PRIMEDIA INC
Form 8-K
April 26, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **April 25, 2005**

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**1-11106**	**13-3647573**
(State or other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

745 FIFTH AVENUE, NEW YORK, NEW YORK
(Address of principal executive offices)

10151
(Zip Code)
Registrant's telephone number, including area code: **(212)-745-0100**

Item 8.01 Other Events

On April 25, 2005, PRIMEDIA Inc. issued a press release relating to its Business Information segment. A copy of the press release is attached hereto as Exhibit 99.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

Exhibit 99: Press Release of PRIMEDIA Inc., dated April 25, 2005.

SIGNATURES

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

PRIMEDIA Inc.
(Registrant)

Date: April 25, 2005

By: /s/ BEVERLY C. CHELL

Beverly C. Chell
Vice Chairman and Secretary

INDEX TO EXHIBITS

Exhibit No.	Description
99	Press Release of PRIMEDIA Inc., dated April 25, 2005

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SIGNATURES
INDEX TO EXHIBITS

NT STYLE="font-family:Times New Roman" SIZE="2">2,610 2,589 (1,043) (197) 24,087

Ending balance

$75,871 $32,217 $11,303 $12,300 $8,156 $139,847

Quarter Ended March 31, 2010:

Allowance for loan losses:

Beginning balance

$49,267 $25,516 $5,397 $15,480 $6,330 $101,990

Loans charged-off

(8,681) (1,075) (535) (3,873) (14,164)

Charged-off loans recovered

2,362 94 5 720 3,181

Net charge-offs

(6,319) (981) (530) (3,153) (10,983)

Provision for loan losses

5,183 4,624 1,289 1,963 (580) 12,479

Ending balance

$48,131 $29,159 $6,156 $14,290 $5,750 $103,486

(1) The allowance for covered loans was reduced by loan charge-offs totaling $5.1 million during the first quarter of 2011.
(2) Includes an $18.9 million provision for covered loans (subject to our loss-sharing agreements with the FDIC) during the quarter ended March 31, 2011 due to declines in the expected cash flows caused by credit impairment in certain loan pools, primarily consisting of commercial and industrial loans.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology at March 31, 2011 and December 31, 2010.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
			(in thousands)			
March 31, 2011						
Allowance for loan losses:						
Individually evaluated for impairment	$ 7,117	$ 5,667	$ 2,928	$ 4	$	$ 15,716
Collectively evaluated for impairment	50,080	25,496	7,956	12,296	8,156	103,984
Loans acquired with discounts related to credit quality	18,674	1,054	419			20,147
Total	$ 75,871	$ 32,217	$ 11,303	$ 12,300	$ 8,156	$ 139,847
Loans:						
Individually evaluated for impairment	$ 37,535	$ 96,152	$ 18,261	$ 82	$	$ 152,030
Collectively evaluated for impairment	1,822,091	3,779,920	2,029,637	1,425,915		9,057,563
Loans acquired with discounts related to credit quality	110,381	204,399	15,991	5,805		336,576
Total	$ 1,970,007	$ 4,080,471	$ 2,063,889	$ 1,431,802	$	$ 9,546,169
December 31, 2010						
Allowance for loan losses:						
Individually evaluated for impairment	$ 6,397	$ 6,141	$ 2,683	$ 5	$	$ 15,226
Collectively evaluated for impairment	50,032	23,776	6,445	14,494	8,353	103,100
Loans acquired with discounts related to credit quality	5,538	492	348			6,378
Total	$ 61,967	$ 30,409	$ 9,476	$ 14,499	$ 8,353	$ 124,704
Loans:						
Individually evaluated for impairment	$ 32,297	$ 103,322	$ 18,585	$ 83	$	$ 154,287
Collectively evaluated for impairment	1,792,769	3,703,162	1,906,845	1,452,077		8,854,853
Loans acquired with discounts related to credit quality	121,151	211,799	17,026	6,679		356,655
Total	$ 1,946,217	$ 4,018,283	$ 1,942,456	$ 1,458,839	$	$ 9,365,795

Note 10. Goodwill and Other Intangible Assets

Goodwill totaled $317.9 million at March 31, 2011 and December 31, 2010. There were no changes to the carrying amounts of goodwill allocated to Valley s business segments, or reporting units thereof, for goodwill impairment analysis (as reported in Valley s Annual Report on Form 10-K for the year ended December 31, 2010). There was no impairment of goodwill during the three months ended March 31, 2011 and 2010.

The following table summarizes other intangible assets as of March 31, 2011 and December 31, 2010:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
		(in thousands)		
March 31, 2011				
Loan servicing rights	$ 67,195	$ (54,046)	$ (1,111)	$ 12,038
Core deposits	27,144	(18,170)		8,974
Other	6,121	(1,810)		4,311
Total other intangible assets	$ 100,460	$ (74,026)	$ (1,111)	$ 25,323
December 31, 2010				
Loan servicing rights	$ 65,701	$ (53,210)	$ (1,163)	$ 11,328
Core deposits	27,144	(17,312)		9,832
Other	6,121	(1,631)		4,490
Total other intangible assets	$ 98,966	$ (72,153)	$ (1,163)	$ 25,650

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Loan servicing rights are accounted for using the amortization method. Under this method, Valley amortizes the loan servicing assets in proportion to, and over the period of estimated net servicing revenues. On a quarterly basis, Valley stratifies its loan servicing assets into groupings based on risk characteristics and assesses each group for impairment based on fair value. Impairment charges on loan servicing rights are recognized in earnings when the book value of a stratified group of loan servicing rights exceeds its estimated fair value. Valley recorded net recoveries of impairment charges on its loan servicing rights totaling $52 thousand for the three months ended March 31, 2011 as compared to impairment charges, net of recoveries totaling $55 thousand the three months ended March 31, 2010.

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 9 years. The line item labeled other included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of 15 years.

Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three months ended March 31, 2011 and 2010.

The following presents the estimated future amortization expense of other intangible assets for the remainder of 2011 through 2015:

	Loan Servicing Rights	Core Deposits (in thousands)	Other
2011	$ 2,297	$ 2,193	$ 504
2012	2,559	2,455	656
2013	1,996	1,858	541
2014	1,500	1,262	466
2015	1,056	782	434

Valley recognized amortization expense on other intangible assets, including net impairment charges and recoveries on loan servicing rights, totaling $2.0 million and $1.7 million for the three months ended March 31, 2011 and 2010, respectively.

Note 11. Pension Plan

The Bank has a non-contributory defined benefit plan (qualified plan) covering substantially all of its employees. The benefits are based upon years of credited service and the employee s highest average compensation as defined. It is the Bank s funding policy to contribute annually an amount that can be deducted for federal income tax purposes. Additionally, the Bank has a supplemental non-qualified, non-funded retirement plan (non-qualified plan) which is designed to supplement the pension plan for key officers.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table sets forth the components of net periodic pension expense related to the qualified and non-qualified plans for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(in thousands)	
Service cost	$ 1,563	$ 1,450
Interest cost	1,524	1,433
Expected return on plan assets	(1,665)	(1,582)
Amortization of prior service cost	160	160
Amortization of actuarial loss	343	276
Total net periodic pension expense	1,925	1,737
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Amortization of prior service cost	(160)	(160)
Amortization of actuarial loss	(343)	(276)
	(503)	(436)
Total amount recognized in net periodic benefit cost and other comprehensive income (before tax)	$ 1,422	$ 1,301

The fair value of qualified plan assets increased approximately $2.5 million, or 3.0 percent to $86.4 million at March 31, 2011 from $83.9 million at December 31, 2010. Valley did not contribute to the qualified plan during the quarter ended March 31, 2011. Valley expects to contribute approximately $5.0 million to the qualified plan during the remainder of 2011 based upon actuarial estimates.

Note 12. Stock Based Compensation

Valley currently has one active employee stock option plan, the 2009 Long-Term Stock Incentive Plan (the Employee Stock Incentive Plan), adopted by Valley s Board of Directors on November 17, 2008 and approved by its shareholders on April 14, 2009. The Long-Term Stock Incentive Plan is administered by the Compensation and Human Resources Committee (the Committee) appointed by Valley s Board of Directors. The Committee can grant awards to officers and key employees of Valley. The purpose of the Employee Stock Incentive Plan is to provide additional incentive to officers and key employees of Valley and its subsidiaries, whose substantial contributions are essential to the continued growth and success of Valley, and to attract and retain competent and dedicated officers and other key employees whose efforts will result in the continued and long-term growth of Valley s business.

Under the Employee Stock Incentive Plan, Valley may award shares to its employees for up to 7.1 million shares of common stock in the form of incentive stock options, non-qualified stock options, stock appreciation rights and restricted stock awards. The essential features of each award are described in the award agreement relating to that award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley s common stock on the last sale price reported for Valley s common stock on such date or the last sale price reported preceding such date. An incentive stock option s maximum term to exercise is ten years from the date of grant and is subject to a vesting schedule. There were no stock options granted by Valley during the first quarter of 2011. Valley awarded restricted stock totaling 158 shares and approximately 1,208 shares during the first quarter of 2011 and 2010, respectively. As of March 31, 2011, 6.5 million shares of common stock were available for issuance under the 2009 Employee Stock Incentive Plan.

Valley recorded stock-based employee compensation expense for incentive stock options and restricted stock awards of $701 thousand and $1.0 million for the three months ended March 31, 2011 and 2010, respectively. The fair values of stock awards are expensed over the vesting period. As of March 31, 2011, the unrecognized amortization expense for all

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

stock-based employee compensation totaled approximately $4.5 million and will be recognized over an average remaining vesting period of approximately 2 years.

In 2005, Valley s shareholders approved the 2004 Director Restricted Stock Plan. The plan provides the non-employee members of the Board of Directors with the opportunity to forego some or all of their annual cash retainer and meeting fees in exchange for shares of Valley restricted stock. The restricted shares under the plan vest in full at the end of a five year vesting period, but the Board of Directors retains the right to accelerate the vesting of the restricted shares, at its discretion. There were no shares granted under the plan during the three months ended March 31, 2011. There were approximately 99 thousand shares outstanding under this plan and 267 thousand shares available for issuance as of March 31, 2011.

Note 13. Guarantees

Guarantees that have been entered into by Valley include standby letters of credit of $219.7 million as of March 31, 2011. Standby letters of credit represent the guarantee by Valley of the obligations or performance of a customer in the event the customer is unable to meet or perform its obligations to a third party. Of the total standby letters of credit, $144.9 million, or 65.9 percent are secured and, in the event of non-performance by the customer, Valley has rights to the underlying collateral, which includes commercial real estate, business assets (physical plant or property, inventory or receivables), marketable securities and cash in the form of bank savings accounts and certificates of deposit. As of March 31, 2011, Valley had a $761 thousand liability related to the standby letters of credit.

Note 14. Derivative Instruments and Hedging Activities

Valley is exposed to certain risks arising from both its business operations and economic conditions. Valley principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Valley manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and, from time to time, the use of derivative financial instruments. Specifically, Valley enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Valley s derivative financial instruments are used to manage differences in the amount, timing, and duration of Valley s known or expected cash receipts and its known or expected cash payments mainly related to certain variable-rate borrowings and fixed-rate loan assets.

Cash Flow Hedges of Interest Rate Risk. Valley s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, Valley uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of either fixed or variable-rate amounts in exchange for the receipt of variable or fixed-rate amounts from a counterparty. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

At March 31, 2011, Valley had the following cash flow hedge derivatives:

Two forward starting interest rate swaps with a total notional amount of $200 million to hedge the changes in cash flows associated with certain prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts. The swaps will require Valley to pay fixed-rate amounts at approximately 4.73 percent in exchange for the receipt of variable-rate payments at the prime rate starting in October 2011 and expiring in October 2016.

Two interest rate caps with a total notional amount of $100 million, strike rates of 2.50 percent and 2.75 percent, and a maturity date of May 1, 2013 used to hedge the variability in cash flows associated with customer repurchase agreements and money market deposit accounts that have variable interest rates based on the federal funds rate.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Two interest rate caps with a total notional amount of $100 million, strike rates of 6.00 percent and 6.25 percent, and a maturity date of July 15, 2015 used to hedge the total change in cash flows associated with prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts, which have variable interest rates indexed to the prime rate.

Fair Value Hedges of Fixed Rate Assets and Liabilities. Valley is exposed to changes in the fair value of certain of its fixed rate assets or liabilities due to changes in benchmark interest rates based on one month-LIBOR. From time to time, Valley uses interest rate swaps to manage its exposure to changes in fair value. Interest rate swaps designated as fair value hedges involve the receipt of variable rate payments from a counterparty in exchange for Valley making fixed rate payments over the life of the agreements without the exchange of the underlying notional amount.

At March 31, 2011, Valley had the following fair value hedge derivatives:

One interest rate swap with a notional amount of approximately $9 million used to hedge the change in the fair value of a commercial loan.

One interest rate swap with a notional amount of $51 million used to hedge the change in the fair value of certain fixed-rate brokered certificates of deposit.

For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. Valley includes the gain or loss on the hedged items in the same line item as the loss or gain on the related derivatives.

Non-designated Hedges. Derivatives not designated as hedges are used to manage Valley s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements under U.S. GAAP. Derivatives not designated as hedges are not speculative and result from a service Valley provides to certain customers, which was implemented by Valley during the first quarter of 2011. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. Valley executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that Valley executes with a third party, such that Valley minimizes its net risk exposure resulting from such transactions. As of March 31, 2011, Valley had two interest rate swaps with an aggregate notional amount of $28 million related to this program.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Amounts included in the consolidated statements of financial condition related to the fair value of Valley s derivative financial instruments were as follows:

	Balance Sheet Location	Fair Value March 31, 2011 (in thousands)	December 31, 2010
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Cash flow hedge interest rate caps and swaps	Other Assets	$ 9,897	$ 8,414
Total derivatives designated as hedging instruments		$ 9,897	$ 8,414
Derivatives not designated as hedging instruments:			
Interest rate swaps	Other Assets	$ 112	$
Total derivatives not designated as hedging instruments		$ 112	$
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Fair value hedge interest rate swaps	Other Liabilities	$ 1,328	$ 1,379
Total derivatives designated as hedging instruments		$ 1,328	$ 1,379
Derivatives not designated as hedging instruments:			
Interest rate swaps	Other Liabilities	$ 91	$
Total derivatives not designated as hedging instruments		$ 91	$

Gains (losses) included in the consolidated statements of income and in other comprehensive income, on a pre-tax basis, related to interest rate derivatives designated as hedges of cash flows were as follows:

	Three Months Ended March 31, 2011	2010
	(in thousands)	
Interest rate caps on short-term borrowings and deposit accounts:		
Amount of loss reclassified from accumulated other comprehensive income (loss) to interest on short-term borrowings	$ (577)	$ (382)
Amount of gain (loss) recognized in other comprehensive income (loss)	1,434	(2,064)

Valley recognized a net gain of $50 thousand and a net loss of $155 thousand in other expense for hedge ineffectiveness on the cash flow hedge interest rate caps for the three months ended March 31, 2011 and 2010, respectively. The accumulated net after-tax gain/loss related to effective cash flow hedges included in accumulated other comprehensive loss was a $459 thousand gain at March 31, 2011 as compared to a $708 thousand loss at December 31, 2010.

Amounts reported in accumulated other comprehensive loss related to cash flow interest rate derivatives are reclassified to interest expense as interest payments are made on the hedged variable interest rate liabilities. During the next twelve months, Valley estimates that $3.8 million will be reclassified as an increase to interest expense.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Gains (losses) included in the consolidated statements of income related to interest rate derivatives designated as hedges of fair value were as follows:

	March 31, 2011	March 31, 2010
	(in thousands)	
Derivative - interest rate swaps:		
Interest income - interest and fees on loans	$ 160	$ (74)
Interest expense - interest on time deposits	(110)	
Hedged item - loans and deposits:		
Interest income - interest and fees on loans	$ (160)	$ 74
Interest expense - interest on time deposits	118	

During the three months ended March 31, 2011, Valley recognized a net gain of $8 thousand in non-interest expense related to hedge ineffectiveness. Valley also recognized a net reduction to interest expense of $44 thousand for the three months ended March 31, 2011 related to Valley s fair value hedges on brokered time deposits, which includes net settlements on the derivatives.

Gains (losses) included in the consolidated statements of income related to derivative instruments not designated as hedging instruments for the quarters years ended March 31, 2011 and 2010 were as follows:

	March 31, 2011	March 31, 2010
	(in thousands)	
Non-designated hedge interest rate derivatives		
Other non-interest income	$ 21	$

Credit Risk Related Contingent Features. By using derivatives, Valley is exposed to credit risk if counterparties to the derivative contracts do not perform as expected. Management attempts to minimize counterparty credit risk through credit approvals, limits, monitoring procedures and obtaining collateral where appropriate. Credit risk exposure associated with derivative contracts is managed at Valley in conjunction with Valley s consolidated counterparty risk management process. Valley s counterparties and the risk limits monitored by management are periodically reviewed and approved by the Board of Directors.

Valley has agreements with its derivative counterparties that contain a provision where if Valley defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Valley could also be declared in default on its derivative counterparty agreements. Additionally, Valley has an agreement with one of its derivative counterparties that contains provisions that require Valley s debt to maintain an investment grade credit rating from each of the major credit rating agencies. If Valley s credit rating is reduced below investment grade, then the counterparty could terminate the derivative positions, and Valley would be required to settle its obligations under the agreements. As of March 31, 2011, Valley was in compliance with the provisions of its derivative counterparty agreements.

As of March 31, 2011, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $1.4 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties. No collateral has been assigned or posted by Valley or its counterparties under the agreements at March 31, 2011.

Note 15. Business Segments

The information under the caption Business Segments in Management s Discussion and Analysis is incorporated herein by reference.

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Item 2. Management s Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

The following MD&A should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. The words Valley, the Company, we, our and us refer to Valley National Bancorp and its wholly owned subsidiaries, unless we indic otherwise. Additionally, Valley s principal subsidiary, Valley National Bank, is commonly referred as the Bank in this MD&A.

The MD&A contains supplemental financial information, described in the sections that follow, which has been determined by methods other than U.S. generally accepted accounting principles (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.

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q, 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 disclosed in Valley s Annual Report on Form 10-K for the year ended December 31, 2010 and Part II Item 1A of this report 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;

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

- failure to obtain shareholder or regulatory approval for the merger of State Bancorp with Valley or to satisfy other conditions to the merger on the proposed terms and within the proposed timeframe including, without limitation, the purchase from the United States Department of the Treasury of each share of State Bancorp s Series A Preferred Stock issued under the Treasury s Capital Purchase Program;

- the inability to realize expected cost savings and synergies from the merger of State Bancorp with Valley in the amounts or in the timeframe anticipated;

- changes in the estimate of charges related to the merger with State Bancorp;

- costs or difficulties relating to integration matters might be greater than expected;

- material adverse changes in Valley s or State Bancorp s operations or earnings;

- the inability to retain State Bancorp s customers and employees; and

- other unexpected material adverse changes in our operations or earnings.

We assume no obligation for updating such forward-looking statements at any time.

Critical Accounting Policies and 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 included in Valley s Annual Report on Form 10-K for the year ended December 31, 2010. We identified our policies on 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 because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Management has reviewed the application of these policies with the Audit and Risk Committee of Valley s Board of Directors. Our critical accounting policies are described in detail in Part II, Item 7 in Valley s Annual Report on Form 10-K for the year ended December 31, 2010.

New Authoritative Accounting Guidance

See Note 5 to the consolidated financial statements for a description of new authoritative accounting guidance including the respective dates of adoption and effects on results of operations and financial condition.

Executive Summary

Net income for the first quarter of 2011 was $36.6 million, or $0.22 per diluted common share, compared to $27.4 million, or $0.16 per diluted common share for the first quarter of 2010. The increase in net income was largely due to: (i) a $29.1 million increase in non-interest income mainly resulting from post-acquisition date increases in our FDIC loss-share receivable, an increase in net trading gains mainly due to an increase in non-cash mark to market gains on our junior subordinated debentures carried at fair value, increased gains on sales of investment securities, higher insurance commissions due, in part, to the December 2010 asset acquisition by our insurance subsidiary, and lower non-cash credit impairment charges on investment securities, (ii) a $2.0 million increase in net interest income mainly driven by a 13 basis point decline in the cost of average interest bearing liabilities and a reduction in high cost time deposits and long-term FHLB borrowings, partially offset by

(iii) an $11.6 million increase in the provision for credit losses due to a provision for losses on covered loans totaling $18.9 million in the first quarter of 2011 resulting from additional declines in the expected cash flows caused by credit impairment within certain pools of covered loans acquired in FDIC-assisted transactions completed during March 2010, (iv) a $5.5 million increase in non-interest expense partly due to additional expenses related to the FDIC-assisted transactions, as well as higher seasonal maintenance and building repair expenses, and (v) higher income tax expense mainly resulting from an increase in our marginal rate pre-tax income.

On April 28, 2011, Valley entered into a merger agreement to acquire State Bancorp, Inc. (State Bancorp). State Bancorp is the holding company for State Bank of Long Island, a New York commercial bank with approximately $1.6 billion in assets and 17 branches in Nassau, Suffolk, Queens, and Manhattan. State Bancorp s focus on providing high-

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quality personal service to meet the needs of a diverse customer base, including small to middle market businesses, professional service firms, municipalities and consumers is much like Valley s long-standing commitment to its communities and customers. Their 17 branch offices located mostly in Long Island and Queens will nicely complement Valley s current New York City locations, including our 5 branches in Queens, and lay a stronger foundation for our continued expansion efforts into these attractive markets. The total consideration for the acquisition is estimated to be $222 million, resulting in an estimated $131 million of intangible assets which are dependent on the fair values of State Bancorp s assets and liabilities and Valley s stock price on the closing date of the merger. Valley anticipates the closing of the merger will occur during the fourth quarter of 2011, contingent upon receiving regulatory approval and approval of State Bancorp shareholders.

Total loans increased $180.4 million, or 7.7 percent on an annualized basis to approximately $9.5 billion at March 31, 2011 as compared to December 31, 2010 mainly due to a $122.5 million increase in our residential mortgage loans. Our residential mortgage originations continued to be one of the bright spots in our lending operations, as we originated over $320 million in new and refinanced residential mortgages in the first quarter of 2011 as compared to over $350 million in the fourth quarter of 2010, and approximately $170 million in the first quarter of 2010. Much of the loan volume in 2011 and the latter half of 2010 was due to the continued success of our one-price refinancing program with total closing costs as low as $499 including title insurance fees and the current low interest rate environment. During the first quarter of 2011, we retained over 70 percent of our residential mortgage loan originations and held them for investment purposes rather than sell the loans in the secondary market. Our decision to retain certain mortgage originations is based on the composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments.

Our commercial lending portfolio, including commercial, commercial real estate, and construction loans, increased $104.1 million during the first quarter of 2011 mainly due to a $79.5 million increase in commercial real estate loans. Much of the increase in commercial real estate loans was due to new co-op and multifamily loan relationships as we increased our business emphasis on this type of lending within our primary markets. We believe there are profitable growth opportunities in these lending areas that still offer sound credit metrics and can nicely fill in for the tepid loan demand from other commercial real estate loan types, including construction, caused by the current state of the U.S. economy and housing markets. Additionally, we experienced a general increase in loan demand from new and existing commercial and industrial loan customers during the first quarter of 2011, with the exception of our New York jeweler trade customers who continue to struggle with low demand due to the slow economy, as well as the more conservative spending habits of many consumers after the financial crisis.

Our consumer loans, including home equity, automobile, and other consumer loans, declined $26.2 million from December 31, 2010 to March 31, 2011 mainly due to a $23.3 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 less than Valley s profitability thresholds. These factors may continue to constrain the levels of our auto loan originations for the remainder of 2011. See further details on our loan activities under 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 credit performance remained at an acceptable level at March 31, 2011. Total loans past due in excess of 30 days decreased 0.07 percent to 1.70 percent of our total loan portfolio of $9.5 billion as of March 31, 2011 compared to 1.77 percent of total loans at December 31, 2010. Our non-accrual loans decreased $3.8 million to $101.3 million, or 1.06 percent of total loans at March 31, 2011 as compared to $105.1 million, or 1.12 percent of total loans at December 31, 2010. The decrease in the amount of non-accrual loans was mainly due to a reduction in non-accrual construction loans. 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 and we are cautiously optimistic regarding the overall future performance of our loan portfolio. However, due to the potential for future credit deterioration caused by the unpredictable direction of the economy and high levels of unemployment, management cannot provide assurance that our non-performing assets will remain at the levels reported as of March 31, 2011. See Non-performing Assets section below for further analysis of our credit quality.

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Total deposits increased $358.8 million to approximately $9.7 billion at March 31, 2011 from December 31, 2010. Savings, NOW and money market deposits increased $285.1 million to $4.4 billion at March 31, 2011 as compared to December 31, 2010 largely due to $220.0 million in brokered money market funds with variable interest rates based on the U.S. dollar one month LIBOR rate plus five basis points (approximately 0.31 percent during the first quarter of 2011) used by management to partially fund investment security purchases during the first quarter of 2011. Management will likely repay this funding source from normal principal paydowns and interest from its investment securities portfolio during the remainder of 2011 based on the level of interest rates and other funding sources available for its asset/liability management strategies. Time deposits increased $59.4 million during the first quarter mainly due to new three and five-year term brokered certificates of deposit totaling $102.3 million, partially offset by the maturity of higher cost retail time deposits. The brokered deposits were primarily purchased to replace the funding from higher cost, long-term FHLB borrowings totaling $116.0 million that matured during the first quarter of 2011. Non-interest bearing deposits also increased $14.2 million as compared to December 31, 2010 mainly due to general increases in both commercial and retail deposits.

The following table presents our annualized performance ratios for the periods indicated:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Return on average assets	1.03%	0.77%
Return on average shareholders equity	11.23	8.72
Return on average tangible shareholders equity (ROATE)	15.26	11.75

ROATE, 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:

	Three Months Ended March 31, 2011 ($ in thousands)	Three Months Ended March 31, 2010 ($ in thousands)
Net income	$ 36,585	$ 27,363
Average shareholders equity	1,302,863	1,255,189
Less: Average goodwill and other intangible assets	(343,908)	(323,469)
Average tangible shareholders equity	$ 958,955	$ 931,720
Annualized ROATE	15.26%	11.75%

Management believes the ROATE measure provides information useful to management and investors in understanding our underlying operational performance, our business and performance trends and the measure facilitates comparisons with the performance of others in the financial services industry. This non-GAAP financial measure should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP.

All of the above ratios were impacted by the change in fair value of our junior subordinated debentures carried at fair value. Net income included a non-cash charge of $2.9 million ($1.9 million, net of tax) for the first quarter of 2011, as compared to a non-cash charge of $3.3 million ($2.1 million, net of tax) for the same period of 2010 due to the change in fair value of the debentures.

Net Interest Income

Net interest income on a tax equivalent basis was $118.2 million for the first quarter of 2011, a $3.8 million increase from the fourth quarter of 2010 and an increase of $2.0 million from the first quarter of 2010. The increase from the first quarter of 2010 was mostly attributable to lower interest expense caused by maturing high cost time deposits and

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FHLB borrowings, lower rates on interest bearing deposits, partially offset by lower yields on new loans and investments.

Average interest earning assets increased $13.4 million to $12.8 billion for the first quarter of 2011 compared to the first quarter of 2010 mainly due to improved loan growth and higher investment securities balances. Compared to the fourth quarter of 2010, average interest earning assets increased $139.6 million for the first quarter of 2011 due to an increase of $255.2 million in average taxable investments primarily related to the additional purchases of residential mortgage-backed securities, partially offset by a $114.0 million decrease in average federal funds sold and other interest bearing deposits caused by lower excess cash balances maintained at the Federal Reserve Bank of New York during the 2011 period.

Average interest bearing liabilities decreased $157.9 million to $10.4 billion for the first quarter of 2011 compared with the first quarter of 2010 mainly due to the run-off of higher cost time deposits. Compared to the fourth quarter of 2010, average interest bearing liabilities increased $133.8 million for the first quarter of 2011. Average interest bearing deposits increased $144.0 million mainly due to brokered money market deposits used to fund the additional purchases of taxable investment securities and $102.3 million of new three and five-year term brokered certificates of deposit mainly used to replace $116 million of maturing FHLB borrowings with a weighted average interest rate of 4.91 percent. The maturing FHLB borrowings primarily caused a $45.0 million decrease in average long-term borrowings during the first quarter of 2011.

Interest income, on a tax equivalent basis increased $2.7 million for the first quarter of 2011 compared to the fourth quarter of 2010 primarily due to higher interest income from taxable investments. Interest income from taxable investments, on a tax equivalent basis increased $2.6 million or 9.1 percent for the three months ended March 31, 2011 compared to the fourth quarter of 2010. The quarter over quarter increase was driven by higher average taxable investment balances due to the aforementioned purchases of residential mortgage-backed securities, partially offset by lower yields on such new investments replacing principal paydowns on higher yielding investments. Although interest income from loans remained relatively unchanged as compared to the fourth quarter of 2010, the accretion on covered loan pools increased approximately $2.7 million during the first quarter of 2011 as these pools, on an aggregate basis, continue to perform better than expected at the acquisition dates.

Interest expense decreased $1.0 million for the first quarter of 2011 as compared to the fourth quarter of 2010 primarily due to the maturity of $116 million of higher cost long-term FHLB advances and lower rates on deposits and borrowings, partially offset by higher interest expense on average savings, NOW and money market deposits and time deposits largely due to new funding from low cost brokered money market and time deposits obtained in the 2011 period.

The net interest margin on a tax equivalent basis was 3.71 percent for the first quarter of 2011, an increase of 8 basis points from 3.63 for the fourth quarter of 2010, and an increase of 6 basis points from 3.65 percent for the quarter ended March 31, 2010. The yield on average interest earning assets increased by three basis points from the fourth quarter of 2010 due to a moderate increase in yield on average loans, which benefited from an increase in accretion from covered loan pools, and an increase in the yield on average non-taxable investment securities. These increases were partially offset by a decline of four basis points in yield on taxable investments as principal paydowns and funds obtained through brokered deposit sources were invested in lower yielding securities during the period. The cost of average interest bearing liabilities declined six basis points from the fourth quarter of 2010 mainly due to (i) a five basis point decrease in the cost of average long-term borrowings due to the maturity of higher cost FHLB advances, (ii) a four basis point decrease in the cost of average time deposits due to the run-off of higher cost deposits, and (iii) a two basis point decline in the cost of average savings, NOW, and money market accounts mainly caused by lower cost brokered money market deposits.

Based on the current level of interest rates, we anticipate lower yields on new loans and investments during the second quarter of 2011 which may negatively impact our net interest income. However, we believe our first quarter loan growth (much of which was in March 2011), additional accretion from certain loan pools with higher forecasted cash flows than was originally expected at the acquisition dates, the maturity of $90 million in FHLB borrowings with a weighted average interest rate of 5.07 percent in April 2011, and the continued maturity of higher rate certificates of

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deposit should positively impact our net interest income and margin and mitigate some of the impact of the low level of interest rates on our net interest income and margin.

The following table reflects the components of net interest income for the three months ended March 31, 2011, December 31, 2010 and March 31, 2010:

Quarterly Analysis of Average Assets, Liabilities and Shareholders Equity and

Net Interest Income on a Tax Equivalent Basis

	Three Months Ended								
	March 31, 2011			December 31, 2010			March 31, 2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)								
Assets									
Interest earning assets:									
Loans (1)(2)	$ 9,458,201	$ 133,625	5.65%	$ 9,458,332	$ 133,480	5.64%	$ 9,422,162	$ 135,371	5.75%
Taxable investments (3)	2,823,185	31,636	4.48	2,567,952	29,007	4.52	2,720,110	31,880	4.69
Tax-exempt investments (1)(3)	400,049	3,854	3.85	401,511	3,815	3.80	371,234	3,917	4.22
Federal funds sold and other interest bearing deposits	79,208	55	0.28	193,212	125	0.26	233,750	154	0.26
Total interest earning assets	12,760,643	169,170	5.30	12,621,007	166,427	5.27	12,747,256	171,322	5.38
Allowance for loan losses	(126,944)			(117,899)			(105,023)		
Cash and due from banks	328,998			327,161			332,562		
Other assets	1,230,925			1,247,964			1,148,960		
Unrealized gains on securities available for sale, net	20,634			21,746			2,893		
Total assets	$ 14,214,256			$ 14,099,979			$ 14,126,648		
Liabilities and shareholders equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$ 4,303,555	$ 4,679	0.43%	$ 4,198,511	$ 4,742	0.45%	$ 4,071,641	$ 4,860	0.48%
Time deposits	2,731,981	12,166	1.78	2,693,056	12,247	1.82	3,116,322	15,598	2.00
Total interest bearing deposits	7,035,536	16,845	0.96	6,891,567	16,989	0.99	7,187,963	20,458	1.14
Short-term borrowings	241,786	341	0.56	207,027	350	0.68	192,498	331	0.69
Long-term borrowings (4)	3,073,543	33,741	4.39	3,118,510	34,610	4.44	3,128,309	34,309	4.39
Total interest bearing liabilities	10,350,865	50,927	1.97	10,217,104	51,949	2.03	10,508,770	55,098	2.10
Non-interest bearing deposits	2,488,726			2,529,687			2,315,621		
Other liabilities	71,802			65,048			47,068		
Shareholders equity	1,302,863			1,288,140			1,255,189		
Total liabilities and shareholders equity	$ 14,214,256			$ 14,099,979			$ 14,126,648		

Net interest income/interest rate spread (5)	$ 118,243	3.33%	$ 114,478	3.24%	$ 116,224	3.28%
Tax equivalent adjustment	(1,351)		(1,337)		(1,373)	
Net interest income, as reported	$ 116,892		$ 113,141		$ 114,851	
Net interest margin (6)		3.66%		3.59%		3.60%
Tax equivalent effect		0.05%		0.04%		0.05%
Net interest margin on a fully tax equivalent basis (6)		3.71%		3.63%		3.65%

(1) Interest income is presented on a tax equivalent basis using a 35 percent federal tax rate.
(2) Loans are stated net of unearned income and include non-accrual loans.
(3) The yield for securities that are classified as available for sale is based on the average historical amortized cost.
(4) Includes junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of financial condition.
(5) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities and is presented on a fully tax equivalent basis.
(6) Net interest income as a percentage of total average interest earning assets.

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The following table demonstrates the relative impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in rates earned and paid by us on such assets and liabilities. Variances resulting from a combination of changes in volume and rates are allocated to the categories in proportion to the absolute dollar amounts of the change in each category.

Change in Net Interest Income on a Tax Equivalent Basis

	Three Months Ended March 31, 2011 Compared with March 31, 2010		
	Change Due to Volume	Change Due to Rate	Total Change
		(in thousands)	
Interest Income:			
Loans*	$ 516	$ (2,262)	$ (1,746)
Taxable investments	1,183	(1,427)	(244)
Tax-exempt investments*	292	(355)	(63)
Federal funds sold and other interest bearing deposits	(107)	8	(99)
Total increase (decrease) in interest income	1,884	(4,036)	(2,152)
Interest Expense:			
Savings, NOW and money market deposits	267	(448)	(181)
Time deposits	(1,812)	(1,620)	(3,432)
Short-term borrowings	76	(66)	10
Long-term borrowings and junior subordinated debentures	(601)	33	(568)
Total decrease in interest expense	(2,070)	(2,101)	(4,171)
Total increase (decrease) in net interest income	$ 3,954	$ (1,935)	$ 2,019

* Interest income is presented on a tax equivalent basis using a 35 percent tax rate.

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Non-Interest Income

The following table presents the components of non-interest income for each of the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Trust and investment services	$ 2,023	$ 1,875
Insurance commissions	4,423	3,196
Service charges on deposit accounts	5,650	6,274
Gains on securities transactions, net	2,679	863
Net impairment losses on securities recognized in earnings	(825)	(2,593)
Trading gains (losses), net		
Trading securities	493	236
Junior subordinated debentures carried at fair value	2,889	(3,266)
Total trading gains (losses), net	3,382	(3,030)
Fees from loan servicing	1,197	1,236
Gains on sales of loans, net	3,609	2,520
Gains on sales of assets, net	57	86
Bank owned life insurance	1,706	1,543
Change in FDIC loss-share receivable	16,235	
Other	4,651	3,707
Total non-interest income	$ 44,787	$ 15,677

Insurance commissions increased $1.2 million for the three months ended March 31, 2011 as compared to the same period in 2010 mainly due to additional commissions generated from our insurance subsidiary s agency asset acquisition during December 2010. See Note 4 to the consolidated financial statements for more details.

Service charges on deposit accounts decreased $624 thousand during the first quarter of 2011 as compared to the same quarter in 2010, mainly due to a decrease in non-sufficient funds charges and overdraft protection fees. The decline in these fees reflects both better account management by our customers caused, in part, by economic uncertainty and higher savings rates, and new regulatory restrictions on overdraft charges enacted during the third quarter of 2010.

Net gains on securities transactions increased $1.8 million for the three months ended March 31, 2011 mainly due to $2.1 million gains recognized on the sale of approximately $239 million in residential mortgage-backed securities issued by U.S. government sponsored agencies that were classified as available for sale during the quarter ended March 31, 2011. During the first quarter of 2010, the net gains on securities transactions totaled $863 thousand and were mainly due to the sale of $233.0 million in U.S. Treasury securities classified as available for sale.

Net impairment losses on securities decreased $1.8 million from $2.6 million for the first quarter of 2010. During the three months ended March 31, 2011, we recognized $825 thousand in additional estimated credit losses on one previously impaired pooled trust preferred security, as compared to the net impairment losses totaling $2.6 million during the first quarter of 2010 due to estimated credit losses on two previously impaired trust preferred and three previously impaired private label mortgage-backed securities. See the Investment Securities Portfolio section of this MD&A and Note 7 to the consolidated financial statements for further details on our investment securities impairment analysis.

Net trading gains represent the non-cash mark to market valuations of a small number of single-issuer trust preferred securities held in our trading securities portfolio and the non-cash mark to market valuation of our junior subordinated debentures (issued by VNB Capital Trust I) carried at fair value. Net trading gains increased $6.4 million to $3.4 million for the three months ended March 31, 2011 as compared to a net trading loss of $3.0 million for the first quarter of 2010. This increase was primarily caused by a $6.2 million increase in non-cash mark to market gains on our junior subordinated debentures carried at fair value.

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Net gains on sales of loans increased $1.1 million during the first quarter of 2011 primarily as a result of slightly higher volumes of conforming residential loans sold into the secondary market during the quarter ended March 31, 2011 as compared to the same quarter in 2010.

The Bank and the FDIC share in the losses on loans and real estate owned as part of the loss-sharing agreements entered into on both of our FDIC-assisted transactions in March 2010. The asset arising from the loss-sharing agreements is referred to as the FDIC loss-share receivable on our consolidated statements of financial condition (See Note 8 to the consolidated financial statements). Within the non-interest income category, we may recognize income or expense related to the change in the FDIC loss-share receivable resulting from a change in the estimated credit losses on the pools of covered loans, non-interest income from reimbursable expenses incurred during the period, as well as non-interest income related to the accretion of the discount resulting from the present value of the receivable recorded at the acquisition dates. During the three months ended March 31, 2011, we recognized $16.2 million in non-interest income attributable to changes in the FDIC loss-share receivable. This amount consisted of $17.7 million caused by additional estimated credit losses on covered loans and $928 thousand of reimbursable expenses under the loss sharing agreements, partially offset by a $2.4 million adjustment for increased cash flows from certain loan pools in excess of originally forecasted cash flows, which are recognized on a prospective basis.

Other non-interest income increased $944 thousand during the quarter ended March 31, 2011 partly due to various settlement items collected from the FDIC in connection with the FDIC-assisted transactions.

Non-Interest Expense

The following table presents the components of non-interest expense for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	**2010**
	(in thousands)	
Salary and employee benefits expense	$ 44,125	$ 44,273
Net occupancy and equipment expense	17,186	15,941
FDIC insurance assessment	3,329	3,433
Amortization of other intangible assets	1,962	1,700
Professional and legal fees	3,773	2,119
Advertising	1,482	912
Other	11,972	9,976
Total non-interest expense	$ 83,829	$ 78,354

Net occupancy and equipment expense increased $1.2 million for the three months ended March 31, 2011 mainly due to increased seasonal maintenance and building repairs as compared to the same period in 2010.

Professional and legal fees increased $1.7 million for the first quarter of 2011 as compared to the same period in 2010 primarily due to increases caused by legal expenses related to assets acquired in the two FDIC-assisted transactions in March 2010, most of which will be reimbursable under the loss sharing agreements with the FDIC.

Advertising expense increased $570 thousand during the three months ended March 31, 2011 as compared to the same period a year ago mainly due to an increase in promotional campaigns including television and radio.

Other non-interest expense increased $2.0 million during the first quarter of 2011 as compared to the same period in 2010 primarily due to a $1.4 million increase in other real estate owned expenses caused by additional expenses related to the FDIC-assisted transactions and a $479 thousand write down of a repossessed aircraft. The reimbursable portion of the

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other real estate owned expenses under the FDIC loss sharing agreements is recognized as non-interest income due to the change in our FDIC loss-share receivable. See Non-Interest Income section above for more details.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus total non-interest income. Our efficiency ratio was 51.85 percent for the three months ended March 31, 2011 compared to 60.03 percent for the same period in 2010. An improvement in our efficiency ratio in first quarter of 2011 was attributable to higher net interest income, a $16.2 million increase in non-interest income recognized due to the change in our FDIC loss-share receivable, increased trading gains and lower other-than-temporary impairment losses on securities, partially offset by the increase in non-interest expense, as compared to the same period in 2010. We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. We believe this non-GAAP measure provides a meaningful comparison of our operational performance and facilitates investors assessments of business performance and trends in comparison to our peers in the banking industry.

Income Taxes

Income tax expense was $17.1 million and $12.2 million for the quarter ended March 31, 2011 and 2010, respectively and $15.3 million for the linked fourth quarter of 2010. The provision for income taxes for the quarter ended March 31, 2011 resulted in an effective tax rate of 31.9 percent compared with 30.8 percent in the quarter ended March 31, 2010 and 28.6 percent in the linked fourth quarter of 2010. The increase in the effective tax rate mainly reflects the marginal impact of higher pre-tax income.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the period in which it occurs. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management s judgment include changes in income, tax laws and regulations, and tax planning strategies. For the remainder of 2011, we anticipate that our effective tax rate will approximate 31 percent.

Business Segments

We have four business segments that we monitor and report on to manage our business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Our reportable segments have been determined based upon Valley s internal structure of operations and lines of business. Each business segment is reviewed routinely for its asset growth, contribution to income before income taxes and return on average interest earning assets and impairment (if events or circumstances indicate a possible inability to realize the carrying amount). Expenses related to the branch network, all other components of retail banking, along with the back office departments of our subsidiary bank are allocated from the corporate and other adjustments segment to each of the other three business segments. Interest expense and internal transfer expense (for general corporate expenses) are allocated to each business segment utilizing a pool funding methodology, whereas each segment is allocated a uniform funding cost based on each segments average earning assets outstanding for the period. The financial reporting for each segment contains allocations and reporting in line with our operations, which may not necessarily be comparable to any other financial institution. The accounting for each segment includes internal accounting policies designed to measure consistent and reasonable financial reporting, and may not necessarily conform to U.S. GAAP.

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The following tables present the financial data for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011				
	Consumer Lending	Commercial Lending	Investment Management ($ in thousands)	Corporate and Other Adjustments	Total
Average interest earning assets	$ 3,304,909	$ 6,153,292	$ 3,302,442	$	$ 12,760,643
Income (loss) before income taxes	15,566	26,112	13,562	(1,552)	53,688
Annualized return on average interest earning assets (before tax)	1.88%	1.70%	1.64%	N/A	1.68%

	Three Months Ended March 31, 2010				
	Consumer Lending	Commercial Lending	Investment Management ($ in thousands)	Corporate and Other Adjustments	Total
Average interest earning assets	$ 3,395,498	$ 6,026,664	$ 3,325,094	$	$ 12,747,256
Income (loss) before income taxes	16,574	22,342	12,863	(12,216)	39,563
Annualized return on average interest earning assets (before tax)	1.95%	1.48%	1.55%	N/A	1.24%

Consumer Lending

The consumer lending segment is mainly comprised of residential mortgages, home equity loans and automobile loans. The duration of the residential mortgage loan portfolio is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans within the portfolio is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles.

Average assets for the three months ended March 31, 2011 decreased $90.6 million, as compared to the first quarter of 2010. This decrease reflects the continued decline in automobile and home equity loan volumes, partially offset by an increase in our residential mortgage portfolio. Our residential mortgage loans grew by over $122 million during the first quarter of 2011 as we originated over $320 million in new and refinanced residential mortgage loans during the period. We held over 70 percent of these loan originations in our loan portfolio at March 31, 2011, as compared to the first quarter of 2010 when we sold most of our residential mortgage originations to the secondary market. Our decision to retain mortgage originations is based on the composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments.

Income before income taxes during the three months ended March 31, 2011 decreased $1.0 million to $15.6 million as compared to the first quarter of 2010. The decrease was mainly caused by a $3.1 million decline in net interest income to $30.2 million for the first quarter of 2011 as the negative impact of lower yields on loans were only partially offset by an increase in average loans and a decrease in our cost of funds during the first quarter. Additionally, non-interest expense increased $1.8 million to $13.9 million for the first quarter of 2011 as compared to the first quarter of 2010. The negative impact of these items was partially offset by a $2.1 million increase in non-interest income and a lower provision for loan losses. The provision for loan losses decreased $1.9 million as compared to the first quarter of 2010 due, in part, to lower levels of loan charge-offs in the automobile loan portfolio.

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The net interest margin decreased 28 basis points as a result of a 41 basis point decrease in interest yield, partially offset by a 13 basis point decrease in costs associated with our funding sources. The decrease in our cost of funds was mainly due to a decrease in the cost of average long-term borrowings that was mainly caused by the run-off of higher cost time deposits, as well as the maturity of higher cost FHLB borrowings during the first quarter of 2011 that were partially replaced with lower cost brokered certificates of deposit.

Commercial Lending

The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio s interest rate characteristics, commercial lending is Valley s most sensitive business segment to movements in market interest rates.

Average assets for the three months ended March 31, 2011 increased $126.6 million as compared to the first quarter of 2010. This increase reflects higher commercial real estate loan volume due to our increased emphasis on co-op and multifamily loan lending in our markets and generally stronger loan demand from new and existing commercial customers during the first quarter of 2011.

For the three months ended March 31, 2011, income before income taxes increased $3.8 million to $26.1 million compared with the first quarter of 2010 primarily due to increases in non-interest income and net interest income, partially offset by an increase in the provision for loan losses. Non-interest income increased $16.9 million during the quarter ended March 31, 2011 to $18.7 million as compared to $1.8 million for the same quarter in 2010. This increase was driven by the change in our FDIC loss-share receivable principally due to additional estimated credit losses on covered loan pools. Higher average loan balances, increased yields on loans and a lower cost of funds all contributed to a $4.3 million increase in net interest income. The provision for loan losses increased $13.5 million during the first quarter of 2011 mainly due to an $18.9 million provision for losses on covered loans due to a decline in expected cash flows on certain loan pools acquired in March 2010 compared to cash flows that were expected at the acquisition dates.

The net interest margin increased 19 basis points during the first quarter of 2011 mainly as a result of a 6 basis point increase in yield on average loans and 13 basis points decrease in the costs of our funding sources as compared to the first quarter of 2010.

Investment Management

The investment management segment is mainly comprised of fixed rate investments, trading securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York). The fixed rate investments are one of Valley s least sensitive assets to changes in market interest rates. However, as we continue to shift the composition of the investment portfolio to shorter-duration securities, the sensitivity to market interest rates will increase. Net gains and losses on the change in fair value of trading securities and net impairment losses on securities are reflected in the corporate and other adjustments segment.

Average investments decreased $22.7 million during the first quarter of 2011 as compared to the first quarter in 2010 primarily due to the lower liquid interest bearing cash balances held at the Federal Reserve Bank as we funded a large amount of loan growth during the first quarter of 2011.

For the three months ended March 31, 2011, income before income taxes increased $699 thousand to $13.6 million for the first quarter of 2011 compared to $12.9 million for the three months ended March 31, 2010 primarily due to a $745 thousand increase in net interest income caused by a higher level of investment securities and a lower cost of funds, partially offset by lower yields on new investments.

The net interest margin increased 10 basis points during the first quarter of 2011 as compared to the same quarter one year ago mainly as a result of 13 basis points decrease in costs associated with our funding sources, partially offset by lower yields on new investments as we have primarily purchased U.S. Treasury securities and residential mortgage-backed securities issued by Ginnie Mae.

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Corporate Segment

The corporate and other adjustments segment represents income and expense items not directly attributable to a specific segment, including net trading and securities gains (losses), and net impairment losses on securities not reported in the investment management segment above, interest expense related to the junior subordinated debentures issued to capital trusts, the change in fair value of Valley s junior subordinated debentures carried at fair value, interest expense related to $100 million in subordinated notes, as well as income and expense from derivative financial instruments.

The loss before income taxes for the corporate segment decreased $10.7 million to $1.5 million for the three months ended March 31, 2011 as compared to $12.2 million for the three months ended March 31, 2010. Non-interest income increased $9.9 million mainly due to increases in net trading gains and net gains on securities transactions. Net trading gains increased $6.4 million during the first quarter of 2011 mainly due to non-cash mark to market gains on our trust preferred debentures carried at fair value. Net gains on securities transactions increased $1.8 million mainly due to gains on the sale of $239.0 million in residential mortgage-backed securities issued by government agencies that were classified as available for sale in the 2011 period.

ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

Our success is largely dependent upon our ability to manage interest rate risk. Interest rate risk can be defined as the exposure of our interest rate sensitive assets and liabilities to the movement in interest rates. Our Asset/Liability Management Committee is responsible for managing such risks and establishing policies that monitor and coordinate our sources and uses of funds. Asset/Liability management is a continuous process due to the constant change in interest rate risk factors. In assessing the appropriate interest rate risk levels for us, management weighs the potential benefit of each risk management activity within the desired parameters of liquidity, capital levels and management s tolerance for exposure to income fluctuations. Many of the actions undertaken by management utilize fair value analysis and attempts to achieve consistent accounting and economic benefits for financial assets and their related funding sources. We have predominately focused on managing our interest rate risk by attempting to match the inherent risk and cash flows of financial assets and liabilities. Specifically, management employs multiple risk management activities such as the level of lower yielding new residential mortgage originations retained in our mortgage portfolio through sales in the secondary market, change in product pricing levels, change in desired maturity levels for new originations, change in balance sheet composition levels as well as several other risk management activities.

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of March 31, 2011. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of March 31, 2011. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of March 31, 2011. Although the size of Valley s balance sheet is forecasted to remain constant as of March 31, 2011 in our model, the composition is adjusted to reflect new interest earning assets and interest bearing liability originations and rate spreads utilizing our actual originations during the first quarter of 2011. The model utilizes an immediate parallel shift in the market interest rates at March 31, 2011.

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The following table reflects management s expectations of the change in our net interest income over the next twelve months period in light of the aforementioned assumptions:

Changes in Interest Rates (in basis points)	Estimated Change in Future Net Interest Income Dollar Change ($ in thousands)	Percentage Change
+200	$ 4,928	1.07%
+100	(683)	(0.15)
-100	(9,051)	(1.96)

The assumptions used in the net interest income simulation are inherently uncertain. Actual results may differ significantly from those presented in the table above, due to the frequency and timing of changes in interest rates, and changes in spreads between maturity and re-pricing categories. Overall, our net interest income is affected by changes in interest rates and cash flows from our loan and investment portfolios. We actively manage these cash flows in conjunction with our liability mix, duration and rates to optimize the net interest income, while structuring the balance sheet in response to actual or potential changes in interest rates. Additionally, our net interest income is impacted by the level of competition within our marketplace. Competition can negatively impact the level of interest rates attainable on loans and increase the cost of deposits, which may result in downward pressure on our net interest margin in future periods. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

Convexity is a measure of how the duration of a financial instrument changes as market interest rates change. Potential movements in the convexity of bonds held in our investment portfolio, as well as the duration of the loan portfolio may have a positive or negative impact to our net interest income in varying interest rate environments. As a result, the increase or decrease in forecasted net interest income may not have a linear relationship to the results reflected in the table above. Management cannot provide any assurance about the actual effect of changes in interest rates on our net interest income.

As noted in the table above, we are more susceptible to a decrease in interest rates under a scenario with an immediate parallel change in the level of market interest rates than an increase in interest rates under the same assumptions. However, we believe that a 100 basis point decrease in interest rates as of March 31, 2011 is unlikely given current interest rate levels. A 100 basis point immediate increase in interest rates is projected to decrease net interest income over the next twelve months by only 0.15 percent. The lack of balance sheet sensitivity to such a move in interest rates, is due, in part, to the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management) which currently exceeds the U.S. prime rate by 125 basis points. Additional information regarding our use of these prime rates can be found under the Net Interest Income section included in Part II Item 7 of Valley s Annual Report on Form 10-K for the year ended December 31, 2010. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

Although we do not expect our Valley prime rate loan portfolio to have an immediate benefit to our interest income in a rising interest rate environment, we have positioned a large portion of our investment portfolio in short-duration securities and residential mortgage-backed securities that will allow us to benefit from a potential rise in interest rates. Specifically, we 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.

Our interest rate caps designated as cash flow hedging relationships, are designed to protect us from upward movements in interest rates on certain deposits and short-term borrowings based on the prime and effective federal funds rates.

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Our interest rate swaps designated as cash flow hedging relationships, are designed to protect us from upward movements in interest rates on certain deposits based on the prime rate. We have interest rate caps with a $200 million notional value, which protect us from upward increases in interest rates on certain deposits and short-term borrowings, and are accounted for as cash flow hedges. During the fourth quarter of 2010, Valley entered into two cash flow hedge interest rate swaps with a notional amount of $200 million that are forward starting (October 2011) with pay fixed and receive floating rates. The floating rate leg of the transaction is indexed to the prime rate as reported by the Federal Reserve Bank. Additionally, we utilize interest rate swaps at times to effectively convert fixed rate loans and deposits to floating rate instruments. Most of these actions are expected to benefit our net interest income in a rising interest rate environment. However, due to the current low level of interest rates, the strike rate of these instruments, and the forward effective date applicable to the swaps, the cash flow hedge interest rate caps and swaps are expected to have little immediate impact on our net interest income should market interest rates begin to rise during the remainder of 2011. See Note 14 to the consolidated financial statements for additional information concerning our derivative transactions.

Liquidity

Bank Liquidity

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. A bank s liquidity reflects its ability to meet loan demand, to accommodate possible outflows in deposits and to take advantage of interest rate opportunities in the marketplace. Liquidity management is monitored by our Asset/Liability Management Committee and the Investment Committee of the Board of Directors of Valley National Bank, which review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments. Our goal is to maintain sufficient asset-based liquidity to cover potential funding requirements in order to minimize our dependence on volatile and potentially unstable funding markets.

Valley National Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposits $100 thousand and over, federal funds purchased, repurchase agreements and Federal Home Loan Bank advances) greater than 50 percent of total assets. At March 31, 2011, the Bank was in compliance with the foregoing policies.

On the asset side of the balance sheet, we have numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity maturing within one year, investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold. The residential mortgage-backed securities portfolio is a significant source of our liquidity through the monthly cash flow of principal and interest. The liquid assets totaled approximately $1.6 billion and $1.7 billion as of March 31, 2011 and December 31, 2010, respectively, representing 12.8 percent and 13.5 percent of earning assets at March 31, 2011 and December 31, 2010, respectively. Of the $1.6 billion of liquid assets at March 31, 2011, approximately $571 million of various investment securities were pledged to counterparties to support our earning asset funding strategies.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments are projected to be approximately $3.3 billion over the next twelve months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $8.4 billion for the first quarter of 2011 and $8.3 billion for the year ended December 31, 2010, representing 65.7 percent and 65.8 percent of average earning assets at March 31, 2011 and December 31, 2010, respectively. The level of interest bearing deposits is affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities.

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Additional funding may be provided from short-term liquidity borrowings through deposit gathering networks and in the form of federal funds purchased obtained through our well established relationships with several correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $1.0 billion for a short time from these banks on a collective basis. Valley National Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of residential mortgage-backed securities and a blanket assignment of qualifying residential mortgage loans. Furthermore, we are able to obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At March 31, 2011, our borrowing capacity under the Fed s discount window was approximately $943 million as compared to $948 million at December 31, 2010.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as securities sold under agreements to repurchase (repos), treasury tax and loan accounts, and FHLB advances. Our short-term borrowings decreased approximately $13.5 million to $178.8 million at March 31, 2011 as compared to $192.3 million at December 31, 2010 as a result of decreases in customer repo balances and treasury tax and loan accounts totaling $9.5 million and $4.0 million, respectively. At March 31, 2011, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

Corporation Liquidity

Valley s recurring cash requirements primarily consist of dividends to common shareholders and interest expense on junior subordinated debentures issued to capital trusts. These cash needs are routinely satisfied by dividends collected from Valley National Bank, along with cash flows from investment securities held at the holding company. Projected cash flows from these sources are expected to be adequate to pay common dividends, if declared, and interest expense payable to capital trusts, given the current capital levels and current profitable operations of the bank subsidiary.

As part of our on-going asset/liability management strategies, Valley could use cash to repurchase shares of its outstanding common stock under its share repurchase program, using Valley s own funds and/or dividends received from the Bank, as well as new borrowed funds or capital issuances.

Investment Securities Portfolio

As of March 31, 2011, we had approximately $1.9 billion, $1.1 billion, and $32.4 million in held to maturity, available for sale and trading securities, respectively. During the three months ended March 31, 2011, we recognized net gains on securities transactions of $2.7 million primarily due to the sale of $239.0 million in residential mortgage-backed securities issued by U.S. government sponsored agencies that were classified as available for sale.

At March 31, 2011, our investment portfolio was comprised of U.S Treasury securities, U.S. government agencies, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 19 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (bank issuers) (including 3 pooled securities), corporate bonds (most of which were purchased prior to the financial crisis in 2008 and 2009) primarily issued by banks, and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders equity, except for residential mortgage-backed securities issued by U.S. government sponsored agencies, including Fannie Mae, Freddie Mac and Ginnie Mae.

Among other securities, our investments in the private label mortgage-backed securities, trust preferred securities, perpetual preferred securities, equity securities, and bank issued corporate bonds may pose a higher risk of future impairment charges to us as a result of the persistently weak U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral.

Other-Than-Temporary Impairment Analysis

We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. 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,

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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.

Other-than-temporary impairment means we believe the security s impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. As a result of the current authoritative accounting guidance, when a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, we have to first consider (i) whether we intend to sell the security, and (ii) whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but we do not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (i) the amount related to credit loss, and (ii) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, we compare the present value of cash flows expected to be collected with the amortized cost basis of the security. As discussed above, the portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income. The amount of an additional other-than-temporary impairment related to credit losses recognized during the period, may be recorded as a reclassification adjustment from the accumulated other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

To determine whether a security s impairment is other-than-temporary, we consider factors that include:

- The causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility;
- The severity and duration of the decline;
- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and
- Our intent to sell debt security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis.

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not we expect to collect all contractual cash flows.

The investment grades in the table below reflect the most current independent analysis performed by third parties of each security as of the date presented and not necessarily the investment grades at the date of our purchase of the securities. For many securities, the rating agencies may not have performed an independent analysis of the tranches owned by us, but rather an analysis of the entire investment pool. For this and other reasons, we believe the assigned investment grades may not accurately reflect the actual credit quality of each security and should not be viewed in isolation as a measure of the quality of our investment portfolio.

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The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at March 31, 2011.

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity				
Investment grades:*				
AAA Rated	$ 1,255,371	$ 30,673	$ (6,385)	$ 1,279,659
AA Rated	137,883	2,317	(489)	139,711
A Rated	98,366	2,700	(580)	100,486
BBB Rated	118,724	4,092	(5,188)	117,628
Non-investment grade	28,800	2,925	(372)	31,353
Not rated	242,445	121	(54,683)	187,883
Total investment securities held to maturity	$ 1,881,589	$ 42,828	$ (67,697)	$ 1,856,720
Available for sale				
Investment grades:*				
AAA Rated	$ 821,625	$ 35,047	$ (655)	$ 856,017
AA Rated	23,176	455	(2,892)	20,739
A Rated	41,652	790	(7,168)	35,274
BBB Rated	56,300	885	(4,596)	52,589
Non-investment grade	102,988	3,637	(3,396)	103,229
Not rated	25,471	445	(129)	25,787
Total investment securities available for sale	$ 1,071,212	$ 41,259	$ (18,836)	$ 1,093,635

* Rated using external rating agencies (primarily S&P and Moody s). Ratings categories include the entire range. For example, A rated includes A+, A, and A-. Split rated securities with two ratings are categorized at the higher of the rating levels.

The held to maturity portfolio includes $242.4 million in investments not rated by the rating agencies with aggregate unrealized losses of $54.7 million at March 31, 2011. The unrealized losses for this category relate mainly to 7 single-issuer bank trust preferred securities, of which $40.3 million in unrealized losses relate to securities issued by one bank holding company with a combined amortized cost of $55.0 million. However, the issuer s principal subsidiary bank reported, in its most recent regulatory filing, that it meets the regulatory capital minimum requirements to be considered a well-capitalized institution as of March 31, 2011 (see the Held to Maturity section of Note 7 to the consolidated financial statements for further information regarding our analysis of this bank issuer). Based on this information, management believes that we will receive all principal and interest contractually due on both security issuances. We will continue to closely monitor the credit risk of this issuer and may be required to recognize other-than-temporary impairment on such securities in future periods. All other single-issuer bank trust preferred securities classified as held to maturity or available for sale are paying in accordance with their contractual terms and have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer s most recent bank regulatory report to assess the company s credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review, all of the issuers appear to meet the regulatory capital minimum requirements to be considered a well-capitalized financial institution and/or have maintained performance levels adequate to support the contractual cash flows of the security.

Although the majority of these financial institutions were current in their debt service payments at March 31, 2011, there can be no assurance that the current economic conditions or bank regulatory actions will not impair the institutions future ability to repay our investment in the trust preferred securities, which may result in significant other-

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than-temporary impairment charges to our future earnings. Over the past several years, many banking institutions have been required to defer trust preferred payments and a growing number of banking institutions have been put in receivership by the FDIC. A deferral event by a bank holding company for which we hold trust preferred securities may require us to recognize an other-than-temporary impairment charge if we determine that we no longer expect to collect all contractual interest and principal. A FDIC receivership for any single-issuer would result in a significant loss. See Note 7 to the consolidated financial statements for further details on our trust preferred securities portfolios.

The available for sale portfolio includes investments with non-investment grade ratings with amortized cost and fair values totaling $103.0 million and $103.2 million, respectively, at March 31, 2011. The $3.4 million in unrealized losses for this category mainly relate to 2 pooled trust preferred securities and 2 private mortgage-backed securities. We have found three of the four securities to be temporarily impaired in previous quarters. At March 31, 2011, we recorded additional credit impairment charges on one of the pooled trust preferred securities as discussed further in the Other-than-temporarily impaired securities section below and Note 7 to the consolidated financial statements.

Other-Than-Temporarily Impaired Securities

Other-than-temporary impairment is a non-cash charge and not necessarily an indicator of a permanent decline in value. Security valuations require significant estimates, judgments and assumptions by management and are considered a critical accounting policy of Valley. See the Critical Accounting Policies and Estimates section included in this MD&A for further discussion of this policy.

The following table provides information regarding our other-than-temporary impairment charges on securities recognized in earnings for the three months ended March 31, 2011 and 2010.

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Available for sale:		
Residential mortgage-backed securities	$	$ 216
Trust preferred securities	825	2,377
Net impairment losses on securities recognized in earnings	$ 825	$ 2,593

For the three months ended March 31, 2011, Valley recognized net impairment losses on securities in earnings totaling $825 thousand due to additional estimated credit losses on one of two previously impaired pooled trust preferred securities. After recognition of all credit impairments, this security had an amortized cost and fair value of $2.6 million and $1.2 million, respectively, at March 31, 2011. During the first quarter of 2010, Valley recognized additional estimated credit losses on two previously impaired trust preferred securities and three private label mortgage-backed securities.

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Loan Portfolio

The following table reflects the composition of the loan portfolio as of the dates presented:

	March 31, 2011	December 31, 2010	September 30, 2010 ($ in thousands)	June 30, 2010	March 31, 2010
Non-covered loans					
Commercial and industrial	$ 1,859,626	$ 1,825,066	$ 1,824,014	$ 1,760,071	$ 1,765,431
Commercial real estate:					
Commercial real estate	3,457,768	3,378,252	3,406,089	3,444,169	3,483,378
Construction	418,304	428,232	440,929	437,115	433,999
Total commercial real estate	3,876,072	3,806,484	3,847,018	3,881,284	3,917,377
Residential mortgage	2,047,898	1,925,430	1,890,439	1,911,466	1,893,279
Consumer:					
Home equity	492,328	512,745	531,168	545,607	553,951
Automobile	827,485	850,801	877,298	866,313	934,118
Other consumer	106,184	88,614	84,724	80,909	80,514
Total consumer loans	1,425,997	1,452,160	1,493,190	1,492,829	1,568,583
Total non-covered loans	9,209,593	9,009,140	9,054,661	9,045,650	9,144,670
Covered loans (1)	336,576	356,655	377,036	385,326	425,042
Total loans (2)	$ 9,546,169	$ 9,365,795	$ 9,431,697	$ 9,430,976	$ 9,569,712
As a percent of total loans:					
Commercial and industrial	19.5%	19.5%	19.4%	18.7%	18.5%
Commercial real estate	40.6	40.6	40.8	41.2	40.9
Residential mortgage	21.5	20.6	20.0	20.2	19.8
Consumer loans	14.9	15.5	15.8	15.8	16.4
Covered loans	3.5	3.8	4.0	4.1	4.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Covered loans primarily consist of commercial real estate loans and commercial and industrial loans.

(2) Total loans are net of unearned discount and deferred loan fees totaling $7.3 million, $9.3 million, $9.0 million, $9.2 million, and $8.6 million at March 31, 2011, December 31, 2010, September 30, 2010, June 30, 2010, and March 31, 2010, respectively.

Non-covered Loans

Non-covered loans are loans not subject to loss-sharing agreements with the FDIC. Non-covered loans increased $200.5 million, or 8.9 percent on an annualized basis, to approximately $9.2 billion at March 31, 2011 from December 31, 2010. The linked quarter increase was mainly comprised of increases in residential mortgage, commercial real estate, and commercial loans of $122.5 million, $79.5 million, and $34.6 million, respectively, partially offset by decreases of $23.3 million and $20.4 million in automobile and home equity loans, respectively. Residential mortgage loans increased due to the success of our $499 refinance program, including our television and radio ad campaigns during the first quarter, and the current low level of market interest rates. Our decision to retain mortgage originations is based on the composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments. Commercial real estate loans increased during the quarter partly due to our increased emphasis on co-op and multifamily loan lending in our markets. We also experienced a somewhat stronger demand from new and existing commercial customers during the first quarter of 2011. Automobile loan balances have continued to decline 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 have continued to offer rates and terms that are less than Valley s profitability thresholds. These factors may continue to constrain the levels of our auto loan originations for the remainder of 2011. Home equity loans also continued to decline during the quarter, in part, due to customer paydowns made in conjunction with first mortgage refinance activity.

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Despite the overall loan growth in the first quarter of 2011, we may experience declines in the loan portfolio during the reminder of 2011 and beyond due to a slow economic recovery cycle, increases in market interest rates, high unemployment, increased competition for quality borrowers, or a change in asset/liability management strategy.

Covered Loans

Loans for which the Bank will share losses with the FDIC are referred to as covered loans, and consist of loans acquired from LibertyPointe Bank and The Park Avenue Bank as a part of two FDIC-assisted transactions during the first quarter of 2010. Our covered loans consist primarily of commercial real estate loans and commercial and industrial loans and totaled $336.6 million at March 31, 2011 as compared to $356.7 million at December 31, 2010. Under ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, the covered loans were aggregated and accounted for as pools of loans based on common risk characteristics.

Covered loans are subject to the Bank s credit review and monitoring. During the quarter ended March 31, 2011, certain pools of covered loans experienced decreases in their expected cash flows based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. Accordingly, we recorded an $18.9 million provision for losses on covered loans as a component of our provision of credit losses in the consolidated statement of income for the quarter ended March 31, 2011. The provision for losses on covered loans was partially offset by a $17.7 million increase in our FDIC loss-share receivable for the FDIC s portion of the additional estimated credit losses under the loss sharing agreements. This increase in FDIC loss-share receivable was recorded as a component of non-interest income.

Although we recognized credit impairment during the quarter, on an aggregate basis the acquired pools of covered loans are performing better than originally expected, and based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For these pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on loans over future periods. Additionally, as the future projected cash flows materialize, we will reduce the FDIC loss-share receivable by the guaranteed portion of the amount received. During the first quarter of 2011, we reduced our FDIC loss-share receivable by a charge to non-interest income of $2.4 million due to the effect of additional cash flows received on pooled loans for the period. See Note 8 to the consolidated financial statements for more details on our covered loans.

FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets

The receivable arising from the loss sharing agreements (referred to as the FDIC loss-share receivable on our statements of financial condition) is measured separately from the covered loan pools because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. As of the acquisition dates for the two FDIC-assisted transactions, we recorded an aggregate FDIC loss-share receivable of $108.0 million, consisting of the present value of the expected future cash flows the Bank expected to receive from the FDIC under the loss sharing agreements. The FDIC loss-share receivable is reduced as the loss sharing payments are received from the FDIC for losses realized on covered loans and other real estate owned acquired in the FDIC-assisted transactions. Actual or expected losses in excess of the acquisition date estimates will result in an increase in the FDIC loss-share receivable and the immediate recognition of non-interest income in our financial statements. However, reductions in the FDIC loss-share receivable due to actual or expected losses that are less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable pools of covered loans or (ii) the term of the loss sharing agreements with the FDIC.

Our FDIC loss-share receivable totaled $90.6 million and $89.4 million at March 31, 2011 and December 31, 2010, respectively. During the three months ended March 31, 2011, we recorded a $17.7 million increase in the FDIC loss-share receivable due to the covered portion of the additional credit impairment on certain covered loan pools, noted under Covered Loans above and $928 thousand for other reimbursable expenses from the FDIC. Partially offsetting these increases, we reduced our FDIC loss-share receivable by $2.4 million due to a yield adjustment for increased cash flows from certain loan pools in excess of originally forecasted cash flows, which are recognized on a prospective basis, as well as quarterly receipts of our claims under the loss-sharing agreements of $15.0 million.

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See Notes 4 and 8 to the consolidated financial statements for further details on our covered loans, FDIC loss-share receivable, and the FDIC-assisted transactions.

Non-performing Assets

Non-performing assets (not including covered loans) include non-accrual loans, other real estate owned (OREO), and other repossessed assets which consist of automobiles, as well as one aircraft at March 31, 2011. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is sufficiently collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value, less cost to sell at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. See Note 8 to the consolidated financial statements for details about our impaired and non-accrual loan accounting policies. Given the persistently weak economy, and relative to many of our peers, the level of non-performing assets remained relatively low as a percentage of the total loan portfolio at March 31, 2011 and has moderately declined since December 31, 2010 as shown in the table below.

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The following table sets forth by loan category, accruing past due and non-performing assets on non-covered loans on the dates indicated in conjunction with our asset quality ratios:

	March 31, 2011	December 31, 2010	September 30, 2010 ($ in thousands)	June 30, 2010	March 31, 2010
Accruing past due loans:[1]					
30 to 89 days past due:					
Commercial and industrial	$ 11,007	$ 13,852	$ 9,917	$ 14,262	$ 14,633
Commercial real estate	14,025	14,563	7,281	6,001	11,365
Construction	11,860	2,804	3,750	5,810	12,747
Residential mortgage	12,373	12,682	13,426	8,421	9,659
Consumer	9,565	14,638	15,937	17,088	16,302
Total 30 to 89 days past due	58,830	58,539	50,311	51,582	64,706
90 or more days past due:					
Commercial and industrial	12	12	722	502	501
Commercial real estate			1,424	1,608	1,039
Construction		196		1,507	
Residential mortgage	1,201	1,556	1,297	1,676	1,331
Consumer	575	723	924	786	1,180
Total 90 or more days past due	1,788	2,487	4,367	6,079	4,051
Total accruing past due loans	$ 60,618	$ 61,026	$ 54,678	$ 57,661	$ 68,757
Non-accrual loans:[1]					
Commercial and industrial	$ 16,476	$ 13,721	$ 16,967	$ 16,240	$ 12,559
Commercial real estate	31,759	32,981	29,833	30,798	28,869
Construction	21,402	27,312	29,535	28,581	23,975
Residential mortgage	28,923	28,494	27,198	25,916	24,053
Consumer	2,730	2,547	2,069	1,975	2,140
Total non-accrual loans	101,290	105,055	105,602	103,510	91,596
Other real estate owned (OREO[2])	10,904	10,498	4,698	4,633	4,534
Other repossessed assets	960	1,707	1,849	1,666	2,554
Total non-performing assets (NPAs)	$ 113,154	$ 117,260	$ 112,149	$ 109,809	$ 98,684
Performing troubled debt restructured loans	$ 91,673	$ 89,696	$ 48,229	$ 47,959	$ 3,575
Total non-accrual loans as a % of loans	1.06%	1.12%	1.12%	1.10%	0.96%
Total NPAs as a % of loans and NPAs	1.17	1.24	1.18	1.15	1.02
Total accruing past due and non-accrual loans as a % of loans	1.70	1.77	1.70	1.71	1.68
Allowance for losses on non-covered loans as a % of non-accrual loans	118.18	112.63	107.75	106.89	112.98

(1)

Past due loans and non-accrual loans exclude loans that were acquired as part of the LibertyPointe Bank and The Park Avenue Bank FDIC-assisted transactions. These loans are accounted for on a pool basis.

(2) This table excludes OREO that is related to the LibertyPointe Bank and The Park Avenue Bank FDIC assisted transactions. OREO related to the FDIC-assisted transactions, which totaled $6.7 million, $7.8 million, $12.5 million, $12.6 million and $7.6 million at March 31, 2011, December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010, respectively, is subject to the loss-sharing agreements with the FDIC.

Total non-performing assets (NPAs) totaled $113.2 million, or 1.17 percent of loans and NPAs at March 31, 2011 compared to $117.3 million, or 1.24 percent of loans and NPAs at December 31, 2010. The $4.1 million decrease in non-performing assets was mainly due to a $5.9 million decline in non-accrual construction loans. The decline was mostly due to one $2.9 million loan relationship which is now performing, and another $3.2 million loan relationship that paid off during the first quarter of 2011.

Non-accrual loans decreased to $101.3 million at March 31, 2011 as compared to $105.1 million at December 31, 2010 mainly due to the aforementioned decline in non-accrual construction loans. Although the timing of collection is uncertain, management believes that most of the non-accrual loans are well secured and largely collectible based on, in part, our quarterly review of impaired loans. Our impaired loans, mainly consisting of non-accrual and troubled debt restructured commercial and commercial real estate loans, totaled $152.0 million at March 31, 2011 and had $15.7 million in related specific reserves included in our total allowance for loan losses. OREO and other repossessed assets,

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excluding OREO subject to loss-sharing agreements with the FDIC, totaled a combined $11.9 million at March 31, 2011 as compared to $12.2 million at December 31, 2010.

Loans past due 90 days or more and still accruing decreased to $1.8 million, or 0.02 percent of total loans at March 31, 2011 compared to $2.5 million, or 0.03 percent at December 31, 2010 primarily due to moderate declines in construction, residential mortgage, and consumer loans within this delinquency category.

Performing troubled debt restructured loans (restructured loans) with modified terms and not reported as loans 90 days or more past due and still accruing or as non-accrual loans, are performing restructured loans to customers experiencing financial difficulties where a concession has been granted. Our performing restructured loan balances totaled $91.7 million at March 31, 2011 and consisted of 43 loans (primarily in the commercial and industrial loan and commercial real estate portfolios) as compared to 44 loans totaling $89.7 million at December 31, 2010. On an aggregate basis, the $91.7 million in performing restructured loans at March 31, 2011 had a weighted average modified interest rate of approximately 5.17 percent as compared to a yield of 5.65 percent on the entire loan portfolio for the first quarter of 2011.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for losses on non-covered loans, the allowance for unfunded letters of credit, and the allowance for losses on covered loans related to credit impairment of certain covered loan pools subsequent to acquisition. Management maintains the allowance for credit losses at a level estimated to absorb probable losses inherent in the loan portfolio and unfunded letters of credit commitments at the balance sheet dates, based on ongoing evaluations of the loan portfolio. Our methodology for evaluating the appropriateness of the allowance for non-covered loans includes:

- segmentation of the loan portfolio based on the major loan categories, which consist of commercial, commercial real estate (including construction), residential mortgage and other consumer loans;
- tracking the historical levels of classified loans and delinquencies;
- assessing the nature and trend of loan charge-offs;
- providing specific reserves on impaired loans; and
- applying economic outlook factors, assigning specific incremental reserves where necessary.

Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration when evaluating the adequacy of the allowance for credit losses. Allowance for credit losses methodology and accounting policy are fully described in Part II, Item 7 and Note 1 to the consolidated financial statements in Valley s Annual Report on Form 10-K for the year ended December 31, 2010.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses is dependent upon a variety of factors largely beyond our control, including the view of the Office of the Comptroller of the Currency (OCC) toward loan classifications, performance of the loan portfolio, and the economy. The OCC 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.

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The following table summarizes the relationship among loans, loans charged-off, loan recoveries, the provision for credit losses and the allowance for credit losses for the periods indicated:

		Three Months Ended	
	March 31, 2011	December 31, 2010	March 31, 2010
		($ in thousands)	
Average loans outstanding	$ 9,458,201	$ 9,458,332	$ 9,422,162
Beginning balance - Allowance for credit losses	$ 126,504	$ 115,715	$ 103,655
Loans charged-off:			
Commercial and industrial	(6,672)	(1,593)	(8,681)
Commercial real estate	(823)	(100)	(656)
Construction		(1,314)	(419)
Residential mortgage	(783)	(730)	(535)
Consumer	(1,758)	(2,009)	(3,873)
	(10,036)	(5,746)	(14,164)
Charged-off loans recovered:			
Commercial and industrial	448	804	2,362
Commercial real estate	21	17	94
Construction			
Residential mortgage	21	17	5
Consumer	602	598	720
	1,092	1,436	3,181
Net charge-offs (includes $5.1 million of covered loan charge-offs for the period ended March 31, 2011)	(8,944)	(4,310)	(10,983)
Provision charged for credit losses	24,162	15,099	12,611
Ending balance - Allowance for credit losses	$ 141,722	$ 126,504	$ 105,283
Components of allowance for credit losses:			
Allowance for non-covered loans	$ 119,700	$ 118,326	$ 103,486
Allowance for covered loans	20,147	6,378	
Allowance for loan losses	139,847	124,704	103,486
Allowance for unfunded letters of credit	1,875	1,800	1,797
Allowance for credit losses	$ 141,722	$ 126,504	$ 105,283
Components of provision for credit losses:			
Provision for losses on non-covered loans	$ 5,205	$ 8,850	$ 12,479
Provision for losses on covered loans	18,882	6,378	
Provision for loan losses	24,087	15,228	12,479

Provision for unfunded letters of credit	75	(129)	132
Provision for credit losses	$ 24,162	$ 15,099	$ 12,611
Ratio of net charge-offs of non-covered loans to average loans outstanding	0.16%	0.18	%0.47%
Ratio of total net charge-offs to average loans outstanding	0.38	0.18	0.47
Allowance for non-covered loan losses as a % of non-covered loans	1.30	1.31	1.13
Allowance for credit losses as a % of total loans	1.48	1.35	1.10

Net loan charge-offs increased $4.6 million to $8.9 million for the three months ended March 31, 2011 compared with the fourth quarter of 2010 mainly due to $5.1 million in charge-offs on impaired covered loans (primarily included in the commercial and industrial loan category of loans charged-off in the table above) during the first quarter of 2011. The charge-offs on impaired covered loans are substantially covered by loss-sharing agreements with the FDIC.

The provision for credit losses totaled $24.2 million for the first quarter of 2011 as compared to $15.1 million for the linked fourth quarter of 2010 mainly due to a $12.5 million increase in the provision for losses on covered loans caused by additional credit impairment within certain pools of covered loans acquired in FDIC-assisted transactions. The provision for losses on non-covered loans (i.e., loans which are not subject to our loss-sharing agreements with the FDIC) and unfunded letters of credit totaled $5.3 million for the first quarter of 2011 as compared to $8.7 million for the fourth quarter of 2010. The $3.4 million decline in the provision for non-covered loans reflects, among other factors, the lower level of net charge-offs and non-performing loans during the first quarter of 2011.

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The following table summarizes the allocation of the allowance for credit losses to specific loan portfolio categories and the allocations as a percentage of each loan category:

	March 31, 2011		December 31, 2010		March 31, 2010	
	Allowance Allocation	Allocation as a % of Loan Category	Allowance Allocation	Allocation as a % of Loan Category	Allowance Allocation	Allocation as a % of Loan Category
			($ in thousands)			
Loan category:						
Commercial and industrial loans *	$ 59,072	3.18%	$ 58,229	3.19%	$ 49,928	2.83%
Commercial real estate loans:						
Commercial real estate	15,239	0.44	15,755	0.47	13,809	0.40
Construction	15,924	3.81	14,162	3.31	15,350	3.54
Total commercial real estate loans	31,163	0.80	29,917	0.79	29,159	0.74
Residential mortgage loans	10,884	0.53	9,128	0.47	6,156	0.33
Consumer loans:						
Home equity	2,429	0.49	2,345	0.46	1,664	0.30
Auto and other consumer	9,871	1.06	12,154	1.29	12,626	1.24
Total consumer loans	12,300	0.86	14,499	1.00	14,290	0.91
Unallocated	8,156	N/A	8,353	N/A	5,750	N/A
Total non-covered loans	121,575	1.32	120,126	1.33	105,283	1.15
Covered loans	20,147	5.99	6,378	1.79		
Total allowance for credit losses	$ 141,722	1.48	$ 126,504	1.35	$ 105,283	1.10

* Includes the reserve for unfunded letters of credit.

The allowance for losses on non-covered loans (including the reserve for unfunded letters of credit) as a percentage of non-covered loans decreased 1 basis point to 1.32 percent at March 31, 2011 as compared to 1.33 percent at December 31, 2010 and increased 17 basis points as compared to 1.15 percent at March 31, 2010. As a percentage of non-covered loans, the allowance for losses on non-covered loans remained relatively unchanged from December 31, 2010 as improved loss experience and outlook for the automobile portfolio within consumer loans was mostly negated by increased reserves for residential mortgage and construction loans caused, in part, by the soft housing markets and high unemployment. The increase from one year ago was mainly the result of an increase in the allowance attributable to higher loss factors applied to residential mortgage loans due to continued weakness in the housing markets and increased specific reserves for impaired commercial and industrial loans and commercial real estate loans, partially offset by lower loss factors applied to consumer loans. Management believes that the unallocated allowance is appropriate given the uncertain economic outlook, the size of the loan portfolio and level of loan delinquencies at March 31, 2011.

The allowance for losses on covered loans increased to $20.1 million at March 31, 2011 as compared to $6.4 million at December 31, 2010 due to an $18.9 million provision recorded for additional declines in the expected cash flows from covered loan portfolio caused by credit impairment within certain pools of covered loans acquired in March 2010, partially offset by loan charge-offs totaling $5.1 million during the first quarter of 2011. The charge-offs on loans in impaired covered loan pools are substantially covered by loss-sharing agreements with the FDIC. See Note 7 to the consolidated financial statements for more details.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders equity. At March 31, 2011 and December 31, 2010, shareholders equity totaled approximately $1.3 billion for both periods, or 9.1 percent and 9.2 percent of total assets, respectively. During the three months ended March 31, 2011, total shareholders equity moderately increased mainly due to net income of $36.6 million, a $2.1 million decrease in our accumulated other comprehensive loss, and 154 thousand shares of treasury stock reissued under our dividend reinvestment plan for net proceeds totaling $2.1 million, partially offset by cash dividends on common stock totaling $29.1 million.

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Included in shareholders equity as a component of accumulated other comprehensive loss at March 31, 2011 was a $14.0 million net unrealized gain on investment securities classified as available for sale, net of deferred tax as compared to a $13.4 million net unrealized gain, net of deferred tax at December 31, 2010. Also, included as a component of accumulated other comprehensive loss at March 31, 2011 was a charge of $18.1 million, net of deferred tax, representing the unfunded portion of Valley s various pension obligations, and a $459 thousand unrealized gain on derivatives, net of deferred tax used in cash flow hedging relationships.

In 2007, Valley s Board of Directors approved a publicly announced repurchase plan, which allows for the repurchase of up to 4.5 million common shares. Purchases may be made from time to time in the open market or in privately negotiated transactions generally not exceeding prevailing market prices. Repurchased shares are held in treasury and are expected to be used for general corporate purposes or issued under the dividend reinvestment plan. The repurchase plan has no stated expiration date and has approximately 3.9 million shares available for repurchase as of March 31, 2011. Under this repurchase plan, Valley made no purchases of its outstanding shares during the quarter ended March 31, 2011. Valley also purchases shares directly from its employees in connection with employee elections to withhold taxes related to the vesting of restricted stock awards. During the quarter ended March 31, 2011 Valley purchased approximately 9 thousand shares of its outstanding common stock at an average price of $13.04 related to stock awards.

Risk-based capital guidelines define a two-tier capital framework. Tier 1 capital consists of common shareholders equity and eligible long-term borrowing related to VNB Capital Trust I and GCB Capital Trust III, less disallowed intangibles and adjusted to exclude unrealized gains and losses, net of deferred tax. Total risk-based capital consists of Tier 1 capital, Valley National Bank s subordinated borrowings and the allowance for credit losses up to 1.25 percent of risk-adjusted assets. Risk-adjusted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet activities.

The following table presents Valley s and Valley National Bank s actual capital positions and ratios under risk-based capital guidelines at March 31, 2011 and December 31, 2010.

	Actual		Minimum Capital Requirements		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
As of March 31, 2011						
Total Risk-based Capital						
Valley	$ 1,366,893	13.0%	$ 840,253	8.0%	$ N/A	N/A %
Valley National Bank	1,305,913	12.5	838,664	8.0	1,048,330	10.0
Tier 1 Risk-based Capital						
Valley	1,155,063	11.0	420,126	4.0	N/A	N/A
Valley National Bank	1,094,178	10.4	419,332	4.0	628,998	6.0
Tier 1 Leverage Capital						
Valley	1,155,063	8.3	555,275	4.0	N/A	N/A
Valley National Bank	1,094,178	7.9	554,418	4.0	693,023	5.0
As of December 31, 2010						
Total Risk-based Capital						
Valley	$ 1,349,832	12.9%	$ 836,268	8.0%	$ N/A	N/A %
Valley National Bank	1,291,928	12.4	834,728	8.0	1,043,410	10.0
Tier 1 Risk-based Capital						
Valley	1,143,328	10.9	418,134	4.0	N/A	N/A
Valley National Bank	1,085,424	10.4	417,364	4.0	626,046	6.0
Tier 1 Leverage Capital						
Valley	1,143,328	8.3	550,665	4.0	N/A	N/A
Valley National Bank	1,085,424	7.9	549,860	4.0	687,325	5.0

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Valley s Tier 1 capital position included $176.3 million of its outstanding trust preferred securities issued by capital trusts as of March 31, 2011 and December 31, 2010. In compliance with U.S. GAAP, Valley does not consolidate its capital trusts. The Dodd-Frank Act was signed into law on July 21, 2010 and imposes new capital requirements on bank and thrift holding companies, including the phase out (through January 2016) of trust preferred securities being permitted in Tier 1 capital for holding companies with consolidated assets of $15 billion or more. Based on our current interpretation of the Dodd-Frank Act, holding companies with less than $15 billion in consolidated assets, such as Valley, will continue to be permitted to include trust preferred securities issued before May 19, 2010 in Tier 1 capital within regulatory limits even if its total assets exceed $15 billion in the future. Based on this final law and regulatory guidelines, Valley included all of its outstanding trust preferred securities in Tier 1 capital at March 31, 2011.

Book value per share was $7.71 and $7.64 at March 31, 2011 and December 31, 2010, respectively. Tangible book value per share amounted to $5.68 and $5.61 at March 31, 2011 and December 31, 2010, respectively. Tangible book value, which is a non-GAAP measure, is computed by dividing shareholders equity less goodwill and other intangible assets by common shares outstanding, as follows:

	March 31, 2011	December 31, 2010
	($ in thousands except for share data)	
Common shares outstanding	169,678,227	169,533,626
Shareholders equity	$ 1,307,524	$ 1,295,205
Less: Goodwill and other intangible assets	343,214	343,541
Tangible shareholders equity	$ 964,310	$ 951,664
Tangible book value per common share	$ 5.68	$ 5.61
Book value per share	$ 7.71	$ 7.64

Management believes the tangible book value per share ratio provides information useful to management and 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. This non-GAAP financial measure should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP.

Typically, our primary source of capital growth is through retention of earnings. Our rate of earnings retention is derived by dividing undistributed earnings per common share by earnings (or net income available to common stockholders) per common share. Our retention ratio was 22.7 percent for the three months ended March 31, 2011, but was somewhat positively impacted by net trading gains caused primarily by non-cash mark to market gains on the fair value of junior subordinated debentures and net gains on securities transaction, partially offset by net impairment losses on securities. While we expect that our rate of earnings retention to remain at acceptable levels in future periods, potential future mark to market losses on trading securities and our junior subordinated debentures, net impairment losses on securities, and other deterioration in earnings and our balance sheet resulting from the continued recessionary economic conditions may negatively impact our future earnings and ability to maintain our dividend at current levels.

Cash dividends declared amounted to $0.17 per common share for both the three months ended March 31, 2011 and 2010. The Board continued the cash dividend, which remained unchanged during the first quarter of 2011 but, consistent with its conservative philosophy, the Board is committed to examine and weigh relevant facts and considerations, including its commitment to shareholder value, each time it makes a cash dividend decision in this economic environment. Under Bank Interagency Guidance, the OCC has cautioned banks to carefully consider the dividend payout ratio to ensure they maintain sufficient capital to be able to lend to credit worthy borrowers.

Off-Balance Sheet Arrangements, Contractual Obligations and Other Matters

For a discussion of Valley s off-balance sheet arrangements and contractual obligations see information included in Valley s Annual Report on Form 10-K for the year ended December 31, 2010 in the MD&A section Off-Balance Sheet Arrangements and Notes 13 and 14 to the consolidated financial statements included in this report.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, and commodity prices. Valley s market risk is composed primarily of interest rate risk. See page 53 for a discussion of interest rate sensitivity.

Item 4. Controls and Procedures

Valley s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), with the assistance of other members of Valley s management, have evaluated the effectiveness of Valley s disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, Valley s CEO and CFO have concluded that Valley s disclosure controls and procedures are effective.

Valley s CEO and CFO have also concluded that there have not been any changes in Valley s internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, Valley s internal control over financial reporting.

Valley s management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, provides reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system reflects resource constraints and the benefits of controls must be considered relative to their costs. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Valley have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, we may be a party to various outstanding legal proceedings and claims. There have been no material changes in the legal proceedings previously disclosed under Part I, Item 3 of Valley s Annual Report on Form 10-K for the year ended December 31, 2010.

Item 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under Part I, Item 1A of Valley s Annual Report on Form 10-K for the year ended December 31, 2010.

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

During the quarter, we did not sell any equity securities not registered under the Securities Act of 1933, as amended. Purchases of equity securities by the issuer and affiliated purchasers during the three months ended March 31, 2011:

ISSUER PURCHASES OF EQUITY SECURITIES

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)
January 1, 2011 to January 31, 2011	23(2)	$ 12.50		3,916,633
February 1, 2011 to February 28, 2011	8,503(2)	13.05		3,916,633
March 1, 2011 to March 31, 2011				3,916,633
Total	8,526			

(1) On January 17, 2007, Valley publicly announced its intention to repurchased up to 4.5 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 March 31, 2011.

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

Item 6. Exhibits

(3) *Articles of Incorporation and By-laws:*

A. Restated Certificate of Incorporation of the Registrant, incorporated herein by reference to the Registrant s Form 8-K Current Report filed on May 21, 2010.

B. By-laws of the Registrant, as amended, incorporated herein by reference to the Registrant s Form 8-K Current Report filed on January 31, 2011.

(31.1) Certification pursuant to Securities Exchange Rule 13a-14(a)/15d-14(a) signed by Gerald H. Lipkin, Chairman of the Board, President and Chief Executive Officer of the Company.*

(31.2) Certification pursuant to Securities Exchange Rule 13a-14(a)/15d-14(a) signed by Alan D. Eskow, Senior Executive Vice President and Chief Financial Officer of the Company.*

(32) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Gerald H. Lipkin, Chairman of the Board, President and Chief Executive Officer of the Company and Alan D. Eskow, Senior Executive Vice President and Chief Financial Officer of the Company.*

(101) Interactive Data File *, **

*	Filed herewith.

**	As provided in Rule 406T of Regulation S-T, this information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

VALLEY NATIONAL BANCORP
(Registrant)

Date: May 9, 2011

/s/ GERALD H. LIPKIN
Gerald H. Lipkin
Chairman of the Board, President and Chief Executive Officer

Date: May 9, 2011

/s/ ALAN D. ESKOW
Alan D. Eskow
Senior Executive Vice President and

Chief Financial Officer

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