VALLEY NATIONAL BANCORP
Form 10-Q
November 08, 2010
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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 September 30, 2010

OR

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

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	**22-2477875**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**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 161,285,668 shares were outstanding as of November 4, 2010.

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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)

	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 256,194	$ 305,678
Interest bearing deposits with banks	4,677	355,659
Investment securities:		
Held to maturity, fair value of $1,766,179 at September 30, 2010 and $1,548,006 at December 31, 2009	1,776,856	1,584,388
Available for sale	1,089,603	1,352,481
Trading securities	32,088	32,950
Total investment securities	2,898,547	2,969,819
Loans held for sale (includes fair value of $25,293 at September 30, 2010 and $25,492 at December 31, 2009 for loans originated for sale)	108,455	25,492
Non-covered loans	9,054,661	9,370,071
Less: Allowance for loan losses	(113,786)	(101,990)
Covered loans	377,036	
Net loans	9,317,911	9,268,081
Premises and equipment, net	265,661	266,401
Bank owned life insurance	307,709	304,031
Accrued interest receivable	61,643	56,245
Due from customers on acceptances outstanding	6,023	6,985
FDIC loss-share receivable	109,682	
Goodwill	315,975	296,424
Other intangible assets, net	21,456	24,305
Other assets	413,678	405,033
Total Assets	$ 14,087,611	$ 14,284,153
Liabilities		
Deposits:		
Non-interest bearing	$ 2,461,532	$ 2,420,006
Interest bearing:		
Savings, NOW and money market	4,131,273	4,044,912
Time	2,675,898	3,082,367

Total deposits	9,268,703	9,547,285
Short-term borrowings	331,265	216,147
Long-term borrowings	2,884,547	2,946,320
Junior subordinated debentures issued to capital trusts (includes fair value of $159,850 at September 30, 2010 and $155,893 at December 31, 2009 for VNB Capital Trust I)	185,055	181,150
Bank acceptances outstanding	6,023	6,985
Accrued expenses and other liabilities	133,999	133,412
Total Liabilities	12,809,592	13,031,299
Shareholders Equity*		
Preferred stock, no par value, authorized 30,000,000 shares; none issued		
Common stock, no par value, authorized 210,451,912 shares; issued 162,058,055 shares at September 30, 2010 and 162,042,502 shares at December 31, 2009	57,067	54,293
Surplus	1,178,720	1,178,992
Retained earnings	74,733	73,592
Accumulated other comprehensive loss	(9,843)	(19,816)
Treasury stock, at cost (934,651 common shares at September 30, 2010 and 1,405,204 common shares at December 31, 2009)	(22,658)	(34,207)
Total Shareholders Equity	1,278,019	1,252,854
Total Liabilities and Shareholders Equity	$ 14,087,611	$ 14,284,153

* Share data reflects the five percent common stock dividend issued on May 21, 2010.

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest Income				
Interest and fees on loans	$ 137,742	$ 139,506	$ 409,531	$ 424,719
Interest and dividends on investment securities:				
Taxable	28,361	32,670	88,861	102,162
Tax-exempt	2,743	2,414	7,886	7,175
Dividends	1,679	2,493	5,153	6,475
Interest on federal funds sold and other short-term investments	61	198	291	646
Total interest income	170,586	177,281	511,722	541,177
Interest Expense				
Interest on deposits:				
Savings, NOW, and money market	4,711	6,638	14,384	18,321
Time	13,233	19,833	43,551	76,118
Interest on short-term borrowings	334	487	995	3,617
Interest on long-term borrowings and junior subordinated debentures	34,574	35,255	103,181	105,376
Total interest expense	52,852	62,213	162,111	203,432
Net Interest Income	117,734	115,068	349,611	337,745
Provision for credit losses	9,308	12,722	34,357	35,767
Net Interest Income After Provision for Credit Losses	108,426	102,346	315,254	301,978
Non-Interest Income				
Trust and investment services	1,930	1,811	5,752	5,048
Insurance commissions	2,561	2,504	8,417	8,074
Service charges on deposit accounts	6,562	6,871	19,487	20,071
Gains (losses) on securities transactions, net	112	(5)	4,631	246
Other-than-temporary impairment losses on securities			(1,393)	(5,905)
Portion recognized in other comprehensive income (pre-tax)		(743)	(3,249)	557
Net impairment losses on securities recognized in earnings		(743)	(4,642)	(5,348)
Trading losses, net	(2,627)	(3,474)	(4,819)	(8,886)
Fees from loan servicing	1,187	1,216	3,634	3,585
Gains on sales of loans, net	1,548	2,699	5,087	7,275
Gains on sales of assets, net	78	128	382	477
Bank owned life insurance	1,697	1,421	5,008	4,189
Other	4,280	4,650	12,544	12,943

Total non-interest income	17,328	17,078	55,481	47,674
Non-Interest Expense				
Salary and employee benefits expense	43,566	40,490	130,774	121,542
Net occupancy and equipment expense	15,241	14,452	47,270	44,347
FDIC insurance assessment	3,497	3,355	10,473	16,786
Amortization of other intangible assets	2,602	1,710	6,747	5,537
Professional and legal fees	2,460	2,056	7,192	6,295
Advertising	826	701	2,849	1,868
Other	10,755	11,128	31,969	32,569
Total non-interest expense	78,947	73,892	237,274	228,944
Income Before Income Taxes	46,807	45,532	133,461	120,708
Income tax expense	14,168	13,950	40,449	36,745
Net Income	32,639	31,582	93,012	83,963
Dividends on preferred stock and accretion		5,983		15,996
Net Income Available to Common Stockholders	$ 32,639	$ 25,599	$ 93,012	$ 67,967
Earnings Per Common Share*:				
Basic	$ 0.20	$ 0.17	$ 0.58	$ 0.45
Diluted	0.20	0.17	0.58	0.45
Cash Dividends Declared per Common Share*	0.18	0.18	0.54	0.54
Weighted Average Number of Common Shares Outstanding*:				
Basic	161,121,214	152,305,288	160,959,399	150,033,851
Diluted	161,122,351	152,305,671	160,960,742	150,034,407

* Share data reflects the five percent common stock dividend issued on May 21, 2010.

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 93,012	$ 83,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,823	10,044
Stock-based compensation	2,697	3,118
Provision for credit losses	34,357	35,767
Net amortization of premiums and accretion of discounts on securities and borrowings	9,275	5,819
Amortization of other intangible assets	6,747	5,537
Gains on securities transactions, net	(4,631)	(246)
Net impairment losses on securities recognized in earnings	4,642	5,348
Proceeds from sales of loans held for sale	190,899	286,864
Gains on loans held for sale, net	(5,087)	(7,275)
Originations of loans held for sale	(185,613)	(289,265)
Gains on sales of assets, net	(382)	(477)
Net change in:		
Trading securities	862	2,063
Fair value of borrowings carried at fair value	3,957	13,504
Cash surrender value of bank owned life insurance	(5,008)	(4,189)
Accrued interest receivable	2,610	(2,813)
Other assets	3,816	117,521
Accrued expenses and other liabilities	(20,684)	(161,298)
Net cash provided by operating activities	143,292	103,985
Cash flows from investing activities:		
Net change in loans	245,245	606,826
Investment securities held to maturity:		
Purchases	(616,986)	(774,440)
Maturities, calls and principal repayments	416,827	344,161
Investment securities available for sale:		
Purchases	(275,884)	(283,842)
Sales	373,766	185,043
Maturities, calls and principal repayments	256,536	280,164
Death benefit proceeds received on bank owned life insurance	1,330	1,727
Proceeds from sales of real estate property and equipment	221	3,713
Purchases of real estate property and equipment	(10,799)	(23,461)
Cash and cash equivalents received in FDIC-assisted transactions	47,528	
Net cash provided by investing activities	437,784	339,891
Cash flows from financing activities:		
Net change in deposits	(932,782)	209,548

Net change in short-term borrowings	102,613	(440,912)
Repayments of long-term borrowings	(71,742)	(43,001)
Redemption of preferred stock		(200,000)
Dividends paid to preferred shareholder		(11,202)
Dividends paid to common shareholders	(86,188)	(80,948)
Common stock issued, net	6,557	74,050
Net cash used in financing activities	(981,542)	(492,465)
Net change in cash and cash equivalents	(400,466)	(48,589)
Cash and cash equivalents at beginning of period	661,337	580,507
Cash and cash equivalents at end of period	$ 260,871	$ 531,918

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	Nine Months Ended September 30, 2010	2009
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$ 164,658	$ 228,196
Federal and state income taxes	48,311	43,921
Loans transferred to loans held for sale	83,162	
Supplemental schedule of non-cash investing activities:		
Acquisitions:		
Non-cash assets acquired:		
Investment securities available for sale	73,743	
Covered loans	412,331	
Premises and equipment	123	
Accrued interest receivable	2,788	
Goodwill	19,497	
Other intangible assets	1,560	
FDIC loss-share receivable	108,000	
Other assets	22,558	
Total non-cash assets acquired	640,600	
Liabilities assumed:		
Deposits		
Non-interest bearing	176,124	
Savings, NOW and money market	2,934	
Time	475,142	
Total deposits	654,200	
Short-term borrowings	12,505	
Long-term borrowings	10,742	
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. See Note 13 for more details.

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 September 30, 2010 and for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2010 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 (including the estimated fair values recorded for acquired assets and assumed liabilities in FDIC-assisted transactions see Note 4); 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 to be 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, 2009.

In March 2010, the Bank assumed all of the deposits, excluding brokered deposits, and acquired loans, other real estate owned (covered loans and covered OREO , together covered assets) and certain other assets of The Park Avenue Bank and LibertyPointe Bank, from the Federal Deposit Insurance Corporation (the FDIC), as receiver (the FDIC-assisted transactions). See Note 4 for further details.

On May 21, 2010, Valley issued a five percent common stock dividend to shareholders of record on May 7, 2010. 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.

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 and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands, except for share data)			
Net income	$ 32,639	$ 31,582	$ 93,012	$ 83,963
Dividends on preferred stock and accretion		5,983		15,996
Net income available to common stockholders	$ 32,639	$ 25,599	$ 93,012	$ 67,967
Basic weighted-average number of common shares outstanding	161,121,214	152,305,288	160,959,399	150,033,851
Plus: Common stock equivalents	1,137	383	1,343	556
Diluted weighted-average number of common shares outstanding	161,122,351	152,305,671	160,960,742	150,034,407
Earnings per common share:				
Basic	$ 0.20	$ 0.17	$ 0.58	$ 0.45
Diluted	0.20	0.17	0.58	0.45

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 6.8 million shares for both the three and nine months ended September 30, 2010, compared to 7.0 million shares for both the three and nine months ended September 30, 2009.

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 and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)			
Net income	$ 32,639	$ 31,582	$ 93,012	$ 83,963
Other comprehensive income, net of tax:				
Net change in unrealized gains and losses on securities available for sale	2,125	14,566	10,454	47,151
Net change in non-credit impairment losses on securities	878	390	1,537	(75)
Net pension benefits adjustment	253	196	759	633
Net change in unrealized gains and losses on derivatives used in cash flow hedging relationships	(577)	(652)	(3,337)	1,733
Less reclassification adjustment for gains and losses included in net income	205	412	560	1,815
Total other comprehensive income, net of tax	2,884	14,912	9,973	51,257
Total comprehensive income	$ 35,523	$ 46,494	$ 102,985	$ 135,220

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4. Business Combinations

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, 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.

The asset arising from the loss-sharing agreements (referred to as the FDIC loss-share receivable on our statements of financial condition) are measured separately from the covered loan portfolios because the agreements are not contractually embedded in the covered loans and are not transferable should the Bank choose to dispose of the covered loans. The FDIC loss-share receivable will be reduced as losses are realized on covered loans and other real estate owned, and as the loss sharing payments are received from the FDIC. Realized losses in excess of the acquisition date estimates will result in an increase in the FDIC loss-share receivable. Conversely, the FDIC loss-share receivable will be reduced if realized losses are less than our estimates at acquisition. The amount ultimately collected for the FDIC loss-share receivable is dependent upon the performance of the underlying covered assets, the passage of time, and claims submitted to the FDIC. See Fair Value Measurement of Assets Acquired and Liabilities Assumed section below for details regarding the fair value measurement of the FDIC loss-share receivable.

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.

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. Under the terms of the instrument, the FDIC had the opportunity to obtain a cash payment equal to the product of (i) the number of units with respect to which the FDIC exercises its right under the equity appreciation instrument and (ii) the amount by which the average of the volume weighted average price of Valley s common stock for each of the five New York Stock Exchange trading days immediately prior to the exercise of the equity appreciation instrument exceeds $14.372 (unadjusted for the five percent stock dividend issued on May 21, 2010). 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.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table sets forth assets acquired and liabilities assumed in the FDIC-assisted transactions, at their estimated fair values as of the closing dates of each transaction:

	March 11, 2010 LibertyPointe Bank	March 12, 2010 Park Avenue Bank
	(in thousands)	
Assets acquired:		
Cash and cash equivalents	$ 18,269	$ 29,259
Investment securities available for sale	5,014	68,729
Covered loans	140,570	271,761
Premises and equipment		123
Accrued interest receivable	525	2,263
Goodwill	11,625	7,872
Other intangible assets	370	1,190
FDIC loss-share receivable	29,000	79,000
Other assets	2,284	20,274
Total assets acquired	$ 207,657	$ 480,471
Liabilities assumed:		
Deposits:		
Non-interest bearing	$ 34,349	$ 141,775
Savings, NOW and money market	592	2,342
Time	163,362	311,780
Total deposits	198,303	455,897
Short-term borrowings		12,505
Long-term borrowings		10,742
Accrued expenses and other liabilities	9,354	1,327
Total liabilities assumed	$ 207,657	$ 480,471

The determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. During the second and third quarters of 2010, the estimated fair values of the acquired assets and liabilities as of the acquisition dates were adjusted as a result of additional information obtained related to the fair value of the loans and unfunded loan commitments acquired and, on a combined basis, resulted in increases in goodwill, the FDIC loss-share receivable and other liabilities, and a decrease in covered loans. The fair value estimates are subject to change for up to one year after the closing dates of the transactions as additional information relative to fair values as of the acquisition date becomes available.

Fair Value Measurement of Assets Acquired and Liabilities Assumed

Described below are the methods used to determine the fair values of the significant assets acquired and liabilities assumed in the FDIC-assisted transactions.

Cash and cash equivalents. The estimated fair values of cash and cash equivalents approximate their stated face amounts, as these financial instruments are either due on demand or have short-term maturities.

Investment securities available for sale. The estimated fair values of the investment securities available for sale were calculated utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service and are 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 reviewed the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data.

Covered loans. The acquired loan portfolios were segregated into categories for valuation purposes primarily based on loan type (commercial, mortgage, or consumer) and payment status (performing or non-performing). The estimated fair

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

values were computed by discounting the expected cash flows from the respective portfolios. Management estimated the cash flows expected to be collected at the acquisition date by using valuation models that incorporated estimates of current key assumptions, such as prepayment speeds, default rates, and loss severity rates. Prepayment assumptions were developed by reference to recent or historical prepayment speeds observed for loans with similar underlying characteristics. Prepayment assumptions were influenced by many factors including, but not limited to, forward interest rates, loan and collateral types, payment status, and current loan-to-value ratios. Default and loss severity rates were developed by reference to recent or historical default and loss rates observed for loans with similar underlying characteristics. Default and loss severity assumptions were influenced by many factors including, but not limited to, underwriting processes and documentation, vintages, collateral types, collateral locations, estimated collateral values, loan-to-value ratios, and debt-to-income ratios.

The expected cash flows from the acquired loan portfolios were discounted at estimated market rates. The market rates were estimated using a buildup approach which included assumptions with respect to funding cost and funding mix, estimated servicing cost, liquidity premium, and additional spreads, if warranted, to compensate for the uncertainty inherent in the acquired loans. The methods used to estimate the Level 3 fair values of the covered loans are extremely sensitive to the assumptions and estimates used. While management attempted to use assumptions and estimates that best reflected the acquired loan portfolios and current market conditions, a greater degree of subjectivity is inherent in these values than in those determined in active markets.

See Note 7 for further discussion regarding covered loans and Valley s accretion of the loan discount resulting from acquisition date fair value adjustments.

FDIC loss-share receivable. The fair value of the FDIC loss-share receivable represents the present value of the estimated loss share reimbursements expected to be received from the FDIC for future losses on covered assets, based on the credit assumptions estimated for covered assets, loss sharing percentages, and the first loss tranche amount, if applicable. These loss share reimbursements were then discounted using the U.S. Treasury strip curve plus a premium to reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. The amounts ultimately collected for this asset are dependent upon the performance of the underlying covered assets, the passage of time, and claims submitted to the FDIC.

Other intangible assets. Other intangible assets consisting of core deposit intangibles (CDI) are measures of the value of non-maturity checking, savings, NOW and money market deposits that are acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding. The CDI related to the FDIC-assisted transactions is being amortized over an estimated useful life of five years to approximate the existing deposit relationships acquired. Valley evaluates such identifiable intangibles for impairment when an indication of impairment exists.

Deposits. The fair values of deposit liabilities with no stated maturity (i.e., savings, NOW and money market accounts, savings accounts, and non-interest-bearing accounts) are equal to the carrying amounts payable on demand. The fair values of certificates of deposit represent contractual cash flows, discounted to present value using interest rates currently offered on deposits with similar characteristics and remaining maturities.

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

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets, (i) enhances reporting about transfers of financial assets, including securitizations, where companies have continuing exposure to the risks related to transferred financial assets, (ii) eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets, and (iii) requires additional disclosures about all continuing involvements with transferred financial assets including information about

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gains and losses resulting from transfers during the period. The new guidance under Accounting Standards Codification (ASC) Topic 860 was effective on January 1, 2010. The adoption of this guidance did not have a material impact on Valley s consolidated financial statements.

ASU No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. ASU No. 2009-17 requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity s financial statements. The provisions of ASU No. 2009-17 became effective on January 1, 2010 and did not have a material impact on Valley s consolidated financial statements.

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 will be required for Valley beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU No. 2010-06 became effective for Valley on January 1, 2010. The applicable new disclosures have been included in Note 6.

ASU No. 2010-18, Receivables (Topic 310) Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, codifies the consensus reached by the EITF that modifications of loans that are accounted for within a pool under ASC Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity must continue to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU No. 2010-18 became effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 beginning in the third quarter of 2010. The new guidance did not have a material impact on Valley s consolidated financial statements. See Note 7 for more information regarding Valley s covered loans accounted for in accordance with ASC Subtopic 310-30.

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 are to 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 disclosures related to period-end information (e.g., credit-quality

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information and the ending financing receivables balance segregated by impairment method) will be required in all interim and annual reporting periods ending on or after December 15, 2010. Disclosures of activity that occurs during a reporting period (e.g., modifications and the rollforward of the allowance for credit losses by portfolio segment) will be required in interim or annual periods beginning on or after December 15, 2010. Comparative disclosures for reporting periods ending after initial adoption are required. Since the provisions of ASU 2010-20 are only disclosure related, our adoption of this guidance will not have an impact on our 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 September 30, 2010 and December 31, 2009. 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:		
	September 30, 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	$ 164,465	$ 164,465	$	$
U.S. government agency securities	37,473		37,473	
Obligations of states and political subdivisions	33,157		33,157	
Residential mortgage-backed securities	713,536		610,160	103,376
Trust preferred securities	40,529	19,880	509	20,140

Corporate and other debt securities	54,035	42,505		11,530
Equity securities	46,408	27,789	10,327	8,292
Total available for sale	1,089,603	254,639	691,626	143,338
Trading securities	32,088		10,123	21,965
Loans held for sale (1)	25,293		25,293	
Other assets (2)	1,135		1,135	
Total assets	$ 1,148,119	$ 254,639	$ 728,177	$ 165,303
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I (3)	$ 159,850	$ 159,850	$	$
Other liabilities (2)	1,937		1,937	
Total liabilities	$ 161,787	$ 159,850	$ 1,937	$

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		Fair Value Measurements at Reporting Date Using:		
	December 31, 2009	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	$ 276,285	$ 276,285	$	$
Obligations of states and political subdivisions	33,411		33,411	
Residential mortgage-backed securities	940,505		820,652	119,853
Trust preferred securities	36,412	16,320		20,092
Corporate and other debt securities	19,042		10,868	8,174
Equity securities	46,826	28,098	10,235	8,493
Total available for sale	1,352,481	320,703	875,166	156,612
Trading securities	32,950			32,950
Loans held for sale (1)	25,492		25,492	
Other assets (2)	7,124		7,124	
Total assets	$ 1,418,047	$ 320,703	$ 907,782	$ 189,562
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I (3)	$ 155,893	$ 155,893	$	$
Other liabilities (2)	1,018		1,018	
Total liabilities	$ 156,911	$ 155,893	$ 1,018	$

(1) Loans held for sale that are carried at fair value consist of residential mortgages with contractual unpaid principal balances totaling approximately $24.4 million and $25.3 million at September 30, 2010 and December 31, 2009, respectively. These loans are classified as held for sale at the time of origination.

(2) Derivative financial instruments are included in this category.

(3) The junior subordinated debentures had contractual unpaid principal obligations totaling $157.0 million at both September 30, 2010 and December 31, 2009.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2010 and 2009 are summarized below:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	$ 22,814	$ 142,745	$ 32,950	$ 156,612
Transfers out of Level 3 [1]			(10,567)	(1,384)
Total net (losses) gains for the period included in:				
Net income	(849)		(418)	
Other comprehensive income		3,261		4,180
Purchases, sales and settlements		(2,668)		(16,070)
Balance, end of the period	$ 21,965	$ 143,338	$ 21,965	$ 143,338
Net unrealized losses included in net income for the period relating to assets held at September 30, 2010 [2]	$ (849)[3]	$ [4]	$ (418)[3]	$ (4,642)[4]

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	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	$ 32,821	$ 122,540	$	$
Transfers into Level 3 [1]		34,329	34,236	149,672
Total net (losses) gains for the period included in:				
Net income	(648)		3,637	
Other comprehensive income		3,677		22,170
Sales and settlements		(4,920)	(5,700)	(16,216)
Balance, end of the period	$ 32,173	$ 155,626	$ 32,173	$ 155,626
Net unrealized (losses) gains included in net income for the period relating to assets held at September 30, 2009 [2]	$ (648)[3]	$ (743)[4]	$ 3,615[3]	$ (5,348)[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.

During the second quarter of 2010, two trust preferred securities totaling $12.0 million with the same issuer, one classified as trading and one classified as available for sale, were transferred out of Level 3 assets to Level 1 assets due to newly available exchange quoted prices in active markets for these securities. During the third quarter of 2010, the same two securities were transferred out of Level 1 to Level 2 due to lower trading volumes and no exchange quoted prices at September 30, 2010.

Five corporate debt securities with a combined fair value of $32.7 million at September 30, 2010 were transferred from Level 2 to Level 1 assets during the nine months ended September 30, 2010 due to newly available exchange quoted prices in active markets for these securities.

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 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

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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, 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, Valley prepared present value cash flow models for certain trust preferred securities (including three 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.

For available for sale trust preferred securities and corporate debt 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 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 September 30, 2010 and December 31, 2009 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

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to the Trust have identical financial terms (see Note 13 for details) 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 September 30, 2010 and December 31, 2009.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley s interest rate caps and interest rate swap are determined using third party prices that are based on discounted cash flow analyses. The fair value measurement of the interest caps is calculated by discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the caps are based on an expectation of future interest rates derived from observed market interest rate curves and volatilities. The fair value measurement of the interest rate swap is determined by netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates derived from observed market interest rate curves. 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 September 30, 2010 and December 31, 2009.

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 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 September 30, 2010				
Collateral dependent impaired loans [1]	$ 56,084	$	$	$ 56,084
Loan servicing rights	9,526			9,526
Foreclosed assets [2]	19,081			19,081
As of December 31, 2009				
Collateral dependent impaired loans	$ 22,484	$	$	$ 22,484
Loan servicing rights	11,110			11,110

Foreclosed assets	6,434	6,434

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

(2) Includes other real estate owned totaling $12.5 million related to the FDIC-assisted transactions, 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 nine months ended September 30, 2010, collateral dependent

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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 loan charge-offs to the allowance for loan losses totaled $1.5 million and $7.3 million for the three and nine months ended September 30, 2010, respectively. At September 30, 2010, collateral dependent impaired loans (mainly consisting of commercial and construction loans) with a carrying value of $59.1 million were reduced by specific valuation allowance allocations totaling $3.0 million to a reported fair value of $56.1 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. During the nine months ended September 30, 2010, net impairment charges of $1.5 million were recognized on loan servicing rights when the book value of a risk-stratified group of loan servicing rights exceeds the estimated fair value. The loan servicing rights had a $9.5 million carrying value, net of a $2.1 million valuation allowance at September 30, 2010.

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 nine months ended September 30, 2010, foreclosed assets measured at fair value upon initial recognition totaled $9.3 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 $1.8 million and $5.5 million for the three and nine months ended September 30, 2010, respectively.

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 and nine months ended September 30, 2010 and 2009:

		Gains (Losses) on Change in Fair Value			
Reported in Consolidated Statements of Financial Condition	**Reported in Consolidated Statements of Income**	**Three Months Ended September 30, 2010**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2010**	**Nine Months Ended September 30, 2009**
		(in thousands)			
Assets:					
Available for sale securities	Net impairment losses on securities	$	$ (743)	$ (4,642)	$ (5,348)
Trading securities	Trading losses, net	(517)	(648)	(862)	4,618
Loans held for sale	Gains on sales of loans, net	1,548	2,699	5,087	7,275
Liabilities:					
Junior subordinated debentures issued to capital trusts	Trading losses, net	(2,110)	(2,826)	(3,957)	(13,504)
		$ (1,079)	$ (1,518)	$ (4,374)	$ (6,959)

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 a 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

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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.

The carrying amounts and estimated fair values of financial instruments were as follows at September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 256,194	$ 256,194	$ 305,678	$ 305,678
Interest bearing deposits with banks	4,677	4,677	355,659	355,659
Investment securities held to maturity	1,776,856	1,766,179	1,584,388	1,548,006
Investment securities available for sale	1,089,603	1,089,603	1,352,481	1,352,481
Trading securities	32,088	32,088	32,950	32,950
Loans held for sale (carrying amount includes fair value of $25,293 at September 30, 2010 and $25,492 at December 31, 2009 for loans originated for sale)	108,455	110,950	25,492	25,492
Net loans	9,317,911	9,168,310	9,268,081	9,233,493
Accrued interest receivable	61,643	61,643	56,245	56,245
Federal Reserve Bank and Federal Home Loan Bank stock	142,073	142,073	139,911	139,911
Other assets*	1,135	1,135	7,124	7,124
Financial liabilities:				
Deposits without stated maturities	6,592,805	6,592,805	6,464,918	6,464,918
Deposits with stated maturities	2,675,898	2,730,204	3,082,367	3,135,611
Short-term borrowings	331,265	332,615	216,147	206,296
Long-term borrowings	2,884,547	3,384,044	2,946,320	3,115,285
Junior subordinated debentures issued to capital trusts (carrying amount includes fair value of $159,850 at September 30, 2010 and $155,893 at December 31, 2009 for VNB Capital Trust I)	185,055	185,518	181,150	180,639
Accrued interest payable	4,836	4,836	7,081	7,081
Other liabilities*	1,937	1,937	1,018	1,018

* 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 September 30, 2010 and December 31, 2009.

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

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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 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 loans and loans transferred to loans held for sale are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loan. 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. See Note 4 for details regarding the fair value measurement of covered 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.

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Note 7. Loans

The details of the loan portfolio as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Non-covered loans:		
Commercial and industrial	$ 1,824,014	$ 1,801,251
Mortgage:		
Construction	440,929	440,046
Residential mortgage	1,890,439	1,943,249
Commercial real estate	3,406,089	3,500,419
Total mortgage loans	5,737,457	5,883,714
Consumer:		
Home equity	531,168	566,303
Credit card	9,462	10,025
Automobile	877,298	1,029,958
Other consumer	75,262	78,820
Total consumer loans	1,493,190	1,685,106
Total non-covered loans	9,054,661	9,370,071
Covered loans:		
Commercial and industrial	46,953	
Mortgage	330,013	
Consumer	70	
Total covered loans	377,036	
Total loans	$ 9,431,697	$ 9,370,071
FDIC loss-share receivable related to covered loans and foreclosed assets	$ 109,682	$

Total non-covered loans are net of unearned discount and deferred loan fees totaling $9.0 million and $8.7 million at September 30, 2010 and December 31, 2009, respectively. At September 30, 2010, covered loans had outstanding contractual principal balances totaling approximately $473.7 million.

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 on a level-yield method over the life of the loans in 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 or as a loss accrual or a valuation allowance. Such increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life, while decreases in expected cash flows are recognized as impairment through the allowance for loan losses. There were no material increases or decreases in the expected cash flows of covered loans in each of the pools during the nine months ended September 30, 2010.

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The following table presents information regarding the combined preliminary estimates of the contractually required payments receivable, the cash flows expected to be collected, and the estimated fair value of the covered loans acquired in the LibertyPointe Bank and The Park Avenue Bank transactions, as of the closing dates for those transactions:

	(in thousands)
Contractually required principal and interest	$ 625,978
Contractual cash flows not expected to be collected (non-accretable difference)	(143,988)
Expected cash flows to be collected	481,990
Interest component of expected cash flows (accretable yield)	(69,659)
Fair value of covered loans	$ 412,331

Changes in the accretable yield for covered loans were as follows for the nine months ended September 30, 2010:

	Nine Months Ended September 30, 2010 (in thousands)
Balance, at acquisition date	$ 69,659
Accretion	(15,437)
Balance, end of the period	$ 54,222

Asset Quality

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. Management s judgment is required in reclassifying loans subject to ASC Subtopic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if the loan is contractually past due.

The tables below exclude covered loans that were acquired as part of the LibertyPointe Bank and The Park Avenue Bank transactions during the first quarter of 2010. These loans are accounted for on a pool basis, and the pools are considered to be performing.

The outstanding balances of loans that are 90 days or more past due as to principal or interest payments and still accruing, non-performing assets, and troubled debt restructured loans at September 30, 2010 and December 31, 2009 were as follows:

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	September 30, 2010	December 31, 2009
	(in thousands)	
Loans past due in excess of 90 days and still accruing	$ 4,367	$ 5,125
Non-accrual loans	$ 105,602	$ 91,964
Other real estate owned*	4,698	3,869
Other repossessed assets	1,849	2,565
Total non-performing assets	$ 112,149	$ 98,398
Troubled debt restructured loans:		
Commercial and industrial	$ 16,077	$ 18,973
Construction	10,386	
Commercial real estate	6,976	
Residential mortgage	14,735	
Home equity	55	99
Total troubled debt restructured loans	$ 48,229	$ 19,072

* At September 30, 2010, other real estate owned (OREO) excludes $12.5 million of OREO that is related to the FDIC-assisted transactions, which is subject to the loss-sharing agreements with the FDIC.

Information about impaired loans as of September 30, 2010 and December 31, 2009 follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Impaired loans for which there was a specific related allowance for loan losses	$ 77,152	$ 45,986
Impaired loans without a specific related allowance for loan losses	38,160	28,554
Total impaired loans	$ 115,312	$ 74,540
Related allowance for loan losses	$ 13,966	$ 7,314

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)			
Allowance for credit losses				
Beginning balance	$ 112,504	$ 102,317	$ 103,655	$ 94,738
Loans charged-off	(6,864)	(10,811)	(27,913)	(28,054)
Charged-off loans recovered	767	826	5,616	2,603
Net charge-offs	(6,097)	(9,985)	(22,297)	(25,451)
Provision charged for credit losses	9,308	12,722	34,357	35,767
Ending balance	$ 115,715	$ 105,054	$ 115,715	$ 105,054
Components of allowance for credit losses:				
Allowance for loan losses	$ 113,786	$ 103,446	$ 113,786	$ 103,446
Reserve for unfunded letters of credit	1,929	1,608	1,929	1,608
Allowance for credit losses	$ 115,715	$ 105,054	$ 115,715	$ 105,054

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Note 8. Investment Securities

As of September 30, 2010, Valley had approximately $1.8 billion, $1.1 billion, and $32.1 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 current downturn in the U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon recommendations by the U.S. Government and the banking regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley s investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. Although these securities may pose a greater risk of impairment charges, many of the bank issuers of trust preferred securities within our investment portfolio were allowed by their bank regulators to exit the U.S. Treasury s TARP Capital Purchase Program, and their capital ratios are at or above the minimum amounts to be considered well-capitalized under current regulatory guidelines. For the small number of bank issuers within our portfolio that remain TARP participants, dividend payments to trust preferred security holders are senior to and payable before dividends can be paid on the preferred stock issued under the TARP Capital Purchase Program. See the Other-Than-Temporary Impairment Analysis section below for further details.

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
September 30, 2010				
Obligations of states and political subdivisions	$ 389,023	$ 8,205	$ (3)	$ 397,225
Residential mortgage-backed securities	1,053,291	34,725	(148)	1,087,868
Trust preferred securities	281,847	8,782	(63,734)	226,895
Corporate and other debt securities	52,695	1,948	(452)	54,191
Total investment securities held to maturity	$ 1,776,856	$ 53,660	$ (64,337)	$ 1,766,179
December 31, 2009				
Obligations of states and political subdivisions	$ 313,360	$ 3,430	$ (227)	$ 316,563
Residential mortgage-backed securities	936,385	17,970	(413)	953,942

Trust preferred securities	281,836	3,832	(59,516)	226,152
Corporate and other debt securities	52,807	907	(2,365)	51,349
Total investment securities held to maturity	$ 1,584,388	$ 26,139	$ (62,521)	$ 1,548,006

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(Unaudited)

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2010 and December 31, 2009 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
September 30, 2010						
Obligations of states and political subdivisions	$ 1,028	$ (2)	$ 105	$ (1)	$ 1,133	$ (3)
Residential mortgage-backed securities	70,506	(148)			70,506	(148)
Trust preferred securities	1,730	(274)	91,130	(63,460)	92,860	(63,734)
Corporate and other debt securities			8,521	(452)	8,521	(452)
Total	$ 73,264	$ (424)	$ 99,756	$ (63,913)	$ 173,020	$ (64,337)
December 31, 2009						
Obligations of states and political subdivisions	$ 42,507	$ (219)	$ 1,305	$ (8)	$ 43,812	$ (227)
Residential mortgage-backed securities	120,101	(404)	2,450	(9)	122,551	(413)
Trust preferred securities	10,702	(89)	121,197	(59,427)	131,899	(59,516)
Corporate and other debt securities	7,206	(338)	17,926	(2,027)	25,132	(2,365)
Total	$ 180,516	$ (1,050)	$ 142,878	$ (61,471)	$ 323,394	$ (62,521)

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 September 30, 2010 was 28 as compared to 79 at December 31, 2009.

At September 30, 2010, the unrealized losses reported for trust preferred securities relate to 18 single-issuer securities, mainly issued by bank holding companies. Of the 18 trust preferred securities, 6 were investment grade, 1 was non-investment grade, and 11 were not rated. Additionally, $38.3 million of the $63.7 million in unrealized losses at September 30, 2010, 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 August and October of 2009, the bank issuer elected to defer its scheduled interest payments on each respective security issuance. The bank issuer is currently operating under an agreement with its bank regulators, which requires, among other things, the issuer to receive permission from the regulators prior to resuming its regularly scheduled payments on both security issuances. 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 September 30, 2010. 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 requirements to be considered to be well-capitalized institutions at September 30, 2010.

Unrealized losses reported for corporate and other debt securities as of September 30, 2010 relate to one investment rated bank issued corporate bond with a $9.0 million amortized cost that is paying in accordance with its terms.

Management does not believe that any individual unrealized loss as of September 30, 2010 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 September 30, 2010, 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 $942 million.

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The contractual maturities of investments in debt securities held to maturity at September 30, 2010 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.

	September 30, 2010	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 185,101	$ 185,183
Due after one year through five years	63,920	66,588
Due after five years through ten years	75,875	79,014
Due after ten years	398,669	347,526
Residential mortgage-backed securities	1,053,291	1,087,868
Total investment securities held to maturity	$ 1,776,856	$ 1,766,179

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 4.42 years at September 30, 2010.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of investment securities available for sale at September 30, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
September 30, 2010				
U.S. Treasury securities	$ 162,519	$ 1,946	$	$ 164,465
U.S. government agency securities	37,609	38	(174)	37,473
Obligations of states and political subdivisions	31,529	1,628		33,157
Residential mortgage-backed securities	680,105	38,120	(4,689)	713,536
Trust preferred securities*	54,290	581	(14,342)	40,529
Corporate and other debt securities	53,473	3,603	(3,041)	54,035
Equity securities	48,097	1,012	(2,701)	46,408
Total investment securities available for sale	$ 1,067,622	$ 46,928	$ (24,947)	$ 1,089,603

December 31, 2009				
U.S. Treasury securities	$ 277,429	$	$ (1,144)	$ 276,285
Obligations of states and political subdivisions	32,724	722	(35)	33,411
Residential mortgage-backed securities	911,186	39,537	(10,218)	940,505
Trust preferred securities*	56,636	117	(20,341)	36,412
Corporate and other debt securities	22,578	198	(3,734)	19,042
Equity securities	49,112	1,956	(4,242)	46,826
Total investment securities available for sale	$ 1,349,665	$ 42,530	$ (39,714)	$ 1,352,481

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

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The age of unrealized losses and fair value of related investment securities available for sale at September 30, 2010 and December 31, 2009 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
September 30, 2010						
U.S. government agency securities	$ 19,642	$ (174)	$	$	$ 19,642	$ (174)
Residential mortgage-backed securities	972	(3)	68,610	(4,686)	69,582	(4,689)
Trust preferred securities	1,244	(171)	34,543	(14,171)	35,787	(14,342)
Corporate and other debt securities	3,365	(31)	6,964	(3,010)	10,329	(3,041)
Equity securities	435	(248)	12,724	(2,453)	13,159	(2,701)
Total	$ 25,658	$ (627)	$ 122,841	$ (24,320)	$ 148,499	$ (24,947)
December 31, 2009						
U.S. Treasury securities	$ 276,285	$ (1,144)	$	$	$ 276,285	$ (1,144)
Obligations of states and political subdivisions	395	(4)	1,688	(31)	2,083	(35)
Residential mortgage-backed securities	11,318	(245)	122,031	(9,973)	133,349	(10,218)
Trust preferred securities			34,622	(20,341)	34,622	(20,341)
Corporate and other debt securities	1,878	(57)	6,296	(3,677)	8,174	(3,734)
Equity securities			35,901	(4,242)	35,901	(4,242)
Total	$ 289,876	$ (1,450)	$ 200,538	$ (38,264)	$ 490,414	$ (39,714)

The total number of security positions in the securities available for sale portfolio in an unrealized loss position at September 30, 2010 was 45 as compared to 82 at December 31, 2009.

Within the residential mortgage-backed securities category of the available for sale portfolio, substantially all of the unrealized losses relate to 9 individual private label mortgage-backed securities. Of these 9 securities, 3 securities had an investment grade rating and 6 had a non-investment grade rating at September 30, 2010. Four of the private label mortgage-backed securities with unrealized losses were other-than-temporarily impaired in prior periods of 2009 and 2010 with no additional credit impairment charges recognized during the quarter ended September 30, 2010. See the Other-Than-Temporary Impairment Analysis section below.

At September 30, 2010, the unrealized losses for trust preferred securities in the table above relate to 11 single-issuer bank issued trust preferred securities and 3 pooled trust preferred securities. The majority of the unrealized loss was attributable to three pooled trust preferred securities with an amortized cost of $23.4 million and a fair value of $10.5 million. One of the three pooled trust preferred securities with an unrealized loss of $10.0 million had an investment grade rating at September 30, 2010. The two other pooled trust preferred securities were other-than-temporarily impaired in 2009 and the first quarter of 2010 with no additional credit impairment charges recognized during the quarter ended September 30, 2010. At September 30, 2010, 10 of the single-issuer trust preferred securities classified as available for sale had investment grade ratings and 1 had a non-investment grade rating. 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 September 30, 2010, relate mainly to one investment rated bank issued corporate bond with a $10.0 million amortized cost and a $3.0 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 $9.7 million amortized cost and a $2.3 million unrealized loss. At September 30, 2010, 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 September 30, 2010 represents an other-than-temporary impairment, except for the previously impaired securities discussed above, as management mainly attributes

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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 September 30, 2010, 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 $554 million.

The contractual maturities of investments in debt securities available for sale at September 30, 2010, 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.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 66,773	$ 67,067
Due after one year through five years	120,621	123,419
Due after five years through ten years	43,223	45,894
Due after ten years	108,803	93,279
Residential mortgage-backed securities	680,105	713,536
Equity securities	48,097	46,408
Total investment securities available for sale	$ 1,067,622	$ 1,089,603

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 was 3.10 years at September 30, 2010.

Other-Than-Temporary Impairment Analysis

In assessing the level of other-than-temporary impairment attributable to credit loss, 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 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. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the individual loans collateralizing the security and determining a range of expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed at September 30, 2010. Generally, the range of expected constant default rates (CDR), loss severity rates and constant prepayment rates (CPR) used in the modeling scenarios for the 20 private label mortgage-backed securities were as follows: a CDR of 0 percent to 15.8 percent, a loss severity rate of 23.9 percent to 57.2 percent, and a CPR of 7.4 percent to 34.4 percent.

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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 previously impaired, including additional estimated credit losses recognized in the first quarter of 2010. The expected cash flows from these securities did not result in additional estimated credit losses at September 30, 2010.

The perpetual preferred 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 September 30, 2010. 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 and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Available for sale				
Residential mortgage-backed securities	$	$ 743	$ 2,265	$ 5,348
Trust preferred securities			2,377	
Net impairment losses on securities recognized in earnings	$	$ 743	$ 4,642	$ 5,348

For the nine months ended September 30, 2010, Valley recognized impairment charges on a total of five individual private label mortgage-backed securities and two pooled trust preferred securities. All of these securities, with the exception of one security, were found to be initially impaired in 2009. At September 30, 2010, the five private label mortgage-backed securities had a combined amortized cost of $54.4 million and fair value of $52.0 million, while the two impaired pooled trust preferred securities had a combined amortized cost and fair value of $6.2 million and $3.2 million, respectively, after recognition of all credit impairments.

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 and nine months ended September 30, 2010 and 2009 were as follows:

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	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)			
Sales transactions:				
Gross gains	$	$	$ 4,634	$ 258
Gross losses			(96)	(36)
			4,538	222
Maturities and other securities transactions:				
Gross gains	120	7	172	58
Gross losses	(8)	(12)	(79)	(34)
	112	(5)	93	24
Gains on securities transactions, net	$ 112	$ (5)	$ 4,631	$ 246

During the nine months ended September 30, 2010, Valley recognized net gains on securities transactions of $4.6 million mainly due to the sale of approximately $307 million of U.S. Treasury securities classified as available for sale during the first six months of 2010.

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:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)			
Balance, beginning of the period	$ 10,660	$ 5,154	$ 6,119	$ 549
Additions:				
Initial credit impairments			124	2,171
Subsequent credit impairments		743	4,518	3,177
Reductions:				
Accretion of credit loss impairment due to an increase in expected cash flows	(43)	(295)	(144)	(295)
Balance, end of the period	$ 10,617	$ 5,602	$ 10,617	$ 5,602

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 impairment 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 the cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

Trading Securities

The fair value of trading securities (consisting of 4 single-issuer bank trust preferred securities) was $32.1 million at September 30, 2010 and $33.0 million at December 31, 2009. Interest income on trading securities totaled $642 thousand and $666 thousand for the three months ended September 30, 2010 and 2009, respectively, and $1.9 million and $3.2 million for the nine months ended September 30, 2010 and 2009, respectively.

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Note 9. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill as allocated to our business segments, or reporting units thereof, for goodwill impairment analysis were:

	Business Segment / Reporting Unit*:				
	Wealth Management	Consumer Lending	Commercial Lending (in thousands)	Investment Management	Total
Balance at December 31, 2009	$ 18,978	$ 93,805	$ 107,969	$ 75,672	$ 296,424
Goodwill from business combinations	54	5,194	9,218	5,085	19,551
Balance at September 30, 2010	$ 19,032	$ 98,999	$ 117,187	$ 80,757	$ 315,975

* Valley s Wealth Management Division is comprised of trust, asset management, and insurance services. This reporting unit is included in the Consumer Lending segment for financial reporting purposes.

During 2010, Valley recorded $19.5 million in goodwill resulting from the LibertyPointe Bank and The Park Avenue Bank FDIC-assisted transactions and $54 thousand in goodwill from an earn-out payment resulting from an acquisition by Valley in 2006. The earn-out payment was based upon predetermined profitability targets in accordance with the merger agreement. There was no impairment of goodwill during the three and nine months ended September 30, 2010 and 2009.

The following table summarizes other intangible assets as of September 30, 2010 and December 31, 2009:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
		(in thousands)		
September 30, 2010				
Loan servicing rights	$ 72,449	$ (60,815)	$ (2,108)	$ 9,526
Core deposits	27,144	(16,454)		10,690
Other	2,796	(1,556)		1,240
Total other intangible assets	$ 102,389	$ (78,825)	$ (2,108)	$ 21,456
December 31, 2009				
Loan servicing rights	$ 70,885	$ (59,163)	$ (612)	$ 11,110
Core deposits	25,584	(13,859)		11,725
Other	4,057	(2,587)		1,470

Total other intangible assets	$ 100,526	$ (75,609)	$ (612)	$ 24,305

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. For the three and nine months ended September 30, 2010, Valley recognized impairment charges, net of recoveries on its loan servicing rights totaling $810 thousand and $1.5 million, respectively and $32 thousand and $486 thousand for the three and nine months ended September 30, 2009, respectively.

Core deposit intangibles 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 consists of customer lists and covenants not to compete, which are amortized over their expected lives using a straight line method and have a weighted average amortization period of 14 years. Valley s core deposits intangibles resulting from the two FDIC-assisted transactions had a carrying value of $1.2 million at September 30, 2010. Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three and nine months ended September 30, 2010 and 2009.

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The following presents the estimated future amortization expense of other intangible assets for the remainder of 2010 through 2014:

	Loan Servicing Rights	Core Deposits (in thousands)	Other
2010	$ 779	$ 858	$ 75
2011	2,354	3,051	268
2012	1,752	2,455	251
2013	1,350	1,858	148
2014	1,001	1,262	84

Valley recognized amortization expense on other intangible assets, and net impairment charges on loan servicing rights, totaling $2.6 million and $1.7 million for the three months ended September 30, 2010 and 2009, respectively and $6.7 million and $5.5 million for the nine months ended September 30, 2010 and 2009, respectively.

Note 10. 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.

The following table sets forth the components of net periodic pension expense related to the qualified and non-qualified plans for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Service cost	$ 1,450	$ 1,347	$ 4,350	$ 3,955
Interest cost	1,434	1,248	4,300	3,796
Expected return on plan assets	(1,582)	(1,672)	(4,745)	(4,530)
Amortization of prior service cost	160	149	480	447
Amortization of actuarial loss	276	190	827	644
Total net periodic pension expense	1,738	1,262	5,212	4,312
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of prior service cost	(160)	(149)	(480)	(447)

Amortization of actuarial loss	(276)	(190)	(827)	(644)
	(436)	(339)	(1,307)	(1,091)
Total amount recognized in net periodic benefit cost and other comprehensive income, pre-tax	$ 1,302	$ 923	$ 3,905	$ 3,221

The fair value of qualified plan assets increased approximately $6.3 million, or 8.5 percent to $80.3 million at September 30, 2010 from $74.0 million at December 31, 2009. Valley contributed $5.0 million to the qualified plan during the second quarter of 2010. Valley does not expect to make any additional contributions during the remainder of 2010.

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Note 11. 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 6.7 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 awards during the third quarter of 2010. For the nine months ended September 30, 2010, Valley awarded restricted stock totaling approximately one thousand shares. As of September 30, 2010, there were 6.6 million shares of common stock 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 $784 thousand and $951 thousand for the three months ended September 30, 2010 and 2009, respectively and $2.6 million and $3.0 million for the nine months ended September 30, 2010 and 2009, respectively. The fair value of stock awards are expensed over the vesting period. As of September 30, 2010, the unrecognized amortization expense for all stock-based employee compensation totaled approximately $4.4 million and will be recognized over an average remaining vesting period of approximately 2.0 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. During the three and nine months ended September 30, 2010, there were 17 thousand shares granted. There were approximately 95 thousand shares outstanding under this plan and 254 thousand shares available for issuance as of September 30, 2010.

Note 12. Guarantees

Guarantees that have been entered into by Valley include standby letters of credit of $224.7 million as of September 30, 2010. 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, $149.2 million, or 66% 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 September 30, 2010, Valley had an $818 thousand liability related to the standby letters of credit.

Note 13. Junior Subordinated Debentures Issued To Capital Trusts

Valley established VNB Capital Trust I, a statutory trust, for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trust to purchase an equivalent amount of junior subordinated debentures of

Valley. GCB Capital Trust III was established by Greater Community prior to Valley s acquisition of Greater Community, and the junior subordinated notes issued by Greater Community to GCB Capital Trust III were assumed by Valley upon completion of the acquisition on July 1, 2008. The junior subordinated debentures, the sole assets of the trusts, are unsecured obligations of Valley, and are subordinate and junior in right of

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payment to all present and future senior and subordinated indebtedness and certain other financial obligations of Valley. Valley wholly owns all of the common securities of each trust. The trust preferred securities qualify, and are treated by Valley, as Tier I regulatory capital.

Valley elected to measure the junior subordinated debentures issued to VNB Capital Trust I at fair value, with changes in fair value recognized as charges or credits to current earnings. Net trading losses included non-cash charges of $2.1 million and $4.0 million for the three and nine months ended September 30, 2010, respectively. For the comparable three and nine months ended September 30, 2009, net trading losses included non-cash charges of $2.8 million and $13.5 million, respectively, for the change in the fair value of the junior subordinated debentures issued to VNB Capital Trust I.

The table below summarizes the outstanding junior subordinated debentures and the related trust preferred securities issued by each trust as of September 30, 2010:

	September 30, 2010	
	VNB Capital Trust I	GCB Capital Trust III
	($ in thousands)	
Junior Subordinated Debentures		
Carrying value (1)	$ 159,850	$ 25,205
Contractual principal balance	157,024	24,743
Annual interest rate (2)	7.75%	6.96%
Stated maturity date	December 15, 2031	July 30, 2037
Initial call date	November 7, 2006	July 30, 2017
Trust Preferred Securities		
Face value	$ 152,313	$ 24,000
Annual distribution rate (2)	7.75%	6.96%
Issuance date	November 2001	July 2007
Distribution dates (3)	Quarterly	Quarterly

(1) The carrying value for GCB Capital Trust III includes an unamortized purchase accounting premium of $462 thousand.
(2) Interest on GCB Capital Trust III is fixed until July 30, 2017, then resets to 3-month LIBOR plus 1.4 percent. The annual interest rate excludes the effects of the purchase accounting adjustments.
(3) All cash distributions are cumulative.

The trusts ability to pay amounts due on the trust preferred securities is solely dependent upon Valley making payments on the related junior subordinated debentures. Valley s obligation under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitutes a full and unconditional guarantee by Valley of the trusts obligations under the trust preferred securities issued. Under the junior subordinated debenture agreements, Valley has the right to defer payment of interest on the debentures and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. Currently, Valley has no intention to exercise its right to defer interest payments on the debentures.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at the stated maturity date or upon an earlier call date for redemption at par. The junior subordinated debentures issued to VNB Capital Trust I are currently callable by Valley. No debentures were called or redeemed during the three and nine months ended September 30, 2010.

The trust preferred securities described above are included in Valley s consolidated Tier 1 capital and total capital at September 30, 2010 and December 31, 2009. In March 2005, the Board of Governors of the Federal Reserve System issued a final rule allowing bank holding companies to continue to include qualifying trust preferred capital securities in their Tier 1 capital for regulatory capital purposes, subject to a 25 percent limitation to all core (Tier 1) capital elements, net of goodwill less any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the limit could be included in total capital, subject to restrictions. The final rule originally

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provided a five-year transition period, ending June 30, 2009, for application of the aforementioned quantitative limitation, however, in March 2009, the Board of Governors of the Federal Reserve Board voted to delay the effective date until March 2011. As of September 30, 2010 and December 31, 2009, 100 percent of the trust preferred securities qualified as Tier I capital under the final rule adopted in March 2005.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, (the Act) was signed into law on July 21, 2010. Under the Act, Valley s outstanding trust preferred securities will continue to count as Tier I capital but Valley will be unable to issue replacement or additional trust preferred securities which would count as Tier I capital.

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 principally 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 primarily uses interest rate caps as part of its interest rate risk management strategy. 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 September 30, 2010, Valley had two interest rate caps with an aggregate notional amount of $100 million, strike rates of 2.50 percent and 2.75 percent, and a maturity date of May 1, 2013. Hedge accounting was not applied to these interest rate caps from January 1, 2009 until February 20, 2009 due to the termination of the original hedging relationship in the fourth quarter of 2008. On February 20, 2009, Valley re-designated the interest rate caps to hedge the variable cash flows associated with customer repurchase agreements and money market deposit accounts products that have variable interest rate, based on the federal funds rate. The change in fair value of these derivatives, while they were not designated as hedges, was a $369 thousand gain, which is included in other non-interest income for the nine months ended September 30, 2009.

At September 30, 2010, Valley also had two interest rate caps designated as cash flow hedges, to reduce its exposure to movements in interest rates above the caps strike rate based on the U.S. prime interest rate (as published in The Wall Street Journal). The interest rate caps have an aggregate notional amount of $100 million, strike rates of 6.00 percent and 6.25 percent, and a maturity date of July 15, 2015. The caps are 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 Hedge of a Fixed Rate Asset. Valley is exposed to changes in the fair value of certain of its fixed rate assets 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. As of September 30, 2010, Valley had one interest rate swap with a notional amount of $9.1 million.

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.

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Derivatives not Designated as Hedges. Valley does not use derivatives for speculative purposes. 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. During the first quarter of 2009, Valley entered into and terminated three interest rate swaps not designated as hedges to potentially offset the change in market fair value of certain trading securities. During the fourth quarter of 2008, as previously mentioned above, two interest rate caps (due to mismatches in index) no longer qualified for hedge accounting but were subsequently re-designated as cash flow hedges during February 2009. Valley had no derivatives that were not designated in hedging relationships during the nine months ended September 30, 2010.

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 September 30, 2010	Fair Value December 31, 2009
		(in thousands)	
Asset Derivatives			
Cash flow hedge interest rate caps on short-term borrowings and deposit accounts	Other Assets	$ 1,135	$ 7,124
Total derivatives designated as hedging instruments		$ 1,135	$ 7,124
Liability Derivatives			
Fair value hedge commercial loan interest rate swap	Other Liabilities	$ 1,937	$ 1,018
Total derivatives designated as hedging instruments		$ 1,937	$ 1,018

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)			
Interest rate caps on short-term borrowings and deposit accounts:				
Amount of loss reclassified from accumulated other comprehensive income to interest expense on short-term borrowings	$ (525)	$ (133)	$ (1,401)	$ (261)
Amount of (loss) gain recognized in other comprehensive income	(992)	(1,126)	(5,749)	2,776

Valley recognized a net loss of $56 thousand and $240 thousand in other expense for hedge ineffectiveness on the cash flow hedge interest rate caps for the three and nine months ended September 30, 2010, respectively and a $68 thousand net loss in other expense and $134 thousand net gain in other income for the three and nine months ended September 30, 2009, respectively. The accumulated net after-tax loss related to effective cash flow hedges included in accumulated other comprehensive loss totaled $5.2 million and $2.7 million at September 30, 2010 and December 31, 2009, respectively.

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 $2.4 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Derivative commercial loan interest rate swap:				
Interest income Interest and fees on loans	$ (279)	$ (214)	$ (919)	$ 684
Hedged item commercial loan:				
Interest income Interest and fees on loans	$ 279	$ 214	$ 919	$ (684)

Gains included in the consolidated statements of income related to derivative instruments not designated as hedging instruments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Non-designated hedge interest rate derivatives				
Trading gains, net	$	$	$	$ 1,984
Other non-interest income				369

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 obligations. As of September 30, 2010, Valley was in compliance with the provisions of its derivative counterparty agreements.

As of September 30, 2010, 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 approximately $2.0 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties. At September 30, 2010, neither Valley nor its counterparties have exceeded such minimum thresholds and no collateral has been assigned or posted.

Note 15. Business Segments

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

Note 16. Subsequent Events

In October 2010, Valley sold approximately $83 million of conforming residential mortgage loans to Fannie Mae. These loans had fixed terms of 15 and 20 years and an aggregate weighted average interest rate of 5.22 percent. The loans were transferred from the loan portfolio to the loans held for sale during the third quarter of 2010. The sale generated a $3.9 million pre-tax gain, which will be recognized in the fourth quarter of 2010.

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In October 2010, Valley entered into two forward starting interest rate swaps to hedge the change in cash flows associated with certain prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts, which have variable interest rates indexed to the prime rate. The cash flow hedge interest rate swaps, with a total notional amount of $200 million, will require the payment by Valley of 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.

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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, 2009 and Part II Item 1A of this report include, but are not limited to:

- a continued or unexpected decline in the 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;

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 the LibertyPointe Bank and The Park Avenue Bank acquisitions will not be fully realized;
- expected cost synergies and other benefits from our acquisition activities might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters may arise; 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

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

Valley s accounting policies are fundamental to understanding management s discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements included in Valley s Annual Report on Form 10-K for the year ended December 31, 2009. 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 could be most subject to revision as new information becomes available. Management has reviewed the application of these policies with the Audit and Risk Committee of Valley s Board of Directors.

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

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

The allowance for loan losses consists of the following: (i) specific reserves for individually impaired credits, (ii) reserves for classified, or higher risk rated, loans, and (iii) reserves for non-classified loans. The reserves on classified and non-classified loans also include reserves based on general economic conditions and other qualitative risk factors both internal and external to Valley, including changes in loan portfolio volume, the composition and concentrations of credit, new market initiatives, and the impact of competition on loan structuring and pricing. Note 1 to the consolidated financial statements included in Valley s Annual Report on Form 10-K for the year ended December 31, 2009 describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in this MD&A.

Security Valuations and Impairments. Management utilizes various inputs to determine the fair value of its investment portfolio. To the extent they exist, unadjusted quoted market prices in active markets (Level 1) or quoted prices on similar assets (Level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and liquid markets, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (Level 3). Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. A significant degree of judgment is involved in valuing investments using Level 3 inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations. See Note 6 to the consolidated financial statements for more details on our security valuation techniques.

Management must periodically evaluate if unrealized losses (as determined based on the securities valuation methodologies discussed above) on individual securities classified as held to maturity or available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment s book value is greater than fair value, the severity of the investment s decline, any credit deterioration of the investment, whether management intends to sell the security, and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Debt investment securities deemed to be other-than-temporarily impaired are written down by the impairment related to the estimated credit loss and the non-credit related impairment is recognized in other comprehensive income. See the Investment Securities Portfolio section below and Notes 6 and 8 to the consolidated financial statements for additional information.

Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, Business Combinations. Goodwill totaling $316.0 million at September 30, 2010 is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Other intangible assets totaling $21.5 million at September 30, 2010 are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Such evaluation of other intangible assets is based on undiscounted cash flow projections. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities.

The goodwill impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

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

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact our consolidated financial condition or results of operations.

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In connection with determining our income tax provision, we maintain a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. Periodically, we evaluate each of our tax positions and strategies to determine whether the reserve continues to be appropriate. Notes 1 and 14 to the consolidated financial statements in Valley s Annual Report on Form 10-K for the year ended December 31, 2009 and the Income Taxes section in this MD&A include additional discussion on the accounting for income taxes.

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.

Recent Legislative Developments

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

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees;
- After a three-year phase-in period which begins January 1, 2013, removes trust preferred securities as a permitted component of Tier 1 capital for bank holding companies with assets of $15 billion or more, however, bank holding companies with assets of less than $15 billion (including Valley) will be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital;
- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15 percent to 1.35 percent and changes the basis for determining FDIC premiums from deposits to assets;
- Creates a new consumer financial protection bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws;
- Provides for new disclosure and other requirements relating to executive compensation and corporate governance;
- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;
- Provides mortgage reform provisions regarding a customer s ability to repay, requiring the ability to repay for variable-rate loans to be determined by using the maximum rate that will apply during the first five years of the loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;
- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

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

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

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

Executive Summary

Net income for the third quarter of 2010 was $32.6 million, or $0.20 per diluted common share, compared to $25.6 million, adjusted for preferred dividends and accretion of $6.0 million, or $0.17 per diluted common share for the third quarter of 2009. The increase in net income was largely due to: (i) a $3.4 million decline in the provision for credit losses as credit quality stabilized somewhat during the third quarter of 2010 and net loan charge-offs were $3.9 million less than the third quarter of 2009, (ii) a $2.7 million increase in net interest income mainly driven by a 34 basis point decline in the cost of average interest bearing liabilities and a reduction in high cost time deposit balances, partially offset by (iii) a $5.1 million increase in non-interest expense caused by increases in salary and employee benefits and net occupancy and equipment expense related to the FDIC-assisted acquisitions of LibertyPointe Bank and The Park Avenue Bank in March 2010, as well as from de novo branch openings over the twelve month period ended September 30, 2010.

Valley s credit quality remains both stable and, we believe, more resilient than many of its competitors. Total loans past due in excess of 30 days decreased 0.01 percent to 1.70 percent of our total loan portfolio at September 30, 2010 as compared to 1.71 percent at June 30, 2010 as total loan delinquencies decreased by $891 thousand. However, non-accrual loans increased to $105.6 million at September 30, 2010 compared to $103.5 million at June 30, 2010 largely due to the migration of past due construction loans and residential mortgage loans into this delinquency category. Although the timing of collection is uncertain for non-accrual loans, management believes most of these loans are well secured and, largely collectible based, in part, on our quarterly review of impaired loans. Our lending strategy is based on underwriting standards designed to maintain high credit quality; however, due to the potential for future credit deterioration from a weak economy, management cannot provide assurance that our loan portfolio performance will not decline from the levels reported as of September 30, 2010. See Non-performing Assets section at page 61 for further analysis of our credit quality.

Our residential mortgage loan foreclosure activity remains low due to the nominal amount of individual loan delinquencies within this portfolio. We evaluated our foreclosure documentation procedures, given the recent announcements made by other financial institutions regarding their foreclosure activities. The results of our review indicate that our procedures for reviewing and validating the information in our documentation are sound and we believe our foreclosure affidavits are accurate.

Total loans remained unchanged at $9.4 billion at September 30, 2010 compared to June 30, 2010. In general, new loan demand remained persistently weak during the third quarter of 2010. We believe much of this weakness is due to apprehension among businesses primarily in our New Jersey markets regarding expansion of their operations or entering new ventures while the economy s direction is uncertain. However, commercial and industrial loans increased $63.9 million, or 14.5 percent on an annualized basis during the third quarter of 2010 from the second quarter of 2010 mainly due to some new customer relationships and higher line of credit usage by our existing customers, both concentrated in our New York metropolitan markets.

Residential mortgage loan activity remained brisk as we originated over $280 million in new and refinanced residential mortgage loans during the three months ended September 30, 2010. Our residential originations increased as compared to the second quarter of 2010 due to the continued low level of interest rates and our successful one price refinancing program with total closing costs as low as $499 including title insurance fees. We transferred $83 million in conforming residential mortgage loans to loans held for sale during the third quarter of 2010 upon management s decision to sell such loans to Fannie Mae. Management believes these loans with 15 and 20 year fixed terms and an aggregate weighted average interest rate of 5.22 percent are likely to refinance in the near term due to the current low interest rate environment. The sale closed in October 2010 and resulted in a pre-tax gain of approximately $3.9 million which will be recognized in the fourth quarter of 2010.

Total deposits decreased $151.7 million to approximately $9.3 billion at September 30, 2010 from June 30, 2010 as we continue to keep interest rates low on most interest bearing deposit products in response to the low level of loan demand caused by the economy. During the quarter ended September 30, 2010, time deposits declined $211.0 million due to run-off of higher cost maturing certificates of deposit. However, savings, NOW, and money market deposits increased $66.8 million as compared to June 30, 2010 largely due to higher municipal deposit balances.

Short-term borrowings increased $146.8 million to $331.3 million at September 30, 2010 from June 30, 2010 due to increases of $100 million and $50 million in overnight FHLB advances and Federal funds purchased, respectively, due to normal temporary liquidity needs caused by daily cash activity.

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For the three months ended September 30, 2010, we reported an annualized return on average shareholders equity (ROE) of 10.24 percent and an annualized return on average assets (ROA) of 0.93 percent which includes intangible assets. Our annualized return on average tangible shareholders equity (ROATE) was 13.86 percent for the third quarter of 2010. The comparable ratios for the third quarter of 2009 were an annualized ROE of 9.35 percent, an annualized ROA of 0.89 percent, and an annualized ROATE of 12.25 percent. 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 $2.1 million ($1.4 million, net of tax) for the third quarter of 2010, as compared to a non-cash charge of $2.8 million ($1.8 million, net of tax) for the same period of 2009 due to the change in fair value of the debentures.

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in thousands)			
Net income	$ 32,639	$ 31,582	$ 93,012	$ 83,963
Average shareholders equity	1,274,742	1,351,745	1,264,926	1,359,440
Less: Average goodwill and other intangible assets	(333,091)	(320,284)	(329,647)	(319,720)
Average tangible shareholders equity	$ 941,651	$ 1,031,461	$ 935,279	$ 1,039,720
Annualized ROATE	13.86%	12.25%	13.26%	10.77%

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.

Net Interest Income

Net interest income on a tax equivalent basis was $119.2 million for the third quarter of 2010, a $2.8 million increase from the third quarter of 2009. The increase from the third quarter of 2009 was mostly attributable to lower interest expense caused by maturing high cost time deposits and lower rates on all interest bearing deposit accounts, partially offset by a decrease in interest income from loans due to lower loan volumes caused by the economy and lower yields on new investment securities.

For the third quarter of 2010, average loans and average federal funds sold decreased by $106.7 million and $205.1 million, respectively, while average investment securities increased $50.6 million as compared to the third quarter of 2009. Compared to the second quarter of 2010, average loans decreased by $69.6 million primarily due to a slowdown in most new loan activity caused by the weak economy. Average investment securities also declined $42.0 million as compared to the second quarter of 2010 mainly due to normal principal paydowns on securities and a lower level of reinvestment of such funds in securities by management due to the current level of interest rates.

Average interest bearing liabilities for the third quarter of 2010 decreased $110.5 million, or 1.1 percent compared with the same quarter of 2009 mainly due to the run-off of excess liquidity caused by lower loan demand. Compared to the second quarter of 2010, average interest bearing liabilities decreased $128.1 million or 1.2 percent during the third quarter of 2010. Average time deposits declined $265.9 million from the second quarter of 2010 mainly due to continued run-off of maturing high cost time deposits and the early redemption of time deposits assumed in FDIC-assisted transactions throughout the second quarter of 2010. Average savings, NOW, and money markets increased $126.3 million from the second quarter of 2010 due to, in part, higher municipal deposit balances.

Interest on loans, on a tax equivalent basis, increased $1.3 million, or 1.0 percent for the third quarter of 2010 compared to the second quarter of 2010 due to a 10 basis point increase in the yield on average loans caused, in part, by discount accretion recognized on covered loans acquired in the FDIC-assisted acquisitions of LibertyPointe Bank and The Park Avenue Bank in the first quarter of 2010, partially offset by the aforementioned decline in average loan balances.

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Interest income from taxable investments, on a tax equivalent basis decreased $2.1 million or 6.4 percent for the three months ended September 30, 2010 compared to the second quarter of 2010 mainly attributable to a decrease in yield resulting from normal paydowns of higher yielding securities which were partially reinvested in shorter duration, lower yielding taxable and non-taxable securities.

Interest expense decreased $1.3 million for the third quarter of 2010 as compared to the second quarter of 2010 resulting mainly from a 3 basis point decline in the cost of time deposits and a decrease in average time deposits caused by maturing high cost certificates of deposit, as well as a 2 basis point decline in the cost of savings, NOW, and money market accounts.

The net interest margin on a tax equivalent basis was 3.78 percent for the third quarter of 2010, an increase of 17 basis points from the third quarter of 2009, and an increase of 6 basis points from 3.72 percent for the linked quarter ended June 30, 2010. The yield on average interest earning assets increased by four basis points on a linked quarter basis due to, in part, discount accretion recognized on covered loans and improvement in the performance of the loan portfolio quarter over quarter. The cost of average interest bearing liabilities declined three basis points from the second quarter of 2010 mainly due to a three basis point decrease in the cost of average time deposits due to the run-off of higher cost deposits, and a two basis point decline in the cost of average savings, NOW, and money market accounts mainly caused by a change in the mix among these deposit account types.

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The following table reflects the components of net interest income for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009:

Quarterly Analysis of Average Assets, Liabilities and Shareholders Equity and

Net Interest Income on a Tax Equivalent Basis

	September 30, 2010			Three Months Ended June 30, 2010			September 30, 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest ($ in thousands)	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Loans (1)(2)	$ 9,474,723	$ 137,744	5.82%	$ 9,544,364	$ 136,422	5.72%	$ 9,581,388	$ 139,509	5.82%
Taxable investments (3)	2,610,933	30,040	4.60	2,670,495	32,094	4.81	2,731,907	35,163	5.15
Tax-exempt investments (1)(3)	433,559	4,219	3.89	415,978	3,996	3.84	262,016	3,714	5.67
Federal funds sold and other interest bearing deposits	96,341	61	0.25	106,461	76	0.29	301,460	198	0.26
Total interest earning assets	12,615,556	172,064	5.46	12,737,298	172,588	5.42	12,876,771	178,584	5.55
Allowance for loan losses	(113,115)			(106,899)			(102,761)		
Cash and due from banks	276,044			308,307			248,159		
Other assets	1,255,306			1,249,707			1,112,725		
Unrealized gains (losses) on securities available for sale, net	16,868			12,268			(1,351)		
Total assets	$ 14,050,659			$ 14,200,681			$ 14,133,543		
Liabilities and shareholders equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$ 4,270,386	$ 4,711	0.44%	$ 4,144,113	$ 4,813	0.46%	$ 3,961,327	$ 6,638	0.67%
Time deposits	2,761,018	13,233	1.92	3,026,929	14,720	1.95	3,111,150	19,833	2.55
Total interest bearing deposits	7,031,404	17,944	1.02	7,171,042	19,533	1.09	7,072,477	26,471	1.50
Short-term borrowings	198,938	334	0.67	179,677	330	0.73	198,459	487	0.98
Long-term borrowings (4)	3,072,556	34,574	4.50	3,080,261	34,298	4.45	3,142,504	35,255	4.49
Total interest bearing liabilities	10,302,898	52,852	2.05	10,430,980	54,161	2.08	10,413,440	62,213	2.39
Non-interest bearing deposits	2,422,976			2,441,776			2,269,289		

Other liabilities	50,043			63,292			99,069		
Shareholders equity	1,274,742			1,264,633			1,351,745		
Total liabilities and shareholders equity	$ 14,050,659			$ 14,200,681			$ 14,133,543		
Net interest income/interest rate spread (5)		$ 119,212	3.41%		$ 118,427	3.34%		$ 116,371	3.16%
Tax equivalent adjustment		(1,478)			(1,401)			(1,303)	
Net interest income, as reported		$ 117,734			$ 117,026			$ 115,068	
Net interest margin (6)			3.73%			3.68%			3.57%
Tax equivalent effect			0.05%			0.04%			0.04%
Net interest margin on a fully tax equivalent basis (6)			3.78%			3.72%			3.61%

(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 reflects the components of net interest income for the nine months ended September 30, 2010 and 2009:

Analysis of Average Assets, Liabilities and Shareholders Equity and

Net Interest Income on a Tax Equivalent Basis

	Nine Months Ended					
	September 30, 2010			September 30, 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)					
Assets						
Interest earning assets:						
Loans (1)(2)	$ 9,480,609	$ 409,537	5.76%	$ 9,787,331	$ 424,729	5.79%
Taxable investments (3)	2,666,779	94,014	4.70	2,682,465	108,637	5.40
Tax-exempt investments (1)(3)	407,152	12,132	3.97	253,696	11,039	5.80
Federal funds sold and other interest bearing deposits	145,014	291	0.27	314,993	646	0.27
Total interest earning assets	12,699,554	515,974	5.42	13,038,485	545,051	5.57
Allowance for loan losses	(108,375)			(98,407)		
Cash and due from banks	305,431			244,798		
Other assets	1,218,381			1,113,045		
Unrealized gains (losses) on securities available for sale, net	10,728			(26,162)		
Total assets	$ 14,125,719			$ 14,271,759		
Liabilities and shareholders equity						
Interest bearing liabilities:						
Savings, NOW and money market deposits	$ 4,162,775	$ 14,384	0.46%	$ 3,744,115	$ 18,321	0.65%
Time deposits	2,966,788	43,551	1.96	3,390,055	76,118	2.99
Total interest bearing deposits	7,129,563	57,935	1.08	7,134,170	94,439	1.77
Short-term borrowings	190,395	995	0.70	289,566	3,617	1.67
Long-term borrowings (4)	3,093,504	103,181	4.45	3,159,934	105,376	4.45
Total interest bearing liabilities	10,413,462	162,111	2.08	10,583,670	203,432	2.56
Non-interest bearing deposits	2,393,851			2,229,186		
Other liabilities	53,480			99,463		
Shareholders equity	1,264,926			1,359,440		
Total liabilities and shareholders equity	$ 14,125,719			$ 14,271,759		
Net interest income/interest rate spread (5)		$ 353,863	3.34%		$ 341,619	3.01%
Tax equivalent adjustment		(4,252)			(3,874)	
Net interest income, as reported		$ 349,611			$ 337,745	

Net interest margin (6)	3.67%	3.45%
Tax equivalent effect	0.05%	0.04%
Net interest margin on a fully tax equivalent basis (6)	3.72%	3.49%

(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 September 30, 2010 Compared with September 30, 2009			Nine Months Ended September 30, 2010 Compared with September 30, 2009		
	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate	Total Change
			(in thousands)			
Interest Income:						
Loans *	$ (1,551)	$ (214)	$ (1,765)	$ (13,257)	$ (1,935)	$ (15,192)
Taxable investments	(1,508)	(3,615)	(5,123)	(632)	(13,991)	(14,623)
Tax-exempt investments *	1,916	(1,411)	505	5,294	(4,201)	1,093
Federal funds sold and other interest bearing deposits	(130)	(7)	(137)	(341)	(14)	(355)
Total decrease in interest income	(1,273)	(5,247)	(6,520)	(8,936)	(20,141)	(29,077)
Interest Expense:						
Savings, NOW and money market deposits	485	(2,412)	(1,927)	1,883	(5,820)	(3,937)
Time deposits	(2,059)	(4,541)	(6,600)	(8,632)	(23,935)	(32,567)
Short-term borrowings	1	(154)	(153)	(972)	(1,650)	(2,622)
Long-term borrowings and junior subordinated debentures	(787)	106	(681)	(2,216)	21	(2,195)
Total decrease in interest expense	(2,360)	(7,001)	(9,361)	(9,937)	(31,384)	(41,321)
Total increase in net interest income	$ 1,087	$ 1,754	$ 2,841	$ 1,001	$ 11,243	$ 12,244

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

Non-Interest Income

The following table presents the components of non-interest income for each of the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
		(in thousands)		
Trust and investment services	$ 1,930	$ 1,811	$ 5,752	$ 5,048
Insurance commissions	2,561	2,504	8,417	8,074
Service charges on deposit accounts	6,562	6,871	19,487	20,071
Gains (losses) on securities transactions, net	112	(5)	4,631	246
Net impairment losses on securities recognized in earnings		(743)	(4,642)	(5,348)

Trading (losses) gains, net:				
Trading securities	(517)	(648)	(862)	4,618
Junior subordinated debentures carried at fair value	(2,110)	(2,826)	(3,957)	(13,504)
Total trading losses, net	(2,627)	(3,474)	(4,819)	(8,886)
Fees from loan servicing	1,187	1,216	3,634	3,585
Gains on sales of loans, net	1,548	2,699	5,087	7,275
Gains on sales of assets, net	78	128	382	477
Bank owned life insurance (BOLI)	1,697	1,421	5,008	4,189
Other	4,280	4,650	12,544	12,943
Total non-interest income	$ 17,328	$ 17,078	$ 55,481	$ 47,674

Net gains (losses) on securities transactions increased $4.4 million for the nine months ended September 30, 2010, as compared to the same period in 2009, mainly due to the gains recognized on the sale of approximately $307 million U.S. Treasury securities classified as available for sale during the first six months in 2010.

Net impairment losses on securities decreased $743 thousand as compared to the third quarter of 2009 as no credit impairment losses on securities were recognized during the quarter ended September 30, 2010. See the Investment Securities Portfolio section below and Note 8 to the consolidated financial statements for further details on our investment securities impairment analysis.

Net trading losses decreased $4.1 million to $4.8 million for the nine months ended September 30, 2010, respectively, as compared to $8.9 million for the same period in 2009. The decrease was primarily caused by the change in the mark to market valuation of our junior subordinated debentures carried at fair value.

Net gains on sales of loans decreased $1.2 million and $2.2 million during the three and nine months ended September 30, 2010, respectively as compared to the same periods one year ago. Lower gains during the first nine months in 2010 resulted mainly from our decision to reduce our residential mortgage sales in the secondary market during the second quarter of 2010.

Non-Interest Expense

The following table presents the components of non-interest expense for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Salary and employee benefit expense	$ 43,566	$ 40,490	$ 130,774	$ 121,542
Net occupancy and equipment expense	15,241	14,452	47,270	44,347
FDIC insurance assessment	3,497	3,355	10,473	16,786
Amortization of other intangible assets	2,602	1,710	6,747	5,537
Professional and legal fees	2,460	2,056	7,192	6,295
Advertising	826	701	2,849	1,868
Other	10,755	11,128	31,969	32,569
Total non-interest expense	$ 78,947	$ 73,892	$ 237,274	$ 228,944

Non-interest expense increased $5.1 million and $8.3 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009.

Salary and employee benefits expense, and net occupancy and equipment expense increased $3.1 million and $789 thousand for the quarter ended September 30, 2010, respectively and $9.2 million and $2.9 million for the nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. These increases were in part due to additional expenses related to the FDIC-assisted transactions in March 2010, as well as from de novo branch openings over the twelve month period ended September 30, 2010.

Amortization of other intangible assets increased $892 thousand as compared to the quarter ended September 30, 2009, mainly due to $156 thousand of additional amortization expense related to core deposit intangibles acquired in the FDIC-assisted transactions in March 2010 and the recognition of a $810 thousand impairment charge on certain loan servicing rights in the third quarter of 2010 as compared to $32 thousand during the third quarter of 2009.

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Our FDIC insurance assessment decreased $6.3 million for the nine months ended September 30, 2010, respectively, as compared to the same period in 2009 as a result of a special assessment (imposed on all insured depository institutions) which totaled $6.5 million during the second quarter of 2009.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus total non-interest income. Our efficiency ratio was 58.45 percent and 58.57 percent for the three and nine months ended September 30, 2010, respectively, compared to 55.92 percent and 59.40 percent for the same periods in 2009. The higher efficiency ratio in the third quarter of 2010 was primarily due to higher non-interest expense as compared to the same period in 2009, mainly caused by an increase in net trading gains. We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. We believe this non-GAAP measure provides a meaningful comparison of our operational performance and facilitates investors assessments of business performance and trends in comparison to our peers in the banking industry.

Income Taxes

Income tax expense was $14.2 million and $14.0 million for the third quarter of 2010 and 2009, respectively. The effective tax rate for both periods was relatively unchanged at 30.3 percent for the three months ended September 30, 2010 compared to 30.6 percent for the same period of 2009.

Income tax expense was $40.4 million and $36.7 million for the nine months ended September 30, 2010 and 2009, respectively. However, the effective tax rate for both periods was relatively unchanged at 30.3 percent for the nine months ended September 30, 2010 compared to 30.4 percent for the same period of 2009.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the period in which it occurs. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management s judgment include changes in income, tax laws and regulations, and tax planning strategies. For the remainder of 2010, we anticipate that our effective tax rate will approximate 30 percent.

Business Segments

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

The following tables present the financial data for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010				
	Consumer Lending	Commercial Lending	Investment Management ($ in thousands)	Corporate and Other Adjustments	Total
Average interest earning assets	$ 3,287,499	$ 6,187,224	$ 3,140,833	$	$ 12,615,556
Income (loss) before income taxes	12,727	30,277	13,862	(10,059)	46,807
Annualized return on average interest earning assets (pre-tax)	1.55%	1.96%	1.77%	N/A	1.48%

	Three Months Ended September 30, 2009				
	Consumer Lending	Commercial Lending	Investment Management ($ in thousands)	Corporate and Other Adjustments	Total
Average interest earning assets	$ 3,656,879	$ 5,924,509	$ 3,295,383	$	$ 12,876,771
Income (loss) before income taxes	18,021	23,206	15,624	(11,319)	45,532
Annualized return on average interest earning assets (pre-tax)	1.97%	1.57%	1.90%	N/A	1.41%

Consumer Lending

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

Average assets for the three months ended September 30, 2010 decreased $369.4 million to $3.3 billion, as compared to the same period in 2009. This decrease reflects the continued decline in automobile loan volumes as a result of lower levels of consumer demand for automobile financing from creditworthy borrowers due to persistently high levels of unemployment and economic uncertainty. Income before income taxes during the three months ended September 30, 2010 decreased $5.3 million to $12.7 million, as compared to $18.0 million for the same period in 2009, as decreases in net interest income and non-interest income, and an increase in non-interest expense were only partially offset by decreases in the provision for loan losses and internal transfer expense.

Net interest income decreased $4.1 million to $31.6 million during the quarter ended September 30, 2010, as compared to $35.7 million for the same period last year. The decrease is mainly as a result of the aforementioned decline in average assets, partially offset by an increase in net interest margin.

The provision for loan losses decreased $980 thousand to $4.4 million primarily due to lower automobile loan charge-offs coupled with declines of loan balances in most consumer loan categories.

The return on average interest earning assets before income taxes decreased 42 basis points to 1.55 percent, as compared to 1.97 percent for the prior year period. The 5 basis point decrease in the interest margin was the result of a 31 basis point decrease in interest yield, partially offset by a 26 basis point decrease in costs associated with our funding sources, driven by low interest rates on most interest rate deposit products.

Commercial Lending

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

For the three months ended September 30, 2010, income before income taxes increased $7.1 million to $30.3 million compared with the prior year primarily due to an $8.6 million increase in net interest income, as a $262.7 million increase in average interest earning assets drove most of the increase in interest income, partially offset by a $1.0 million increase in the segment s non-interest expense and a $3.1 million increase in internal transfer expense. In addition, the provision for loan losses decreased $2.4 during the quarter ended September 30, 2010 due to lower charge-offs and improvements in overall delinquencies. The increase in average interest earning assets during the period was mainly due to the acquired loans from the FDIC-assisted transactions during the first quarter of 2010, coupled with maintaining a stable current borrower base.

The return on average interest earning assets before income taxes was 1.96 percent compared with 1.57 percent for the prior year period. The 39 basis point increase in net interest margin was mainly the result of a 26 basis point decrease in costs associated with our funding sources and a 13 basis point increase in interest yield.

Investment Management

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

For the three months ended September 30, 2010, income before income taxes decreased $1.8 million to $13.9 million compared with the three months ended September 30, 2009 primarily due to a 32 basis point decrease in the yield on average investments. The decline in investment yields is mainly attributable to the current interest rate environment, coupled with management s desire to reduce the duration of the portfolio while simultaneously diminishing the capital required for the portfolio. As a result of this strategy, coupled with the current interest rate environment, investments purchased during 2010 were typically lower yielding than investments held or purchased in 2009.

Corporate Segment

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

The loss before income taxes for the corporate segment decreased $1.3 million to $10.1 million for the three months ended September 30, 2010 compared with $11.3 million for the three months ended September 30, 2009. Non-interest income increased $894 thousand as no credit impairment losses on securities were recognized during the quarter ended September 30, 2010. Non-interest expense increased $2.9 million and was offset by a $3.4 million decrease in internal transfer income.

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The following tables present the financial data for the nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30, 2010				
	Consumer Lending	Commercial Lending	Investment Management ($ in thousands)	Corporate and Other Adjustments	Total
Average interest earning assets	$ 3,331,912	$ 6,148,697	$ 3,218,945	$	$ 12,699,554
Income (loss) before income taxes	43,706	74,975	41,197	(26,417)	133,461
Annualized return on average interest earning assets (pre-tax)	1.75%	1.63%	1.71%	N/A	1.40%

	Nine Months Ended September 30, 2009				
	Consumer Lending	Commercial Lending	Investment Management ($ in thousands)	Corporate and Other Adjustments	Total
Average interest earning assets	$ 3,859,376	$ 5,927,955	$ 3,251,154	$	$ 13,038,485
Income (loss) before income taxes	48,908	60,334	46,010	(34,544)	120,708
Annualized return on average interest earning assets (pre-tax)	1.69%	1.36%	1.89%	N/A	1.23%

Consumer Lending

Income before income taxes during the nine months ended September 30, 2010 decreased $5.2 million to $43.7 million, as compared with the nine months ended September 30, 2009. The decrease is primarily due to declines in net interest income and non-interest income, partially offset by decreases in internal transfer expenses and the provision for loan losses. Net interest income decreased $10.5 million to $97.4 million, compared to $107.9 million for the same period last year, as a $527.5 million decrease in average assets and a decrease in yield were only partially offset by the decline in our cost of funds. The provision for loan losses decreased $5.3 million to $11.8 million when compared to the prior year period mainly due to the decreases in net charge-offs and delinquent consumer loans.

The return on average interest earning assets before income taxes increased to 1.75 percent compared with 1.69 percent for the prior year period as the net interest margin increased by 17 basis points to 3.90 percent as a result of a sharp decline of 38 basis points in our cost of funds as compared to the yield on average interest earning assets which declined by 21 basis points.

Commercial Lending

For the nine months ended September 30, 2010, income before income taxes increased $14.6 million to $75.0 million compared with the prior year primarily due to a $220.7 million increase in average interest earning assets, which drove the increase in interest yield. Net interest income increased $27.3 million, due to the aforementioned increase in interest yield, partially offset by a $3.9 million increase in the provision for loan losses, a $6.7 million increase in internal transfer expense, and a $2.2 million increase in non-interest expense.

Net interest margin increased 46 basis points mainly as a result of a 38 basis point decrease in costs associated with our funding sources and an 8 basis points increase in interest yield. The return on average interest earning assets before income taxes was 1.63 percent as compared to 1.36 percent for the prior year period.

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Investment Management

For the nine months ended September 30, 2010, income before income taxes decreased $4.8 million to $41.2 million compared with the same period of 2009 primarily due to a 53 basis point decrease in the yield on average investments. The decline in investment yields is mainly attributable to the current low interest rate environment, coupled with management s desire to reduce the duration of the portfolio while simultaneously decreasing the capital required for the portfolio. The return on average interest earning assets before income taxes decreased to 1.71 percent compared with 1.89 percent for the prior year period. Average investments decreased $32.2 million to $3.2 billion, due to normal principal paydowns and lower levels of excess liquidity maintained by management for reinvestment in securities due to the low level of interest rates.

Corporate Segment

The loss before income taxes for the corporate segment decreased $8.1 million to $26.4 million for the nine months ended September 30, 2010 compared to $34.5 million for the nine months ended September 30, 2009. Increases in both non-interest income and internal transfer income were only partially offset by an increase in non-interest expense. Non-interest income increased $9.3 million partly due to a $4.1 million decrease in net trading losses caused by the effect of the mark to market valuation of our junior subordinated debentures carried at fair value, and a $4.4 million increase in net gains (losses) on securities transactions mainly due to the gains recognized on the sale of approximately $307 million in U.S. Treasury securities classified as available for sale during the first six months in 2010.

ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

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

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of September 30, 2010. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of September 30, 2010. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of September 30, 2010. Although the size of Valley s balance sheet is forecasted to remain constant as of September 30, 2010 in our model, the composition is adjusted to reflect new interest earning assets and interest bearing liability originations and rate spreads utilizing our actual originations during the third quarter of 2010. The model utilizes an immediate parallel shift in the market interest rates at September 30, 2010.

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

Changes in Interest Rates (in basis points)	Estimated Change in Future Net Interest Income Dollar Change ($ in thousands)	Percentage Change
+200	2,779	0.60%
+100	(2,737)	(0.59)
-100	699	0.15

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

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

Liquidity

Bank Liquidity

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

Valley National Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposits $100 thousand and over, federal funds purchased, repurchase agreements and Federal Home Loan Bank advances) greater than 50 percent of total assets. At September 30, 2010, the Bank was in compliance with the foregoing policies.

On the asset side of the balance sheet, we have numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks, investment securities held to maturity maturing within one year, investment securities available for sale, trading securities and loans held for sale. These liquid assets totaled approximately $1.7 billion and $2.2 billion as of September 30, 2010 and December 31, 2009, respectively, representing 13.5 percent and 17.4 percent of earning assets, at September 30, 2010 and December 31, 2009, respectively. Of the $1.7 billion of liquid assets at September 30, 2010, approximately $1.5 billion of various investment securities were pledged to counterparties to support our earning asset funding strategies.

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Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments are projected to be approximately $3.4 billion over the next twelve months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $8.4 billion for the third quarter of 2010 and $8.0 billion for the year ended December 31, 2009, representing 65.8 percent and 61.7 percent of average earning assets at September 30, 2010 and December 31, 2009, respectively. The level of interest bearing deposits is affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities.

In the event that additional short-term liquidity is needed, Valley National Bank has established relationships with several correspondent banks to provide short-term borrowings in the form of federal funds purchased. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $1.0 billion for a short time from these banks on a collective basis. Valley National Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of residential mortgage-backed securities and a blanket assignment of qualifying residential mortgage loans. Additionally, funds could be borrowed overnight from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. During 2010, we expanded our ability to borrow from the discount window as we provided additional collateral loans consisting primarily of commercial and industrial loans. At September 30, 2010, our borrowing capacity under the Fed s discount window was approximately $977 million.

We have access to a variety of short-term and long-term borrowing sources to support our asset base. Short-term borrowings may include federal funds purchased, repos, treasury tax and loan accounts, and FHLB advances. Short-term borrowings increased approximately $115.1 million to $331.3 million at September 30, 2010, as compared to $216.1 million at December 31, 2009, as a result of increases of $100 million and $50 million in overnight FHLB advances and federal funds purchased, respectively, partially offset by a decrease of $30.6 million in customer repos caused by a lower amount of customer funds being swept from non-interest bearing and money market deposits. At September 30, 2010, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

Corporation Liquidity

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

Investment Securities Portfolio

As of September 30, 2010, we had approximately $1.8 billion, $1.1 billion, and $32.1 million in held to maturity, available for sale and trading securities, respectively. During the nine months ended September 30, 2010, we recognized net gains on securities transactions of $4.6 million mainly due to the sale of approximately $307 million of U.S. Treasury securities classified as available for sale during the first six months of 2010. Most of the sale proceeds were held on deposit with the Federal Reserve as a source of liquidity for potential redemptions of deposits assumed in our FDIC-assisted transactions during the first quarter of 2010 and then re-invested in similar duration U.S. government agency and residential mortgage-backed securities issued by Ginnie Mae.

Among other securities, our investments in the private label mortgage-backed securities, trust preferred securities, perpetual preferred securities principally issued by bank holding companies (referred to below as bank issuers) (including three pooled securities), common equity securities issued by banks, and bank issued corporate bonds may pose a higher risk of future impairment charges by us as a result of the current downturn in the U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral. Additionally, some bank issuers of trust preferred securities may elect to defer future payments of interest on such securities either based upon recommendations by the U.S. Government and the banking regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within our investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. Although these securities may pose a greater risk of impairment charges, many of the bank issuers of trust preferred securities within our investment portfolio were allowed by their bank regulators to exit the U.S. Treasury s TARP Capital Purchase Program, and their capital ratios are at or above the minimum amounts to be considered well-capitalized under current regulatory guidelines. For the small number of bank issuers within our portfolio that remain TARP participants, dividend payments to trust preferred security holders are senior to and payable before dividends can be paid on the preferred stock issued under the TARP Capital Purchase Program.

Other-Than-Temporary Impairment Analysis

We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

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

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

- The causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility.

- The severity and duration of the decline.

- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term.

- Our intent to sell debt security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis.

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

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

The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at September 30, 2010.

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity				
Investment grades:*				
AAA Rated	$ 1,098,228	$ 36,360	$ (149)	$ 1,134,439
AA Rated	149,862	6,741	(2)	156,601
A Rated	105,821	5,182		111,003
BBB Rated	113,132	4,627	(10,289)	107,470
Non-investment grade	24,487	600	(651)	24,436
Not rated	285,326	150	(53,246)	232,230
Total investment securities held to maturity	$ 1,776,856	$ 53,660	$ (64,337)	$ 1,766,179
Available for sale				
Investment grades:*				
AAA Rated	$ 790,533	$ 40,629	$ (684)	$ 830,478
AA Rated	34,857	2,006	(1,191)	35,672
A Rated	42,870	2,217	(10,130)	34,957
BBB Rated	57,452	945	(6,601)	51,796
Non-investment grade	115,340	578	(6,314)	109,604
Not rated	26,570	553	(27)	27,096
Total investment securities available for sale	$ 1,067,622	$ 46,928	$ (24,947)	$ 1,089,603

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

The held to maturity portfolio includes $285.3 million in investments not rated by the rating agencies with aggregate unrealized losses of $53.2 million at September 30, 2010. The unrealized losses for this category relate mainly to 11 single-issuer bank trust preferred securities, of which $38.3 million in unrealized losses relate to securities issued by one bank holding company with a combined amortized cost of $55.0 million. However, the issuer s principal subsidiary bank reported, in its most recent regulatory filing, that it meets the regulatory capital minimum requirements to be considered a well-capitalized institution as of September 30, 2010 (see the Held to Maturity section of Note 8 to the consolidated financial statements for further discussion of this bank issuer). Based on this information, management believes that we will receive all principal and interest contractually due on both security issuances. We will continue to closely monitor the credit risk of this issuer and may be required to recognize other-than-temporary impairment on such securities in future periods. All other single-issuer bank trust preferred securities classified as held to maturity or available for sale are paying in accordance with their terms and have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer s most recent bank regulatory report to assess the company s credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review, all of the issuers appear to meet the regulatory capital minimum requirements to be considered a well-capitalized financial institution and/or have maintained performance levels adequate to support the contractual cash flows of the security.

Although the majority of these financial institutions were performing at September 30, 2010, there can be no assurance that the current economic conditions or bank regulatory actions will not impair the institutions future ability to repay our investment in the trust preferred securities, which may result in significant other-than-temporary impairment charges to our future earnings. In this volatile environment a growing number of banking institutions have been required to defer trust preferred payments and a growing number of banking institutions have been put in receivership by the FDIC during this year. A deferral event by a bank holding company for which we hold trust preferred securities may require us to recognize an other-than-temporary impairment charge if we determine that we no longer expect to collect all contractual interest and principal, and an FDIC receivership for any single-issuer would result in a significant loss. See Note 8 to the consolidated financial statements for further details on our trust preferred securities portfolios.

The available for sale portfolio includes investments with non-investment grade ratings with amortized cost and fair values totaling $115.3 million and $109.6 million, respectively, at September 30, 2010. The $6.3 million in unrealized losses for this category mainly relate to 6 private label mortgage-backed securities and 2 pooled trust preferred securities. The majority of these non-investment grade securities were previously impaired securities and are discussed further in the section below and Note 8 to the consolidated financial statements.

Other-Than-Temporarily Impaired Securities

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

No impairment charges were recognized on securities in earnings during the third quarter of 2010, as compared to $2.0 million in the second quarter of 2010 and $743 thousand during the third quarter of 2009. For the nine months ended September 30, 2010, Valley recognized impairment charges on a total of five individual private label mortgage-backed securities and two pooled trust preferred securities. All of these securities, with the exception of one security were found to be initially impaired in 2009. For further details see Note 8 to the consolidated financial statements.

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Loan Portfolio

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

	September 30, 2010	June 30, 2010	March 31, 2010 ($ in thousands)	December 31, 2009	September 30, 2009
Non-covered loans:					
Commercial and industrial loans	$ 1,824,014	$ 1,760,071	$ 1,765,431	$ 1,801,251	$ 1,804,822
Mortgage:					
Construction	440,929	437,115	433,999	440,046	446,662
Residential mortgage	1,890,439	1,911,466	1,893,279	1,943,249	2,011,532
Commercial real estate	3,406,089	3,444,169	3,483,378	3,500,419	3,473,628
Total mortgage loans	5,737,457	5,792,750	5,810,656	5,883,714	5,931,822
Consumer:					
Home equity	531,168	545,607	553,951	566,303	575,332
Credit card	9,462	9,571	9,526	10,025	9,916
Automobile	877,298	866,313	934,118	1,029,958	1,114,070
Other consumer	75,262	71,338	70,988	78,820	75,451
Total consumer loans	1,493,190	1,492,829	1,568,583	1,685,106	1,774,769
Total non-covered loans	9,054,661	9,045,650	9,144,670	9,370,071	9,511,413
Covered loans	377,036	385,326	425,042		
Total loans*	$ 9,431,697	$ 9,430,976	$ 9,569,712	$ 9,370,071	$ 9,511,413
As a percent of total loans:					
Commercial and industrial loans	19.4%	18.7%	18.4%	19.2%	19.0%
Mortgage loans	60.8	61.4	60.7	62.8	62.4
Consumer loans	15.8	15.8	16.5	18.0	18.6
Covered loans	4.0	4.1	4.4		
Total	100.0%	100.0%	100.0%	100.0%	100.0%

* Total loans are net of unearned discount and deferred loan fees totaling $9.0 million, $9.2 million, $8.6 million, $8.7 million, and $7.8 million at September 30, 2010, June 30, 2010, March 31, 2010, December 31, 2009, and September 30, 2009, respectively.

Non-Covered Loans

Non-covered loans are loans not subject to loss-sharing agreements with the FDIC. Non-covered loans increased $9.0 million to approximately $9.1 billion at September 30, 2010 from June 30, 2010. The linked quarter increase was mainly comprised of increases in commercial and industrial, and automobile loans of $63.9 million and $11.0 million, respectively, partially offset by decreases of $38.1 million, $21.0 million, and $14.4 million in commercial real estate, residential mortgage, and home equity, respectively. The commercial and industrial loan portfolio increased by approximately 14.5 percent during the third quarter of 2010 mainly due to an increase in loan demand from new customers in our New York City market taken from larger money center banks and higher existing line of credit usage by customers. Automobile loans increased mainly due to the purchase of approximately $37 million in prime indirect auto loans during the third quarter of 2010. Commercial real estate loans continued to decline during 2010 due to the economic conditions and a lack of new quality loan opportunities. The decrease in residential mortgage portfolio was caused by the transfer of approximately $83 million in conforming 15 and 20 year fixed rate loans to loans held for sale during the third quarter of 2010, which were later sold to Fannie Mae in October 2010. Home equity loans declined quarter over quarter as many borrowers continue to refinance their first mortgages at historically low rates and roll home equity balances into the new mortgage, and customer line of credit usage declined over concerns about the economy.

Covered Loans

Loans for which Valley National Bank will share losses with the FDIC are referred to as covered loans, and consist of loans acquired from LibertyPointe Bank and The Park Avenue Bank as a part of FDIC-assisted transactions during the first quarter of 2010. Our covered loans consist primarily of commercial real estate loans and commercial and industrial

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loans and totaled $377.0 million at September 30, 2010. The fair value of the covered loans includes estimates of credit losses as of the acquisition dates. Our estimate of acquisition date credit losses increased during the second quarter of 2010 as additional information, which existed at the acquisition date, became available to us resulting in a large portion of the quarter over quarter decline in covered loans during the second quarter of 2010 shown in the table above. See Note 7 to the consolidated financial statements for more details.

We may experience slow growth or declines in the loan portfolio during 2010 and beyond due to a slow economic recovery cycle, increased competition for quality borrowers, or a change in asset/liability management strategy.

Non-performing Assets

Non-performing assets include non-accrual loans, other real estate owned (OREO), and other repossessed assets which consists of automobiles, as well as two aircraft at September 30, 2010. Non-accrual loans exclude covered loans that are accounted for on a pool basis and are considered to be performing. Loans are generally placed on a non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is sufficiently collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. Given the state of the U.S. economy, and relative to our peers, the level of non-performing assets remained relatively low as a percentage of the total loan portfolio even though they have increased steadily since the third quarter of 2009, as shown in the table below and may continue to increase in relation to the U.S. economy.

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

	September 30, 2010	June 30, 2010	March 31, 2010 ($ in thousands)	December 31, 2009	September 30, 2009
Accruing past due loans:[1]					
30 to 89 days past due:					
Commercial and industrial	$ 9,917	$ 14,262	$ 14,633	$ 11,949	$ 11,552
Construction	3,750	5,810	12,747	1,834	
Residential mortgage	13,426	8,421	9,659	12,462	11,425
Commercial real estate	7,281	6,001	11,365	4,539	11,659
Consumer	15,937	17,088	16,302	22,835	20,883
Total 30 to 89 days past due	50,311	51,582	64,706	53,619	55,519
90 or more days past due:					
Commercial and industrial	722	502	501	2,191	2,329
Construction		1,507			2,795
Residential mortgage	1,297	1,676	1,331	1,421	13,034
Commercial real estate	1,424	1,608	1,039	250	2,563
Consumer	924	786	1,180	1,263	2,373
Total 90 or more days past due	4,367	6,079	4,051	5,125	23,094
Total accruing past due loans	$ 54,678	$ 57,661	$ 68,757	$ 58,744	$ 78,613
Non-accrual loans:[1]					
Commercial and industrial	$ 16,967	$ 16,240	$ 12,559	$ 17,424	$ 18,375
Construction	29,535	28,581	23,975	19,905	19,093
Residential mortgage	27,198	25,916	24,053	22,922	13,599
Commercial real estate	29,833	30,798	28,869	29,844	22,191
Consumer	2,069	1,975	2,140	1,869	787
Total non-accrual loans	105,602	103,510	91,596	91,964	74,045
Other real estate owned[2]	4,698	4,633	4,534	3,869	3,816
Other repossessed assets	1,849	1,666	2,554	2,565	4,931
Total non-performing assets (NPAs)	$ 112,149	$ 109,809	$ 98,684	$ 98,398	$ 82,792
Troubled debt restructured loans	$ 48,229	$ 47,959	$ 3,575	$ 19,072	$ 19,406
Total non-accrual loans as a % of loans	1.12%	1.10%	0.96%	0.98%	0.78%
Total NPAs as a % of loans and NPAs	1.18	1.15	1.02	1.04	0.86
Total accruing past due and non-accrual loans as a % of loans	1.70	1.71	1.68	1.61	1.60
Allowance for loans losses as a % of non-accrual loans	107.75	106.89	112.98	110.90	139.71

(1) 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. Fair value of these loans as of acquisition includes estimates of credit losses. These loans are accounted for on a pool basis, and the pools are considered to be performing.

(2)

This table excludes other real estate owned that is related to the LibertyPointe Bank and The Park Avenue Bank FDIC-assisted transactions. Other real estate owned related to the FDIC-assisted transactions, which totaled $12.5 million at September 30, 2010, is subject to the loss-sharing agreements with the FDIC.

Total non-performing assets (NPAs), consisting of non-accrual loans, OREO and other repossessed assets, totaled $112.1 million, or 1.18 percent of loans and NPAs at September 30, 2010 compared to $109.8 million, or 1.15 percent of loans and NPAs at June 30, 2010. The increase was mainly due to non-accrual loans which increased to $105.6 million at September 30, 2010 as compared to $103.5 million at June 30, 2010. Although the timing of collection is uncertain, management believes most of the non-accrual loans are well secured and largely collectible based on, in part, our quarterly review of impaired loans. Our impaired loans, mainly consisting of non-accrual and troubled debt restructured commercial and commercial real estate loans, totaled $115.3 million at September 30, 2010 and had $14.0 million in related specific reserves included in our total allowance for loan losses. OREO and other repossessed assets, excluding OREO subject to loss-sharing agreements with the FDIC, totaled a combined $6.5 million at September 30, 2010 as compared to $6.3 million at June 30, 2010.

Loans past due 90 days or more and still accruing decreased to $4.4 million, or 0.05 percent of total loans at September 30, 2010 compared to $6.1 million, or 0.06 percent at June 30, 2010 primarily due to a $1.5 million decrease in construction loans within this delinquency category.

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Troubled debt restructured loans, with modified terms and not reported as loans 90 days or more past due and still accruing or non-accrual, are restructured loans to customers experiencing financial difficulties where a concession has been granted. All loan modifications are made on a case-by-case basis. However, we typically lower the monthly payments on such loans through either a reduction in interest rate, an extension of the maturity date, or combination of these two items. At September 30, 2010, accruing troubled debt restructured loans, that are performing in accordance with their modified terms, consisted of 17 loans (primarily in the commercial and industrial loan and mortgage loan portfolios) totaling $48.2 million as compared to the same 17 loans totaling $48.0 million at June 30, 2010. The increase was due to a normal advance on a restructured construction loan. On an aggregate basis, the $48.2 million in restructured loans at September 30, 2010 had a weighted average modified interest rate of approximately 4.6 percent.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and credit commitments. The allowance is based on ongoing evaluations of the probable estimated losses inherent in the loan portfolio. Our methodology for evaluating the appropriateness of the allowance includes segmentation of the loan portfolio into its various components, tracking the historical levels of criticized loans and delinquencies, and assessing the nature and trend of loan charge-offs. Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new products and markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, and economic conditions are taken into consideration.

As previously disclosed in our critical accounting policies in this MD&A and the risk factors in Part I, Item 1A of Valley s Annual Report on Form 10-K for the year ended December 31, 2009, the OCC may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses is dependent upon a variety of factors largely beyond our control, including the view of the OCC toward loan classifications, performance of the loan portfolio, and the economy.

The following table summarizes the relationship among loans, loans charged-off, loan recoveries, the provision for credit losses and the allowance for credit losses for the periods and on the dates indicated. The fair value of covered loans as of the acquisition includes estimates of credit losses. As of September 30, 2010 our estimates of these credit losses have not been adjusted, therefore, the allowance for credit losses does not reflect any valuation allowances for covered loans.

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	Three Months Ended			Nine Months Ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
			($ in thousands)		
Average loans outstanding	$ 9,474,723	$ 9,544,364	$ 9,581,388	$ 9,480,609	$ 9,787,331
Beginning balance - Allowance for credit losses	$ 112,504	$ 105,283	$ 102,317	$ 103,655	$ 94,738
Loans charged-off:					
Commercial and industrial	(3,223)	(1,978)	(5,302)	(13,882)	(11,886)
Construction	(5)			(424)	
Residential mortgage	(844)	(1,632)	(1,008)	(3,011)	(1,757)
Commercial real estate	(307)	(760)	(177)	(1,723)	(302)
Consumer	(2,485)	(2,515)	(4,324)	(8,873)	(14,109)
	(6,864)	(6,885)	(10,811)	(27,913)	(28,054)
Charged-off loans recovered:					
Commercial and industrial	187	768	100	3,317	226
Construction					
Residential mortgage	28	47	16	80	28
Commercial real estate	19	26	15	139	45
Consumer	533	827	695	2,080	2,304
	767	1,668	826	5,616	2,603
Net charge-offs	(6,097)	(5,217)	(9,985)	(22,297)	(25,451)
Provision charged for credit losses	9,308	12,438	12,722	34,357	35,767
Ending balance - Allowance for credit losses	$ 115,715	$ 112,504	$ 105,054	$ 115,715	$ 105,054
Components of allowance for credit losses:					
Allowance for loan losses	$ 113,786	$ 110,645	$ 103,446	$ 113,786	$ 103,446
Reserve for unfunded letters of credit	1,929	1,859	1,608	1,929	1,608
Allowance for credit losses	$ 115,715	$ 112,504	$ 105,054	$ 115,715	$ 105,054
Components of provision for credit losses:					
Provision for loan losses	$ 9,238	$ 12,376	$ 12,671	$ 34,093	$ 35,653
Provision for unfunded letters of credit	70	62	51	264	114
Provision for credit losses	$ 9,308	$ 12,438	$ 12,722	$ 34,357	$ 35,767
Ratio of net charge-offs during the period to average loans outstanding during the period	0.26%	0.22%	0.42%	0.31%	0.35%
Allowance for loan losses as a % of non-covered loans	1.26%	1.22%	1.09%	1.26%	1.09%
Allowance for credit losses as a % of non-covered loans	1.28%	1.24%	1.10%	1.28%	1.10%

Net loan charge-offs increased $880 thousand to $6.1 million for the three months ended September 30, 2010 compared with the second quarter of 2010, mainly due to a lower level of loan recoveries. During the third quarter of 2010, we experienced higher charge-offs within the commercial and industrial loan portfolio, partially offset by lower residential mortgage, commercial real estate, and consumer loan portfolios as compared to the second quarter of 2010.

The provision for credit losses totaled $9.3 million for the third quarter of 2010, as compared to $12.4 million for the second quarter of 2010 and $12.7 million for the third quarter of 2009. The quarter over quarter decline in the provision for credit losses reflects the stabilization of our charge-offs, improvements in the ratings of our internally criticized loans, and slow loan growth. The provision for credit losses totaled $34.4 million for the nine months ended September 30, 2010 compared to $35.8 million for the same period in 2009. The provision for credit losses was $12.1 million higher than net charge-offs totaling $22.3 million in the nine months ended September 30, 2010 and reflects the current level of loan delinquencies and impaired loans, the risk of further loan delinquencies resulting from the current economic environment, as well as other factors identified by management.

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

Allocation of Allowance for Credit Losses

	September 30, 2010		June 30, 2010		December 31, 2009	
	Allowance Allocation	Allocation as a % of Non-Covered Loan Category	Allowance Allocation	Allocation as a % of Non-Covered Loan Category	Allowance Allocation	Allocation as a % of Non-Covered Loan Category
			($ in thousands)			
Non-covered loan category:						
Commercial and industrial loans *	$ 55,346	3.03%	$ 55,662	3.16%	$ 50,932	2.83%
Mortgage:						
Construction	14,485	3.29	15,000	3.43	15,263	3.47
Residential mortgage	8,196	0.43	6,412	0.34	5,397	0.28
Commercial real estate	15,980	0.47	15,097	0.44	10,253	0.29
Total mortgage loans	38,661	0.67	36,509	0.63	30,913	0.53
Consumer:						
Home equity	1,628	0.31	1,667	0.31	1,680	0.30
Other consumer	11,952	1.24	11,649	1.23	13,800	1.23
Total consumer loans	13,580	0.91	13,316	0.89	15,480	0.92
Unallocated	8,128	N/A	7,017	N/A	6,330	N/A
Total	$ 115,715	1.28	$ 112,504	1.24	$ 103,655	1.11

* Includes the reserve for unfunded letters of credit.

The allowance for credit losses as a percentage of non-covered loans increased 4 basis points to 1.28 percent at September 30, 2010 as compared to 1.24 percent at June 30, 2010 and increased 17 basis points as compared to 1.11 percent at December 31, 2009. The quarter over quarter increase was mainly the result of an increase in our allocated reserves for the residential mortgage portfolio and weak economic indicators within our primary markets. Our allocated reserves for the residential mortgage portfolio increased $1.8 million or 9 basis points as a percentage of the residential mortgage portfolio at September 30, 2010 as a result of a 16.4 percent increase in residential mortgage delinquencies, higher net charge-offs during 2010, and continued weak housing and unemployment data.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders equity. At September 30, 2010 and December 31, 2009, shareholders equity totaled approximately $1.3 billion for both periods, or 9.1 percent and 8.8 percent of total assets, respectively. During the nine months ended September 30, 2010, total shareholders equity moderately increased mainly due to net income of $93.0 million, a $10.0 million decrease in our accumulated other comprehensive loss, and 440 thousand shares of treasury stock reissued under our dividend reinvestment plan for net proceeds totaling $6.3 million, partially offset by cash dividends on common stock totaling $86.2 million.

Included in shareholders equity as a component of accumulated other comprehensive loss at September 30, 2010 was a $13.7 million net unrealized gain on investment securities classified as available for sale, net of deferred tax as compared to a $2.0 million net unrealized gain, net of deferred tax at December 31, 2009. Also, included as a component of accumulated other comprehensive loss at September 30, 2010 was a charge of $18.4 million, net of deferred tax, representing the unfunded portion of Valley s various pension obligations, and a $5.2 million unrealized loss on derivatives, net of deferred tax used in cash flow hedging relationships.

During 2009, we incrementally repurchased all 300,000 shares of our senior preferred shares from the U.S. Treasury for an aggregate purchase price of $300 million (excluding accrued and unpaid dividends paid at the date of redemption). In connection with the issuance of senior preferred shares, Valley issued a ten year warrant (issued on November 14, 2008) to purchase up to approximately 2.5 million of Valley common shares (at $17.77 per share, adjusted for the 5 percent stock dividend issued on May 21, 2010). After negotiation with the U.S. Treasury, we could not agree on a redemption price for the warrants with the U.S. Treasury. As a result, the U.S. Treasury sold the warrants through a public auction completed on May 24, 2010. The warrants are currently traded on the New York Stock Exchange under the ticker symbol VLY WS . Valley did not receive any of the proceeds of the warrant offering and is no longer a participant in the TARP program.

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On January 17, 2007, Valley s Board of Directors approved the repurchase of up to 4.3 million common shares. Purchases may be made from time to time in the open market or in privately negotiated transactions generally not exceeding prevailing market prices. Repurchased shares are held in treasury and are expected to be used for general corporate purposes or issued under the dividend reinvestment plan. During the nine months ended September 30, 2010, Valley purchased approximately 9 thousand shares of its outstanding common stock at an average price of $13.30 to facilitate the vesting of employee stock awards.

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

The following table presents Valley s and Valley National Bank s actual capital positions and ratios under risk-based capital guidelines at September 30, 2010 and December 31, 2009.

	Actual		Minimum Capital Requirements		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
As of September 30, 2010						
Total Risk-based Capital						
Valley	$ 1,331,120	12.6%	$ 846,382	8.0%	$ N/A	N/A%
Valley National Bank	1,268,703	12.0	845,036	8.0	1,056,295	10.0
Tier I Risk-based Capital						
Valley	1,135,405	10.7	423,191	4.0	N/A	N/A
Valley National Bank	1,072,988	10.2	422,518	4.0	633,777	6.0
Tier I Leverage Capital						
Valley	1,135,405	8.3	548,922	4.0	N/A	N/A
Valley National Bank	1,072,988	7.8	548,018	4.0	685,023	5.0
As of December 31, 2009						
Total Risk-based Capital						
Valley	$ 1,341,943	12.5%	$ 856,178	8.0%	$ N/A	N/A%
Valley National Bank	1,231,429	11.5	854,648	8.0	1,068,310	10.0
Tier I Risk-based Capital						
Valley	1,138,288	10.6	428,089	4.0	N/A	N/A
Valley National Bank	1,027,774	9.6	427,324	4.0	640,986	6.0
Tier I Leverage Capital						
Valley	1,138,288	8.1	559,483	4.0	N/A	N/A
Valley National Bank	1,027,774	7.4	558,367	4.0	697,959	5.0

Valley s Tier I capital position included $176.3 million of its outstanding trust preferred securities issued by capital trusts as of September 30, 2010 and December 31, 2009. In compliance with U.S. GAAP, Valley does not consolidate its capital trusts. As discussed elsewhere in this MD&A, the Dodd-Frank Act was signed into law on July 21, 2010. The Dodd-Frank Act imposes new capital requirements on bank and thrift holding companies, including the phase out (through January 2016) of trust preferred securities being permitted in Tier I capital for holding companies with consolidated assets of $15 billion or more. Based on our current interpretation of the Dodd-Frank Act, holding companies with less than $15 billion in consolidated assets, such as Valley, will continue to be permitted to include trust preferred securities issued before May 19, 2010 in Tier I capital within regulatory limits even if its total assets exceed $15 billion in the future. Based on this final law and regulatory guidelines, Valley included all of its outstanding trust preferred securities in Tier I capital at September 30, 2010. See Note 13 to the consolidated financial statements for additional information.

Book value per share was $7.93 and $7.80 at September 30, 2010 and December 31, 2009, respectively. Tangible book value per share amounted to $5.84 and $5.80 at September 30, 2010 and December 31, 2009, respectively. Tangible book value, which is a non-GAAP measure, is computed by dividing shareholders equity less goodwill and other intangible assets by common shares outstanding, as follows:

	September 30, 2010	December 31, 2009
	($ in thousands)	
Common shares outstanding	161,123,404	160,637,298
Shareholders equity	$ 1,278,019	1,252,854
Less: Goodwill and other intangible assets	337,431	320,729
Tangible shareholders equity	$ 940,588	$ 932,125
Tangible book value per common share	$ 5.84	$ 5.80
Book value per share	$ 7.93	$ 7.80

Management believes the tangible book value per share ratio provides information useful to management and investors in understanding our underlying operational performance, our business and performance trends and facilitates comparisons with the performance of others in the financial services industry. This non-GAAP financial measure should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP. Typically, our primary source of capital growth is through retention of earnings. Our rate of earnings retention is derived by dividing undistributed earnings per common share by earnings (or net income available to common stockholders) per common share. Our retention ratio was 6.9 percent for the nine months ended September 30, 2010, and was negatively impacted by net trading losses caused primarily by non-cash mark to market losses on the fair value of junior subordinated debentures and net impairment losses on securities. While we expect that our rate of earnings retention will improve in future periods, potential future mark to market losses on trading securities and our junior subordinated debentures, net impairment losses on securities, and other deterioration in earnings and our balance sheet resulting from the continued recessionary economic conditions may negatively impact our future earnings and ability to maintain our dividend at current levels.

Cash dividends declared amounted to $0.54 per common share for both the nine months ended September 30, 2010 and 2009. The Board continued the cash dividend unchanged during the third quarter of 2010 but, consistent with its conservative philosophy, the Board is committed to examine and weigh relevant facts and considerations, including its commitment to shareholder value, each time it makes a cash dividend decision in this economic environment. Under Bank Interagency Guidance, the Office of the Comptroller of the Currency has cautioned banks to carefully consider the dividend payout ratio to ensure they maintain sufficient capital to be able to lend to credit worthy borrowers.

Off-Balance Sheet Arrangements, Contractual Obligations and Other Matters

For a discussion of Valley s off-balance sheet arrangements and contractual obligations see information included in Valley s Annual Report on Form 10-K for the year ended December 31, 2009 in the MD&A section Off-Balance Sheet Arrangements .

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, and commodity prices. Valley s market risk is composed primarily of interest rate risk. See page 54 for a discussion of interest rate sensitivity.

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Item 4. Controls and Procedures

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

Valley s CEO and CFO have also concluded that there have not been any changes in Valley s internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, Valley s internal control over financial reporting.

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

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, we may be a party to various outstanding legal proceedings and claims. There have been no material changes in the legal proceedings previously disclosed in Part I, Item 3 of Valley s Annual Report on Form 10-K for the year ended December 31, 2009.

Item 1A. Risk Factors

An investment in our securities is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below, in addition to the risk factors previously disclosed in Part I, Item 1A of Valley s Annual Report on Form 10-K for the year ended December 31, 2009.

The Dodd-Frank Wall Street Reform and Consumer Protection Act may affect our business activities, financial position and profitability by increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies.

As previously disclosed in the risk factors included in Valley s Annual Report on Form 10-K for the year ended December 31, 2009, market reform efforts may result in our businesses becoming subject to extensive and pervasive additional regulations. On July 21, 2010, many of the reform efforts were signed into law by the President as the Dodd-Frank Act. The Dodd-Frank Act implements significant changes in the financial regulatory landscape and will impact all financial institutions, including Valley and the Bank.

Among the Dodd-Frank Act s significant regulatory changes, it creates a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the Bureau), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The Bureau has exclusive

authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. The Bureau will also have exclusive supervision over our consumer compliance examinations, replacing our current examinations by the Comptroller of the Currency in this area. Moreover, the Dodd-Frank Act permits States to adopt stricter consumer protection laws and authorizes State attorney generals to enforce consumer protection rules issued by the Bureau. The Dodd-Frank Act also restricts the authority of the Comptroller of the Currency to preempt State consumer protection laws applicable to national banks, such as the Bank, and may affect the preemption of State laws as they affect subsidiaries and agents of national banks, changes the scope of federal deposit insurance coverage, and increases the FDIC assessment payable by the Bank. We expect the Bureau and these other changes will significantly increase our regulatory compliance burden and costs and may restrict the financial products and services we offer to our customers.

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

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

Regulatory changes may reduce our fee income.

On July 6, 2010 final rules implemented by the Federal Reserve took effect which impose overdraft and interchange fee restrictions and will likely reduce our non-interest income. The new rules prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one time debit card transactions, unless a consumer consents to the overdraft service for those types of transactions. As of September 30, 2010, a large number of customers opted in to our standard overdraft practice, therefore the impact on our non-interest income was insignificant for the three months ended September 30, 2010. However, we can provide no assurance that the change in regulation will not materially restrict or reduce our ability to generate these fees in the future periods.

Loans acquired in the FDIC-assisted transactions may not be covered by the loss-sharing agreements if the FDIC determines that we have not adequately managed these agreements.

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

We are subject to certain risks in connection with our strategy of growing through mergers and acquisitions including FDIC-assisted transactions.

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

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

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

We may incur future losses in connection with repurchases and indemnification payments related to mortgages that we have sold into the secondary market.

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. The substantial decline in residential real estate values and the standards used by some originators has resulted in more repurchase requests to many secondary market sellers from secondary market purchasers. Since January 1, 2006, we have originated and sold over 6,000 individual residential mortgages totaling approximately $988 million. During this same period, we have received only two loan repurchase requests, of which both requests resulted in the repurchases of performing residential mortgages by Valley. The repurchases occurred during 2010 and one of the two loans was subsequently sold at a premium, while the other repurchased loan continues to perform to its contractual terms within our portfolio. As of September 30, 2010, no reserves pertaining to loans sold were established on our financial statements. While we currently believe our repurchase risk remains low based upon our careful loan underwriting and documentation standards, it is possible that requests to repurchase loans could occur in the future and such requests may have a negative financial impact on us.

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

During the quarter, we did not sell any equity securities not registered under the Securities Act of 1933, as amended. Purchases of equity securities by the issuer and affiliated purchasers during the three months ended September 30, 2010:

ISSUER PURCHASES OF EQUITY SECURITIES

Period

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans(1)
July 1, 2010 to July 31, 2010	2,523(2)	$ 13.62		3,730,127
August 1, 2010 to August 31, 2010				3,730,127
September 1, 2010 to September 30, 2010	16(2)	13.12		3,730,127
Total	2,539			

(1) On January 17, 2007, Valley publicly announced its intention to repurchased up to 4.3 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended September 30, 2010.

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

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Item 6. Exhibits

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

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

B. By-laws of the Registrant, as amended, incorporated herein by reference to the Registrant s Form 10-K Annual Report for the year ended December 31, 2008.

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

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

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

(101) Interactive Date File *, **

* Filed herewith.

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

SIGNATURES

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

VALLEY NATIONAL BANCORP
(Registrant)

Date: November 8, 2010

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

Date: November 8, 2010

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