantial decline in residential real estate values and the standards used by some originators has resulted in more repurchase requests to many secondary market participants from secondary market purchasers. Since January 1, 2006, we have originated and sold over 6,500 individual residential mortgages totaling approximately $1.1 billion. During this same period, we have received only two loan repurchase requests, of which both requests resulted in the repurchases of performing residential mortgages by Valley. The repurchases occurred during 2010 and one of the two loans was subsequently re-sold at a premium, while the other repurchased loan continues to perform to its contractual terms within our portfolio. As of December 31, 2010, no reserves pertaining to loans sold were established on our financial statements. While we currently believe our repurchase risk remains low based upon our careful loan underwriting and documentation standards, it is possible that requests to repurchase loans could occur in the future and such requests may have a negative financial impact on us.

Claims and Litigation Pertaining to Fiduciary Responsibility.

From time to time as part of Valley s normal course of business, customers make claims and take legal action against Valley based on actions or inactions of Valley. If such claims and legal actions are not resolved in a manner favorable to Valley, they may result in financial liability and/or adversely affect the market perception of Valley and its products and services. This may also impact customer demand for Valley s products and services. Any financial liability or reputation damage could have a material adverse effect on Valley s business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

We conduct our business at 198 retail banking center locations, with 169 in northern and central New Jersey and 29 in the New York City metropolitan area. We own 93 of our banking center facilities. The other facilities are leased for various terms. Additionally, we have 4 other properties located in New Jersey and New York City that were either owned or under contract to purchase or lease. We intend to develop these properties into new retail branch locations during 2011 and 2012.

Our principal business office is located at 1455 Valley Road, Wayne, New Jersey. Including our principal business office, we own four office buildings in Wayne, New Jersey and one building in Chestnut Ridge, New York which are used for various operations of Valley National Bank and its subsidiaries.

The total net book value of our premises and equipment (including land, buildings, leasehold improvements and furniture and equipment) was $265.6 million at December 31, 2010. We believe that all of our properties and equipment are well maintained, in good condition and adequate for all of our present and anticipated needs.

Item 3. ***Legal Proceedings***

In the normal course of business, we may be a party to various outstanding legal proceedings and claims. In the opinion of management, our financial condition, results of operations, and liquidity should not be materially affected by the outcome of such legal proceedings and claims.

Item 4. ***Removed***

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the NYSE under the ticker symbol VLY . The following table sets forth for each quarter period indicated the high and low sales prices for our common stock, as reported by the NYSE, and the cash dividends declared per common share for each quarter. The amounts shown in the table below have been adjusted for all stock dividends and stock splits.

	Year 2010			Year 2009		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 15.10	$ 12.29	$ 0.18	$ 18.37	$ 7.66	$ 0.18
Second Quarter	16.19	13.52	0.18	14.73	10.30	0.18
Third Quarter	15.00	12.33	0.18	13.23	10.35	0.18
Fourth Quarter	14.55	12.46	0.18	13.65	11.06	0.18

There were 8,728 shareholders of record as of December 31, 2010.

Restrictions on Dividends

The timing and amount of cash dividends paid depend on our earnings, capital requirements, financial condition and other relevant factors. The primary source for dividends paid to our common stockholders is dividends paid to us from Valley National Bank. Federal laws and regulations contain restrictions on the ability of national banks, like Valley National Bank, to pay dividends. For more information regarding the restrictions on the Bank s dividends, see Item 1. Business Supervision and Regulation Dividend Limitations and Item 1A. Risk Factors We May Reduce or Eliminate the Cash Dividend on Our Common Stock above, and Note 16 to the consolidated financial statements contained in Item 8 of this Annual Report. In addition, under the terms of the trust preferred securities issued by VNB Capital Trust I and GCB Capital Trust III, we cannot pay dividends on our common stock if we defer payments on the junior subordinated debentures which provide the cash flow for the payments on the trust preferred securities.

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Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2005 in: (a) Valley s common stock; (b) the Standard and Poor s (S&P) 500 Stock Index; and (c) the Keefe, Bruyette & Woods KBW50 Bank Index. The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time based on dividends (stock or cash) and increases or decreases in the market price of the stock.

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Issuer Repurchase of Equity Securities

The following table presents the purchases of equity securities by the issuer and affiliated purchasers during the three months ended December 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans [(1)]	Maximum Number of Shares that May Yet Be Purchased Under the Plans[(1)]
October 1, 2010 to October 31, 2010		$		3,730,127
November 1, 2010 to November 30, 2010	20,143[(2)]	13.00		3,730,127
December 1, 2010 to December 31, 2010	500[(2)]	13.82		3,730,127
Total	20,643			

(1) On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.3 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended December 31, 2010.

(2) Represents repurchases made in connection with the vesting of employee stock awards.

Equity Compensation Plan Information

The information set forth in Item 12 of Part III of this Annual Report under the heading Equity Compensation Plan Information is incorporated by reference herein.

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Item 6. ***Selected Financial Data***

The following selected financial data should be read in conjunction with Valley s consolidated financial statements and the accompanying notes thereto presented herein in response to Item 8 of this Annual Report.

	As of or for the Years Ended December 31, (in thousands, except for share data)				
	2010	2009	2008	2007	2006
Summary of Operations:					
Interest income tax equivalent basis [1]	$ 682,402	$ 717,411	$ 735,153	$ 731,188	$ 713,930
Interest expense	214,060	262,870	308,895	343,322	316,250
Net interest income tax equivalent basis [1]	468,342	454,541	426,258	387,866	397,680
Less: tax equivalent adjustment	5,590	5,227	5,459	6,181	6,559
Net interest income	462,752	449,314	420,799	381,685	391,121
Provision for credit losses	49,456	47,992	28,282	11,875	9,270
Net interest income after provisions for credit losses	413,296	401,322	392,517	369,810	381,851
Non-interest income:					
Net impairment losses on securities recognized in earnings	(4,642)	(6,352)	(84,835)	(17,949)	(4,722)
Trading (losses) gains, net	(6,897)	(10,434)	3,166	7,399	1,208
Gains on sale of assets, net	619	605	518	16,051	3,849
Other non-interest income	102,247	88,432	84,407	83,527	71,729
Total non-interest income	91,327	72,251	3,256	89,028	72,064
Non-interest expense:					
FDIC insurance assessment	13,719	20,128	1,985	1,003	1,085
Goodwill impairment				2,310	
Other non-interest expense	303,963	285,900	283,263	250,599	249,255
Total non-interest expense	317,682	306,028	285,248	253,912	250,340
Income before income taxes	186,941	167,545	110,525	204,926	203,575
Income tax expense	55,771	51,484	16,934	51,698	39,884
Net income	131,170	116,061	93,591	153,228	163,691
Dividends on preferred stock and accretion		19,524	2,090		
Net income available to common stockholders	$ 131,170	$ 96,537	$ 91,501	$ 153,228	$ 163,691
Per Common Share [2]:					
Earnings per share:					
Basic	$ 0.81	$ 0.64	$ 0.64	$ 1.10	$ 1.16
Diluted	0.81	0.64	0.64	1.10	1.15
Dividends declared	0.72	0.72	0.72	0.72	0.70
Book value	8.02	7.80	7.20	6.84	6.77
Tangible book value [3]	5.89	5.80	5.04	5.37	5.26
Weighted average shares outstanding:					
Basic	161,059,906	151,675,691	143,805,528	139,215,889	141,657,890
Diluted	161,068,175	151,676,409	143,884,683	139,628,162	142,235,816
Ratios:					
Return on average assets	0.93%	0.81%	0.69%	1.25%	1.33%
Return on average shareholders equity	10.32	8.64	8.74	16.43	17.24
Return on average tangible shareholders equity [4]	13.97	11.34	11.57	21.17	22.26
Average shareholders equity to average assets	9.00	9.40	7.94	7.58	7.72
Tangible common equity to tangible assets [5]	6.90	6.68	5.22	5.94	6.06

Efficiency ratio [6]	57.34	58.67	67.27	53.94	54.00
Dividend payout	88.89	113.43	114.29	65.35	60.71
Risk-based capital:					
Tier 1 capital	10.94%	10.64%	11.44%	9.55%	10.56%
Total capital	12.91	12.54	13.18	11.35	12.44
Leverage capital	8.31	8.14	9.10	7.62	8.10
Financial Condition:					
Assets	$ 14,143,826	$ 14,284,153	$ 14,718,129	$ 12,748,959	$ 12,395,027
Net loans	9,241,091	9,268,081	10,050,446	8,423,557	8,256,967
Deposits	9,363,614	9,547,285	9,232,923	8,091,004	8,487,651
Shareholders equity	1,295,205	1,252,854	1,363,609	949,060	949,590

See Notes to the Selected Financial Data that follow.

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Notes to Selected Financial Data

(1) In this report a number of amounts related to net interest income and net interest margin are presented on a tax equivalent basis using a 35 percent federal tax rate. Valley believes that this presentation provides comparability of net interest income and net interest margin arising from both taxable and tax-exempt sources and is consistent with industry practice and SEC rules.

(2) All per common share amounts reflect a five percent common stock dividend issued May 21, 2010, and all prior stock splits and dividends.

(3) This Annual Report on Form 10-K contains supplemental financial information which has been determined by methods other than U.S. GAAP that management uses in its analysis of our performance. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance, our business and performance trends, and facilitates comparisons with the performance of others in the financial services industry. These non-GAAP financial measures should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP.

Tangible book value per common share, which is a non-GAAP measure, is computed by dividing shareholders equity less preferred stock, and less goodwill and other intangible assets by common shares outstanding as follows:

	At December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except for share data)				
Common shares outstanding	161,460,596	160,637,298	148,863,994	138,743,092	140,217,480
Shareholders equity	$ 1,295,205	$ 1,252,854	$ 1,363,609	$ 949,060	$ 949,590
Less: Preferred stock			291,539		
Less: Goodwill and other intangible assets	343,541	320,729	321,100	204,547	211,355
Tangible common shareholders equity	$ 951,664	$ 932,125	$ 750,970	$ 744,513	$ 738,235
Tangible book value per common share	$ 5.89	$ 5.80	$ 5.04	$ 5.37	$ 5.26

(4) Return on average tangible shareholders equity, which is a non-GAAP measure, is computed by dividing net income by average shareholders equity less average goodwill and average other intangible assets, as follows:

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	($ in thousands)				
Net income	$ 131,170	$ 116,061	$ 93,591	$ 153,228	$ 163,691
Average shareholders equity	1,270,778	1,342,790	1,071,358	932,637	949,613
Less: Average goodwill and other intangible assets	331,667	319,756	262,613	208,797	214,338
Average tangible shareholders equity	$ 939,111	$ 1,023,034	$ 808,745	$ 723,840	$ 735,275
Return on average tangible shareholders equity	13.97%	11.34%	11.57%	21.17%	22.26%

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(5) Tangible common shareholders equity to tangible assets, which is a non-GAAP measure, is computed by dividing tangible shareholders equity (shareholders equity less preferred stock, and less goodwill and other intangible assets) by tangible assets, as follows:

	At December 31,				
	2010	2009	2008	2007	2006
			($ in thousands)		
Tangible common shareholders equity	$ 951,664	$ 932,125	$ 750,970	$ 744,513	$ 738,235
Total assets	14,143,826	14,284,153	14,718,129	12,748,959	12,395,027
Less: Goodwill and other intangible assets	343,541	320,729	321,100	204,547	211,355
Tangible assets	$ 13,800,285	$ 13,963,424	$ 14,397,029	$ 12,544,412	$ 12,183,672
Tangible common shareholders equity to tangible assets	6.90%	6.68%	5.22%	5.94%	6.06%

(6) The efficiency ratio measures total non-interest expense as a percentage of net interest income plus total non-interest income.

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Item 7. ***Management s Discussion and Analysis (MD&A) of Financial Condition and Results of Operations***

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing Valley s results of operations for each of the past three years and financial condition for each of the past two years. In order to fully appreciate this analysis the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing under Item 8 of this report, and statistical data presented in this document.

Cautionary Statement Concerning Forward-Looking Statements

This Annual Report on Form 10-K, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management s confidence and strategies and management s expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as should, expect, believe, view, opportunity, allow, continues, reflects, typically, usually, anticipate, or similar statements or variations Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements in addition to those risk factors listed under the Risk Factors section of this Annual Report on Form 10-K include, but are not limited to:

- a continued weakness or unexpected decline in the U.S. economy, in particular in New Jersey and the New York Metropolitan area;
- higher than expected increases in our allowance for loan losses;
- higher than expected increases in loan losses or in the level of nonperforming loans;
- unexpected changes in interest rates;
- a continued or unexpected decline in real estate values within our market areas;
- declines in value in our investment portfolio;
- charges against earnings related to the change in fair value of our junior subordinated debentures;
- higher than expected FDIC insurance assessments;
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships;
- lack of liquidity to fund our various cash obligations;
- unanticipated reduction in our deposit base;

potential acquisitions may disrupt our business;

government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;

legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations) subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;

changes in accounting policies or accounting standards;

our inability to promptly adapt to technological changes;

our internal controls and procedures may not be adequate to prevent losses;

claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters;

the possibility that the expected benefits of acquisitions will not be fully realized, including lower than expected cash flows from covered loans acquired in FDIC-assisted transactions; and

other unexpected material adverse changes in our operations or earnings.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform, in all material respects, to U.S. GAAP. In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Actual results could differ materially from those estimates.

Valley s accounting policies are fundamental to understanding management s discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements. We identified our policies for the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and could be most subject to revision as new information becomes available. Management has reviewed the application of these policies with the Audit and Risk Committee of Valley s Board of Directors.

The judgments used by management in applying the critical accounting policies discussed below may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. Specifically, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in material changes in the allowance for loan losses in future periods, and the inability to collect on outstanding loans could result in increased loan losses. In addition, the valuation of certain securities (including debt security valuations based on the expected future cash flows of their underlying collateral) in our investment portfolio could be negatively impacted by illiquidity or dislocation in marketplaces resulting in depressed market prices thus leading to further impairment losses.

Allowance for Loan Losses. The allowance for loan losses represents management s estimate of probable loan losses inherent in the loan portfolio and is the largest component of the allowance for credit losses which also includes management s estimated reserve for unfunded commercial letters of credit. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Various banking regulators, as an integral part of their examination process, also review the allowance for loan losses. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. Additionally, the allowance for loan losses is determined, in part, by the composition and size of the loan portfolio which represents the largest asset type on the consolidated statements of financial condition.

Allowance for Loan Losses on Non-Covered Loans

The allowance for losses on non-covered loans relates only to loans which are not subject to the loss-sharing agreements with the FDIC. The allowance for losses on non-covered loans consists of the following:

specific reserves for individually impaired loans;

reserves for adversely classified loans, and higher risk rated loans that are not impaired loans; and

reserves for other loans that are not impaired.

Our reserves on classified and non-classified loans also include reserves based on general economic conditions and other qualitative risk factors both internal and external to Valley, including changes in loan portfolio volume, the composition and concentrations of credit, new market initiatives, and the impact of competition on loan structuring and pricing.

Allowance for Loan Losses on Covered Loans

During 2010, we acquired loans in two FDIC-assisted transactions that are covered by loss-sharing agreements with the FDIC whereby we will be reimbursed for a substantial portion of any future losses. We evaluated the acquired covered loans and elected to account for them in accordance with Accounting Standards Codification (ASC) Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, since all of these loans were acquired at a discount attributable, at least in part, to credit quality. The covered loans are initially recorded at their estimated fair values segregated into pools of loans sharing common risk characteristics, exclusive of the loss-sharing agreements with the FDIC. The fair values include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The covered loans are subject to our internal credit review. If and when unexpected credit deterioration occurs at the loan pool level subsequent to the acquisition date, a provision for credit losses for covered loans will be charged to earnings for the full amount of the decline in expected cash flows for the pool, without regard to the FDIC loss-sharing agreements. Under the accounting guidance of ASC Subtopic 310-30 for acquired credit impaired loans, the allowance for loan losses on covered loans is measured at each financial reporting date based on future expected cash flows. This assessment and measurement is performed at the pool level and not at the individual loan level. Accordingly, decreases in expected cash flows resulting from further credit deterioration on a pool of acquired covered loan pools as of such measurement date compared to those originally estimated are recognized by recording a provision and allowance for credit losses on covered loans. Subsequent increases in the expected cash flows of the loans in that pool would first reduce any allowance for loan losses on covered loans; and any excess will be accreted for prospectively as a yield adjustment. The portion of the additional estimated losses on covered loans that is reimbursable from the FDIC under the loss-sharing agreements is recorded in non-interest income and increases the FDIC loss-share receivable asset.

Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in this MD&A.

Changes in Our Allowance for Loan Losses

Valley considers it difficult to quantify the impact of changes in forecast on its allowance for loan losses. However, management believes the following discussion may enable investors to better understand the variables that drive the allowance for loan losses, which amounted to $124.7 million at December 31, 2010.

For impaired credits, if the fair value of the collateral (for collateral dependent loans) or the present value of expected cash flows (for other impaired loans) were ten percent higher or lower, the allowance would have decreased $8.1 million and increased $9.4 million, respectively, at December 31, 2010.

If classified loan balances were ten percent higher or lower, the allowance would have increased or decreased by approximately $2.8 million, respectively, at December 31, 2010.

The credit rating assigned to each non-classified credit is an important variable in determining the allowance. If each non-classified credit were rated one grade worse, the allowance would have increased by approximately $10.2 million, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2010. Additionally, if the historical loss factors used to calculate the allowance for non-classified loans were ten percent higher or lower, the allowance would have increased or decreased by approximately $7.0 million, respectively, at December 31, 2010.

A key variable in determining the allowance is management s judgment in determining the size of the allowances attributable to general economic conditions and other qualitative risk factors. At December 31, 2010, such allowances were 6.6 percent of the total allowance. If such allowances were ten percent higher or lower, the total allowance would have increased or decreased by $835 thousand, respectively, at December 31, 2010.

Security Valuations and Impairments. Management utilizes various inputs to determine the fair value of its investment 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 liquid markets, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (Level 3). 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. A significant degree of judgment is involved in valuing investments using Level 3 inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations. See Note 3 to the consolidated financial statements for more details on our security valuation techniques.

Management must periodically evaluate if unrealized losses (as determined based on the securities valuation methodologies discussed above) on individual securities classified as held to maturity or available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment s book value is greater than fair value, the severity of the investment s decline, any credit deterioration of the investment, whether management intends to sell the security, and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Debt investment securities deemed to be other-than-temporarily impaired are written down by the impairment related to the estimated credit loss and the non-credit related impairment is recognized in other comprehensive income. Other-than-temporarily impaired equity securities are written down to fair value and a non-cash impairment charge is recognized in the period of such evaluation.

We recognized other-than-temporary impairment charges on securities of $4.6 million, $6.4 million, and $84.8 million in 2010, 2009, and 2008, respectively, as a reduction of non-interest income on the consolidated statements of income. See the Investment Securities section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.

Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, Business Combinations. Goodwill totaling $317.9 million at December 31, 2010 is not amortized but is subject to annual tests for impairment or more often, if events or circumstances indicate it may be impaired. Other intangible assets totaling $25.7 million at December 31, 2010 are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Such evaluation of other intangible assets is based on undiscounted cash flow projections. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities.

The goodwill impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses is not permitted.

Fair value may be determined using: market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other determinants. Estimated cash flows may extend far into the future and, by their nature, are difficult to determine over an extended timeframe. Factors that may materially affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates, terminal values, and specific industry or market sector conditions.

To assist in assessing the impact of potential goodwill or other intangible asset impairment charges at December 31, 2010, the impact of a five percent impairment charge would result in a reduction in net income of approximately $17.2 million. See Note 9 to consolidated financial statements for additional information regarding goodwill and other intangible assets.

Income Taxes. We are subject to the income tax laws of the U.S., its states and municipalities. The income tax laws of the jurisdictions in which we operate are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws to our business activities, as well as the timing of when certain items may affect taxable income.

Our interpretations may be subject to review during examination by taxing authorities and disputes may arise over the respective tax positions. We attempt to resolve these disputes during the tax examination and audit process and ultimately through the court systems when applicable. We monitor relevant tax authorities and revise our estimate of accrued income taxes due to changes in income tax laws and their interpretation by the courts and regulatory authorities on a quarterly basis. Revisions of our estimate of accrued income taxes also may result from our own income tax planning and from the resolution of income tax controversies. Such revisions in our estimates may be material to our operating results for any given quarter.

The provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management s judgment, their realizability is determined to be more likely than not. We perform regular reviews to ascertain the realizability of our deferred tax assets. These reviews include management s estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies. In connection with these reviews, if we determine that a portion of the deferred tax asset is not realizable, a valuation allowance is established. As of December 31, 2010, management has determined it is more likely than not that Valley will realize its net deferred tax assets and therefore valuation allowance was not established.

We maintain a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. We adjust our unrecognized tax benefits as necessary when additional information becomes available. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured based on the largest amount of benefit that management believes is more likely than not to be realized. It is possible that the reassessment of our unrecognized tax benefits may have a material impact on our effective tax rate in the period in which the reassessment occurs.

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See Notes 1 and 14 to the consolidated financial statements and the Income Taxes section in this MD&A for an additional discussion on the accounting for income taxes.

New Authoritative Accounting Guidance. See Note 1 of the consolidated financial statements for a description of recent accounting pronouncements including the dates of adoption and the anticipated effect on our results of operations and financial condition.

Executive Summary

Although the year started as a continuation of the economic recession experienced in 2009, the economy began to improve during 2010, though at a rate that was insufficient to bring about a significant improvement in unemployment. The Federal Reserve maintained, and continues to support, a target range of zero to 0.25 percent for the federal funds rates due to current economic conditions. In November 2010, the Federal Reserve announced a large-scale asset purchase program for U.S. Treasury securities through 2011, aimed to keep interest rates low and reduce unemployment levels, as it attempts to accelerate the nation s economic recovery. We believe a low-rate, high unemployment environment would continue to challenge our business operations and results in many ways during 2011, as previously highlighted in Part I, Item 1A, Risk Factors above and the discussion below.

Net income available to common shareholders for the year ended December 31, 2010 was $131.2 million, or $0.81 per diluted common share, compared to $96.5 million in 2009, or $0.64 per diluted common share after $19.5 million in dividends and accretion on Valley preferred stock under the U.S. Treasury s TARP Capital Purchase Program which was fully redeemed in 2009. (All common share data is adjusted to reflect a five percent common stock dividend issued on May 21, 2010). The increase in net income was largely due to: (i) a 26.4 percent increase in non-interest income resulting primarily from post-acquisition date increases in our FDIC loss-share receivable, increased gains on sales of residential mortgage loans and investment securities, and lower net trading losses mainly due to a decline in non-cash mark to market losses on our junior subordinated debentures carried at fair value, (ii) higher net interest income, resulting from a widening of the net interest margin on an annual basis mainly caused by our interest bearing liabilities repricing quicker than our earning assets in a prolonged low interest rate environment, and (iii) a decline in the FDIC insurance assessment due to the industry-wide special assessment in 2009, partially offset by (iv) increases in salary and employee benefit expense, net occupancy and equipment expense, and professional and legal fees due, in part, to additional expenses related to the FDIC-assisted acquisitions of LibertyPointe Bank and The Park Avenue Bank in March 2010, as well as from de novo branch openings during the latter half of 2009 and 2010. Salary and employee benefit expense also increased due to the resumption of cash incentive compensation accruals during 2010 (as no non-contractual bonuses were accrued or awarded to employees for the 2009 period), normal annual employee salary increases in 2010, as well as higher pension and medical insurance costs incurred during 2010.

Loan growth in most loan categories remained a challenge for us during 2010 and a decline in our average loan balances as compared to the year ended December 31, 2009 resulted in a $18.2 million decrease in our tax equivalent interest income on loans. However, our loan portfolio totaled $9.4 billion at December 31, 2010 and remained relatively unchanged as compared to December 31, 2009 mainly due to $356.7 million in loans acquired in two FDIC-assisted transactions during the first quarter of 2010 for which Valley National Bank will share losses with the FDIC. The acquisition of the covered loans almost completely offset a $360.9 million decline in our non-covered loan portfolio from December 31, 2009. The majority of the decrease in non-covered loans was due to declines in our automobile and commercial real estate portfolios.

Growth within our commercial lending segment, which includes commercial, commercial real estate, and construction loans, and especially the commercial real estate portfolio, was challenged by persistently weak business loan demand within our New Jersey markets. We believe many of these borrowers are reluctant to expand their business operations or enter into new ventures until they see stronger signals of improvement in the economy and unemployment levels. The commercial real estate portfolio has experienced the biggest decline in volume within the segment as many of our commercial real estate borrowers continued to pay down lines of credit and accelerated payment of loan balances with their own excess liquidity. In response to soft demand, we have increased our business emphasis on co-op and multifamily loan lending in our markets. We believe there are profitable growth opportunities in these lending areas, that still offer sound credit metrics. Additionally, many of our commercial and industrial loan customers in New York appear less impacted by the current state of the economy and have begun to draw down on their lines of credit and invest in growing their companies during the fourth quarter of 2010. However, our New York jeweler trade customers continue to struggle with low demand due to the slow economy, as well as changes in spending habits of many consumers after the financial crisis.

Our consumer lending segment, which includes residential mortgage, home equity, automobile, and other consumer loans, declined $250.8 million from December 31, 2009 to December 31, 2010 mainly due to a $179.2 million decline in the auto portfolio. Auto balances declined due to several factors, including our high credit standards, acceptable loan to collateral value levels, and high unemployment levels. Additionally, in an attempt to build market share, some large competitors began to offer rates and terms that are well below levels we believe to be profitable, further impacting the level of our auto loan originations during the second half of 2010. These factors may continue to constrain the levels of our auto loan originations well into 2011.

Our residential mortgage originations continued to be one of the bright spots in the consumer lending segment, as we originated nearly $980 million in new and refinanced residential mortgages in 2010 as compared to approximately $640 million in 2009. Much of the 2010 loan volume was due to the success of our one-price refinancing program with total closing costs as low as $499 including title insurance fees. In the latter half of 2010, we also opened our first residential mortgage loan production office in Eastern Pennsylvania, and we anticipate further increases in origination activity in 2011 partly as a result of this geographic expansion outside of our normal New Jersey and New York City markets, dependent on the level of interest rates. Despite the increase in mortgage activity during 2010, our residential mortgage loan portfolio declined year over year as we elected to sell, or hold for sale many of the fixed-rate loan originations due to the low level of interest rates and our desire to manage the interest rate risk inherent in our balance sheet by minimizing the additions of such long-term low fixed-rate instruments to the loan portfolio. We may experience further declines in the entire loan portfolio during 2011 due to a prolonged economic recovery cycle, high unemployment, or due to certain of our asset/liability management strategies, including the sale of new residential mortgage loan originations due to the low level of interest rates. See more details in the Loan Portfolio section below.

Mindful of the difficult business environment and the higher delinquency rates reported throughout the banking industry, we believe our loan portfolio s performance remained at an acceptable level as of December 31, 2010. Total loans past due in excess of 30 days increased 0.16 percent to 1.77 percent of our total loan portfolio of $9.4 billion as of December 31, 2010 compared to 1.61 percent of total loans at December 31, 2009. Our non-accrual loans increased $13.1 million to $105.1 million, or 1.12 percent of total loans at December 31, 2010 as compared to $92.0 million, or 0.98 percent of total loans at December 31, 2009. The increased amount of non-accrual loans was mainly due to the weak economy. Although the timing of collection is uncertain, we believe most of our non-accrual loans are well secured and, ultimately, collectible. Our lending strategy is based on underwriting standards designed to maintain high credit quality; however, due to the potential for future credit deterioration caused by a prolonged economic recovery and high levels of unemployment, management cannot provide assurance that our non-performing assets will not continue to increase from the levels reported as of December 31, 2010. See Non-performing Assets section below for further analysis of our credit quality.

Lack of loan growth and the low level of interest rates has proved challenging, from an asset and liability management perspective, for Valley and many other financial institutions during 2010. However, net interest income, the primary driver of our earnings, grew to $462.8 million, a 3.0 percent increase from the prior year. Much of the increase came from a 59 basis point decline in our costs of interest bearing deposits caused, in part, by the Federal Reserve s efforts to maintain a low level of interest rates in 2010 and the maturity of higher cost time deposits. Our net interest margin and net interest income increased each of the first three quarters of 2010 primarily due to repricing of time deposits at lower rates. However, our net interest margin began to show signs of interest rate pressures during the fourth quarter of 2010 as it declined 15 basis points to 3.63 percent (on a fully tax equivalent basis) from the third quarter of 2010, and net interest income declined $4.7 million (on a fully tax equivalent basis) during the same period. The declines were mainly due to normal repricing activity, sales and balance reductions within our loan and investment security portfolios due to the low-rate environment and a decrease in interest income recognized on covered loans, which more than offset the continued reduction in high cost time deposits. See more details in the Net Interest Income section below.

Our net impairment charges on investment securities declined $1.7 million from 2009 to $4.6 million for the year ended December 31, 2010. Although our impairment charges on investment securities continued to decline in 2010, our investment portfolio still contains a large amount of private label mortgage-backed securities, trust preferred securities, and other bank issued investment securities with a higher than normal risk of future impairment charges due to, among other factors, a prolonged U.S. economic recovery and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral. See the Investment Securities section below and Note 4 to the consolidated financial statements for further analysis of our investment portfolio.

Our non-interest expense was positively impacted by a $6.4 million decline in the FDIC insurance assessment during 2010 due to the industry-wide special assessment levied in 2009. Bank failures, totaling 140 institutions in 2009, led to the depletion of the FDIC s insurance fund and resulted in a large increase in our FDIC insurance assessment expense for 2009, including a $6.5 million special assessment. In 2010, this negative trend continued as the number of bank failures increased to 151 institutions. Weak economic conditions, and potentially the negative impact of past lending practices, continued to adversely influence the operating results of many financial institutions. In addition, the FDIC has continued to report additional bank failures during 2011. The FDIC may impose additional special assessments for future quarters or may further increase the FDIC standard assessments, which could adversely affect our non-interest expense in 2011 and beyond.

The financial markets are in the midst of unprecedented change due to current and future regulatory and market reform, including new regulations outlined under the Dodd-Frank Act, and a slow economic recovery unseen in past U.S. recessions. These changes will impact us and our competitors, and will challenge the way we both do business in the future. We believe our current capital position, ability to evaluate credit and other investment opportunities, conservative balance sheet, and commitment to excellent customer service will afford us a competitive advantage in the future. Additionally, we are well positioned to move quickly on market expansion opportunities as they may arise, through possible acquisitions of other institutions, or failed banks within New Jersey and the New York City Metropolitan area.

Net Interest Income

Net interest income consists of interest income and dividends earned on interest earning assets less interest expense paid on interest bearing liabilities and represents the main source of income for Valley. The net interest margin on a fully tax equivalent basis is calculated by dividing tax equivalent net interest income by average interest earning assets and is a key measurement used in the banking industry to measure income from interest earning assets. The net interest margin was 3.69 percent, for the year ended December 31, 2010, an increase of 20 basis points compared to 2009. As a continuation of 2009, our 2010 efforts to control our funding costs coupled with a low interest rate environment allowed us to decrease the interest rates paid on savings, NOW, and money market accounts, while maturing high cost certificates of deposit also repriced at lower interest rates. Additionally, lower rates on customer repos balances mostly contributed to an 80 basis point decline in the cost of short-term borrowings during 2010. Offsetting the positive impact of the lower costs of funds, a decline in average earning asset balances mainly caused by low levels of new loan demand for most loan types and a 13 basis point decline in the yield on average earning assets both negatively impacted our interest income and our ability to further expand the net interest margin. Both the declines in cost and yield continued during all of 2010 as the level of interest rates remained low due to, in part, the Federal Reserve s continued efforts to revive the

U.S. economy and maintain the target federal funds rate at a historical low rate range of between zero to 0.25 percent since the fourth quarter of 2008. However, our fourth quarter net interest income and net interest margin declined significantly from the third quarter of 2010 due to a decline in interest income caused by the prepayment and some sales of higher yielding loans and investment securities, loan refinance activity in the current low interest rate environment, a decline in accretion on pooled covered loans resulting from lower average balances, and a general lack of loan growth with the exception of our residential mortgage loan portfolio. During 2010, we continued to actively shorten the duration of interest earning assets and reduce the credit risk of our balance sheet by (i) mainly reinvesting normal principal paydowns on higher yield investments in short duration and lower yielding securities, primarily consisting of residential mortgage-backed securities issued by Ginnie Mae and U.S. Treasury securities, and (ii) continued to sell the majority of our refinanced and new residential mortgage loan originations with low fixed interest rates in the secondary market. Management expects the maintenance of its short-term positioning of the balance sheet to enhance our ability to benefit from expanded growth in the economy and potential increases in future interest rates. However, management cannot guarantee that its asset/liability management strategies will prevent future declines in the net interest margin or net interest income, even if the economy continues to recover or a rise in interest rates were to occur.

Net interest income on a tax equivalent basis increased $13.8 million to $468.3 million for 2010 compared with $454.5 million for 2009. During 2010, a 41 basis point decline in interest rates paid on average interest bearing liabilities and lower average interest bearing liabilities positively impacted our net interest income, but were partially offset by a 66 basis point decline in the yield on average investments, a 5 basis point decline in the yield on average loans, and lower average loan balances as compared to 2009. Market interest rates on interest bearing deposits trended lower in 2010 as a result of the Federal Reserve s commitment to its monetary policy and the excess liquidity in the marketplace. Additionally, many of our higher cost time deposits continued to mature and, if renewed, repriced at lower interest rates in 2010.

Our earning asset portfolio is comprised of both fixed-rate and adjustable-rate loans and investments. Many of our earning assets are priced based upon the prevailing treasury rates, the Valley prime rate (set by Valley management based on various internal and external factors) or on the U.S. prime interest rate as published in The Wall Street Journal. On average, the 10 year treasury rate decreased from 3.24 percent in 2009 to 3.20 percent in 2010, negatively impacting our yield on average loans as new and renewed fixed-rate loans were originated at lower interest rates in 2010. However, Valley s prime rate and the U.S. prime rate have remained at 4.50 percent and 3.25 percent, respectively, since the fourth quarter of 2008. Our U.S. prime rate based loan portfolio should have an immediate positive impact on the yield of our average earning assets if the prime rate begins to move upward in 2011, while an increase in treasury rates should also have a positive, but more gradual, effect on our interest income based on our ability to originate new and renewed fixed rate loans. We do not expect our Valley prime rate portfolio to have an immediate benefit to our interest income in a rising interest rate environment due to its current level above the U.S. prime rate. We also expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period.

Average loans totaling $9.5 billion for the year ended December 31, 2010 decreased $230.9 million as compared to 2009 mainly due to declines in our commercial real estate and automobile loan portfolios. Average investment securities increased $74.3 million, or 2.5 percent in 2010 as compared to the year ended December 31, 2009 due to reinvestment of excess liquidity from the decline in loan demand. The decline in average loan balances during 2010 and a 5 basis point decline in yield on such loans contributed to an $18.2 million decrease in interest income on a tax equivalent basis for loans for the year ended December 31, 2010 compared with 2009. Interest income on a tax equivalent basis for investment securities also decreased $16.2 million due to a 66 basis point decline in yield caused by normal principal paydowns and sales of higher yield securities which were mainly reinvested in shorter term and lower yield securities as we continued to reduce our repricing risk during 2010 and maintain an acceptable level of asset sensitivity on our balance sheet in the event of a rise in market interest rates. The decline in yield on investment securities was partially mitigated by the increase in average investment securities during 2010 as we reallocated some of our excess liquidity from loan principal paydowns and interest bearing cash balances at the Federal Reserve.

Average interest bearing liabilities decreased $221.8 million to $10.4 billion for the year ended December 31, 2010 from the same period in 2009 mainly due to the maturity of high cost time deposits and lower average short-term borrowings caused by higher levels of short-term FHLB advances outstanding during the first half of 2009 due to liquidity concerns caused by the financial crisis. Average long-term borrowings (including junior subordinated debentures issued to capital trusts) also decreased $52.7 million from 2009 mainly due to the maturity of certain long-term positions in FHLB advances that we entered into during the second quarter of 2008. Partially offsetting these decreases, was an increase in average savings, NOW, and money market account balances as compared to 2009 mainly due to additional retail deposits generated from our 19 de novo branches opened over the last three year period and other existing branches as household savings appeared to remain strong due to the current economic conditions. The cost of time deposits, and short-term borrowings and savings, NOW, and money market accounts decreased 88, 80, and 19 basis points, respectively, during 2010 due to the low level of market interest rates throughout 2010. Additionally, we anticipate that maturing higher cost time deposits will continue to have some benefit to our interest margin in the first quarter of 2011.

The net interest margin on a tax equivalent basis was 3.69 percent for the year ended December 31, 2010 compared with 3.49 percent for the year ended December 31, 2009. The change was mainly attributable to a decrease in interest rates paid on all interest bearing liabilities, run-off of higher cost time deposits and higher average investment balances, partially offset by lower yields on average investments and loans. The yield on average interest earning assets decreased 13 basis points while average interest rates paid on interest bearing liabilities decreased 41 basis points causing a 20 basis point increase in the net interest margin for Valley as compared to the year ended December 31, 2009.

During the fourth quarter of 2010, net interest income on a tax equivalent basis decreased $4.7 million and the net interest margin declined 15 basis points when compared with the third quarter of 2010. The linked quarter decrease was primarily due to a decline in interest income caused by the prepayment and sale of higher yielding loans and investment securities, loan refinance activity in the current low interest rate environment, a decline in the accretion on pooled covered loans resulting from lower average pool balances, and a general lack of loan growth with the exception of our residential mortgage loan portfolio. The excess liquidity from the loan and investment prepayments and sales contributed to a $96.9 million increase in average federal funds sold and other interest bearing deposits yielding only 0.26 percent during the fourth quarter of 2010. We anticipate lower levels of excess liquidity in the first quarter of 2011 which should positively impact our net interest income and margin; however, expected yields on new loans and investments will continue to be at levels below current portfolio yields due to the current interest rate environment. The lower yields on new loans is expected to be partially offset by higher forecasted cash flows on certain pools of covered loans in future periods that are performing better than was originally expected at the acquisition dates (see Note 5 to the consolidated financial statements for additional information). Interest expense on time deposits declined $986 thousand due to maturing high cost time deposits and lower average balances, and partially mitigated the negative impact of the decrease in interest income during the quarter. Overall, the low level of interest rates combined with the continued short-term positioning of interest earning assets is expected to put pressure on our net interest margin results during 2011. To mitigate these factors, management may deploy several asset/liability management strategies, including a reduction in the sales of mortgage loan originations based on acceptable levels of credit risk and terms, or an increase in the competitive pricing of certain targeted loan products without compromising our high underwriting standards. We also expect a continued decline in the average rate of our time deposits due to the maturity of higher rate certificates of deposit to have a positive impact on our net interest margin.

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The following table reflects the components of net interest income for each of the three years ended December 31, 2010, 2009 and 2008:

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY AND

NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	2010
	Average Balance
	($ in thousands)

life of 6.0 years, a risk-free interest rate of 2.37%, an expected price volatility of 35.0% and an expected dividend yield of 3.0%. The exercise price of the options is $92.71, which was th
mptions: an expected life of 5.8 years, a risk-free interest rate of 2.22% and an expected price volatility of 30.0%. As the 2011 OPP Awards are subject to both a service condition and a m
recognized in full by the time that portion vests. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Earnings in Excess of Dividends in the Co
September 30, 2011 and 2010, respectively. Upon the conclusion of the three-year measurement period in February 2011, the 2008 OPP Awards were not earned, the program was termin
September 30, 2011. For

010. At September 30, 2011, there was $29.5 million of unrecognized compensation expense related to unvested restricted stock and LTIP Units and $6.1 million of

ies its operations by both geographic area and property type. The Company s segments by geographic area are Greater Boston, Greater Washington, DC, Midtown M

rest and other income, development and management services, general and administrative expenses, acquisition costs, interest expense, depreciation and amortization
unconsolidated joint ventures, gain on sale of real e

ve of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. All companies may not calculate Net Oper

Greater Washington, DC	Midtown Manhattan	Greater San Francisco
$ 95,192	$ 115,284	$ 53,978
4,235		
2,169		
101,596	115,284	53,978
22.87%	25.95%	12.15%
26,036	39,331	20,788
1,108		
2,148		
29,292	39,331	20,788
18.19%	24.43%	12.91%
$ 72,304	$ 75,953	$ 33,190
25.53%	26.82%	11.72%

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	Greater Washington, DC	Midtown Manhattan	Greater San Francisco
	$ 84,708	$ 111,383	$ 54,268
	3,912		
	88,620	111,383	54,268
	23.32%	29.32%	14.28%
	24,243	35,908	20,317
	993		
	25,236	35,908	20,317
	18.80%	26.75%	15.14%
	$ 63,384	$ 75,475	$ 33,951
	25.79%	30.71%	13.82%

	Greater Washington, DC	Midtown Manhattan	Greater San Francisco
	$ 265,286	$ 341,698	$ 161,039
	12,177		
	2,745		
	280,208	341,698	161,039
	21.86%	26.65%	12.56%
	74,221	114,423	60,241
	3,242		
	2,871		
	80,334	114,423	60,241
	17.54%	24.99%	13.16%
	$ 199,874	$ 227,275	$ 100,798

24.25%	27.58%	12.23%

Greater Washington, DC		Midtown Manhattan		Greater San Francisco	
$	251,126	$	332,301	$	160,899
	11,883				
	263,009		332,301		160,899
	23.40%		29.56%		14.32%
	69,968		110,177		59,047
	3,137				
	73,105		110,177		59,047
	18.56%		27.97%		14.99%
$	189,904	$	222,124	$	101,852
	26.01%		30.42%		13.95%

Three months ended September 30,				Nine months September
		2010		2011
3,216	$	245,736	$	824,150
3,180		6,439		24,706
1,326		11,565		28,184
1,252		1,814		4,179
7,340		18,067		62,052
51		1,893		136
9,495		81,133		330,003
860		(731)		481
5,777		97,103		290,164
86		889		1,118
832		820		2,497
3,991		8,712		23,409
0,542	$	57,668	$	171,359

oment project located in Washington, DC. The construction financing bears interest at a variable rate equal to LIBOR plus 1.65% per annum and matures on October

ng the assumption by the buyer of approximately $176.6 million of mortgage indebtedness. Net cash proceeds totaled approximately $209.8 million, of which the Co

rincipal amount to yield an effective rate (including financing fees) of 3.853% to maturity. The notes will mature on November 15, 2018, unless earlier redeemed. Th

On November 4, 2011, the Company s Operating Partnership agreed to repurchase approximately $50.0 million aggregate principal amount of

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As used herein, the terms we, us, our and the Company refer to Boston Properties, Inc., a Delaware corporation organized in 199

within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make
al matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future per
ard-looking statements reflect our good-faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they

Some of the risks and uncertainties that may cause our actual results, performanc

ngs:

financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties; and

y our properties or on an unsecured basis;

etition from other developers, owners and operators of real estate);

ts and public opposition to such activities);

st and/or availability of financing;

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petitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can it asses
estors should also refer to our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for future periods and Current Reports on Form 8-K
forward-looking statements. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or facto

Boston, midtown Manhattan, Washington, DC, San Francisco and Princeton, NJ. We generate revenue and cash primarily by leasing our Class A office space to our
f tenant improvements and other landlord concessions, current and anticipated operating costs and real estate taxes, our current and anticipated vacancy, current and a

n has tended to reduce our exposure in down cycles and enhance revenues as market conditions improve. To be successful in the current leasing environment, we beli
ilding standards provide us with a competitive advantage in an increasingly fragmented office market. We expect tenants in our markets to continue to take advantage

tral Business District and suburban submarkets of San Francisco, which suggests that there are pockets of the economy that are growing despite the uncertainty and cl
ivity during 2010 and the first quarter of 2011. In Washington, DC, the leasing activity in the public sector market has been adversely impacted by the federal budget

space, stemming mostly from completion of development projects, and leases for approximately 846,000 square feet of second generation space. These second genera
oot lease signed at our Quorum Office Park property in Chelmsford, Massachusetts; excluding this one lease, the leases signed during the quarter had an average of 48
neration leases that had been occupied within the prior 12 months decreased on average by approximately 10.2% compared to the ending gross rents from the previou

o increase in select submarkets, as leases expire in 2011, assuming no further change in current market rental rates, we expect the rental rates we are likely to achieve
s for comparable space. Much of this expected roll-down is due to expiring leases at Embarcadero Center in San Francisco, California. For the leases that expire in 20

. Since the beginning of 2011, we have partially or fully placed in-service Atlantic Wharf, The Lofts at Atlantic Wharf, 2200 Pennsylvania Avenue, the Residences o
ely $1.05 billion on our planned 989,000 square foot office tower at 250 West 55th Street in Midtown Manhattan that is currently 19% pre-leased. We are also finalizi

will continue to present themselves; however, the combination of relatively low interest rates and the abundance of capital seeking high-quality assets may have a da
in new markets both in the United States and possibly outside the United States. We are primarily interested in

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tively seeking opportunities, our management team intends to carefully evaluate the risks inherent in investing in any new markets and maintain our disciplined inves

it challenging to acquire assets at attractive yields also provide us with the opportunity to sell assets. On October 25, 2011, we sold our Two Grand Central Tower jo

d quarter of 2011, we refinanced 601 Lexington Avenue, which was previously financed with a secured loan that matured on May 11, 2011 and was temporarily refin
million of estimated net proceeds from our Operating Partnership s offering of $850.0 million of 3.700% senior notes due 2018 that is scheduled to close on Novemb
million of common stock under our at the market (ATM) equity offering program that provides an additional source of liquidity. We believe the quality of our ass

Boston, Massachusetts. The residential component is comprised of 86 apartment units and approximately 10,000 square feet of retail space. The residential units are c

for the Defense Intelligence Agency. Under the agreement, the tenant will terminate early its leases for approximately 523,000 square feet at the complex and be resp
011, we commenced the redevelopment of the 12310 Sunrise Valley Drive property at the complex, which is expected to be completed during the first quarter of 201

in Washington, DC. The residential component is comprised of 335 apartment units and approximately 50,000 square feet of retail space. The residential units are cu

Class A office space located on land owned by us at 17 Cambridge Center in Cambridge, Massachusetts. We commenced construction of the project and expect that th

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is an approximately 457,000 net rentable square foot Class A office property. The property is currently 94% leased.

loan bears interest at a fixed rate of 4.75% per annum and matures on April 10, 2022. Proceeds from the mortgage financing were used to repay the borrowing under
York City. In connection with the refinancing, the lien of the 510 Madison Avenue mortgage was spread to 601 Lexington Avenue and released from 510 Madison Av

mately $44.9 million and net proceeds of approximately $44.4 million. As of September 30, 2011, approximately $555.1 million remained available for issuance unde
hed on June 2, 2011 and provides us with the ability to sell from time to time up to an aggregate of $600.0 million of our common stock through sales agents over a t

th Capitol Street, NW redevelopment project located in Washington, DC. The construction financing bears interest at a variable rate equal to LIBOR plus 1.65% per a
sts.

ximately $401.0 million, including the assumption by the buyer of approximately $176.6 million of mortgage indebtedness. Net cash proceeds totaled approximately $

e priced at 99.767% of the principal amount to yield an effective rate (including financing fees) of 3.853% to maturity. The notes will mature on November 15, 2018,
rtion of the net proceeds from the offering to repay, redeem or repurchase outstanding indebtedness, including its 2.875% exchangeable senior notes due 2037 or othe
n, interest-bearing securities.

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2037 for approximately $50.2 million. The repurchase is expected to settle on November 9, 2011.

counting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reaso
us transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statem
results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we con

ired in-place leases, other identified intangible assets and assumed liabilities, and allocate the purchase price to the acquired assets and assumed liabilities, including l
and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are

red in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the ten

ual amounts to be paid pursuant to each in-place lease and (2) management s estimate of fair market lease rates for each corresponding in-place lease, measured over
onsidered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions and costs to execute similar leases.
during the expected lease-up periods, depending c

an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and

ly from actual results in future periods. Because cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted
likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recog

rwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will
held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating t

egal fees and other acquisition costs. Beginning January 1, 2009, we are required to expense costs the acquirer incurs to effect a business combination such as legal, d
component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is subs
on development properties is guided by guidance in ASC 835-20 Capitaliz

s incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary t
or construction activity. We cease capitalization on the portion (1) substantially completed, (2) occupied or held available for occupancy, and we capitalize only those

over, but do not control, these entities. Our judgment with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a VIE

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rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our a

between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of
ge allocations among investors for profits and losses, however, our recognition of joint venture income or loss generally follows the joint venture s distribution prior
ating that a decline in the fair value below the carrying values have occurred and such decline is other-than-temporary. The ultimate realization of our investment in u
will record a

ifferent than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net in

The comb

lace above- and below-market leases at their fair values over the terms of the respective leases. Accrued rental income as reported on the Consolidated Balance

d below-market leases. For the three and nine months ended September 30, 2011, the impact of the straight-line rent adjustment increased rental revenue by appro

generally to secure creditworthy tenants that meet our underwriting guidelines. Furthermore, following the initiation of a lease, we continue to actively monitor the te

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nant base. We provide an allowance for doubtful accounts arising from estimated losses that could result from the tenant s inability to make required current rent pay

gned a credit rating of 1 through 4. A rating of 1 represents the highest possible rating and no allowance is recorded. A rating of 4 represents the lowest credit rating, i onsolidated joint ventures, was approximately 6.9 years as of September 30, 2011. The credit risk is mitigated by the high quality of our existing tenant base, reviews

ncurred. Tenant reimbursements are recognized and presented in accordance with guidance in ASC 605-45 Principal Agent Considerations (ASC 605-45). ASC
and services from third-party suppliers, have discretion in selecting the supplie

Our hotel revenues are derived from room rentals and other sources such as charges to guests for long-distance telephone service, fax machin

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asis, because such fees are contingent upon the collection of rents. We review each development agreement and record development fees as earned depending on the r

0-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the cri

ts, acquired above- and below-market leases, origination costs and acquired in-place leases based on an assessment of their fair value and depreciate or amorti

erest payments on our mortgage debt and unsecured notes based on a current market rate. In determining the current market rate, we add our estimate of a market spre
financial instruments are based on

ue of the derivative instruments are reported in the Consolidated Statements of Operations as a component of net income or as a component of comprehensive income

The

Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from period-to-period. Accordingly, we do not believ

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nd 2010 show separately the changes attributable to the properties that were owned by us and in service throughout each period compared (the Same Property Portf

by us throughout each period presented. We refer to properties acquired or placed in-service prior to the beginning of the earliest period presented and owned by us a
properties placed in-service, acquired, repositioned or in dev

oncontrolling interests, losses (gains) from investments in securities, losses from early extinguishments of debt, suspension of development, depreciation and amortiz
rovides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are inc

when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development ac
necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level as opposed to the property level. In addition, deprecia
ed in conjunction with net income attributable to Boston Properties, Inc. as presented in our Consolidated Financial Statements. NOI should not be considered as an a
or ability to make distributi

llion net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or p
y 1, 2010. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months end

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y Portfolio		Properties Acquired Portfolio		Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio	
Increase/ (Decrease)	% Change	2011	2010	2011	2010	2011	2010
$ 11,230	1.04%	$ 95,118	$	$ 55,978	$ 5,741	$ 5,589	$ 8,2
820	11.73%					2,591	
12,050	1.11%	95,118		55,978	5,741	8,180	8,2
2,391	0.64%	41,804		21,143	581	1,987	3,2
9,659	1.35%	53,314		34,835	5,160	6,193	4,9
106	2.24%						
9,765	1.36%	53,314		34,835	5,160	6,193	4,9
7,509	3.09%	45,723		14,929	1,157	19,132	1,7
7,509	3.09%	45,723		14,929	1,157	19,132	1,7
2,256	0.47%	7,591		19,906	4,003	(12,939)	3,2

otel Revenue of $22,897 and $22,290 less Hotel Expenses of $18,052 and $17,551, respectively, per the Consolidated Statements of Operations.

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e of approximately $3.6 million in rental revenue from our leases, coupled with increases in parking and other revenue and other recoveries of approximately $3.7 mil
revenue increasing by approximately $0.50 per square foot, contr

arcadero Center Four in San Francisco, of which approximately 90,000 expired at the end of the third quarter of 2011 and the remainder will expire during the fourth
l we have re-leased the entire 111 Huntington Avenue space, there will be an interruption in revenue over the remainder of 2011 and into 2012. In addition, we have a
noved it from the Same Property Portfolio, in July 2011. The second building will be similarly removed from service in the first quarter 2012. The third building is cu
e expect a decline in our occupancy to below approximately 91% by the end of 2011. With an approximately 307,000 square foot lease commencing at 111 Huntingto
then begin improving during 2012. However, the impact on Total Property Portfolio net operating

n of termination income related to a default by a 30,000 square foot law firm tenant in one of our New York City and approximately $5.3 million related to us entering
e for certain payments to us aggregating approximately $14.8 million. We anticipate recognizing approximately $5.1 million in the fourth quarter of 2011 with the rem
pa

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million from a small retail tenant in New York City, (2) approximately $2.7 million from our Reston, Virginia properties to accommodate growth of an existing tenant

Operating expenses from the Same Property Portfolio increased approximately

e result of the acceleration of depreciation expense during the nine months ended September 30, 2011 totaling approximately $11.4 million in anticipation of the plan
ation expense in 2010 related to our decision in 2010 to reclassify three in-service properties to land held for future development that did not recur in 2011. These thr

in Boston, Massachusetts for an aggregate purchase price of approximately $930.0 million. The John Hancock Tower is a 62-story, approximately 1,700,000 rentable

sition of Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately $185.0 million. Bay Colony Corporate Center is

Rental revenue from our Properties Acq

Date Acquired		2011	Rental Revenue for the nine months ended September 30, 2010 (in thousands)
December 29, 2010	$	81,023	$
February 1, 2011		14,095	
	$	95,118	$

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Real estate operating expenses from our Properties Acq

Date Acquired	2011		Real Estate Operating E for the nine months ended S 2010 (in thousands)	
December 29, 2010	$	33,052	$	
February 1, 2011		8,752		
	$	41,804	$	

our Properties Acquired Portfolio increased by approximately $45.7 million for the nine months ended September 30, 2011 compared to 2010 as a result of the exper

At September 30, 2011, we had six additional properties totaling appro

Rental revenue from our Properties Placed In-Se

Quarter Placed In-Service	2011		Rental Revenue for the nine months ended September 30, 2010 (in thousands)	
cond Quarter, 2010	$	13,274	$	5,741
rst Quarter, 2011		25,389		
cond Quarter, 2011		3,666		
ird Quarter, 2011		10,620		
ird Quarter, 2011		2,745		
ird Quarter, 2011		284		
	$	55,978	$	5,741

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Real estate operating expenses from our Properties Placed In-Se

Quarter Placed In-Service		2011		Real Estate Operating Expenses for the nine months ended September 2010 (in thousands)
Second Quarter, 2010	$	2,019	$	581
First Quarter, 2011		7,416		
Second Quarter, 2011		1,910		
Third Quarter, 2011		6,657		
Third Quarter, 2011		2,871		
Third Quarter, 2011		270		
	$	21,143	$	581

preciation expense associated with our properties that were placed in-service or partially placed in-service after September 30, 2010 as well as the additional depreciat

At September 30, 2011 and 2010, the Properties in Development or Redevelopment Portfolio consisted primarily of our 12

on of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. During the nin
law firm of Morrison & Foerster LLP for approximately 184,000 square feet at 250 West 55th Street and construction of the project has resumed. As a result of our de

ncy. Under the agreements, the tenant will terminate early its leases for approximately 523,000 square feet at the complex and be responsible for certain payments to
ceive from the building that is still in-service will be reflected under the Same Store Portfolio. On July 5, 2011, we commenced the redevelopment of the 12310 Sunr

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r 30, 2011 and 2010 of approximately $1.0 million and $1.5 million, respectively. In addition, the increase in depreciation is the result of the acceleration of depreciati

me for the Cambridge Center Marriott hotel property increased by approximately $0.1 million for the nine months ended September 30, 2011 compared to 2010. We c

The following ref

	2011		2010
	79.8%		80.3%
$	203.54	$	188.59
$	162.36	$	151.42

nent fee income of approximately $12.3 million partially offset by an approximately $2.7 million increase in development income. On May 5, 2010, we satisfied the r
imately $12.2 million during the nine months ended September 30, 2010. The increase in development fees is due to an increase in development fees related to 75 Ar
development fees as a result of our completion of the 20 F Street third-party development project. We anticipate development and ma

y $2.7 million and taxes of $0.8 million offset by the expensing of approximately $1.5 million of transaction pursuit costs in 2011. The decrease in compensation expe
ur deferred compensation plan, offset by the acceleration of the remaining unrecognized compensation expense totaling approximately $4.3 million associated with th
and administrative expenses. We estimate that our general and ad

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amortized over the useful lives of the real estate. Capitalized wages for the nine months ended September 30, 2011 and 2010 were approximately $8.2 million and $8

30, 2011, we incurred approximately $0.1 million of acquisition costs. During the nine months ended September 30, 2010, we incurred approximately $1.5 million o
costs associated with ou

nately $27.8 million related to the suspension of development, which amount included a $20.0 million contractual amount due pursuant to a lease agreement. During
as a result ceased interest capitalization on the project. On January 19, 2010, we paid $12.8 million related

nd having a decrease in interest expense as a result of the conveyance of fee simple title to its One and Two Circle Star Way properties on October 21, 2010 offset pa
xpect the cash contributions from our unconsolidated joint ventures to increase, but we will realize a decrease of approximately $15 million (our share) of above- a

g the assumption by the buyer of approximately $176.6 million of mortgage indebtedness. Net cash proceeds totaled approximately $209.8 million, of which our shar
approximately 650,000 net rentable square foot Class A office tower. Associated with this sale, during the fourth quarter of 2

ome decreased by approximately $2.3 million as a result of decreased average cash balances and the effect of lower overall interest rates. The average daily cash bala

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n to pay for the improvements, subject to the tenant initiating the request for reimbursement. The total amount of unfunded tenant improvements at closing was appro
for which

at we maintain for our officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer s curre
s enables us to generally match our liabilities to our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The perfo
y approximately $(0.3) million and $0.1 million during the nine months ended September 30, 2011 and 2010, respectively, as a result of increases (decreases) in our l

Interest expense for the Total P

	Change in interest expense for the nine months ended September 30, 2011 compared to September 30, 2010 (in thousands)
$	34,5
	26,6
	11,7
	1,6
$	74,5
$	(33,0
	(23,9
	(9,7
	(2,3
	(1,2
$	(70,2
$	4,2

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ll Road, 91 Hartwell Avenue, 1330 Connecticut Avenue, Wisconsin Place Office and 601 Lexington Avenue. The following properties are included in the new mortg
on Avenue. As properties are placed in-service, we cease capitalizing interest and interest is then expensed. Included within the interest on our Operating Partnership

9 million to $391 million, including amounts capitalized as a result of the resumption of construction on 250 West 55th Street for fiscal year 2011. This amount reflects
n of capitalized interest. The actual amount of our interest expense for fiscal 2011 and 2012 will be impacted by, among other things, any additional indebtedness we

ts on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Interest capitalized for the nine months ended September 30, 2011 and 20

ncing at Reservoir Place. For a summary of our consolidated debt as of September 30, 2011 and September 30, 2010 refer to the heading *Liquidity and Capital Reso*

holders may require our Operating Partnership to repurchase in February 2012, for approximately $185.5 million. The repurchased notes had an aggregate carrying va
months ended September

s A office property on the parcel totaling approximately 165,000 net rentable square feet. Due to our involvement in the construction of the project, the gain on sale w
estimated total project costs. During the nine months ended September 30, 2010, we completed construction of the project and recognize

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nt, we guaranteed that the buyer will receive at least a minimum amount of base rent from approximately 74,340 square feet of space during the ten-year period follov
e period from 2006 to 2017 was approximately $67.3 million. On May 5, 2010, we satisfied the requirements of our master lease agreement, and our guarantee obliga

Noncontrolling ir

For the nine months ended September 30, 2010, noncontrolling interests in property partn

ps consisted of the outside owner s equity interest in the income from our 505 9th Street property. On December 23, 2010, we acquired the outside member s 33.3% e

Noncontrolling interest common units of the Operating Partnership decreased by approximately $2.4 million for the nine months ended September 30,

t rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to .
1, 2010. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the three months end

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Portfolio		Properties Acquired Portfolio		Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio	
Increase/ (Decrease)	% Change	2011	2010	2011	2010	2011	2010
$ 7,039	1.93%	$ 32,935	$	$ 22,313	$	$ 70	$ 2,702
1,987	55.04%					2,591	
9,026	2.44%	32,935		22,313		2,661	2,702
1,514	1.19%	15,310		11,091		(18)	953
7,512	3.10%	17,625		11,222		2,679	1,749
191	10.48%						
7,703	3.16%	17,625		11,222		2,679	1,749
4,899	6.08%	15,785		5,595		2,679	596
4,899	6.08%	15,785		5,595		2,679	596
2,804	1.72%	1,840		5,627		0	1,153

otel Revenue of $8,045 and $8,016 less Hotel Expenses of $6,032 and $6,194, respectively, per the Consolidated Statements of Operations.

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e of approximately $2.7 million in rental revenue from our leases, coupled with increases in parking and other revenue and other recoveries of approximately $1.6 mil
revenue increasing by approximately $0.98 per square foot, con

o lease amendments we signed on July 1, 2011 with the existing tenant at our three-building complex in Reston, Virginia, which will be redeveloped as the headquart
e responsible for certain payments to us aggregating approximately $14.8 million. Once the building is placed in redevelopment, it will no longer be considered part o

of termination income from our Reston, Virginia properties to accommodate growth of an existing tenant and to provide space early to a new tenant and approximate

Operating expenses from the Same Property Portfolio increased approximately $

compared to 2010. The increase was primarily the result of the acceleration of depreciation expense during the three months ended September 30, 2011 totaling appro

in Boston, Massachusetts for an aggregate purchase price of approximately $930.0 million. The John Hancock Tower is a 62-story, approximately 1,700,000 rentable

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sition of Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately $185.0 million. Bay Colony Corporate Center is

Rental revenue from our Properties Acqu

2011		Rental Revenue for the three months ended September 30, 2010 (in thousands)
$	27,759	$
	5,176	
$	32,935	$

Real estate operating expenses from our Properties Acqu

2011		Real Estate Operating Expenses for the three months ended September 30, 2010 (in thousands)
$	11,787	$
	3,523	
$	15,310	$

our Properties Acquired Portfolio increased by approximately $15.8 million for the three months ended September 30, 2011 compared to 2010 as a result of the exper

At September 30, 2011, we had five additional properties totaling ap

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Rental revenue from our Properties Placed In-Se

n-Service		2011	Rental Revenue for the three months ended September 30, 2010 (in thousands)
	$	10,772	$
		2,406	
		6,682	
		2,169	
		284	
	$	22,313	$

Real estate operating expenses from our Properties Placed In-Se

n-Service		2011	Real Estate Operating Expenses for the three months ended September 30, 2010 (in thousands)
	$	3,333	$
		1,302	
		4,038	
		2,148	
		270	
	$	11,091	$

or our Properties Placed In-Service Portfolio increased by approximately $5.6 million for the three months ended September 30, 2011 compared to 2010 as a result of

At September 30, 2011 and 2010, the Properties in Development or Redevelopment Portfolio consisted primarily of our 12

truction of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. During the law firm of Morrison & Foerster LLP for approximately 184,000 square feet at 250 West 55th Street and construction of the project has resumed. As a result of our de

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der the agreements, the existing tenant will terminate early its leases for approximately 523,000 square feet at the complex and be responsible for certain payments to
omplex, which is expected to be completed during the first quarter of 2012. During the three months ended September 30, 2011 and 2010, this building had revenue,
and 2010 of approximately $32,000 and $0.5 million, respectively. In addition, the increase in depreciation is the result of the acceleration of depreciation expense d

Net operating income for the Cambridge

The following refl

	2011	2010
	84.6%	84.1%
	$ 207.86	$ 198.69
	$ 175.85	$ 167.00

increased approximately $1.7 million for the three months ended September 30, 2011 compared to 2010. The increase was primarily due to an increase in developmen

mately $0.7 million for the three months ended September 30, 2011 compared to 2010. The decrease was primarily due to decreases in our liability under our deferre

dated Balance Sheets and amortized over the useful lives of the real estate. Capitalized wages for the three months ended September 30, 2011 and 2010 were approxin

Effective January 1, 2009, we are required to expense costs such as legal,

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of acquisition costs associated with our acquisition of 510 Madison Avenue in New York City and approximately $0.4 million of acquisition costs associated with ou

For the three months ended September 30, 2011 compared to 2010, income from unconsolidated joint ventures decreased by approximately $0.2 million. Refer to

g the assumption by the buyer of approximately $176.6 million of mortgage indebtedness. Net cash proceeds totaled approximately $209.8 million, of which our shar
approximately 650,000 net rentable square foot Class A office tower. Associated with this sale, during the fourth quarter of 2

ended September 30, 2011 compared to 2010 as a result of decreased average cash balances and the effect of lower overall interest rates. The average daily cash balan

at we maintain for our officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer s curre
enables us to generally match our liabilities to our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The perfor
approximately $(0.8) million and $0.5 million during the three months ended September 30, 2011 and 2010, respectively, as a result of increases (decreases) in our l

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Interest expense for the Total Pr

	Change in interest expense for the three months ended September 30, 2011 compared to September 30, 2010 (in thousands)	
	$	14,4
		8,8
		1,0
		2
	$	24,6
	$	(11,0
		(10,9
		(3,7
		(4
	$	(26,0
	$	(1,3

ue, 1330 Connecticut Avenue, Wisconsin Place Office and 601 Lexington Avenue. The following properties are included in the new mortgages/properties placed in-s Avenue. As properties are placed in-service, we cease capitalizing interest and interest is then expensed. Included within the interest on our Operating Partnership

ets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Interest capitalized for the three months ended September 30, 2011 and 2

ncing at Reservoir Place. For a summary of our consolidated debt as of September 30, 2011 and September 30, 2010 refer to the heading *Liquidity and Capital Reso*

Noncontrolling in

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For the three months ended September 30, 2010, noncontrolling interests in property partne

ps consisted of the outside owner s equity interest in the income from our 505 9th Street property. On December 23, 2010, we acquired the outside member s 33.3% e

Noncontrolling interest common units of the Operating Partnership increased by approximately $0.3 million for the three months ended September 30, 201

refinance outstanding indebtedness and to meet short-term development and working capital needs. Although we generally seek to fund our development projects wi
several factors, including, among oth

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Location	# of Buildings	Square feet		Investment to Date(1)	
oston, MA	1	790,000	$	527,064	$
ew York, NY	1	347,000		349,895	
nnapolis, MD	1	120,000		7,754	
eston, VA	1	267,531		35,817	
ashington, DC	1	232,000		14,106	
ambridge, MA	1	190,329		22,620	
ew York, NY	1	989,000		500,317	
	7	2,935,860	$	1,457,573	$

edevelopment and excludes original investment in the asset.
to fund the repayment of the existing mortgage of $22 million and $11.3 million of previously incurred development costs.

llion of interest capitalization.

ed to pay operating expenses, debt service, recurring capital expenditures and the minimum distribution required to enable us to maintain our REIT qualification. We
our property management, leasing, and development and construction businesses, as well as the sale of assets from time to time. We believe our revenue, together w

d distributions, debt service payments and tenant improvements. In addition, a material adverse change in the cash provided by our operations may affect our ability t

nately $400 million and net proceeds of approximately $395 million. In addition, during the third quarter ended September 30, 2011, we issued approximately $44.9 n
the sales for general business purposes, which may include investment opportunities and debt reduction. Pending such uses, we ma

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ership s Unsecured Line of Credit. The new long-term secured mortgage of approximately $725 million has a per annum interest rate of 4.75% and matures in April
, 2011 and approximately $750 million available under our Operating Partnership s Unsecured Line of Credit, provides sufficient capacity to fund the completion of

our share is approximately $820 million, of debt that either matures or is subject to repurchase rights. We believe the quality of our assets and our strong balance she

outstanding (including approximately $1.8 billion of exchangeable senior notes). All of this debt either matures or is subject to repurchase at the holders option betw
artnership have repurchase rights at that time. We intend to satisfy this obligation using a portion of the net proceeds we expect to receive upon closing of our Operati
om time to time, purchase unsecured senior notes and unsecured exchangeable senior notes for cash in open market purchases or privately negotiated transactions, or

Operating Partnership s Unsecured Line of Credit and the anticipated cash flow generated by the operating portfolio, we believe we have sufficient capacity to fund

ast 100% of our taxable income to avoid paying federal tax. With a view toward increasing our equity and preserving additional capital, we reduced our quarterly div
projected taxable income, liquidity requirements an

assets and cannot efficiently use the proceeds in a tax deferred manner for either our development activities or attractive acquisitions, we would, at the appropriate tim

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pated leverage, the cost and availability of capital from other sources, the price of our common stock and REIT distribution requirements. At a minimum, we expect th

The following summary discussion of our cash flows is based on the Consolidated St

Cash and cash equivalents were approximately $1.1 billion and $1.3 billion at September 3

		Nine months ended September 30,	
		2010	
		(in thousands)	
442,859	$	332,854	$
(30,402)		(775,706)	
171,619		263,993	

ccupancy rates historically in the range of 91% to 94%. Our properties provide a relatively consistent stream of cash flow that provides us with resources to pay oper

hat enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings to enhance or maintain their m
developmen

	Nine months ended September 30,		
2011			2010
	(in thousands)		
(41,100)		$	
(205,580)			
(29,406)			
(50,400)			
43,887			
267,500			
10,000			
(6,375)			
(17,867)			
(1,061)			
(30,402)		$	

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nsisted of approximately $41.1 million of cash and the assumption of approximately $143.9 million of indebtedness. In connection with this transaction, we deposited

Valtham Weston Corporate Center. Construction in progress for the nine months ended September 30, 2011 includes ongoing expenditures associated with our Atlant
t. In addition, during the nine months ended September 30, 2011, we commenced the development of Seventeen Cambridge Center and the redevelopment of 12310 S
, which includes our share of our unconsolidated joint venture developments and our redevelopment of 12300 Sunrise Valley Drive, to be approximately $823 million

ultimate conveyance of a condominium interest to the third-party upon the anticipated completion of the development of the property and does not include the portio

l in New York City, which was secured by cash deposits. See Note 5 to the Consolidated Financial Statements.

West 55th Street property in connection with the refinancing of the property during the nine months ended September 30, 2010.

re that owns our Metropolitan Square property in connection with the refinancing of the property during the nine months ended September 30, 2010.
tock under our ATM program and proceeds from mortgage notes payable, partially offset by the payments of dividends and distributions to our shareholders and the u

At September 30, 2011, our total consolidated debt was approximately $8.0 billion. The GAAP weighted-average annual interest rate on our c

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e of leverage commonly used by analysts in the REIT sector. Our total consolidated market capitalization was approximately $22.9 billion at September 30, 2011. To
es, Inc.), (3) an aggregate of 1,460,688 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in Boston Proper
,000 2011 OPP Units because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved. Our total consolidated debt, which excludes d
ty to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the consolidated debt to total

For a discussion of our unconsolidated joint venture indebtedness, see *Liquidity and Capital Resources* *Capitalization* *Off-Balance Sheet Arrange*

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sisting of approximately (1) $3.017 billion (net of discount) in publicly traded unsecured senior notes (excluding exchangeable senior notes) having a weighted-averag
cation), an initial optional redemption date in 2013 and maturity in 2036; (3) $619.9 million (net of discount and adjustment for the equity component allocation) of ex
f exchangeable senior notes having a GAAP interest rate of 6.555% per annum (an effective rate of 4.037%, excluding the effect of the adjustment for the equity com
rate of 5.38% per annum and weighted-average term of 6.1 years. The table below summarizes

2011		2010
3,129,034	$	
50,000		
3,016,986		
1,754,343		
7,950,363	$	
99.37%		
0.63%		
100.00%		
5.55%		
2.78%		
5.53%		
5.12%		
2.40%		
5.10%		

The variable rate debt shown above bears interest based on various spreads over the London Interbank Offered Rate or Eurodollar r

On June 24, 2011, our Operating Partnership amended and restated th

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d the payment of an extension fee equal to 0.20% of the total commitment then in effect, and (3) increased the per annum variable interest rates available, which resu
ntly equal to an aggregate of 0.225% per annum of the total commitment is payable in equal quarterly installments. The interest rate and facility fee are subject to adj
banks that are part of the lender consortium to bid to make loan advances to the Operating Partnership at a reduced interest rate. Our ability to borrow under our Unse

0, 2011, we had no borrowings and outstanding letters of credit totaling approximately $13.7 million outstanding under the Unsecured Line of Credit, with the ability

	Effective Rate(1)		Principal Amount
6.250%	6.381%	$	182,432
6.250%	6.291%		42,568
5.625%	5.693%		300,000
5.000%	5.194%		250,000
5.875%	5.967%		700,000
5.625%	5.708%		700,000
4.125%	4.289%		850,000
			3,025,000
			(8,014)
		$	3,016,986

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cheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus 35 basis points (or 25 b
nterest to the redemption date. The indenture under which our unsecured senior notes were issued contains restrictions on incurring debt and using our assets as securi
secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of 1.5, and (4) unencumbered asset value to be no less than 150% of c

mount to yield an effective rate (including financing fees) of 3.853% to maturity. The notes will mature on November 15, 2018, unless earlier redeemed. The offering
ing indebtedness, including its 2.875% exchangeable senior notes due 2037 or other debt securities with near-term maturities or repurchase rights. Our Operating Part

Effective Rate(1)	Exchange Rate		Principal Amount
4.037%	8.5051(2)	$	747,500
3.462%	7.0430(3)		626,194
3.787%	10.0066(5)		450,000
			1,823,694
			(4,699)
			(64,652)
		$	1,754,343

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d into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes.
ommon stock. The net cost of the capped call transactions was approximately $44.4 million. As of September 30, 2011, the effective exchange price was $135.38 per
mount of notes effective as of December 31, 2007, resulting in an exchange price of approximately $141.98 per share of our common stock.
ge, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurcl
amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately $99.93 per share of our common stock.
ntal change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the
On November 4, 2011, our Operating Partnership agreed to repurchase approximately $50.0 million aggregate principal amount of i

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AAP t Rate(1)		Stated Principal Amount		Historical Fair Value Adjustment (Dollars in thousands)		Carrying Amount
5.41%	$	750,000	$		$	750,000(2)(3)
4.79%		725,000				725,000
5.05%		640,500		20,372		660,872(1)(3)
7.02%		371,253				371,253(4)
3.98%		143,900		2,751		146,651(1)(3)
5.87%		126,369				126,369(5)
5.34%		65,902		870		66,772(1)(6)
5.58%		63,000				63,000(3)
2.78%		50,000				50,000(7)
5.25%		49,305		1,452		50,757(1)
7.84%		47,406				47,406
5.61%		36,815		580		37,395(1)
10.07%		25,000				25,000(3)(8)
7.54%		24,049				24,049
5.68%		17,876		121		17,997(1)
6.99%		16,513				16,513
N/A						(9)
	$	3,152,888	$	26,146	$	3,179,034

eir fair values upon acquisition. All adjustments to reflect loans at their fair value upon acquisition are noted above.
nterest expense for this mortgage over the term of the financing, resulting in an effective interest rate of 5.41% per annum for the financing. The stated interest rate is

interest rate hedging program, we are reclassifying into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (

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ebt service payments and capital improvements necessary to lease and operate the property and that we were not prepared to fund any cash shortfalls. Accordingly, at
nate resolution of these discussions.
2012 with two, one-year extension options, subject to certain conditions.

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mortgage indebtedness. We exercise significant influence over, but do not control, these entities and therefore they are presently accounted for using the equity meth
ing debt of these joint venture properties at September 30, 2011. In addition to other guarantees specifically noted in the table, we have agreed to customary environm

GAAP Interest Rate(1)	Stated Principal Amount	Historical Fair Value Adjustment (Dollars in thousands)	Carrying Amount
6.50%	$ 1,300,000	$ (40,072)	$ 1,259,928(1)(2)(3)
8.00%	306,000	(32,616)	273,384(1)(2)(4)
11.00%	450,000		450,000(5)
6.15%	203,413		203,413(6)
6.07%	176,829		176,829(7)
6.75%	118,700	(2,962)	115,738(1)(8)
5.81%	175,000		175,000
4.90%	130,000		130,000
2.09%	42,250		42,250(9)
2.00%	24,673		24,673(2)(10)(11)
2.95%	91,806		91,806(10)(12)
10.0%	6,375		6,375(2)(13)
6.32%	22,000		22,000(2)(14)
5.27%	160,466		160,466
6.04%	7,500		7,500(2)(10)
	$ 3,215,012	$ (75,650)	$ 3,139,362

eir fair values upon acquisition. All adjustments to reflect loans at their fair value upon acquisition are noted above.

As of September 30,

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artners to reimburse the joint venture for their share of any payments made under the guarantee.
nterest in this loan for a purchase price of approximately $263.1 million in cash.
illion has been reflected in Related Party Note Receivable on our Consolidated Balance Sheets.
in lieu of an initial cash deposit for the full amount. The maximum funding obligation under the guarantee was $21.3 million. At closing, the joint venture funded a $
he guarantee and have an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.
assumption by the buyer of the entire mortgage indebtedness.

ced to date. The loan from our Operating Partnership bears interest at a fixed rate of 10.0% per annum and matures on May 31, 2014. This loan has been reflected in
we have a 30% interest obtained construction financing totaling $107.0 million collateralized by this redevelopment project. The construction financing bears interest
ncurred development costs.

own real estate either have undergone, or are currently undergoing, tax audits or other inquiries. Although we believe that we have substantial arguments in favor of o
cy notices received to date from the jurisdictions conducting the ongoing audits have not been material. However, there can be no assurance that future audits will not

he uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, TRIA) was en
ance program are $1.0 billion, including coverage for acts of terrorism certified under TRIA other than nuclear, biological, chemical or radiological terrorism (Terro
Motors Building located at 767 Fifth Avenue in New York, New York (767 Fifth Avenue), in a separate stand alone insurance program. The property insurance pro
fied under TRIA (NBCR Coverage), which is provided by IXP as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding the
BCR Coverage provided by IXP and the Terrorism Coverage provided by NYXP are backstopped by the Federal Government if the aggregate industry insured losses
he loss pursuant to a formula in TRIPRA. We may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if

ition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, we currently carry earthquake insurance which c
ver losses from earthquakes. In addition, the amount of earthquake coverage could impact our ability to finance properties subject to earthquake risk. We may discont

l Terrorism Coverage for 601 Lexington Avenue and our NBCR Coverage. The additional Terrorism Coverage provided by IXP for 601 Lexington Avenue only appl
party insurance company any coinsurance payable under TRIA. Insofar as we own IXP and NYXP, we are responsible for their liquidity and capital resources, and th

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the event losses are paid out and their insurance policies are maintained after the payout by the Federal Government. If we experience a loss and IXP or NYXP are re
coverage prov

y of the insurance companies in our insurance programs. The ratings of some of our insurers are below the rating requirements in some of our loan agreements and th
ed if lenders generally insist on ratings for insurers or amounts of insurance which are difficult to obtain or which result in a commercially unreasonable premium. The

ll be available on commercially reasonable terms in future policy years. There are other types of losses, such as from wars or the presence of mold at our properties, f
hose properties. Depending on the specific circumstances of each affected property, it is possible that we could be liable for mortgage indebtedness or other obligation

FFO, by adjusting net income attributable to Boston Properties, Inc. (computed in accordance with GAAP, including non-recurring items) for gains (or losses) fro
cial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operati
te assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost a
ported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition, that interpret the current NAREIT defin

ot be considered as an alternative to net income attributable to Boston Properties, Inc. (determined in accordance with GAAP) as an indication of our performance. F

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bility to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income attributable to Boston

The following table pres

	Three Months Ended September 30,	
2011		2010
	(in thousands)	
70,542		$
8,991		
832		
86		
80,451		
134,777		
549		
832		
213,847		$
23,573		
190,274		$
88.98%		
147,006		

enture real estate depreciation and amortization of $25,633 and $26,602, less corporate related depreciation and amortization of $351 and $435 for the three months e

	Three Months Ended September 30, 2011			
		Shares (Denominator)		Income (Numerator)
	(in thousands)			
213,847		165,219	$	172,845
832		1,461		820
		616		
214,679		167,296	$	173,665
23,371		18,213		21,822
191,308		149,083	$	151,843

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n, we have certain other utility contracts we enter into in the ordinary course of business which may extend beyond one year, which vary based on usage. These contr

tenant-related obligations associated with approximately 815,000 square feet of second generation leases, or approximately $30 per square foot. In addition, we signed
al Condition and Results of Operations Liquidity and Capital Resources. In the aggregate, during the third quarter of 2011, we signed leases for approximately 1.0

iable rates. The fair value of these instruments is affected by changes in market interest rates. As of September 30, 2011, the weighted-average interest rate on our var
debt. For a discussion concerning our unconsolidated joint venture debt, refer to Note 4 to the Consolidated Financial Statements and Item 2. Management s Discu

2012		2013		2014		2015		2016+
				(dollars in thousands)				
				Secured debt				
230,800	$	107,479	$	91,719	$	30,339	$	2,(
4.43%		5.99%		5.66%		5.87%		
345		827		48,828				
				Unsecured debt				
	$	224,884	$		$	549,267	$	2,2
		6.36%				5.47%		
				Unsecured exchangeable debt				
624,910	$	450,000	$	744,085	$		$	
(29,192)		(23,052)		(2,438)				
595,718		426,948		741,647				
5.63%		5.96%		6.56%				
826,863	$	760,138	$	882,194	$	579,606	$	4,8

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1, the weighted-average coupon/stated rates on all of our fixed and variable rate debt were 5.12% per annum and 2.40% per annum, respectively. The weighted-averag

, the weighted-average interest rate on our variable rate debt was approximately 2.78% per annum. If market interest rates on our variable rate debt had been 100 bas

These amounts were determined solely by considering the impact of hypothetical interest rates on our financial instruments. Due to the uncertainty of specific actions

d the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, o

ernal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of our fiscal year end

PART II. OTHER INFORMATION

We are subject to legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management belie

itation, the matters discussed in Part I, Item 2-Management s Discussion and Analysis of Financial Condition and Results of Operations), there were no material c

BPLP. Of these shares, 750,000 were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. We relied o

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olidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement

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SIGNATURES

Pursuant to the requirements of the Securiti

ROPERTIES, INC.

/s/ MICHAEL E. LABELLE
Michael E. LaBelle
Chief Financial Officer
(duly authorized officer and
principal financial officer)

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