VALLEY NATIONAL BANCORP
Form 10-Q
May 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2011

OR

¨ **Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

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

973-305-8800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 169,848,898 shares were outstanding as of May 4, 2011.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

(in thousands, except for share data)

	March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 319,495	$ 302,629
Interest bearing deposits with banks	6,002	63,657
Investment securities:		
Held to maturity, fair value of $1,856,720 at March 31, 2011 and $1,898,872 at December 31, 2010	1,881,589	1,923,993
Available for sale	1,093,635	1,035,282
Trading securities	32,387	31,894
Total investment securities	3,007,611	2,991,169
Loans held for sale, at fair value	14,608	58,958
Non-covered loans	9,209,593	9,009,140
Covered loans	336,576	356,655
Less: Allowance for loan losses	(139,847)	(124,704)
Net loans	9,406,322	9,241,091
Premises and equipment, net	264,215	265,570
Bank owned life insurance	306,662	304,956
Accrued interest receivable	63,403	59,126
Due from customers on acceptances outstanding	6,476	6,028
FDIC loss-share receivable	90,642	89,359
Goodwill	317,891	317,891
Other intangible assets, net	25,323	25,650
Other assets	535,189	417,742
Total Assets	$ 14,363,839	$ 14,143,826
Liabilities		
Deposits:		
Non-interest bearing	$ 2,538,534	$ 2,524,299
Interest bearing:		
Savings, NOW and money market	4,391,600	4,106,464
Time	2,792,241	2,732,851
Total deposits	9,722,375	9,363,614

Short-term borrowings	178,814	192,318
Long-term borrowings	2,817,670	2,933,858
Junior subordinated debentures issued to capital trusts (includes fair value of $158,845 at March 31, 2011 and $161,734 at December 31, 2010 for VNB Capital Trust I)	184,016	186,922
Bank acceptances outstanding	6,476	6,028
Accrued expenses and other liabilities	146,964	165,881
Total Liabilities	13,056,315	12,848,621
Shareholders Equity*		
Preferred stock, no par value, authorized 30,000,000 shares; none issued		
Common stock, no par value, authorized 220,974,508 shares; issued 170,137,971 shares at March 31, 2011 and 170,131,085 shares at December 31, 2010	57,053	57,041
Surplus	1,179,023	1,178,325
Retained earnings	85,926	79,803
Accumulated other comprehensive loss	(3,606)	(5,719)
Treasury stock, at cost (459,744 common shares at March 31, 2011 and 597,459 common shares at December 31, 2010)	(10,872)	(14,245)
Total Shareholders Equity	1,307,524	1,295,205
Total Liabilities and Shareholders Equity	$ 14,363,839	$ 14,143,826

* Share data reflects the five percent common stock dividend declared on April 13, 2011, to be issued May 20, 2011 to shareholders of record on May 6, 2011.

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in thousands, except for share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Interest Income		
Interest and fees on loans	$ 133,623	$ 135,369
Interest and dividends on investment securities:		
Taxable	29,580	29,687
Tax-exempt	2,505	2,546
Dividends	2,056	2,193
Interest on federal funds sold and other short-term investments	55	154
Total interest income	167,819	169,949
Interest Expense		
Interest on deposits:		
Savings, NOW, and money market	4,679	4,860
Time	12,166	15,598
Interest on short-term borrowings	341	331
Interest on long-term borrowings and junior subordinated debentures	33,741	34,309
Total interest expense	50,927	55,098
Net Interest Income	116,892	114,851
Provision for credit losses	24,162	12,611
Net Interest Income After Provision for Credit Losses	92,730	102,240
Non-Interest Income		
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
Other-than-temporary impairment losses on securities		(1,393)
Portion recognized in other comprehensive income (before taxes)	(825)	(1,200)
Net impairment losses on securities recognized in earnings	(825)	(2,593)
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
Non-Interest Expense		

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
Income Before Income Taxes	53,688	39,563
Income tax expense	17,103	12,200
Net Income	$ 36,585	$ 27,363
Earnings Per Common Share*:		
Basic	$ 0.22	$ 0.16
Diluted	0.22	0.16
Cash Dividends Declared per Common Share*	0.17	0.17
Weighted Average Number of Common Shares Outstanding*:		
Basic	169,671,128	168,831,733
Diluted	169,678,846	168,834,400

* Share data reflects the five percent common stock dividend declared on April 13, 2011, to be issued May 20, 2011 to shareholders of record on May 6, 2011.

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities:		
Net income	$ 36,585	$ 27,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,022	3,942
Stock-based compensation	682	1,034
Provision for credit losses	24,162	12,611
Net amortization of premiums and accretion of discounts on securities and borrowings	2,876	3,991
Amortization of other intangible assets	1,962	1,700
Gains on securities transactions, net	(2,679)	(863)
Net impairment losses on securities recognized in earnings	825	2,593
Proceeds from sales of loans held for sale	133,842	114,533
Gains on sales of loans, net	(3,609)	(2,520)
Originations of loans held for sale	(85,883)	(105,002)
Gains on sales of assets, net	(57)	(86)
Change in FDIC loss-share receivable	(16,235)	
Net change in:		
Trading securities	(493)	(236)
Fair value of borrowings carried at fair value	(2,889)	3,266
Cash surrender value of bank owned life insurance	(1,706)	(1,543)
Accrued interest receivable	(4,277)	(4,180)
Other assets	25,868	8,832
Accrued expenses and other liabilities	(19,062)	13,190
Net cash provided by operating activities	93,934	78,625
Cash flows from investing activities:		
Net loan (originations) repayments	(189,318)	221,368
Investment securities held to maturity:		
Purchases	(119,230)	(243,519)
Maturities, calls and principal repayments	158,990	146,629
Investment securities available for sale:		
Purchases	(366,123)	(230,333)
Sales	105,987	235,906
Maturities, calls and principal repayments	59,139	85,837
Proceeds from sales of real estate property and equipment	1,604	
Purchases of real estate property and equipment	(2,945)	(3,462)
Reimbursements from the FDIC	14,952	
Cash and cash equivalents acquired in acquisitions		47,528
Net cash (used in) provided by investing activities	(336,944)	259,954
Cash flows from financing activities:		
Net change in deposits	358,761	(421,870)
Net change in short-term borrowings	(13,504)	(40,052)

Repayments of long-term borrowings	(116,000)	(51,000)
Dividends paid to common shareholders	(29,063)	(28,116)
Common stock issued, net	2,027	2,242
Net cash provided by (used in) financing activities	202,221	(538,796)
Net change in cash and cash equivalents	(40,789)	(200,217)
Cash and cash equivalents at beginning of year	366,286	661,337
Cash and cash equivalents at end of period	$ 325,497	$ 461,120

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$ 50,580	$ 55,477
Federal and state income taxes		16
Supplemental schedule of non-cash investing activities:		
Acquisitions:		
Non-cash assets acquired:		
Investment securities available for sale		73,743
Loans		412,331
Premises and equipment, net		123
Accrued interest receivable		2,787
FDIC loss-share receivable		108,000
Goodwill		19,497
Other intangible assets, net		1,560
Other assets		22,559
Total non-cash assets acquired		640,600
Liabilities assumed:		
Deposits		654,200
Short-term borrowings		12,688
Long-term borrowings		10,559
Accrued expenses and other liabilities		10,681
Total liabilities assumed		688,128
Net non-cash assets acquired	$	$ (47,528)
Cash and cash equivalents received in FDIC-assisted transactions	$	$ 47,528

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey Corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the Bank), and all of Valley s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley s financial position, results of operations and cash flows at March 31, 2011 and for all periods presented have been made. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year.

In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley s Annual Report on Form 10-K for the year ended December 31, 2010.

On April 13, 2011, Valley declared a five percent common stock dividend payable on May 20, 2011 to shareholders of record on May 6, 2011. All common share and per common share data presented in the consolidated financial statements and the accompanying notes below were adjusted to reflect the dividend.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	2010
	(in thousands, except for share data)	
Net income	$ 36,585	$ 27,363
Basic weighted-average number of common shares outstanding	169,671,128	168,831,733
Plus: Common stock equivalents	7,718	2,667
Diluted weighted-average number of common shares outstanding	169,678,846	168,834,400
Earnings per common share:		
Basic	$ 0.22	$ 0.16
Diluted	0.22	0.16

Common stock equivalents, in the table above, represent the effect of outstanding common stock options and warrants to purchase Valley s common shares, excluding those with exercise prices that exceed the average market price of Valley s common stock during the periods presented and therefore, would have an anti-dilutive effect on the diluted earnings per common share calculation. Anti-dilutive common stock options and warrants totaled approximately 6.7 million shares and 7.0 million shares for the three months ended March 31, 2011 and 2010, respectively.

Note 3. Comprehensive Income

Valley s components of other comprehensive income, net of deferred tax, include unrealized gains (losses) on securities available for sale (including the non-credit portion of any other-than-temporary impairment charges relating to certain securities during the period); unrealized gains (losses) on derivatives used in cash flow hedging relationships; and the unfunded portion of its various employee, officer and director pension plans.

The following table shows changes in each component of comprehensive income for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	2010
	(in thousands)	
Net income	$ 36,585	$ 27,363
Other comprehensive income, net of tax:		

Net change in unrealized gains and losses on securities available for sale	1,813	4,206
Net change in non-credit impairment losses on securities	102	283
Net pension benefits adjustment	292	253
Net change in unrealized gains and losses on derivatives used in cash flow hedging relationships	1,502	(1,198)
Less reclassification adjustment for gains and losses included in net income	(1,596)	1,313
Total other comprehensive income, net of tax	2,113	4,857
Total comprehensive income	$ 38,698	$ 32,220

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4. Business Combinations

Recent Development

On April 28, 2011, Valley entered into a merger agreement to acquire State Bancorp, Inc. (Nasdaq:STBC) (State Bancorp). State Bancorp is the holding company for State Bank of Long Island, a commercial bank with approximately $1.6 billion in assets, $1.1 billion in loans, and $1.3 billion in deposits, covering 4 New York counties, and 17 branches in Nassau, Suffolk, Queens, and Manhattan. The shareholders of State Bancorp will receive a fixed one for one exchange ratio for Valley National Bancorp common stock. This fixed exchange ratio was determined after consideration for Valley s recently declared five percent stock dividend payable on May 20, 2011. 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 value 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.

Acquisition

On December 14, 2010, Masters Coverage Corp., an all-line insurance agency that is a wholly-owned subsidiary of the Bank, acquired certain assets of S&M Klein Co. Inc., an independent insurance agency located in Queens, New York. The purchase price totaled $5.3 million, consisting of $3.3 million in cash and earn-out payments totaling $2.0 million that are payable over a four year period, subject to certain customer retention and earnings performance. The transaction generated goodwill and other intangible assets totaling $1.9 million and $3.3 million, respectively. Other intangible assets consisted of a customer list, covenants not to compete, and a trade name with a weighted average amortization period of 16 years.

FDIC-Assisted Transactions

On March 11, 2010, the Bank assumed all of the deposits, and acquired certain assets of LibertyPointe Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed $198.3 million in customer deposits and acquired $207.7 million in assets, including $140.6 million in loans. The loans acquired by the Bank principally consist of commercial real estate loans. This transaction resulted in $11.6 million of goodwill and generated $370 thousand in core deposit intangibles.

On March 12, 2010, the Bank assumed all of the deposits, excluding brokered deposits, and borrowings, and acquired certain assets of The Park Avenue Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed $455.9 million in customer deposits and acquired $480.5 million in assets, including $271.8 million in loans. The loans acquired by the Bank principally consist of commercial and industrial loans, and commercial real estate loans. This transaction resulted in $7.9 million of goodwill and generated $1.2 million in core deposit intangibles.

The Bank and the FDIC will share in the losses on loans and real estate owned as a part of the loss-sharing agreements entered into by the Bank with the FDIC for both transactions. Under the terms of the loss-sharing agreement for the LibertyPointe Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets up to $55.0 million, after the Bank absorbs such losses up to the first loss tranche of $11.7 million, and 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement for The Park Avenue Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. The Bank will reimburse the FDIC for 80 percent of recoveries with respect to losses for which the FDIC paid the Bank 80 percent reimbursement under the loss-sharing agreements, and for 95 percent of recoveries with respect to losses for which the FDIC paid the Bank 95 percent reimbursement under the loss-sharing agreements.

In the event the losses under the loss-sharing agreements fail to reach expected levels, the Bank has agreed to pay to the FDIC, on approximately the tenth anniversary following the transactions closings, a cash payment pursuant to each loss-sharing agreement.

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In addition, as part of the consideration for The Park Avenue Bank FDIC-assisted transaction, the Bank agreed to issue a cash-settled equity appreciation instrument to the FDIC. The equity appreciation instrument was initially recorded as a liability in the first quarter of 2010 and was settled in cash after the FDIC exercised the instrument on April 1, 2010. The valuation and settlement of the equity appreciation instrument did not significantly impact Valley s consolidated financial statements in 2010.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures About Fair Value Measurements, requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy became effective for Valley on January 1, 2011. The other disclosure requirements and clarifications made by ASU No. 2010-06 became effective for Valley on January 1, 2010. All of the applicable new disclosures have been included in Note 6.

ASU No. 2010-20, Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses , requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users understanding of (i) the nature of an entity s credit risk associated with its financing receivables and (ii) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures should be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio s risk and performance. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 became effective for Valley s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period generally became effective for Valley s financial statements beginning on January 1, 2011. ASU No. 2011-01, Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of the then proposed ASU No. 2011-02, Receivables (Topic 310) - A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which is further discussed below. Since the provisions of ASU No. 2010-20 are only disclosure related, Valley s adoption of this guidance did not have a significant impact on its consolidated financial statements and other enhanced disclosures. See Notes 8 and 9 for the related disclosures.

ASU 2010-29 Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations , relates to disclosure of pro forma information for business combinations that have occurred in the current reporting period. It requires that an entity presenting comparative financial statements include revenue and earnings of the combined entity as though the combination had occurred as of the beginning of the comparable prior annual period only. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance did not have an impact on Valley s consolidated financial statements.

ASU No. 2011-02, Receivables (Topic 310) - A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, provides clarifying guidance intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU No. 2011-02, that both of the following exist: (a) the restructuring constitutes a concession to the debtor; and (b) the debtor is experiencing financial difficulties. ASU No. 2011-02 will be effective for Valley on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Valley s adoption of ASU No. 2011-02 is not expected have a significant impact on its consolidated financial statements.

Note 6. Fair Value Measurement of Assets and Liabilities

ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
Level 2	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at March 31, 2011 and December 31, 2010. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

		Fair Value Measurements at Reporting Date Using:		
	March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets:				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$ 163,406	$ 163,406	$	$
U.S. government agency securities	86,632		86,632	
Obligations of states and political subdivisions	26,272		26,272	
Residential mortgage-backed securities	682,068		633,034	49,034
Trust preferred securities	43,680	20,633	19,708	3,339
Corporate and other debt securities	41,347	29,583	11,764	
Equity securities	50,230	30,732	19,498	

Total available for sale	1,093,635	244,354	796,908	52,373
Trading securities	32,387	10,180	22,207	
Loans held for sale (1)	14,608		14,608	
Other assets (2)	10,009		10,009	
Total assets	$ 1,150,639	$ 254,534	$ 843,732	$ 52,373
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I (3)	$ 158,845	$ 158,845	$	$
Other liabilities (2)	1,419		1,419	
Total liabilities	$ 160,264	$ 158,845	$ 1,419	$

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$ 163,810	$ 163,810	$	$
U.S. government agency securities	88,800		88,800	
Obligations of states and political subdivisions	29,462		29,462	
Residential mortgage-backed securities	610,358		514,711	95,647
Trust preferred securities	41,083	20,343		20,740
Corporate and other debt securities	53,961	41,046		12,915
Equity securities	47,808	28,227	10,228	9,353
Total available for sale	1,035,282	253,426	643,201	138,655
Trading securities	31,894	9,991		21,903
Loans held for sale (1)	58,958		58,958	
Other assets (2)	8,414		8,414	
Total assets	$ 1,134,548	$ 263,417	$ 710,573	$ 160,558
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I (3)	$ 161,734	$ 161,734	$	$
Other liabilities (2)	1,379		1,379	
Total liabilities	$ 163,113	$ 161,734	$ 1,379	$

(1) Loans held for sale (which consists of residential mortgages) had contractual unpaid principal balances totaling approximately $14.4 million and $58.4 million at March 31, 2011 and December 31, 2010, respectively for loans originated for sale and carried at fair value.
(2) Derivative financial instruments are included in this category.
(3) The junior subordinated debentures had contractual unpaid principal obligations totaling $157.0 million at March 31, 2011 and December 31, 2010.

The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010 are summarized below:

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	$ 21,903	$ 138,655	$ 32,950	$ 156,612
Transfers out of Level 3 [(1)]	(21,903)	(84,435)		(852)
Total net (losses) gains for the period included in:				
Net income		(825)	236	
Other comprehensive income		1,361		1,596
Purchases				
Sales				
Settlements		(2,383)		(8,533)
Balance, end of the period	$	$ 52,373	$ 33,186	$ 148,823
Net unrealized (losses) gains included in net income for the period relating to assets held at March 31 [(2)]	$ [(3)]	$ (825)[(4)]	$ (236)[(3)]	$ (2,593)[(4)]

[(1)] All transfers into/or out of Level 3 are assumed to occur at the beginning of the reporting period.

[(2)] Represents net losses that are due to changes in economic conditions and management s estimates of fair value.

[(3)] Included in trading gains (losses), net within the non-interest income category on the consolidated statements of income.

[(4)] Represents the net impairment losses on securities recognized in earnings for the period.

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During the quarter ended March 31, 2011, 21 trust preferred securities (including one pooled trust preferred security), 12 private labeled mortgage-backed securities and 4 corporate bonds classified as available-for-sale with fair values totaling $26.7 million, $44.8 million and $12.9 million at January 1, 2011, respectively, were transferred out of Level 3 assets to Level 2 assets. Within the trading securities portfolio, 4 trust preferred securities with a combined fair value of $21.9 million at January 1, 2011 were transferred out of Level 3 assets to Level 2 assets. All of the transfers were as a result of an increase in the availability of observable market data used in the securities pricing obtained through independent pricing services or dealer market participants. During the quarter, the spreads in price for the securities transferred from Level 3 to Level 2 narrowed providing an indication of market liquidity.

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All the valuation techniques described below apply to the unpaid principal balance excluding any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair values utilizing Level 1 inputs (exchange quoted prices). The majority of the other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party providers to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or independent pricing service, may be derived from unobservable market information. In these instances, Valley evaluated the appropriateness and quality of each price. In addition, Valley reviewed the volume and level of activity for all available for sale and trading securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilized unobservable inputs which reflect Valley s own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilized the best information that is both reasonable and available without undue cost and effort.

In calculating the fair value for certain trading securities, consisting of trust preferred securities, under Level 3 at December 31, 2010, Valley prepared present value cash flow models incorporating the contractual cash flow of each security adjusted, if necessary, for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer. The resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. For a majority of the securities valued under Level 3, the discount rate actually utilized reflected orderly transactions of similar issued securities by the same obligor. The discount rate is further adjusted to reflect a market premium which incorporates, among other variables, illiquidity premiums and variances in the instruments structure. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

In calculating the fair value for the available for sale securities under Level 3 at March 31, 2011, Valley prepared present value cash flow models for certain trust preferred securities (including two pooled trust preferred securities), and certain private label mortgage-backed securities. The cash flows for the residential mortgage-backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security. The cash flows for trust preferred securities reflected the contractual cash flow, adjusted if necessary for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer.

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For available for sale trust preferred securities, the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

For certain available for sale private label mortgage-backed securities, cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 (significant other observable) inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate of each mortgage. If the mortgages held for sale are material, the market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at March 31, 2011 and December 31, 2010 based on the short duration these assets were held, and the high credit quality of these loans.

Junior subordinated debentures issued to capital trusts. The junior subordinated debentures issued to VNB Capital Trust I are reported at fair value using Level 1 inputs. The fair value was estimated using quoted prices in active markets for similar assets, specifically the quoted price of the VNB Capital Trust I preferred stock traded under ticker symbol VLYPRA on the New York Stock Exchange. The preferred stock and Valley s junior subordinated debentures issued to the Trust have identical financial terms and therefore, the preferred stock s quoted price moves in a similar manner to the estimated fair value and current settlement price of the junior subordinated debentures. The preferred stock s quoted price includes market considerations for Valley s credit and non-performance risk and is deemed to represent the transfer price that would be used if the junior subordinated debenture were assumed by a third party. Valley s potential credit risk and changes in such risk did not materially impact the fair value measurement of the junior subordinated debentures at March 31, 2011 and December 31, 2010.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley s derivatives are determined using third party prices that are based on discounted cash flow analyses using observed market interest rate curves and volatilities. The fair values of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley s derivatives at March 31, 2011 and December 31, 2010.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Certain non-financial assets and non-financial liabilities are measured at fair value on a nonrecurring basis, including other real estate owned and other repossessed assets (upon initial recognition or subsequent impairment), goodwill measured at fair value in the second step of a

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(Unaudited)

goodwill impairment test, and loan servicing rights, core deposits, other intangible assets, and other long-lived assets measured at fair value for impairment assessment.

The following table summarizes assets measured at fair value on a non-recurring basis as of the dates indicated:

		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
As of March 31, 2011				
Collateral dependent impaired loans[1]	$ 47,065	$	$	$ 47,065
Loan servicing rights	7,717			7,717
Foreclosed assets	2,538			2,538
As of December 31, 2010				
Collateral dependent impaired loans[1]	$ 53,330	$	$	$ 53,330
Loan servicing rights	11,328			11,328
Foreclosed assets[2]	19,986			19,986

(1) Excludes pooled covered loans acquired in the FDIC-assisted transactions.

(2) Includes other real estate owned related to the FDIC-assisted transactions, which totaled $7.8 million at December 31, 2010, which is subject to loss-sharing agreements with the FDIC.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as collateral dependent impaired loans. Collateral values are typically estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on customized discounting criteria. During the three months ended March 31, 2011, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The direct collateral dependent loan charge-offs to the allowance for loan losses totaled $292 thousand for the three months ended March 31, 2011. At March 31, 2011, collateral dependent impaired loans (mainly consisting of commercial and construction loans) with a carrying value of $48.6 million were reduced by specific valuation allowance allocations totaling $1.5 million to a reported fair value of $47.1 million.

Loan servicing rights. Fair values for each risk-stratified group are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, servicing cost, prepayment speed, internal rate of return, ancillary income, float rate, tax rate, and inflation. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the book value of a risk-stratified group of loan servicing rights exceeds the estimated fair value. During the first quarter of 2011, net recoveries of impairment charges totaling $52 thousand were recognized on loan servicing rights. The loan servicing rights had a $12.1 million carrying value, net of a $1.1 million valuation allowance at March 31, 2011.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is significantly adjusted based on customized discounting criteria. During the three months ended March 31, 2011, foreclosed assets measured at fair value upon initial recognition and subsequent re-measurement totaled $2.5 million. In connection with the measurement and initial recognition of the aforementioned foreclosed assets, Valley recognized charge-offs to the allowance for loan losses totaling $1.1 million for the three months ended March 31, 2011. One aircraft within

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the repossessed assets balance at March 31, 2011 was re-measured at fair value subsequent to initial recognition and resulted in a loss totaling $479 thousand included in non-interest expense for the three months ended March 31, 2011.

Other Fair Value Disclosures

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three months ended March 31, 2011 and 2010:

Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	Gains (Losses) on Change in Fair Value Three Months Ended March 31, 2011	2010
		(in thousands)	
Assets:			
Available for sale securities	Net impairment losses on securities	$ (825)	$ (2,593)
Trading securities	Trading gains (losses), net	493	236
Loans held for sale	Gains on sales of loans, net	3,609	2,520
Liabilities:			
Junior subordinated debentures issued to capital trusts	Trading gains (losses), net	2,889	(3,266)
		$ 6,166	$ (3,103)

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented in the following table were based on pertinent market data and relevant information on the financial instruments available as of the valuation date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portfolio of financial instruments. Because no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, Valley has certain fee-generating business lines (e.g., its mortgage servicing operation, trust and investment management departments) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

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The carrying amounts and estimated fair values of financial instruments were as follows at March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 319,495	$ 319,495	$ 302,629	$ 302,629
Interest bearing deposit with banks	6,002	6,002	63,657	63,657
Investment securities held to maturity	1,881,589	1,856,720	1,923,993	1,898,872
Investment securities available for sale	1,093,635	1,093,635	1,035,282	1,035,282
Trading securities	32,387	32,387	31,894	31,894
Loans held for sale	14,608	14,608	58,958	58,958
Net loans	9,406,322	9,233,099	9,241,091	9,035,066
Accrued interest receivable	63,403	63,403	59,126	59,126
Federal Reserve Bank and Federal Home Loan Bank stock	134,558	134,558	139,778	139,778
Other assets*	10,009	10,009	8,414	8,414
Financial liabilities:				
Deposits without stated maturities	6,930,134	6,930,134	6,630,763	6,630,763
Deposits with stated maturities	2,792,241	2,836,651	2,732,851	2,783,680
Short-term borrowings	178,814	181,716	192,318	195,360
Long-term borrowings	2,817,670	3,045,299	2,933,858	3,201,090
Junior subordinated debentures issued to capital trusts (carrying amount includes fair value of $158,845 at March 31, 2011 and $161,734 at December 31, 2010 for VNB Capital Trust I)	184,016	184,749	186,922	187,480
Accrued interest payable	4,697	4,697	4,344	4,344
Other liabilities*	1,419	1,419	1,379	1,379

* Derivative financial instruments are included in this category.

Financial instruments with off-balance sheet risk, consisting of loan commitments and standby letters of credit, had immaterial estimated fair values at March 31, 2011 and December 31, 2010.

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not measured and reported at fair value on a recurring basis or a non-recurring basis:

Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value.

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants which Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. For certain securities, for which the inputs used by either dealer market participants or independent pricing service were derived from unobservable market information, Valley evaluated the appropriateness and quality of each price. Additionally, Valley reviewed the volume and level of activity for all classes of held to maturity securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value (fair values

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based on Level 3 inputs). If applicable, the adjustment to fair value was derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of non-covered and covered loans are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in current loan originations. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value.

Federal Reserve Bank and Federal Home Loan Bank stock. The redeemable carrying amount of these securities with limited marketability approximates their fair value. These securities are recorded in other assets on the consolidated statements of financial condition.

Deposits. Current carrying amounts approximate estimated fair value of demand deposits and savings accounts. The fair value of time deposits is based on the discounted value of contractual cash flows using estimated rates currently offered for alternative funding sources of similar remaining maturity.

Short-term and long-term borrowings. The fair value is estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When these quoted prices are unavailable, the fair value of borrowings is estimated by discounting the estimated future cash flows using market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Junior subordinated debentures issued to GCB Capital Trust III. There is no active market for the trust preferred securities issued by GCB Capital Trust III. Therefore, the fair value is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley s credit spread over the current yield on a similar maturity U.S. Treasury security. Valley s credit spread was calculated based on Valley s trust preferred securities issued by VNB Capital Trust I, which are publicly traded in an active market.

Note 7. Investment Securities

As of March 31, 2011, Valley had approximately $1.9 billion, $1.1 billion, and $32.4 million in held to maturity, available for sale, and trading investment securities, respectively. Valley may be required to record impairment charges on its 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, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on Valley s investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley s investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (referred to below as bank issuers) (including three pooled trust preferred securities), corporate bonds primarily issued by banks, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley 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.

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Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at March 31, 2011 and December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2011				
U.S. Treasury securities	$ 100,127	$	$ (1,902)	$ 98,225
Obligations of states and political subdivisions	348,651	3,461	(1,833)	350,279
Residential mortgage-backed securities	1,110,741	30,039	(3,415)	1,137,365
Trust preferred securities	269,359	5,730	(59,940)	215,149
Corporate and other debt securities	52,711	3,598	(607)	55,702
Total investment securities held to maturity	$ 1,881,589	$ 42,828	$ (67,697)	$ 1,856,720
December 31, 2010				
U.S. Treasury securities	$ 100,161	$ 251	$ (909)	$ 99,503
Obligations of states and political subdivisions	387,280	2,146	(3,467)	385,959
Residential mortgage-backed securities	1,114,469	30,728	(3,081)	1,142,116
Trust preferred securities	269,368	5,891	(59,365)	215,894
Corporate and other debt securities	52,715	2,911	(226)	55,400
Total investment securities held to maturity	$ 1,923,993	$ 41,927	$ (67,048)	$ 1,898,872

The age of unrealized losses and fair value of related securities held to maturity at March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
U.S. Treasury securities	$ 98,225	$ (1,902)	$	$	$ 98,225	$ (1,902)
Obligations of states and political subdivisions	62,896	(1,832)	50	(1)	62,946	(1,833)
Residential mortgage-backed securities	212,556	(3,415)			212,556	(3,415)
Trust preferred securities	15,107	(311)	73,111	(59,629)	88,218	(59,940)
Corporate and other debt securities	14,548	(386)	8,753	(221)	23,301	(607)

Total	$ 403,332	$ (7,846)	$ 81,914	$ (59,851)	$ 485,246	$ (67,697)

	December 31, 2010					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
U.S. Treasury securities	$ 57,027	$ (909)	$	$	$ 57,027	$ (909)
Obligations of states and political subdivisions	123,399	(3,467)	50		123,449	(3,467)
Residential mortgage-backed securities	226,135	(3,081)			226,135	(3,081)
Trust preferred securities	14,152	(250)	75,477	(59,115)	89,629	(59,365)
Corporate and other debt securities	7,971	(13)	8,761	(213)	16,732	(226)
Total	$ 428,684	$ (7,720)	$ 84,288	$ (59,328)	$ 512,972	$ (67,048)

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The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at March 31, 2011 was 102 as compared to 153 at December 31, 2010.

At March 31, 2011, the unrealized losses reported for trust preferred securities relate to 15 single-issuer securities, mainly issued by bank holding companies. Of the 15 trust preferred securities, 7 were investment grade, 1 was non-investment grade, and 7 were not rated. Additionally, $40.3 million of the $59.9 million in unrealized losses at March 31, 2011, relate to securities issued by one bank holding company with a combined amortized cost of $55.0 million. Valley privately negotiated the purchase of the $55.0 million in trust preferred securities from the bank issuer and holds all of the securities of the two issuances. Typical of most trust preferred issuances, the bank issuer may defer interest payments for up to five years with interest payable on the deferred balance. In 2009, the bank issuer elected to defer its scheduled interest payments on each respective security issuance. 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. Based on this information, management believes that we will receive all principal and interest contractually due on both security issuances. Valley will continue to closely monitor the credit risk of this issuer and we may be required to recognize other-than-temporary impairment charges on such securities in future periods. All other single-issuer bank trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, meet the regulatory capital requirements to be considered to be well-capitalized institutions at March 31, 2011.

Management does not believe that any individual unrealized loss as of March 31, 2011 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in value to changes in interest rates and lack of liquidity in the market place, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of March 31, 2011, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.0 billion.

The contractual maturities of investments in debt securities held to maturity at March 31, 2011 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	March 31, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 147,850	$ 147,980
Due after one year through five years	61,149	62,913
Due after five years through ten years	157,715	160,445
Due after ten years	404,134	348,017
Residential mortgage-backed securities	1,110,741	1,137,365
Total investment securities held to maturity	$ 1,881,589	$ 1,856,720

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 4.23 years at March 31, 2011.

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Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at March 31, 2011 and December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2011				
U.S. Treasury securities	$ 162,291	$ 1,115	$	$ 163,406
U.S. government agency securities	86,488	428	(284)	86,632
Obligations of states and political subdivisions	25,062	1,210		26,272
Residential mortgage-backed securities	652,622	33,629	(4,183)	682,068
Trust preferred securities*	53,176	384	(9,880)	43,680
Corporate and other debt securities	42,803	1,282	(2,738)	41,347
Equity securities	48,770	3,211	(1,751)	50,230
Total investment securities available for sale	$ 1,071,212	$ 41,259	$ (18,836)	$ 1,093,635
December 31, 2010				
U.S. Treasury securities	$ 162,404	$ 1,406	$	$ 163,810
U.S. government agency securities	88,926	26	(152)	88,800
Obligations of states and political subdivisions	28,231	1,234	(3)	29,462
Residential mortgage-backed securities	578,282	35,016	(2,940)	610,358
Trust preferred securities*	54,060	1,142	(14,119)	41,083
Corporate and other debt securities	53,379	2,612	(2,030)	53,961
Equity securities	48,724	812	(1,728)	47,808
Total investment securities available for sale	$ 1,014,006	$ 42,248	$ (20,972)	$ 1,035,282

* Includes three pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies.

The age of unrealized losses and fair value of related securities available for sale at March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			

U.S. government agency securities	$ 27,485	$ (284)	$	$	$ 27,485	$ (284)
Residential mortgage-backed securities	21,358	(818)	29,649	(3,365)	51,007	(4,183)
Trust preferred securities	993	(137)	17,158	(9,743)	18,151	(9,880)
Corporate and other debt securities	3,502	(13)	7,250	(2,725)	10,752	(2,738)
Equity securities	282	(146)	14,618	(1,605)	14,900	(1,751)
Total	$ 53,620	$ (1,398)	$ 68,675	$ (17,438)	$ 122,295	$ (18,836)

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	December 31, 2010					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
U.S. government agency securities	$ 66,157	$ (152)	$	$	$ 66,157	$ (152)
Obligations of states and political subdivisions	1,146	(3)			1,146	(3)
Residential mortgage-backed securities	11,439	(350)	46,206	(2,590)	57,645	(2,940)
Trust preferred securities	1,262	(153)	33,831	(13,966)	35,093	(14,119)
Corporate and other debt securities			7,944	(2,030)	7,944	(2,030)
Equity securities	1,538	(243)	13,736	(1,485)	15,274	(1,728)
Total	$ 81,542	$ (901)	$ 101,717	$ (20,071)	$ 183,259	$ (20,972)

The total number of security positions in the securities available for sale portfolio in an unrealized loss position at March 31, 2011 was 41 as compared to 43 at December 31, 2010.

Within the residential mortgage-backed securities category of the available for sale portfolio at March 31, 2011, substantially all of the $4.2 million of unrealized losses relate to 7 private label mortgage-backed securities. Of these 7 securities, 3 securities had an investment grade rating and 4 had a non-investment grade rating at March 31, 2011. Three of the four non-investment grade private label mortgage-backed securities with unrealized losses were other-than-temporarily impaired during 2009 and 2010. No additional estimated credit losses were recognized on these securities during the quarter ended March 31, 2011. See the Other-Than-Temporary Impairment Analysis section below.

At March 31, 2011, the unrealized losses for trust preferred securities in the table above relate to 3 pooled trust preferred securities and 10 single-issuer bank issued trust preferred securities. Most of the unrealized losses were attributable to the pooled trust preferred securities with an aggregate amortized cost of $22.2 million and a fair value of $13.2 million. One of the three pooled trust preferred securities with an unrealized loss of $7.0 million had an investment grade rating at March 31, 2011. The other two trust preferred securities were other-than-temporarily impaired in the first quarter of 2010, and additional estimated credit losses were recognized on one of these securities in the first quarter of 2011. See Other-Than-Temporarily Impaired Securities section below for more details. At March 31, 2011 all 10 of the of the single-issuer trust preferred securities classified as available for sale had investment grade ratings. These single-issuer securities are all paying in accordance with their terms and have no deferrals of interest or defaults.

Unrealized losses reported for corporate and other debt securities at March 31, 2011, relate mainly to one investment rated bank issued corporate bond with a $10.0 million amortized cost and a $2.7 million unrealized loss that is paying in accordance with its contractual terms.

The unrealized losses on equity securities, including those more than twelve months, are related primarily to two perpetual preferred security positions from the same issuance with a combined $9.8 million amortized cost and a $1.4 million unrealized loss. At March 31, 2011, these perpetual preferred securities had investment grade ratings and are currently performing and paying quarterly dividends.

Management does not believe that any individual unrealized loss as of March 31, 2011 represents an other-than-temporary impairment, except for the previously discussed impaired securities above, as management mainly attributes the declines in value to changes in interest rates and recent market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

As of March 31, 2011, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $571 million.

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The contractual maturities of investment securities available for sale at March 31, 2011, are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	March 31, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 107,003	$ 107,296
Due after one year through five years	90,481	92,270
Due after five years through ten years	67,013	64,688
Due after ten years	105,323	97,083
Residential mortgage-backed securities	652,622	682,068
Equity securities	48,770	50,230
Total investment securities available for sale	$ 1,071,212	$ 1,093,635

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities available for sale at March 31, 2011 was 4.95 years.

Other-Than-Temporary Impairment Analysis

In assessing the level of other-than-temporary impairment attributable to credit loss for debt securities, Valley compares the present value of cash flows expected to be collected with the amortized cost basis of the security. 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 consolidated statement of income, less the portion recognized in other comprehensive income. Subsequent assessments may result in additional estimated credit losses on previously impaired securities. These additional estimated credit losses are recorded as reclassifications from the portion of other-than-temporary impairment previously recognized in other comprehensive income to earnings in the period of such assessments. The amortized cost basis of an impaired debt security is reduced by the portion of the total impairment related to credit loss.

For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the cash flows from the individual loans collateralizing the security using expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed at March 31, 2011.

For the single-issuer trust preferred securities and corporate and other debt securities, Valley reviews each portfolio to determine if all the securities are paying in accordance with their terms and have no deferrals of interest or defaults. Additionally, Valley analyzes the performance of the issuers on a quarterly basis, including a review of performance data from the issuer s most recent bank regulatory report, if applicable, to assess their credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon management s quarterly review, all of the issuers capital ratios are at or above the minimum amounts to be considered a well-capitalized financial institution, if applicable, and/or have maintained performance levels adequate to support the contractual cash flows.

For the three pooled trust preferred securities, Valley evaluates the projected cash flows from each of its tranches in the three securities to determine if they are adequate to support their future contractual principal and interest payments. Valley assesses the credit risk and probability of impairment of the contractual cash flows by projecting the default rates over the life of the security. Higher projected default rates will decrease the expected future cash flows from each security. If the projected decrease in cash flows in each tranche causes a change in contractual yield, the security would be considered to be other-than-temporarily impaired. Two of the pooled trust preferred securities were initially impaired

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in 2008 with additional estimated credit losses recognized during 2009 and the first quarter of 2010. One of the two pooled trust preferred securities had additional estimated credit losses recognized during the first quarter of 2011. See Other-Than-Temporarily Impaired Securities section below for further details.

The perpetual preferred securities, reported in equity securities, are hybrid investments that are assessed for impairment by Valley as if they were debt securities. Therefore, Valley assessed the creditworthiness of each security issuer, as well as any potential change in the anticipated cash flows of the securities as of March 31, 2011. Based on this analysis, management believes the declines in fair value of these securities are attributable to a lack of liquidity in the marketplace and are not reflective of any deterioration in the creditworthiness of the issuers.

Other-Than-Temporarily Impaired Securities

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 the two previously impaired pooled trust preferred securities. After recognition of all credit impairments, this security had 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.

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Sales transactions:		
Gross gains	$ 2,674	$ 882
Gross losses		(15)

	$ 2,674	$ 867
Maturities and other securities transactions:		
Gross gains	$ 10	$ 12
Gross losses	(5)	(16)
	$ 5	$ (4)
Total gains on securities transactions, net	$ 2,679	$ 863

During the quarter ended March 31, 2011, Valley recognized gross gains on sales transactions of $2.7 million mainly due to the sale of $239.1 million in residential mortgage-backed securities issued by Ginnie Mae that were classified as available for sale. Of these sales, $145.2 million in net proceeds were recorded as an unsettled trade date receivable included in other assets at March 31, 2011.

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The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	2010
	(in thousands)	
Balance, beginning of period	$ 10,500	$ 6,119
Additions:		
Initial credit impairments		124
Subsequent credit impairments	825	2,469
Reductions:		
Accretion of credit loss impairment due to an increase in expected cash flows	(156)	(48)
Balance, end of period	$ 11,169	$ 8,664

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

Trading Securities

The fair value of trading securities (consisting of 4 single-issuer bank trust preferred securities) was $32.4 million and $31.9 million at March 31, 2011 and December 31, 2010, respectively. Interest income on trading securities totaled $642 thousand for both quarters ended March 31, 2011 and 2010.

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Note 8. Loans

The detail of the loan portfolio as of March 31, 2011 and December 31, 2010 was as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Non-covered loans:		
Commercial and industrial	$ 1,859,626	$ 1,825,066
Commercial real estate:		
Commercial real estate	3,457,768	3,378,252
Construction	418,304	428,232
Total commercial real estate loans	3,876,072	3,806,484
Residential mortgage	2,047,898	1,925,430
Consumer:		
Home equity	492,328	512,745
Automobile	827,485	850,801
Other consumer	106,184	88,614
Total consumer loans	1,425,997	1,452,160
Total non-covered loans	9,209,593	9,009,140
Covered loans:		
Commercial and industrial	$ 110,381	$ 121,151
Commercial real estate	192,215	195,646
Construction	12,184	16,153
Residential mortgage	15,991	17,026
Consumer	5,805	6,679
Total covered loans	336,576	356,655
Total loans	$ 9,546,169	$ 9,365,795
FDIC under loss-share receivable related to covered loans and foreclosed assets	$ 90,642	$ 89,359

Total non-covered loans are net of unearned discount and deferred loan fees totaling $7.3 million and $9.3 million at March 31, 2011 and December 31, 2010, respectively. Covered loans had outstanding contractual principal balances totaling approximately $415.7 million and $439.9 million at March 31, 2011 and December 31, 2010, respectively.

Covered Loans

Covered loans acquired through the FDIC-assisted transactions are accounted for in accordance with ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, since all of these loans were acquired at a discount attributable, at least in part, to credit quality and are not subsequently accounted for at fair value. Covered loans were initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the investment in the covered loans, or the accretable yield, is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the non-accretable difference, are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the pool over its remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired pools reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received). The allowance for loan losses on covered loans

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(acquired through two FDIC-assisted transactions) is determined without consideration of the amounts recoverable through the FDIC loss-share agreements (see FDIC loss-share receivable below).

Changes in the accretable yield for covered loans were as follows for the quarter ended March 31, 2011:

	(in thousands)
Balance at December 31, 2010	$ 101,052
Accretion	(7,812)
Net reclassification from non-accretable difference	16,195
Balance at March 31, 2011	$ 109,435

Valley reclassified $16.2 million from the non-accretable difference for covered loans because of increases in expected cash flows for certain pools of covered loans during the quarter ended March 31, 2011. This amount will be recognized prospectively as an adjustment to yield over the life of the individual pools.

FDIC Loss-Share Receivable

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 portfolio 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.

Changes in the FDIC loss-share receivable for the quarter ended March 31, 2011 were as follows:

	(in thousands)
Balance at December 31, 2010	$ 89,359
Accretion*	(2,372)
Increase due to impairment on covered loans*	17,679
Other reimbursable expenses*	928
Reimbursements from the FDIC	(14,952)
Balance at March 31, 2011	$ 90,642

* Valley recognized $16.2 million in non-interest income for the quarter ended March 31, 2011 representing the net effect on the FDIC loss-share receivable of additions for reimbursable expenses and impairment of certain covered loan pools, less a reduction for the accretion.

Loan Portfolio Risk Elements and Credit Risk Management

Credit risk management. For all of its loan types discussed below, Valley adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. Credit authority relating to a significant dollar percentage of the overall portfolio is centralized and controlled by the Credit Risk Management Division and by the Credit Committee. A reporting system supplements the review process by providing management with frequent reports concerning loan production, loan quality, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by Valley to manage its risk across business sectors and through cyclical economic circumstances.

Commercial and industrial loans. A significant proportion of Valley s commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower s ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect

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all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower s financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower s principals to mitigate the risk.

Commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as, stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley s primary markets.

Construction loans. With respect to loans to developers and builders, Valley originates and manages construction loans structured on either a revolving or non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single family residential construction) are controlled with loan advances dependent upon the presale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential mortgages. Valley originates residential, first mortgage loans with the assistance of computer-based underwriting engines licensed from Fannie Mae and/or Freddie Mac. Appraisals of real estate collateral are contracted directly with independent appraisers and not through appraisal management companies. The Bank s appraisal management policy and procedure is in accordance with all rules and best practice guidance from the Bank s primary regulator. Credit scoring, using FICO® and other proprietary, credit scoring models, is employed in the ultimate, judgmental credit decision by Valley s underwriting staff. Valley does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one to four family homes generally located in northern and central New Jersey, New York City metropolitan area, and eastern Pennsylvania. Valley s ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. Underwriting policies generally adhere to Fannie Mae and Freddie Mac guidelines for loan requests of conforming and non-conforming amounts. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property.

Home equity loans. Home equity lending consists of both fixed and variable interest rate products. Valley mainly provides home equity loans to its residential mortgage customers within the footprint of its primary lending territory. Valley generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 70 percent when originating a home equity loan.

Automobile loans. Valley uses both judgmental and scoring systems in the credit decision process for automobile loans. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Additionally, automobile charge-offs will vary based on strength or weakness in the used vehicle market, original advance rate, when in the life cycle of a loan a default occurs and the condition of the collateral being liquidated. Where permitted by law, and subject to the limitations of the bankruptcy code, deficiency judgments are sought and acted upon to ultimately collect all money owed, even when a default resulted in a loss at collateral liquidation. Valley uses a third party to actively track collision and comprehensive risk insurance required of the borrower on the automobile and this third party provides coverage to Valley in the event of an uninsured collateral loss.

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Other consumer loans. Valley s consumer portfolio also has minor exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit is well diverse and minimal at March 31, 2011.

Credit Quality

Past due and non-accrual loans. All loans are deemed to be past due when the contractually required principal and interest payment have not been received as they become due. Loans are placed on non-accrual status generally when they become 90 days past due and the full and timely collection of principal and interest becomes uncertain. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Non-accrual loans are also commonly referred to as non-performing loans . Payments received on non-accrual loans are applied against principal. A loan may be restored to an accruing basis when it becomes well secured and is in the process of collection, or all past due amounts become current under the loan agreement and collectability is no longer doubtful.

The covered loans acquired from the FDIC were aggregated into pools based on common risk characteristics in accordance with ASC Subtopic 310-30. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans that may have been classified as non-performing loans by the acquired banks are no longer classified as non-performing because these loans are accounted for an a pooled basis. Management s judgment is required in classifying loans in pools subject to ASC Subtopic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the pool cash flows to be collected, even if certain loans within the pool are contractually past due.

The following tables present past due, non-accrual and current non-covered loans by the loan portfolio class at March 31, 2011 and December 31, 2010:

	Past Due and Non-Accrual Loans*					
	30-89 Days Past Due Loans	Accruing Loans 90 Days Or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-Covered Loans	Total Non-Covered Loans
	(in thousands)					
March 31, 2011						
Commercial and industrial	$ 11,007	$ 12	$ 16,476	$ 27,495	$ 1,832,131	$ 1,859,626
Commercial real estate:						
Commercial real estate	14,025		31,759	45,784	3,411,984	3,457,768
Construction	11,860		21,402	33,262	385,042	418,304
Total commercial real estate loans	25,885		53,161	79,046	3,797,026	3,876,072
Residential mortgage	12,373	1,201	28,923	42,497	2,005,401	2,047,898
Consumer loans:						
Home equity	808		2,197	3,005	489,323	492,328
Automobile	8,323	520	518	9,361	818,124	827,485
Other consumer	434	55	15	504	105,680	106,184
Total consumer loans	9,565	575	2,730	12,870	1,413,127	1,425,997

Total	$ 58,830	$ 1,788	$ 101,290	$ 161,908	$ 9,047,685	$ 9,209,593

* 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 pooled basis.

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	Past Due and Non-Accrual Loans*					
	30-89 Days Past Due Loans	Accruing Loans 90 Days Or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-Covered Loans	Total Non-Covered Loans
	(in thousands)					
December 31, 2010						
Commercial and industrial	$ 13,852	$ 12	$ 13,721	$ 27,585	$ 1,797,481	$ 1,825,066
Commercial real estate:						
Commercial real estate	14,563		32,981	47,544	3,330,708	3,378,252
Construction	2,804	196	27,312	30,312	397,920	428,232
Total commercial real estate loans	17,367	196	60,293	77,856	3,728,628	3,806,484
Residential mortgage	12,682	1,556	28,494	42,732	1,882,698	1,925,430
Consumer loans:						
Home equity	1,045		1,955	3,000	509,745	512,745
Automobile	13,328	686	539	14,553	836,248	850,801
Other consumer	265	37	53	355	88,259	88,614
Total consumer loans	14,638	723	2,547	17,908	1,434,252	1,452,160
Total	$ 58,539	$ 2,487	$ 105,055	$ 166,081	$ 8,843,059	$ 9,009,140

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

Performing troubled debt restructured loans (restructured loans). Restructured loans within the non-covered loan portfolio with modified terms and not reported as loans 90 days or more past due and still accruing or non-accrual, are performing restructured loans to customers experiencing financial difficulties where a concession has been granted. All loan modifications are made on a case-by-case basis. The majority of our loan modifications that are considered restructured loans involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications rarely result in the forgiveness of principal or interest. In addition, the Bank frequently obtains additional collateral or guarantor support when modifying such loans.

The following table presents information about restructured loans within the non-covered loan portfolio at March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Amount	Number of Loans	Amount	Number of Loans
	($ in thousands)			
Commercial and industrial	$ 25,548	18	$ 23,718	18

Commercial real estate:				
Commercial real estate	37,160	13	36,707	14
Construction	12,670	5	12,644	5
Total commercial real estate	49,830	18	49,351	19
Residential mortgage	16,213	5	16,544	5
Consumer loans:				
Home equity	82	2	83	2
Total consumer loans	82	2	83	2
Total restructured loans	$ 91,673	43	$ 89,696	44

Impaired loans. Non- accrual commercial and industrial loans and commercial real estate loans over a specific dollar amount and all troubled debt restructured loans are individually evaluated for impairment. The value of an impaired loan is measured based upon the underlying anticipated method of payment consisting of either the present value of expected future cash flows discounted at the loan s effective interest rate, or the fair value of the collateral, if the loan is collateral dependent, and its payment is expected solely based on the underlying collateral. If the value of an impaired loan is less than its carrying amount, impairment is recognized through a provision to the allowance for loan losses. Collateral dependent impaired loan balances are written down to the current fair value of each loan s underlying

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collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank s collection process. If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan s original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for credit losses.

Residential mortgage loans and consumer loans generally consist of smaller balance homogeneous loans that are collectively evaluated for impairment, and are specifically excluded from the impaired loan portfolio, except where the loan is classified as a troubled debt restructured loan.

The following tables present the information about impaired loans by loan portfolio class at March 31, 2011 and December 31, 2010:

	Recorded Investment * With No Related Allowance	Recorded Investment * With Related Allowance	Total Recorded Investment* (in thousands)	Unpaid Contractual Principal Balance	Related Allowance
March 31, 2011					
Commercial and industrial	$ 3,432	$ 34,103	$ 37,535	$ 48,307	$ 7,117
Commercial real estate:					
Commercial real estate	16,971	45,387	62,358	66,255	3,569
Construction	18,110	15,684	33,794	34,692	2,098
Total commercial real estate loans	35,081	61,071	96,152	100,947	5,667
Residential mortgage	239	18,022	18,261	18,540	2,928
Consumer loans:					
Home equity		82	82	82	4
Total consumer loans		82	82	82	4
Total	$ 38,752	$ 113,278	$ 152,030	$ 167,876	$ 15,716
December 31, 2010					
Commercial and industrial	$ 3,707	$ 28,590	$ 32,297	$ 42,940	$ 6,397
Commercial real estate:					
Commercial real estate	19,860	43,393	63,253	66,869	3,991
Construction	24,215	15,854	40,069	40,867	2,150
Total commercial real estate loans	44,075	59,247	103,322	107,736	6,141
Residential mortgage	788	17,797	18,585	18,864	2,683
Consumer loans:					
Home equity		83	83	83	5

Total consumer loans		83	83	83	5
Total	$ 48,570	$ 105,717	$ 154,287	$ 169,623	$ 15,226

* Recorded investment equals the aggregate carrying value of the applicable loans.

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(Unaudited)

The following table presents by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2011:

	Three Months Ended March 31, 2011	
	Average Recorded Investment	Interest Income Recognized
	(in thousands)	
Commercial and industrial	$ 38,041	$ 483
Commercial real estate:		
Commercial real estate	62,675	667
Construction	33,777	166
Total commercial real estate loans	96,452	833
Residential mortgage	18,382	208
Consumer loans:		
Home equity	83	1
Total consumer loans	83	1
Total	$ 152,958	$ 1,525

Interest income recognized on a cash basis, included in the table above, was immaterial for the three months ended March 31, 2011.

Credit quality indicators. Valley utilizes an internal loan classification system as a means of reporting problem loans within commercial and industrial, commercial real estate, and construction loan portfolio classes. Under Valley s internal risk rating system, loan relationships could be classified as Special Mention , Substandard , Doubtful , and Loss. Substandard loans include loans that exhibit well-defined weakness and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged-off immediately to the allowance for loan losses. Loans that do not currently pose a sufficient risk to warrant classification in one of the aforementioned categories, but pose weaknesses that deserve management s close attention are deemed to be Special Mention. Loans rated as Pass loans do not currently pose any identified risk and can range from the highest to average quality, depending on the degree of potential risk. Risk ratings are updated any time the situation warrants.

The following table presents the risk category of loans by class of loans based on the most recent analysis performed at March 31, 2011 and December 31, 2010.

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		

March 31, 2011					
Commercial and industrial	$ 1,667,501	$ 88,235	$ 103,584	$ 306	$ 1,859,626
Commercial real estate	3,244,542	80,055	133,171		3,457,768
Construction	325,434	38,319	54,551		418,304
Total	$ 5,237,477	$ 206,609	$ 291,306	$ 306	$ 5,735,698
December 31, 2010					
Commercial and industrial	$ 1,638,939	$ 92,131	$ 93,920	$ 76	$ 1,825,066
Commercial real estate	3,175,333	77,186	125,733		3,378,252
Construction	324,292	48,442	55,498		428,232
Total	$ 5,138,564	$ 217,759	$ 275,151	$ 76	$ 5,631,550

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(Unaudited)

For residential mortgages, automobile, home equity, and other consumer loan portfolio classes, Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of March 31, 2011 and December 31, 2010:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans (in thousands)	Total Loans
March 31, 2011			
Residential mortgage	$ 2,018,975	$ 28,923	$ 2,047,898
Home equity	490,131	2,197	492,328
Automobile	826,967	518	827,485
Other consumer	106,169	15	106,184
Total	$ 3,442,242	$ 31,653	$ 3,473,895
December 31, 2010			
Residential mortgage	$ 1,896,936	$ 28,494	$ 1,925,430
Home equity	510,790	1,955	512,745
Automobile	850,262	539	850,801
Other consumer	88,561	53	88,614
Total	$ 3,346,549	$ 31,041	$ 3,377,590

Valley evaluates the credit quality of its covered loan pools based on the expectation of the underlying cash flows. The balance of covered loan pools with an adverse change in the expected cash flows since the date of acquisition was $178.8 million and $27.2 million at March 31, 2011 and December 31, 2010, respectively. The impaired loan pools mainly consisted of commercial and industrial loans.

Note 9. Allowance for Credit Losses

The allowance for credit losses consists of the allowance for losses on non-covered loans, the reserve 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 loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for losses on non-covered loans is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio.

The following table summarizes the allowance for credit losses at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
	(in thousands)	
Components of allowance for credit losses:		

Allowance for non-covered loans	$ 119,700	$ 118,326
Allowance for covered loans	20,147	6,378
Total allowance for loan losses	139,847	124,704
Allowance for unfunded letters of credit	1,875	1,800
Total allowance for credit losses	$ 141,722	$ 126,504

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the provision for credit losses for the periods indicated:

	Three Months Ended March 31, 2011	2010
	(in thousands)	
Components of provision for credit losses:		
Provision for non-covered loans	$ 5,205	$ 12,479
Provision for covered loans	18,882	
Total provision for loan losses	24,087	12,479
Provision for unfunded letters of credit	75	132
Total provision for credit losses	$ 24,162	$ 12,611

Loan charge-off policy. Loans identified as losses by management are charged-off. Loans are assessed for full or partial charge-off when they are between 90 and 120 days past due. Furthermore, residential mortgage and consumer loan accounts are charged-off automatically based on regulatory requirements.

The following table details activity in the allowance for loan losses by portfolio segment for the quarters ended March 31, 2011 and 2010, including both covered and non-covered loans:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
Quarter Ended March 31, 2011:						
Allowance for loan losses:						
Beginning balance	$ 61,967	$ 30,409	$ 9,476	$ 14,499	$ 8,353	$ 124,704
Loans charged-off [(1)]	(6,672)	(823)	(783)	(1,758)		(10,036)
Charged-off loans recovered	448	21	21	602		1,092
Net charge-offs	(6,224)	(802)	(762)	(1,156)		(8,944)
Provision for loan losses [(2)]	20,128	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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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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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	Other
		(in thousands)	
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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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	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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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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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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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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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	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	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;

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-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	**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	**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

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 (in thousands)	Total Change
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