VALLEY NATIONAL BANCORP
Form 10-K
February 27, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-11277
VALLEY NATIONAL BANCORP
(Exact name of registrant as specified in its charter)

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

973-305-8800
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, no par value	New York Stock Exchange
Warrants to purchase Common Stock	New York Stock Exchange
Warrants to purchase Common Stock	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes o No þ
The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1.9 billion on June 30, 2014.
There were 232,497,019 shares of Common Stock outstanding at February 26, 2015.
Documents incorporated by reference:
Certain portions of the registrant’s Definitive Proxy Statement (the “2015 Proxy Statement”) for the 2015 Annual Meeting of Shareholders to be held April 15, 2015 will be incorporated by reference in Part III. The 2015 Proxy Statement will be filed within 120 days of December 31, 2014.

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PART I

Item 1. Business

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

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended ("Holding Company Act"). The words "Valley," "the Company," "we," "our" and refer to Valley National Bancorp and its wholly owned subsidiaries, unless we indicate otherwise. At December 31, 2014, Valley had consolidated total assets of $18.8 billion, total net loans of $13.4 billion, total deposits of $14.0 billion and total shareholders' equity of $1.9 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the "Bank" in this report), Valley owns all of the voting and common shares of GCB Capital Trust III and State Bancorp Capital Trusts I and II through which trust preferred securities were issued. These trusts are not consolidated subsidiaries. See Note 11 to the consolidated financial statements.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 224 branches serving northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn Queens and Long Island, and southeast and central Florida. The Bank provides a full range of commercial, retail, insurance and wealth management financial services products. The Bank provides a variety of banking services including automated teller machines, telephone and internet banking, remote deposit capture, overdraft facilities, drive-in and night deposit services, and safe deposit facilities. The Bank also provides certain international banking services to customers including standby letters of credit, documentary letters of credit and related products, and certain ancillary services such as foreign exchange, documentary collections, foreign wire transfers and the maintenance of foreign bank accounts.

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

- an all-line insurance agency offering property and casualty, life and health insurance;
- asset management advisers which are Securities and Exchange Commission (SEC) registered investment advisers;
- title insurance agencies in New Jersey, New York and Florida;
- subsidiaries which hold, maintain and manage investment assets for the Bank;
- a subsidiary which owns and services auto loans;
- a subsidiary which specializes in health care equipment and other commercial equipment leases;
- a subsidiary which owns and services existing general aviation aircraft loans and existing commercial equipment leases; and
- a subsidiary which owns and services New York commercial loans and specializes in asset-based lending.

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

Recent Acquisitions

Valley has grown significantly in the past five years primarily through bank acquisitions, including the recent bank transactions discussed further below, as well as some modest de novo branch expansion mostly in targeted areas in Brooklyn and Queens, New York.

1st United Bancorp, Inc. On November 1, 2014, Valley acquired 1st United Bancorp, Inc. (1st United) and its wholly-owned subsidiary, 1st United Bank, a commercial bank with approximately $1.7 billion in assets, $1.2 billion in loans, and $1.4 billion in deposits, after purchase accounting adjustments. The 1st United acquisition brings to Valley a 20 branch network covering some of the most attractive urban banking markets in Florida, including locations throughout southeast Florida, the Treasure Coast,

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central Florida and central Gulf Coast regions. The common shareholders of 1st United received 0.89 of a share of Valley common stock for each 1st United share they owned prior to the merger. The total consideration for the acquisition was approximately $300 million, consisting of 30.7 million shares of Valley common stock and $8.9 million of cash consideration paid to 1st United stock option holders. In conjunction with the merger, Valley shareholders approved an amendment of its certificate of incorporation to increase its authorized common shares by 100 million shares during the third quarter of 2014. See further details regarding the acquisition of 1st United in Note 2 to the consolidated financial statements.

In connection with the 1st United acquisition, we acquired loans and other real estate owned subject to FDIC loss-share agreements (referred to as “covered loans” and “covered OREO”, together “covered assets”). The FDIC loss-share agreements relate to three previous FDIC- assisted acquisitions completed by 1st United from 2009 to 2011. The Bank will share losses on covered assets in accordance with provisions of each loss-share agreement. The commercial and single-family (residential) loan loss-sharing agreements with the FDIC expire between December of 2015 and October of 2021. See Notes 2 and 5 to the consolidated financial statements for further details.

State Bancorp, Inc. On January 1, 2012, Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank with approximately $1.7 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. Of the acquired branch offices, 14 remain within our 43 branch network in New York and are located in Long Island and Queens. The State Bancorp locations complement Valley’s other New York City locations, including five branches in Queens, and provide a foundation for our efforts in these attractive markets. The common shareholders of State Bancorp received a fixed one- for- one exchange ratio for Valley National Bancorp common stock. The total consideration for the all stock acquisition equaled $208 million.

Additionally, a warrant issued by State Bancorp (in connection with its previously redeemed preferred stock issuance) to the U.S. Treasury in December 2008 was assumed by Valley as of the acquisition date. The ten-year warrant to purchase up to 489 thousand of Valley common shares has an exercise price of $11.30 per share, and is exercisable on a net exercise basis. Valley has not negotiated the possible redemption of the warrant with the U.S. Treasury. However, the Treasury may request that we make an offer to redeem the warrant in the future, or request that warrant shares be individually sold at public auction. The entire warrant remained outstanding at December 31, 2014.

FDIC-Assisted Transactions. In March 2010, the Bank acquired $688.1 million in certain assets, including loans totaling $412.3 million (primarily commercial and commercial real estate loans), and assumed all of the deposits totaling $654.2 million, excluding certain brokered deposits and borrowings, of The Park Avenue Bank and LibertyPointe Bank, both New York State chartered banks, from the Federal Deposit Insurance Corporation (FDIC). The deposits from both FDIC-assisted transactions were acquired at a 0.15 percent premium. In addition, as part of the consideration for The Park Avenue Bank FDIC-assisted transaction, the Bank agreed to issue a cash-settled equity appreciation instrument to the FDIC. The valuation and settlement of the equity appreciation instrument during 2010 did not significantly impact Valley’s consolidated financial statements.

In connection with both of the FDIC-assisted transactions, the Bank entered into loss-share agreements with the FDIC. Under the terms of the loss-sharing agreements, the Bank will share in the losses on covered assets. The Bank may sell the acquired loans (with or without recourse) but in such case, the FDIC loss-sharing agreements will cease to be effective for any losses incurred on such loans. Additionally, any related FDIC loss-share receivable would be uncollectable and written-off upon settlement of the sale. The commercial and single-family (residential) loan loss-sharing agreements with the FDIC expire in March of 2015 and 2020, respectively. The Company expects the vast majority of the covered loans to mature, substantially paydown under contractual loan terms or work through our collection process on or before the expiration of the related loss-sharing agreements. See Note 5 to the consolidated financial statements for further details.

Business Segments

Valley National Bank reports the results of its operations and manages its business through four business segments: commercial lending, consumer lending, investment management, and corporate and other adjustments. Valley’s Wealth Management Division comprised of trust, asset management and insurance services, is included in the consumer lending segment. See Note 21 to the consolidated financial statements for details of the financial performance of our business segments. We offer a variety of products and services within the commercial and consumer lending segments as described below.

Commercial Lending Segment

Commercial and Industrial Loans. Commercial and industrial loans, including $13.8 million of covered loans, totaled approximately $2.3 billion and represented 16.7 percent of the total loan portfolio at December 31, 2014. We make commercial loans to small and middle market businesses most often located in the New Jersey and New York area, as well as Florida due to our newly acquired Florida lending operations from 1st United which accounted for approximately 7.0 percent of the $2.3 billion (including $7.7 million of the covered loans) in commercial and industrial loans at December 31, 2014. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment

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performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Our loan decisions will include consideration of a borrower's standing in the community, willingness to repay debts, collateral coverage and other forms of support. Strong consideration is given to long-term existing customers that have maintained a favorable relationship. Commercial loan products offered consist of term loans for equipment purchases, working capital lines of credit that assist our customers' financing of accounts receivable and inventory, and commercial mortgages for owner occupied properties. Working capital advances are generally used to finance seasonal requirements and are repaid at the end of the cycle by the conversion of short-term assets into cash. Short-term commercial business loans may be collateralized by a lien on accounts receivable, inventory, equipment and/or partly collateralized by real estate. Short-term loans may also be made on an unsecured basis based on a borrower's financial strength and past performance. Whenever possible, we obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most creditworthy borrowers. Unsecured commercial and industrial loans totaled $345.1 million at December 31, 2014. In addition, through our subsidiaries we own and service general aviation aircraft loans, provide financing to the diamond and jewelry industry, the medical equipment leasing market, and engage in asset-based accounts receivable and inventory financing.

Commercial Real Estate Loans. Commercial real estate loans and construction loans, including $131.9 million of covered loans, totaled $6.7 billion and represented 49.7 percent of the total loan portfolio at December 31, 2014. We originate commercial real estate loans that are largely secured by multi-unit residential property and non-owner occupied commercial, industrial, and retail property within New Jersey, New York and Pennsylvania. Additionally, loans from our Florida lending operations represented 11.7 percent of the $6.7 billion (including $114.6 million of the covered loans) in total commercial real estate loans at December 31, 2014. Loans are generally written on an adjustable basis with rates tied to a specifically identified market rate index. Adjustment periods generally range between five to ten years and repayment is structured on a fully amortizing basis for terms up to thirty years. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans but generally they involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley's primary markets. With respect to loans to developers and builders, we originate and manage construction loans structured on either a revolving or a non-revolving basis, depending on the nature of the underlying development project. Our construction loans totaling approximately $533.1 million at December 31, 2014 are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single-family residential construction) are controlled with loan advances dependent upon the presale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general

economic conditions and the availability of long-term financing.
Consumer Lending Segment
Residential Mortgage Loans. Residential mortgage loans, including $60.7 million of covered loans, totaled $2.6 billion and represented 19.1 percent of the total loan portfolio at December 31, 2014. We offer a full range of residential mortgage loans for the purpose of purchasing or refinancing one-to-four family residential properties. Our residential mortgage loans include fixed and variable interest rate loans generally located in counties where we have a branch presence in New Jersey, New York and Florida, as well as contiguous counties, if applicable, including eastern Pennsylvania. The loans from our Florida lending operations represented 5.8 percent of the $2.6 billion (including $55.0 million of the covered loans) in total residential mortgage loans at December 31, 2014. Valley's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. We occasionally make mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Mortgage loan originations are based on underwriting standards that generally comply with Fannie Mae and/or Freddie Mac requirements. Appraisals and valuations of real estate collateral are contracted directly with independent appraisers or from valuation services and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with regulatory requirements

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and guidance issued by the Bank’s primary regulator. Credit scoring, using FICO® and other proprietary, credit scoring models is employed in the ultimate, judgmental credit decision by Valley’s underwriting staff. Valley does not use third party contract underwriting services. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property. Terms of first mortgages range from 10 years for interest only loans (which totaled approximately $8.9 million at December 31, 2014) to 30 years for fully amortizing loans. The small 10-year interest only loan portfolio is declining year over year, as Valley no longer originates this type of loan product for the past several years. In deciding whether to make a residential real estate loan, we consider the qualifications of the borrower, the value and condition of the underlying property and other factors that we believe are predictive of future loan performance.

The Bank is also a servicer of residential mortgage portfolios, and it is compensated for loan administrative services performed for mortgage servicing rights purchased in the secondary market and loans originated and sold by the Bank. See Note 8 to the consolidated financial statements for further details.

Other Consumer Loans. Other consumer loans totaled $2.0 billion, including $5.5 million of covered loans, and represented 14.5 percent of the total loan portfolio at December 31, 2014. Our other consumer loan portfolio is primarily comprised of direct and indirect automobile loans, home equity loans and lines of credit, loans secured by the cash surrender value of life insurance, and to a lesser extent, secured and unsecured other consumer loans (including credit card loans). Valley is an auto lender in New Jersey, New York, Pennsylvania, Connecticut, and Delaware offering indirect auto loans secured by either new or used automobiles. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Valley acquired an immaterial amount of automobile loans from the 1st United during the fourth quarter of 2014, as auto lending was not a focus of the acquired operations. However, we anticipate implementing our current auto lending model in Florida during 2015 using our New Jersey based underwriting and loan servicing platform. Home equity lending consists of both fixed and variable interest rate products mainly to provide home equity loans to our residential mortgage customers or take a secondary position to another lender’s first lien position within the footprint of our primary lending territory. We generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75 percent when originating a home equity loan. Other consumer loans include direct consumer term loans, both secured and unsecured. From time to time, the Bank will also purchase prime consumer loans originated by and serviced by other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. Unsecured consumer loans totaled approximately $31.4 million, including $7.6 million of credit card loans, at December 31, 2014. Other consumer loans from our Florida lending operations acquired from 1st United totaled 3.6 percent of the $2.0 billion (including $5.1 million of covered loans) in total other consumer loans and mainly consisted of home equity loans.

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

Investment Management Segment

Although we are primarily focused on our lending and wealth management services, a large portion of our income is generated through investments in various types of 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), as part of our asset/liability management strategies. As of December 31, 2014, our total investment securities and interest bearing deposits with banks were $2.7 billion and $367.8 million, respectively. See the “Investment Securities Portfolio” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” (MD&A) and Note 4 to the consolidated financial statements for additional information concerning our investment securities.

Changes in Loan Portfolio Composition

At December 31, 2014, approximately 71 percent of Valley's $13.5 billion total loan portfolio consisted of non-covered (i.e., loans which are not subject to loss-sharing agreements with the FDIC) commercial real estate (including construction loans), residential mortgage, and home equity loans . Of the remaining 29 percent, approximately 27.4 percent consisted of non-covered loans not collateralized by real estate and approximately 1.6 percent consists of loans covered by the FDIC loss-sharing agreements. Valley has no internally planned changes that would significantly impact the current composition of our loan portfolio by loan type. However, many external factors outlined in "Item 1A. Risk Factors", the "Executive Summary" section of our MD&A, and elsewhere in this report may impact our ability to maintain the current composition of our loan portfolio. See the "Loan Portfolio" section of our MD&A in this report for further discussion of our loan composition and concentration risks.

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The following table presents the loan portfolio segments by state as an approximate percentage of each applicable segment and our percentage of total loans by state at December 31, 2014.

	Percentage of Loan Portfolio Segment:									
	Commercial and Industrial		Commercial Real Estate		Residential		Consumer		% of Total Loans	
New Jersey	39	%	42	%	72	%	51	%	48	%
New York	41		41		9		26		33	
Florida	2		13		7		4		8	
Pennsylvania	1		1		3		14		3	
California	2		*		4		*		1	
Ohio	*		*		4		*		1	
Other	15		3		1		5		6	
Total	100	%	100	%	100	%	100	%	100	%

* Represents less than one percent of the loan portfolio segment.

During 2014, the percentage of total loans from New Jersey decreased by 8 basis points to 48 percent at December 31, 2014 as compared to 56 percent at December 31, 2013 mainly due to Florida loans acquired in the 1st United acquisition. As a result, the percentage of total loans from Florida increased by approximately seven basis points during 2014 from one percent at December 31, 2013. The percentage of loans by loan portfolio segment and by total loans presented for all other states above did not materially change from December 31, 2013.

Risk Management

Effective risk management is critical to our success. Financial institutions must manage a variety of business risks that can significantly affect their financial performance. Significant risks we confront are credit risks and asset/liability management risks, which include interest rate and liquidity risks. Credit risk is the risk of not collecting payments pursuant to the contractual terms of loan, lease and investment assets. Interest rate risk results from changes in interest rates which may impact the re-pricing of assets and liabilities in different amounts or at different dates. Liquidity risk is the risk that we will be unable to fund obligations to loan customers, depositors or other creditors at a reasonable cost.

Valley’s Board performs its risk oversight function primarily through several standing committees, including the Risk Committee, all of which report to the full Board. The Risk Committee assists the Board by, among other things, establishing an enterprise-wide risk management framework that is appropriate for Valley’s capital, business activities, size and risk appetite. The Risk Committee also reviews and recommends to the Board appropriate risk tolerances and limits for credit, compliance, interest rate, liquidity, operational, strategic and price risk (and ensures that risk is managed within those tolerances), monitors compliance with laws and regulations, and monitors our legal activity and associated risk. With guidance from and oversight by the Risk Committee, management continually refines and enhances its risk management policies and procedures to maintain effective risk management programs and processes.

Additionally, The Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") mandated that stress tests be developed and performed to ensure that financial institutions have sufficient capital to absorb losses and support operations during multiple economic and bank scenarios. Bank holding companies with total consolidated assets between $10 billion and $50 billion, including Valley, will undergo annual company-run stress tests. As directed by the Federal Reserve, summaries of Valley’s results in the severely adverse stress tests will be available to the public starting in June 2015. Through the stress testing program that has been implemented and reviewed by the Risk Committee, Valley will comply with current regulations. The results of stress testing activities will be considered in combination with other risk management and monitoring practices to maintain an effective risk management program.

Credit Risk Management and Underwriting Approach

Credit risk management. For all loan types, we adhere to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. Credit authority relating to a significant dollar percentage of the overall portfolio is centralized and controlled by the Credit Risk Management Division and by a Credit Committee. A reporting

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system supplements the review process by providing management with frequent reports concerning loan production, loan quality, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by us to manage the portfolio's risk across business sectors and through cyclical economic circumstances.

Our historical and current loan underwriting practice prohibits the origination of payment option ARMs which allow for negative interest amortization and subprime loans. Our residential loan portfolio included approximately $11.5 million and $13.3 million of loans that could be identified by us as non-conforming loans commonly referred to as either "alt-A," "stated income," or "no doc" loans at December 31, 2014 and 2013, respectively. These loans were mostly originated prior to 2008 and had a weighted average loan-to-value ratio of 70 percent at the date of origination. Virtually all of our loan originations in recent years have conformed to rules requiring documentation of income, assets sufficient to close the transactions and debt to income ratios that support the borrower's ability to repay under the loan's proposed terms and conditions. These rules are applied to all loans originated for retention in our portfolio or for sale in the secondary market.

Loan documentation. Loans are well documented in accordance with specific and detailed underwriting policies and verification procedures. General underwriting guidance is consistent across all loan types with possible variations in procedures and due diligence dictated by specific loan requests. Due diligence standards require acquisition and verification of sufficient financial information to determine a borrower's or guarantor's credit worthiness, capital support, capacity to repay, collateral support, and character. Credit worthiness is generally verified using personal or business credit reports from independent credit reporting agencies. Capital support is determined by acquisition of independent verifications of deposits, investments or other assets. Capacity to repay the loan is based on verifiable liquidity and earnings capacity as shown on financial statements and/or tax returns, banking activity levels, operating statements, rent rolls or independent verification of employment. Finally, collateral valuation is determined via appraisals from independent, bank-approved, certified or licensed property appraisers, valuation services, or readily available market resources.

Types of collateral. Loan collateral, when required, may consist of any one or a combination of the following asset types depending upon the loan type and intended purpose: commercial or residential real estate; general business assets including working assets such as accounts receivable, inventory, or fixed assets such as equipment or rolling stock; marketable securities or other forms of liquid assets such as bank deposits or cash surrender value of life insurance; automobiles; or other assets wherein adequate protective value can be established and/or verified by reliable outside independent appraisers. In addition to these types of collateral, we, in many cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk of certain commercial and industrial loans and commercial real estate loans.

Many times, we will underwrite loans to legal entities formed for the limited purpose of the business which is being financed. Credit granted to these entities and the ultimate repayment of such loans is primarily based on the cash flow generated from the property securing the loan or the business that occupies the property. The underlying real property securing the loans is considered a secondary source of repayment, and normally such loans are also supported by guarantees of the legal entity members. Absent such guarantees or approval by our credit committee, our policy requires that the loan to value ratio (at origination) be 60 percent or less of the estimated market value of the property as established by an independent licensed appraiser.

Reevaluation of collateral values. Commercial loan renewals, refinancing and other subsequent transactions that include the advancement of new funds or result in the extension of the amortization period beyond the original term, require a new or updated appraisal. Renewals, refinancing and other subsequent transactions that do not include the advancement of new funds (other than for reasonable closing costs) or, in the case of commercial loans, the extension of the amortization period beyond the original term, do not require a new appraisal unless management believes there has been a material change in market conditions or the physical aspects of the property which may negatively impact collectability of our loan. In general, the period of time an appraisal continues to be relevant will vary depending upon the circumstances affecting the property and the marketplace. Examples of factors that could cause material changes to reported values include the passage of time, the volatility of the local market, the availability of financing, the inventory of competing properties, new improvements to, or lack of maintenance of, the subject or competing surrounding properties, changes in zoning and environmental contamination.

Certain impaired loans are reported at the fair value of the underlying collateral (less estimated selling costs) if repayment is expected solely from the collateral and are commonly referred to as “collateral dependent impaired loans.” Collateral values for such loans are typically estimated using individual appraisals performed every 12 months (or 18 months for impaired loans no greater than $1 million with current loan to value ratios less than 75 percent). Between scheduled appraisals, property values are monitored within the commercial portfolio by reference to recent trends in commercial property sales as published by leading industry sources. Property values are monitored within the residential mortgage portfolio by reference to available market indicators, including real estate price indices within Valley’s primary lending areas.

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All refinanced residential mortgage loans require new appraisals for loans held in our loan portfolio and loans originated for sale. Additionally, all loan types are assessed for full or partial charge-off when they are between 90 and 120 days past due (or sooner when the borrowers' obligation has been released in bankruptcy) based upon their estimated net realizable value.

See Note 1 to our consolidated financial statements for additional information concerning our loan portfolio risk elements, credit risk management and our loan charge-off policy.

Loan Renewals and Modifications

In the normal course of our lending business, we may renew loans to existing customers upon maturity of the existing loan. These renewals are granted provided that the new loan meets our standard underwriting criteria for such loan type. Additionally, on a case-by-case basis, we may extend, restructure, or otherwise modify the terms of existing loans from time to time to remain competitive and retain certain profitable customers, as well as assist customers who may be experiencing financial difficulties. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan (TDR).

The majority of the concessions made for TDRs involve lowering the monthly payments on loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. The concessions rarely result in the forgiveness of principal or accrued interest. In addition, Valley frequently obtains additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and Valley's underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

Extension of Credit to Past Due Borrowers

Loans are placed on non-accrual status generally when they become 90 days past due and the full and timely collection of principal and interest becomes uncertain. Valley's historic and current policy prohibits the advancement of additional funds on non-accrual and TDR loans, except under certain workout plans if such extension of credit is intended to mitigate losses.

Loans Originated by Third Parties

From time to time, the Bank makes bulk purchases of residential mortgage loans, automobile loans, and other loan types (including commercial real estate loans totaling $147 million at December 31, 2014 that were purchased from other financial institutions in 2012 and 2014), originated by, and sometimes serviced by, other financial institutions. The purchase decision is usually based on several factors, including current loan origination volumes, market interest rates, excess liquidity and other asset/liability management strategies. All of the purchased loans are selected using Valley's normal underwriting criteria at the time of purchase, or in some cases guaranteed by third parties. Purchased residential mortgage loans and automobile loans (excluding purchased credit-impaired loans acquired in business combinations or FDIC-assisted transactions) totaled approximately $305.1 million and $23.5 million, respectively, at December 31, 2014 representing 11.8 percent and 1.6 percent of our total residential mortgage and automobile loan portfolios, respectively. At December 31, 2014, the residential mortgage loans originated by third parties had loans past due 30 days or more totaling 2.0 percent of these loans as compared to 0.2 percent for our total residential mortgage portfolio, including all delinquencies. The purchased automobile portfolio had loans past due 30 days or more totaling 1.1 percent of these loans at December 31, 2014 as compared to 0.1 percent for our total automobile loan portfolio.

Additionally, Valley has performed credit due diligence on the majority of the loans acquired in our bank acquisitions and FDIC-assisted transactions (disclosed under the "Recent Acquisitions" section above) in determining the estimated cash flows receivable from such loans. See the "Loan Portfolio" section of Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of this report below for additional information.

Competition

Valley National Bank is one of the largest commercial banks headquartered in New Jersey, with its primary markets located in northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, Long Island, and with the acquisition of 1st United on November 1, 2014, southeast and central Florida. Valley ranked 17th in competitive ranking and market share based on the deposits reported by 226 FDIC-insured financial institutions in the New York, Northern New Jersey and Long Island deposit market as of June 30, 2014. The FDIC also ranked Valley 8th, 41st and 37th in the states of New Jersey, New York and Florida (based upon 1st United's ranking), respectively, based on deposit market share as of June 30, 2014. Despite our favorable FDIC rankings, the market for banking and bank-related services is highly competitive and we face substantial competition in all phases of our operations. In addition to the FDIC-insured commercial banks in our principal metropolitan markets, we also compete with other providers of financial services such as savings institutions, credit unions, mutual funds,

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captive finance companies, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national companies which offer various financial services. Many of these competitors may have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures.

In addition, competition has further intensified as a result of recent changes in regulation, and advances in technology and product delivery systems. Web-based and other internet companies are providing non-traditional, but increasingly strong, competition for our borrowers, depositors, and other customers. Within our markets, we compete with some of the largest financial institutions in the world that are able to offer a large range of products and services at competitive rates and prices. Nevertheless, we believe we can compete effectively as a result of utilizing various strategies including our long history of local customer service and convenience as part of a relationship management culture, in conjunction with the pricing of loans and deposits. Our customers are influenced by the convenience, quality of service from our knowledgeable staff, personal contacts and attention to customer needs, as well as availability of products and services and related pricing. We provide such convenience through our banking network of 224 branches, an extensive ATM network, and our 24-hour telephone and on-line banking systems.

We continually review our pricing, products, locations, alternative delivery channels and various acquisition prospects and periodically engage in discussions regarding possible acquisitions to maintain and enhance our competitive position.

Personnel

At December 31, 2014, Valley National Bank and its subsidiaries employed 2,907 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

Executive Officers

Name	Age at December 31, 2014	Executive Officer Since	Office
Gerald H. Lipkin	73	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	57	1991	Director, Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	66	1993	Director, Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	66	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	68	1990	Executive Vice President of Valley and Valley National Bank
Dianne M. Grenz	52	2014	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	71	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	68	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	56	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	67	1991	Executive Vice President of Valley and Valley National Bank
Andrea T. Onorato	57	2014	Executive Vice President of Valley and Valley National Bank
Ira D. Robbins	40	2009	Executive Vice President of Valley and Valley National Bank
Rudy E. Schupp	64	2014	Executive Vice President of Valley and Valley National Bank
Sherry Ambrosini	59	2014	First Senior Vice President of Valley National Bank
Elizabeth E. De Laney	50	2007	First Senior Vice President of Valley National Bank
Eric W. Gould	46	2001	First Senior Vice President of Valley National Bank
John H. Noonan	68	2006	First Senior Vice President of Valley National Bank
Stephen P. Davey	59	2002	First Senior Vice President of Valley National Bank

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

Available Information

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

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

SUPERVISION AND REGULATION

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

Bank Holding Company Regulation

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

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

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

Regulation of Bank Subsidiary

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

Capital Requirements

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered “well capitalized,”

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"adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be "well capitalized." The financial holding company of a national bank will be put under directives to raise its capital levels or divest its activities if the depository institution falls from that level.

In July 2013, the FRB, or Federal Reserve, published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the Basel Rules. The Federal Deposit Insurance Corporation, or FDIC, and the OCC, have adopted substantially identical rules (in the case of the FDIC, as interim final rules). The Basel Rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act, as discussed below. The Basel Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Valley and Valley National Bank, compared to the current U.S. risk-based capital rules. The Basel Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 Basel II capital accords. The Basel Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel Rules became effective for us on January 1, 2015 (subject to phase-in periods for certain components).

The Basel Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1," or CET1, (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) apply most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expand the scope of the reductions/adjustments from capital as compared to existing regulations.

Under the Basel Rules, the minimum capital ratios for us and Valley National Bank as of January 1, 2015 are as follows:

- 4.5 percent CET1 to risk-weighted assets.
- 6.0 percent Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets.
- 8.0 percent Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets.
- 4.0 percent Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

When fully phased in on January 1, 2019, the Basel Rules will also require us and Valley National Bank to maintain a 2.5 percent "capital conservation buffer", composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0 percent, (ii) Tier 1 capital to risk-weighted assets of at least 8.5 percent, and (iii) total capital to risk-weighted assets of at least 10.5 percent. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625 percent level and increase by 0.625 percent on each subsequent January 1st, until it reaches 2.5 percent on January 1, 2019.

The Basel Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1.

The deductions and other adjustments to CET1 will be phased in incrementally between January 1, 2015 and January 1, 2018.
Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including Valley and Valley National Bank, may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015. We intend to make this one-time election in the applicable bank regulatory reports as of March 31, 2015.
The Basel Rules with respect to us require that trust preferred securities be phased out from Tier 1 capital between January 1, 2015 (when only 25 percent of the amount may be included) and January 1, 2016 (when 0 percent may be included).
With respect to Valley National Bank, the Basel Rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each capital quality level (other

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than critically undercapitalized); (ii) increasing the minimum Tier 1 capital ratio requirement for each category; and (iii) requiring a leverage ratio of 5 percent to be well-capitalized. Effective as of January 1, 2015, the OCC's regulations implementing these provisions of FDICIA provide that an institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a CET1 ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a CET1 ratio of at least 4.5 percent, (iv) has a Tier 1 leverage ratio of at least 4.0 percent, and (v) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CET1 ratio of less than 4.5 percent or (iv) has a Tier 1 leverage ratio of less than 4.0 percent. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the Basel Rules will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

The Basel Rules prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0 percent, 20 percent, 50 percent and 100 percent) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0 percent for U.S. Government and agency securities, to 600 percent for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Valley National Bank's capital ratios were all above the minimum levels required for it to be considered a "well capitalized" financial institution at December 31, 2014 under the "prompt corrective action" regulations in effect as of such date. We believe that, as of December 31, 2014, Valley and Valley National Bank would meet all capital adequacy requirements under the Basel Rules on a fully phased-in basis if such requirements were currently effective including after giving effect to the deductions described above.

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

The Dodd-Frank Act was signed into law on July 21, 2010. The Dodd-Frank Act significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Generally, the Act became 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:

- Gave the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as Valley National Bank. In June 2011, the FRB adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements certain fraud-prevention standards;
- Removed 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 at the enactment date will generally be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital.

However, the Basel Rules required us to phase out trust preferred securities from Tier 1 capital between January 1, 2015 (when only 25 percent of the amount may be included) and January 1, 2016 (when 0 percent may be included);

- Provided for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more (such as Valley), increases the minimum reserve ratio for the deposit insurance fund from 1.15 percent to 1.35 percent and changes the basis for determining FDIC premiums from deposits to assets (See "Insurance of Deposit Accounts" section below);
- Created a new Consumer Financial Protection Bureau that has 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 (See "Consumer Financial Protection Bureau Supervision" section below);

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- Required public companies to give shareholders a non-binding vote on executive compensation and on "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders;
- Directed federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion;Provided 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;
- Created 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; and
- Made permanent the $250 thousand limit for federal deposit insurance.

On October 9, 2012, the FDIC, the OCC, and the FRB issued separate but similar Dodd-Frank Act-mandated final rules requiring covered banks and bank holding companies with more than $10 billion in total consolidated assets (such as Valley) to conduct annual company-run stress tests. The final rules required banks with more than $50 billion in assets to begin conducting annual stress tests in 2012 and banks with between $10 billion and $50 billion in assets to begin conducting annual stress tests in October 2013.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, the CFPB issued a final rule amending Regulation Z to implement certain amendments to the Truth in Lending Act. The rule implements statutory changes that lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained. The rule also exempts certain transactions from the statute's escrow requirement. The CFPB issued a final rule implementing amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rule amends Regulation Z by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. The rule also amends Regulation Z and Regulation X by imposing other requirements related to homeownership counseling.

In addition, the CFPB amended Regulation B to implement changes to the Equal Credit Opportunity Act. The revisions to Regulation B require creditors to provide applicants with free copies of all appraisals and other written valuations developed in connection with an application for a loan to be secured by a first lien on a dwelling, and require creditors to notify applicants in writing that copies of appraisals will be provided to them promptly. The CFPB also amended Regulation Z to implement requirements and restrictions to the Truth in Lending Act concerning loan originator compensation, qualifications of, and registration or licensing of loan originators, compliance procedures for depository institutions, mandatory arbitration, and the financing of single-premium credit insurance. These amendments revise or provide additional commentary on Regulation Z's restrictions on loan originator compensation, including application of these restrictions to prohibitions on dual compensation and compensation based on a term of a transaction or a proxy for a term of a transaction, and to recordkeeping requirements. This rule also establishes tests for when loan originators can be compensated through certain profits-based compensation arrangements.

The final rules also implement the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the "QM Rule"). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting and eligibility guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits.

The CFPB has continued to issue final rules regarding mortgages. We cannot assure you that existing or future regulations will not have a material adverse impact on our residential mortgage loan business or the housing markets in which we participate. The QM Rule impacted our mortgage originations when it became effective in January 2014.

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 continue to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive

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balance within our industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, remains very unpredictable at this time.

Volcker Rule

On December 10, 2013, the FRB, the OCC, the FDIC, the CFTC and the SEC issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act, generally to become effective on July 21, 2016. The Volcker Rule prohibits an insured depository institution and its affiliates from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain types of funds (defined as "Covered Funds") subject to certain limited exceptions. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading and prohibits the use of some hedging strategies. We identified no investments held as of December 31, 2014 that meet the definition of Covered Funds. Covered Funds held prior to December 31, 2013 are required to be divested by July 21, 2016 under the foregoing rules. In December 2014, the FRB announced its intention to further exercise its statutory authority in 2015 and grant an additional, final, one-year extension, until July 21, 2017 for the divestiture of Covered Funds.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as Valley and Valley National Bank, with at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these agencies must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which Valley may structure compensation for its executives.

In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed in the immediately preceding paragraph.

The FRB will review, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Valley, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Dividend Limitations

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

Loans to Related Parties

Valley National Bank's authority to extend credit to its directors, executive officers and 10 percent shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of the National Bank Act, Sarbanes-Oxley Act

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

Community Reinvestment

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

The OCC conditioned its approval of Valley’s acquisition of 1st United, on the commitment of Valley National Bank to submit to the OCC before the end of 2014 a CRA plan consistent with the correspondence Valley submitted to the OCC during the application process. Valley National Bank submitted its CRA plan to the OCC prior to the end of 2014. The OCC acknowledged receipt of the CRA plan and did not object to the CRA plan as of the issuance date of this Annual Report. Under the CRA plan, Valley National Bank committed to endeavor to expand its CRA efforts with additional financial and managerial resources.

Sarbanes-Oxley Act of 2002

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

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

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

USA PATRIOT Act

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the “Anti Money Laundering Act”). The Anti Money Laundering Act authorizes the Secretary of the U.S. Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and

correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country.
Regulations implementing the due diligence requirements require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement

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authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of "concentration accounts," and requires all covered financial institutions to have in place an anti-money laundering compliance program.

The OCC, along with other banking agencies, have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

Consumer Financial Protection Bureau Supervision

As a financial institution with more than $10 billion in assets, Valley National Bank is supervised by the CFPB for consumer protection purposes. The CFPB's regulation of Valley National Bank is focused on risks to consumers and compliance with the federal consumer financial laws and includes regular examinations of the Bank. The CFPB, along with the Department of Justice and bank regulatory authorities also seek to enforce discriminatory lending laws. In such actions, the CFPB and others have used a disparate impact analysis, which measures discriminatory results without regard to intent. Consequently, unintentional actions by Valley could have a material adverse impact on our lending and results of operations if the actions are found to be discriminatory by our regulators.

Valley National Bank is subject to federal consumer protection statutes and regulations promulgated under those laws, including, but not limited to the following:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;
- Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information; and
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies.

Valley National Bank's deposit operations are also subject to the following federal statutes and regulations, among others:

- The Truth in Savings Act and Regulation DD, which requires disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E, governing automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations, such as the amendments described above in the discussion on the Dodd-Frank Act.

Gramm-Leach-Bliley Act

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

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was previously permissible, including insurance underwriting;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies;
-

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

- modifies other financial laws, including laws related to financial privacy and community reinvestment.

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The OCC adopted rules to allow national banks to form subsidiaries to engage in financial activities allowed for financial holding companies. Electing national banks must meet the same management and capital standards as financial holding companies but may not engage in insurance underwriting, real estate development or merchant banking. Sections 23A and 23B of the Federal Reserve Act apply to financial subsidiaries and the capital invested by a bank in its financial subsidiaries will be eliminated from the Bank's capital in measuring all capital ratios. Valley has not elected to become a financial holding company.

Insurance of Deposit Accounts

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

In February 2011, as required by the Dodd Frank Act, the Federal Deposit Insurance Corporation approved a final rule that revised the assessment base to consist of average consolidated total assets during the assessment period minus the average tangible equity during the assessment period. In addition, the final revisions eliminated the adjustment for secured borrowings, including Federal Home Loan Bank (FHLB) advances, and made certain other changes to the impact of unsecured borrowings and brokered deposits on an institution's deposit insurance assessment. The final rule, effective on April 11, 2011, also revised the assessment rate schedule to provide initial base assessment rates ranging from 5 to 35 basis points and total base assessment rates ranging from 2.5 to 45 basis points after adjustment. As previously noted above, the Dodd-Frank Act made permanent a $250 thousand limit for federal deposit insurance.

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

Item 1A. Risk Factors

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

We may have difficulty integrating 1st United Bancorp into our franchise.

Our traditional marketplace and physical presence has been in northern and central New Jersey and the New York City metropolitan area. During the fourth quarter of 2014, we expanded our branch network into markets outside of these areas through our acquisition of 1st United Bancorp, Inc. headquartered in Boca Raton, Florida (with primary bank operations in West Palm Beach, Florida). The 1st United acquisition adds a 20 branch network serving southeast and central Florida and represents approximately 9 percent of our total branch network. Valley's ability to successfully execute in these markets depends upon a variety of factors, including management's ability to successfully integrate 1st United into the Valley franchise, our ability to retain and attract experienced personnel, the continued availability of desirable business opportunities and locations and the competitive responses from other financial institutions in the new market areas. Unlike our previous acquisitions, 1st United is located in an area that is not contiguous to our current market area. Accordingly, there may be additional complications as a result and the success of the acquisition will depend on our ability to integrate 1st United and manage growth outside of Valley's traditional branch footprint. See Note 2 to the consolidated financial statements for additional information on our most recent business combinations.

Our financial results and condition may be adversely impacted by weak economic conditions, particularly if unemployment does not continue to improve or increases.

During 2014, the United States experienced modest economic growth and significant improvements in the level of unemployment rate as compared to the end of 2013. However, the rate of future economic growth still remains highly uncertain and the low level of the labor force participation rate (which has contributed to the decline in the unemployment rate) may not significantly improve in the near future. The majority of Valley's lending is in northern and central New Jersey, and Manhattan, Brooklyn, Queens, and Long Island, New York. As a result of this geographic concentration, a significant broad-based deterioration in economic conditions in New Jersey and the New York City metropolitan area could have a material adverse impact on the quality of Valley's loan portfolio, results of operations and future growth potential. Prolonged weakened economic conditions and

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unemployment in our market areas could restrict borrowers' ability to pay outstanding principal and interest on loans when due, and, consequently, adversely affect the cash flows and results of operation of Valley's business. Additionally, such weak conditions could adversely affect our ability to originate loans.

Changes in interest rates or prolonged low levels of interest rates could reduce our net interest income and earnings.

Valley's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond Valley's control, including general economic conditions, competition, and policies of various governmental and regulatory agencies and, in particular, the policies of the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest Valley receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Valley's ability to originate loans and obtain deposits, (ii) the fair value of Valley's financial assets and liabilities, including the held to maturity, available for sale, and trading securities portfolios, and (iii) the average duration of Valley's interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk). Any substantial or unexpected change in market interest rates or a prolonged period of low interest rates, such as those experienced in 2014 and expected to continue in 2015 despite any potential movements in the FRB's accommodative monetary policy, could have a material adverse effect on Valley's financial condition and results of operations. See additional information at the "Net Interest Income" and "Interest Rate Sensitivity" sections of our MD&A.

We could recognize other-than-temporary impairment charges on investment securities due to adverse economic and market conditions.

As of December 31, 2014, we had approximately $1.8 billion and $887.0 million in held to maturity and available for sale securities, respectively. We may be required to record impairment charges in earnings related to credit losses on these investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, (a) if we intend to sell a security or (b) it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we will be required to recognize an other-than-temporary impairment charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

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

Among other securities, our investment portfolio includes private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled securities), perpetual preferred securities issued by banks, and bank issued corporate bonds. These investments pose a risk of future impairment charges by us as a result of the unpredictable nature of the U.S. economy and its potential negative effect on the performance of these issuers and, if applicable, the underlying mortgage loan collateral of the security. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon requirements or recommendations by bank regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley's investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. We recognized no other-than-temporary impairment charges on securities attributable to credit in 2014 and 2013 as compared to $5.2 million in 2012. The 2012 charges were mainly due to impaired trust preferred securities and private label mortgage-backed securities. See the “Investment Securities” section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment of investment securities.

Future acquisitions may dilute shareholder value.

We regularly evaluate opportunities to acquire other financial institutions. As a result, merger and acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisitions.

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We could incur future goodwill impairment

If our estimates of the fair value of our goodwill change as a result of changes in our business or other factors, we may determine a goodwill impairment charge is necessary. Estimates of the fair value of goodwill are determined using several factors and assumptions, including, but not limited to, industry pricing multiples and estimated cash flows. Based upon Valley's 2014 goodwill impairment testing, the fair values of its four reporting units, wealth management, consumer lending, commercial lending, and investment management, were in excess of their carrying values. If the fair values of the four reporting units were less than their book value of the total common shareholders' equity for an extended period of time, Valley would consider this and other factors, including the anticipated cash flows of each of the reporting units, to determine whether goodwill is impaired. No assurance can be given that we will not record an impairment loss on goodwill in the future and any such impairment loss could have a material adverse effect on our results of operations and financial condition. At December 31, 2014, our goodwill totaled $575.9 million, including $147.7 million acquired in the 1st United acquisition during the fourth quarter of 2014. See Note 8 to the consolidated financial statements for additional information.

Future offerings of common stock, debt or other securities may adversely affect the market price of our stock and dilute the holdings of existing shareholders.

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

A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could adversely affect our asset quality and profitability for those loans secured by real property and increase the number of defaults and the level of losses within our loan portfolio.

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2014, over 72 percent of our total loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and could deteriorate in value during the time the credit is extended. A downturn in the real estate market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and shareholders' equity could be adversely affected. The declines in home or commercial real estate prices in the New Jersey, New York and Florida markets we serve, along with the reduced availability of mortgage credit, also may result in increases in delinquencies and losses in our loan portfolios. Unexpected decreases in home or commercial real estate prices coupled with slow economic growth and elevated levels of unemployment could drive losses beyond that which is provided for in our allowance for loan losses. In that event, our earnings could be adversely affected.

The secondary market for residential mortgage loans, for the most part, is limited to conforming Fannie Mae and Freddie Mac loans. The effects of this limited mortgage market and, potentially, the pool of qualified borrowers under the new QM Rule effective in January 2014, combined with another correction in residential real estate market prices and reduced levels of home sales, could result in price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans held, mortgage loan originations and gains on sale of mortgage loans. Declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which could adversely affect our financial condition or results of operations. For additional risks related to our sales of residential mortgages in the secondary market, see the "We may incur future losses in connection with repurchases and indemnification payments related to mortgages that we have sold into the secondary market" risk section below.

Higher charge-offs and weak credit conditions could require us to increase our allowance for credit losses through a provision charge to earnings.

We maintain an allowance for credit losses based on our assessment of credit losses inherent in our loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance is critical to our financial results and conditions. It requires difficult, subjective and complex judgments about the future, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and

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outside of our control, may require an increase in the allowance for loan losses. Additionally, bank regulators review the classification of our loans in their examination of us and we may be required in the future to change the classification on certain of our loans, which may require us to increase our provision for loan losses or loan charge-offs. If actual net charge-offs were to exceed Valley's allowance, its earnings would be negatively impacted by additional provisions for loan losses. Any increase in our allowance for loan losses or loan charge-offs as required by the OCC or otherwise could have an adverse effect on our results of operations or financial condition.

Loans acquired in our FDIC-assisted transactions may not be covered by the loss-sharing agreements if the FDIC determines that we have not adequately managed these agreements, which could require a reduction in the carrying value of these loans.

The Bank entered into loss-sharing agreements with the FDIC in connection with the acquisitions of certain assets and liabilities of LibertyPointe Bank and The Park Avenue Bank in 2010, and assets subject to loss-share agreements acquired in the 1st United acquisition in 2014 (which were from 1st United's prior FDIC-assisted transactions with Old Harbor Bank, The Bank of Miami, and Republic Federal Bank). 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. On October 21, 2011, 1st United assumed all deposits and certain identified assets and liabilities of Old Harbor Bank and entered into a loss-sharing agreement with the FDIC in which the FDIC will reimburse us for 70 percent or up to $49 million of losses on covered loans and other real estate acquired. On December 17, 2010, 1st United assumed all deposits and certain identified assets and liabilities of The Bank of Miami and entered into a loss-sharing agreement with the FDIC in which losses will be shared with us on the acquired loan and other real estate owned portfolio up to 80 percent of those covered assets acquired. On December 11, 2009, 1st United assumed all deposits (except certain brokered deposits) and certain identified assets and liabilities of Republic Federal Bank and entered into a loss-sharing agreement with the FDIC in which losses will be shared with us on the acquired loan and other real estate owned portfolio up to 80 percent of losses up to $36 million. The FDIC will reimburse us for 95 percent of losses in excess of $36 million. At December 31, 2014, our FDIC loss-share receivable totaled $13.8 million, of which $6.9 million related to 1st United loss-sharing agreements. 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.

The required accounting treatment of purchased credit-impaired (PCI) loans, including covered-loans, we acquired through business combinations, FDIC-assisted transactions, or bulk loan purchases could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods. Under U.S. GAAP, we record loans acquired at a discount (that is due, in part, to credit,) at fair value which may underestimate the actual performance of such loans. As a result, if these loans outperform our original fair value estimates, the difference between our original estimate and the actual performance of the loan (the "discount") is accreted into net interest income. Thus, our net interest margins may initially appear higher. We expect the yields on our loans to decline as our acquired loan portfolio pays down or matures and we expect downward pressure on our interest income to the extent that the runoff on our acquired loan portfolio is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest rate margin and lower interest income in future periods. See the "Loan Portfolio" section of this MD&A and Note 5 to the consolidated financial statements for additional analysis and discussion of our PCI loans.

An increase in our non-performing assets may reduce our interest income and increase our net loan charge-offs, provision for loan losses, and operating expenses.

Our non-accrual loans decreased from 1.20 percent at December 31, 2012 to 0.82 percent and 0.41 percent of total loans at December 31, 2013 and 2014, respectively. Although the economy continued to gradually improve during 2014, a downturn in economic or real estate market conditions could result in increased charge-offs to our allowance for loan losses and lost interest income relating to non-performing loans. Non-performing assets (including non-accrual loans, other real estate owned, other repossessed assets, and non-accrual debt securities) totaled $83.1 million at December 31, 2014. These non-performing assets can adversely affect our net income mainly through decreased interest income and increased operating expenses incurred to maintain such assets or loss charges related to subsequent declines in the estimated fair value of foreclosed assets. Adverse changes in the value of our non-performing assets, or the underlying collateral, or in the borrowers' performance or financial conditions could adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience

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increases in non-performing loans in the future, or that our non-performing assets will not result in lower financial returns in the future.

Extensive regulation and supervision may have a negative impact on our ability to compete in a cost effective manner and subject us to material compliance costs and penalties.

Valley, primarily through its principal subsidiary and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole. Many laws and regulations affect Valley's lending practices, capital structure, investment practices, dividend policy and growth, among other things. They encourage Valley to ensure a satisfactory level of lending in defined areas, and establish and maintain comprehensive programs relating to anti-money laundering and customer identification. Congress, state legislatures, and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect Valley in substantial and unpredictable ways. Such changes could subject Valley to additional costs, limit the types of financial services and products it may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on Valley's business, financial condition and results of operations. Valley's compliance with certain of these laws will be considered by banking regulators when reviewing bank merger and bank holding company acquisitions.

We may further reduce or eliminate the cash dividend on our common stock, which could adversely affect the market price of our common stock.

Holders of our common stock are only entitled to receive such cash dividends, as our Board of Directors may declare out of funds legally available for such payments. In the fourth quarter of 2013, we reduced our quarterly cash dividend by $0.0525 to $0.11 per share. Although we have historically declared cash dividends on our common stock, we are not required to do so and may further reduce or eliminate our common stock cash dividend in the future depending upon our results of operations, financial condition or other metrics. This could adversely affect the market price of our common stock. Additionally, as a bank holding company, our ability to declare and pay dividends is dependent on federal regulatory policies and regulations including the supervisory policies and guidelines of the OCC and the FRB regarding capital adequacy and dividends. Among other things, consultation of the FRB supervisory staff is required in advance of our declaration or payment of a dividend that exceeds our earnings for a period in which the dividend is being paid. New regulatory guidelines will increase our minimum capital requirements in the future as outlined in the "Basel III" section of Item 1 above.

Changes in accounting policies or accounting standards could cause us to change the manner in which we report our financial results and condition in adverse ways and could subject us to additional costs and expenses.

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

From time to time, the FASB and the SEC change their guidance governing the form and content of Valley's external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles ("U.S. GAAP"), such as the FASB, SEC, banking regulators and Valley's independent registered public accounting firm, may change or even reverse their previous interpretations or positions on how these standards should be applied. Such changes are expected to continue, and may accelerate dependent upon the FASB and International Accounting Standards Board commitments to achieving convergence between U.S. GAAP and

International Financial Reporting Standards. Changes in U.S. GAAP and changes in current interpretations are beyond Valley's control, can be hard to predict and could materially impact how Valley reports its financial results and condition. In certain cases, Valley could be required to apply a new or revised guidance retroactively or apply existing guidance differently (also retroactively) which may result in Valley restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel, and other expenses that will negatively impact our results of operations.

We may be required to recognize losses on certain financial transactions due to the credit default or liquidation of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial

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

We may be unable to adequately manage our liquidity risk, which could affect our ability to meet our obligations as they become due, capitalize on growth opportunities, or pay regular dividends on our common stock.

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

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

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

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

The loss of or decrease in lower-cost funding sources within our deposit base may adversely impact our net interest income and net income.

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

If our subsidiaries are unable to make dividends and distributions to us, we may be unable to make dividend payments to our common shareholders or interest payments on our junior subordinated debentures issued to capital trusts.

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

Our market share and income may be adversely affected by our inability to successfully compete against larger and more diverse financial service providers.

Valley faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than Valley to deal with the potential negative changes in the financial markets and regulatory landscape. Valley competes with other providers of financial services such as commercial and savings banks, savings and loan associations, credit unions, money market and mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a large list of other local, regional and national institutions which offer financial services. Additional mergers and acquisitions of financial institutions within

New Jersey and the New York Metro area may also occur given the current difficult banking environment and add more competitive pressure to a substantial portion of our marketplace. If Valley is unable to compete effectively, it may lose market share and its income generated from loans, deposits, and other financial products may decline.

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Our ability to make opportunistic acquisitions is subject to significant risks, including the risk that regulators will not provide the requisite approvals.

We may make opportunistic whole or partial acquisitions of other banks, branches, financial institutions, or related businesses from time to time that we expect may further our business strategy, including through participation in FDIC-assisted acquisitions or assumption of deposits from troubled institutions. Any possible acquisition will be subject to regulatory approval, and there can be no assurance that we will be able to obtain such approval in a timely manner or at all. Even if we obtain regulatory approval, these acquisitions could involve numerous risks, including lower than expected performance or higher than expected costs, difficulties related to integration, diversion of management’s attention from other business activities, changes in relationships with customers, and the potential loss of key employees. In addition, we may not be successful in identifying acquisition candidates, integrating acquired institutions, or preventing deposit erosion or loan quality deterioration at acquired institutions. Competition for acquisitions can be highly competitive, and we may not be able to acquire other institutions on attractive terms. There can be no assurance that we will be successful in completing or will even pursue future acquisitions, or if such transactions are completed, that we will be successful in integrating acquired businesses into operations. Ability to grow may be limited if we choose not to pursue or are unable to successfully make acquisitions in the future.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense and we may not be able to hire people or to retain them. The unexpected loss of services of one or more of our key personnel, including, but not limited to, the executive officers disclosed in Item 1 of this Annual Report, could have a material adverse impact on the business because we would lose the employees’ skills, knowledge of the market, and years of industry experience and may have difficulty promptly finding qualified replacement personnel.

Failure to successfully implement our growth strategies could cause us to incur substantial costs and expenses which may not be recouped and adversely affect our future profitability.

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

We may not keep pace with technological change within the financial services industry, negatively affecting our ability to remain competitive and profitable.

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

We rely on our systems, employees and certain service providers, and if our system fails or if our security measures are compromised, our operations could be disrupted or the data of our customers could be improperly divulged.

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

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We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. Furthermore, many other financial institutions and companies engaged in data processing have reported significant breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber attacks and other means. Although to date we have not experienced any material losses relating to such cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Additionally, our risk exposure to security matters may remain elevated or increase in the future due to, among other things, the increasing size and prominence of Valley in the financial services industry, our expansion of Internet and mobile banking tools and products based on customer needs, and the system and customer account conversions associated with the integration of merger targets. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as us) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate. We maintain a system of comprehensive policies and a control framework designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure or internal controls, (ii) changes in the vendor's financial condition, (iii) changes in the vendor's support for existing products and services and (iv) changes in the vendor's strategic focus. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Severe weather, acts of terrorism and other external events could significantly impact our ability to conduct our business.

A significant portion of our primary markets is located near coastal waters which could generate naturally occurring severe weather, or in response to climate change, that could have a significant impact on our ability to conduct business. Many areas in Northern New Jersey and Florida in which our branches operate are subject to severe flooding and significant weather related disruptions may become common events in the future. During the fourth quarter of 2012, Hurricane Sandy struck the Northeast and caused severe property damage and many business closures throughout the New Jersey and New York Metropolitan areas. Although, this storm did not materially impact our operations or the vast majority of our borrowers' ability to repay their loans or the collateral values securing their loans, the risk of such disruptions and potential losses remain from future storm activity.

Additionally, New York City and New Jersey remain central targets for potential acts of terrorism against the United States. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although we have established and regularly test disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities which could have a material adverse effect on our financial condition and results of operations.

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

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

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. The substantial decline in residential real estate values and the standards used by some originators has resulted in more repurchase requests to many secondary market participants from secondary market purchasers. Since January 1, 2006, we have originated and sold over 17,200 individual residential mortgages totaling approximately $3.6 billion. Of the $3.6 billion in originations, approximately $17.3 million in unpaid principal balances

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remain outstanding from the origination years 2006 through 2008. These particular years are considered to be ‘high risk’ years in the mortgage industry due to the escalation in housing prices, and subsequent decline during the financial crisis. However, these potentially higher risk loans in our retained mortgage loan servicing portfolio continued to outperform Fannie Mae’s overall portfolio performance (for each applicable origination year) at December 31, 2014. Over the past several years, we have experienced a nominal amount of repurchase requests, and only a few of which have actually resulted in repurchases by Valley (only two loan repurchases in 2014 and four loan repurchases during 2013). None of the loan repurchases resulted in loss. As of December 31, 2014, no reserves pertaining to loans sold were established on our financial statements. While we currently believe our repurchase risk remains low based upon our careful loan underwriting and documentation standards, it is possible that requests to repurchase loans could occur in the future and such requests may have a negative financial impact on us.

Claims and litigation pertaining to our fiduciary responsibility and other obligations could result in losses and damage to our reputation.

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We conduct our business at 224 retail banking centers locations throughout northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn, Queens and Long Island, and southeast and central Florida. We own 104 of our banking center facilities and several non-branch operating facilities. The other properties are leased for various terms.

The following table summarizes our retail banking centers by district in each state:

	Number of banking centers	% of Total	
New Jersey			
Central	34	15.1	%
Northern	127	56.7	
Total New Jersey	161	71.8	
New York			
Manhattan	15	6.7	
Long Island	13	5.8	
Brooklyn	9	4.0	
Queens	6	2.7	
Total New York	43	19.2	
Florida			
Southeast	10	4.5	
Central (including the Treasure Coast and Gulf Coast regions)	10	4.5	
Total Florida	20	9.0	
Total	224	100.0	%

Our principal business office is located at 1455 Valley Road, Wayne, New Jersey. Including our principal business office, we own four office buildings in Wayne, New Jersey and one building in Chestnut Ridge, New York, which are used for various operations of Valley National Bank and its subsidiaries. Our New York City corporate headquarters are located at One Penn Plaza in Manhattan and are primarily used as a central hub for New York based lending activities of senior executives and other commercial lenders. We also lease a residential mortgage loan production office in Bethlehem, Pennsylvania. In addition to the 20 branch locations acquired from 1st United, we lease three additional office facilities in Florida, used for operational, executive and lending purposes.

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During the fourth quarter of 2014, we sold a branch located at 62 West 47th Street in Manhattan for a pre-tax gain of approximately $17.8 million and entered into a long-term lease with an unrelated third party for a new location directly across the street. Valley plans to complete its branch relocation in the first half of 2015.
The total net book value of our premises and equipment (including land, buildings, leasehold improvements and furniture and equipment) was $283.0 million at December 31, 2014.

Item 3. Legal Proceedings

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

PART II

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

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

	Year 2014			Year 2013		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$10.50	$9.28	$0.11	$10.50	$9.50	$0.16
Second Quarter	10.81	9.42	0.11	10.28	8.75	0.16
Third Quarter	10.18	9.38	0.11	10.73	9.41	0.16
Fourth Quarter	10.09	9.05	0.11	10.53	9.67	0.11

There were 8,158 shareholders of record as of December 31, 2014.

Restrictions on Dividends

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

Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2009 in: (a) Valley's common stock; (b) the Keefe, Bruyette & Woods' KBW50 Bank Index; (c) Valley's custom peer group of 16 U.S.
Banks (Valley Peer 16) in the States located in the Northeast and Mid-Atlantic with total assets ranging from $4.5 billion to $48.6 billion (see below for details); and (d) the Standard and Poor's (S&P) 500 Stock Index. The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time based on dividends (stock or cash) and increases or decreases in the market price of the stock.

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	12/09	12/10	12/11	12/12	12/13	12/14
Valley	$100.00	$111.91	$107.44	$90.22	$104.23	$104.51
KBW 50	100.00	120.41	114.18	129.31	189.82	194.41
Valley Peer 16 *	100.00	133.43	126.52	141.44	200.91	212.05
S&P 500	100.00	115.08	117.47	136.24	180.33	204.96

* The peer group index is comprised of the following banks: Astoria Financial Corporation, Community Bank System, Inc., Dime Community Bancshares, Inc., First Niagara Financial Group, Inc., Flushing Financial Corporation, Fulton Financial Corporation, Investors Bancorp, Inc., National Penn Bancshares, Inc., NBT Bancorp Inc., New York Community Bancorp, Inc., People's United Financial, Inc., Provident Financial Services, Inc., Signature Bank, Sterling Bancorp, Susquehanna Bancshares, Inc., and Webster Financial Corporation.

Issuer Repurchase of Equity Securities

The following table presents the purchases of equity securities by the issuer and affiliated purchasers during the three months ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans[1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans [1]
October 1, 2014 to October 31, 2014	—	$—	—	4,112,465
November 1, 2014 to November 30, 2014	13,764[2]	9.90	—	4,112,465
December 1, 2014 to December 31, 2014	63,800[2]	9.49	—	4,112,465
Total	77,564		—	

(1) On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.7 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended December 31, 2014.

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

Equity Compensation Plan Information

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

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Item 6. Selected Financial Data

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

	As of or for the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except for share data)				
Summary of Operations:					
Interest income—tax equivalent basis (1)	$644,536	$623,986	$678,410	$679,901	$682,402
Interest expense	161,846	168,377	181,312	199,013	214,060
Net interest income—tax equivalent basis (1)	482,690	455,609	497,098	480,888	468,342
Less: tax equivalent adjustment	7,933	7,889	7,217	6,077	5,590
Net interest income	474,757	447,720	489,881	474,811	462,752
Provision for credit losses	1,884	16,095	25,552	53,335	49,456
Net interest income after provisions for credit losses	472,873	431,625	464,329	421,476	413,296
Non-interest income:					
Gains on securities transactions, net	745	14,678	2,587	32,068	11,598
Net impairment losses on securities recognized in earnings	—	—	(5,247)	(19,968)	(4,642)
Trading (losses) gains, net	(31)	909	2,793	2,271	(6,897)
Gains on sales of loans, net	1,731	33,695	46,998	10,699	12,591
Gains (losses) on sales of assets, net	18,087	10,947	(329)	426	619
Other non-interest income	57,084	68,424	74,144	86,801	78,058
Total non-interest income	77,616	128,653	120,946	112,297	91,327
Non-interest expense:					
Loss on extinguishment of debt	10,132	—	—	—	—
Amortization of tax credit investments	24,196	14,352	4,157	2,614	865
Other non-interest expense	368,927	366,986	370,743	335,942	318,823
Total non-interest expense	403,255	381,338	374,900	338,556	319,688
Income before income taxes	147,234	178,940	210,375	195,217	184,935
Income tax expense	31,062	46,979	66,748	62,706	54,929
Net income	$116,172	$131,961	$143,627	$132,511	$130,006
Per Common Share (2) :					
Earnings per share:					
Basic	$0.56	$0.66	$0.73	$0.74	$0.73
Diluted	0.56	0.66	0.73	0.74	0.73
Dividends declared	0.44	0.60	0.65	0.66	0.66
Book value	8.03	7.72	7.57	7.02	7.22
Tangible book value (3)	5.38	5.39	5.26	5.13	5.29
Weighted average shares outstanding:					
Basic	205,716,293	199,309,425	197,354,159	178,424,883	177,568,546
Diluted	205,716,293	199,309,425	197,354,372	178,426,070	177,577,663
Ratios:					
Return on average assets	0.69%	0.83%	0.91%	0.93%	0.92%
	7.18	8.69	9.57	10.11	10.23

Return on average shareholders' equity					
Return on average tangible shareholders' equity(4)	10.26	12.51	13.65	13.68	13.84
Average shareholders' equity to average assets	9.62	9.51	9.48	9.19	9.00
Tangible common equity to tangible assets (5)	6.87	6.86	6.71	6.58	6.82
Efficiency ratio (6)	73.00	66.16	61.38	57.67	57.70
Dividend payout	78.40	90.90	89.04	88.46	88.89
Risk-based capital:					
Tier 1 capital	9.73 %	9.65 %	10.87 %	10.81 %	10.83 %
Total capital	11.42	11.87	12.38	12.64	12.81
Leverage capital	7.46	7.27	8.09	7.99	8.23
Financial Condition:					
Assets	$18,793,855	$16,156,541	$16,012,646	$14,252,755	$14,151,249
Net loans	13,371,560	11,453,995	10,892,599	9,665,839	9,241,091
Deposits	14,034,116	11,319,262	11,264,018	9,673,102	9,363,614
Shareholders' equity	1,863,017	1,541,040	1,502,377	1,254,836	1,284,935

See Notes to the Selected Financial Data that follow.

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Notes to Selected Financial Data

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

(2) All per common share amounts reflect all common stock dividends and all stock splits prior to 2013.

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

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

	Years Ended December 31,				
	2014	2013	2012	2011	2010
			($in thousands)		
Common shares outstanding	232,110,975	199,593,109	198,438,271	178,683,030	178,010,307
Shareholders' equity	$1,863,017	$1,541,040	$1,502,377	$1,254,836	$1,284,935
Less: Goodwill and other intangible assets	614,667	464,364	459,357	338,780	343,541
Tangible common shareholders' equity	$1,248,350	$1,076,676	$1,043,020	$916,056	$941,394
Tangible book value per common share	$5.38	$5.39	$5.26	$5.13	$5.29

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

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	($ in thousands)				
Net income	$116,172	$131,961	$143,627	$132,511	$130,006
Average shareholders' equity	$1,618,965	$1,519,299	$1,500,997	$1,310,939	$1,270,778
Less: Average goodwill and other intangible assets	486,769	464,085	449,078	342,122	331,667
Average tangible shareholders' equity	$1,132,196	$1,055,214	$1,051,919	$968,817	$939,111
Return on average tangible shareholders' equity	10.26 %	12.51 %	13.65 %	13.68 %	13.84 %

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

	At December 31,				
	2014	2013	2012	2011	2010
			($ in thousands)		
Tangible common shareholders' equity	$1,248,350	$1,076,676	$1,043,020	$916,056	$941,394

Total assets	$18,793,855	$16,156,541	$16,012,646	$14,252,755	$14,151,249
Less: Goodwill and other intangible assets	614,667	464,364	459,357	338,780	343,541
Tangible assets	$18,179,188	$15,692,177	$15,553,289	$13,913,975	$13,807,708
Tangible common shareholders' equity to tangible assets	6.87 %	6.86 %	6.71 %	6.58 %	6.82 %

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

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

- a severe decline in the general economic conditions of New Jersey, the New York Metropolitan area and Florida;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- less than expected cost savings from long-term borrowings that mature from 2015 to 2018;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;
- claims and litigation pertaining to fiduciary responsibility, contractual issues, environmental laws and other matters;
- our inability to pay dividends at current levels, or at all, because of inadequate future earnings, regulatory restrictions or limitations, and changes in the composition of qualifying regulatory capital and minimum capital requirements (including those resulting from the U.S. implementation of Basel III requirements);
- higher than expected loan losses within one or more segments of our loan portfolio;
- declines in value in our investment portfolio, including additional other-than-temporary impairment charges on our investment securities;
- unexpected significant declines in the loan portfolio due to the lack of economic expansion, increased competition, large prepayments or other factors;
- unanticipated credit deterioration in our loan portfolio;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- higher than expected tax rates, including increases resulting from changes in tax laws, regulations and case law;
- an unexpected decline in real estate values within our market areas;
- 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 that 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 higher 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;

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- our internal controls and procedures may not be adequate to prevent losses;
- the inability to realize expected revenue synergies from the 1st United Bancorp, Inc. merger in the amounts or in the timeframe anticipated;
- costs or difficulties relating to the 1st United Bancorp, Inc. integration matters might be greater than expected;
- inability to retain customers and employees, including those of 1st United Bancorp, Inc.;
- lower than expected cash flows from purchased credit-impaired loans;
- cyber attacks, computer viruses or other malware that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage our systems;
- future goodwill impairment due to changes in our business, changes in market conditions, or other factors; and
- other unexpected material adverse changes in our operations or earnings.

Critical Accounting Policies and Estimates

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

Valley’s accounting policies are fundamental to understanding management’s discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements. We identified our policies for the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Management has reviewed the application of these policies with the Audit Committee of Valley’s Board of Directors.

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

Allowance for Loan Losses. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commercial letters of credit and represents management’s estimate of credit losses inherent in the loan portfolio at the balance sheet date. The determination of the appropriate level of the allowance is based on periodic evaluations of the loan portfolios. There are numerous components that enter into the evaluation of the allowance for loan losses, which includes a quantitative analysis, as well as a qualitative review of its results. The qualitative review is subjective and requires a significant amount of judgment. 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, our allowance for credit losses methodology includes loan portfolio evaluations at the portfolio segment level, which consist of the commercial and industrial, commercial real estate, construction, residential mortgage, home equity, automobile and other consumer loan portfolios.

Allowance for Loan Losses on Non-Covered Loans

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

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

- reserves for other loans that are not impaired; and, if applicable,
- reserves for impairment of purchased credit-impaired (PCI) loans subsequent to their acquisition date.

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

Valley has no allowance reserves established at December 31, 2014 related to the non-covered PCI loans; however, the information below regarding our policies to determine the allowance for covered loans is identical to the procedures performed by Valley to determine the carrying amounts and reserves for impairment of non-covered PCI loans subsequent to their acquisition date.

Allowance for Loan Losses on Covered Loans

During 2010 and 2014, we acquired loans in two FDIC-assisted transactions and three prior FDIC-assisted transactions in connection with the 1st United acquisition, respectively, that are covered by loss-sharing agreements with the FDIC whereby we will be reimbursed for a substantial portion of any future losses. Like the non-covered PCI loans acquired and purchased during the first quarter of 2012 and fourth quarter of 2014, we evaluated the acquired covered loans and elected to account for them in accordance with Accounting Standards Codification (ASC) Subtopic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” since all of these loans were acquired at a discount attributable, at least in part, to credit quality. The covered loans are initially recorded at their estimated fair values segregated into pools of loans sharing common risk characteristics, exclusive of the loss-sharing agreements with the FDIC. The fair values include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

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

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

Changes in Our Allowance for Loan Losses

Valley considers it difficult to quantify the impact of changes in forecast on its allowance for loan losses. However, management believes the following discussion may enable investors to better understand the variables that drive the allowance for loan losses, which amounted to $102.4 million at December 31, 2014.

For impaired credits, if the present value of expected cash flows were 10 percent higher or lower, the allowance would have decreased $4.5 million or increased $5.2 million, respectively, at December 31, 2014. If the fair value of the collateral (for collateral dependent loans) was 10 percent higher or lower, the allowance would have decreased $250 thousand or increased $1.7 million, respectively, at December 31, 2014.

If classified loan balances were 10 percent higher or lower, the allowance would have increased or decreased by approximately $1.2 million, respectively, at December 31, 2014.

The credit rating assigned to each non-classified credit is an important variable in determining the allowance. If each non-classified credit were rated one grade worse, the allowance would have increased by approximately $4.6 million, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2014. Additionally, if the historical loss factors used to calculate the allowance for non-classified loans were 10 percent higher or lower, the allowance would have increased or decreased by approximately $7.4 million, respectively, at December 31, 2014. Moreover, if the expected loss rate applied to classified loans were to increase or decrease by 10 percent, the allowance would have been $6.2 million higher or lower, respectively, at December 31, 2014.

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A key variable in determining the allowance is management's judgment in determining the size of the allowances attributable to general economic conditions and other qualitative risk factors. At December 31, 2014, such allowances were 5.4 percent of the total allowance. If such allowances were 10 percent higher or lower, the total allowance would have increased or decreased by $557 thousand, respectively, at December 31, 2014.
Security Valuations and Impairments. Management utilizes various inputs to determine the fair value of its investment portfolio. To the extent they exist, unadjusted quoted market prices in active markets (Level 1) or quoted prices on similar assets (Level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and liquid markets, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (Level 3). Valuation techniques are based on various assumptions, including, but not limited to, cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. A significant degree of judgment is involved in valuing investments using Level 3 inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations. See Note 3 to the consolidated financial statements for more details on our security valuation techniques.
Management must periodically evaluate if unrealized losses (as determined based on the securities valuation methodologies discussed above) on individual securities classified as held to maturity or available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment's book value is greater than fair value, the severity of the investment's decline, any credit deterioration of the investment, whether management intends to sell the security, and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Debt investment securities deemed to be other-than-temporarily impaired are written down by the impairment related to the estimated credit loss and the non-credit related impairment is recognized in other comprehensive income or loss. Other-than-temporarily impaired equity securities are written down to fair value and a non-cash impairment charge is recognized in the period of such evaluation. See the "Investment Securities" section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.
Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, "Business Combinations." Goodwill totaling $575.9 million at December 31, 2014 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 $38.8 million at December 31, 2014 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 analysis is generally a two-step test. During 2014 and 2013, Valley elected to perform step one of the two-step goodwill impairment test for all of its reporting units but may choose to perform an optional qualitative assessment allowable under Accounting Standards Update (ASU) No. 2011-08, "Testing Goodwill for Impairment" for one or more units in the future periods to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Step one compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its

implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses is not permitted.

Fair value may be determined using: market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other determinants. Estimated cash flows may extend far into the future and, by their nature, are difficult to determine over an extended timeframe. Factors that may materially affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates, terminal values, and specific industry or market sector conditions. To assist in assessing the impact of potential goodwill or other intangible assets impairment charges at December 31, 2014, the impact of a five percent impairment charge would result in a reduction in net income of approximately $30.7 million. See Note 8 to consolidated financial statements for additional information regarding goodwill and other intangible assets.

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

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

The provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. We perform regular reviews to ascertain the realizability of our deferred tax assets. These reviews include management's estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies. In connection with these reviews, if we determine that a portion of the deferred tax asset is not realizable, a valuation allowance is established. As of December 31, 2014, management has determined it is more likely than not that Valley will realize its net deferred tax assets and therefore a valuation allowance was not established.

In addition to our judgments regarding the realizable amount of our deferred tax assets, we are required to adjust our state deferred tax assets for the impact of our expansion outside of our traditional markets, specifically New Jersey. During the fourth quarter of 2014, we reduced our state deferred tax assets by $7.6 million to reflect the effect of the 1st United acquisition in Florida on our existing state deferred tax assets. The $7.6 million reduction is reflected as a charge to our (state) income tax expense for 2014. Future adjustments to our state deferred tax assets may be required, dependent on any significant changes in the nature, location and composition of our income producing assets.

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

See Notes 1 and 13 to the consolidated financial statements and the "Income Taxes" section in this MD&A for an additional discussion on the accounting for income taxes.

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

Executive Summary

Company Overview. At December 31, 2014, Valley had consolidated total assets of $18.8 billion, total net loans of $13.4 billion, total deposits of $14.0 billion and total shareholders' equity of $1.9 billion. Our commercial bank operations include branch office locations in northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens and Long Island and southeast and central Florida. Of our current 224—branch network, 72 percent, 19 percent and 9 percent of the branches are located in New Jersey, New York and Florida, respectively. We have grown both in asset size and locations significantly over the past several years primarily through bank acquisitions.

Valley's most recent acquisition was completed on November 1, 2014 when Valley acquired 1st United Bancorp, Inc. ("1st United") and its wholly-owned subsidiary, 1st United Bank, a commercial bank with approximately $1.7 billion in assets, $1.2 billion in loans, and $1.4 billion in deposits, after purchase accounting adjustments. The 1st United acquisition provided Valley unique access to Florida's high growth market through its experienced management team and a 20 branch network covering some of the most attractive urban banking markets in Florida, including locations throughout southeast and central Florida, including the Treasure Coast and central Gulf Coast regions. The common shareholders of 1st United received 0.89 of a share of Valley common stock for each 1st United share they owned prior to the merger. The total consideration for the acquisition was approximately $300 million, consisting of 30.7 million shares of Valley common stock and $8.9 million of cash consideration paid to 1st United stock option holders. The transaction generated approximately $147.7 million in goodwill and $11.5 million in core deposit intangible assets subject to amortization. See Item 1 of this Annual Report for more details regarding our past merger activity, as well as Note 2 to the consolidated financial statements.

Annual Results. Net income totaled $116.2 million, or $0.56 per diluted common share, for the year ended December 31, 2014 compared to $132.0 million in 2013, or $0.66 per diluted common share. The decrease in net income was largely due to: (i) a $51.0 million, or 39.7 percent, decline in total non-interest income mainly due to declines of $32.0 million and $12.4 million in net gains on sales of loans and net gains on securities transactions, respectively, as well as a $13.9 million increase in the reduction to our non-interest income due to changes in the FDIC loss-share receivable, partially offset by a $7.1 million increase in net gains on sales of assets (which included a $17.8 million gain on the sale of a Manhattan branch location during the fourth quarter of 2014) and (ii) a $21.9 million, or 5.7 percent, increase in total non-interest expense mostly caused by a $10.1 million loss on extinguishment of debt resulting from the prepayment of $275 million in higher cost long-term borrowing in late December 2014, a $9.8 million increase in amortization of tax credit investments and $2.6 million in 1st United merger related expenses, partially offset by (iii) a $27.0 million, or 6.0 percent, increase in our net interest income largely caused by a $893.7 million increase in average loans and a 17 basis point decline in the cost of long-term borrowings mostly driven by the early redemption of $146.8 million of 7.75 percent junior subordinated debentures during the second half of 2013, (iv) a $14.2 million, or 88.3 percent, decline in our provision for credit losses caused by the positive effect of the gradual improvement in credit conditions and the U.S. economy on our non-covered loan portfolio during 2014 and a $3.6 million increase in the negative (credit) provision for losses on covered loan due to a decrease in the estimated additional credit impairment of certain loan pools acquired in FDIC-assisted transactions and (v) a $15.9 million, or 33.9 percent, decrease in income tax expense due, in part, to declines in pre-tax income and increased tax credit investments, partially offset by a $7.6 million charge within income tax expense for the fourth quarter of 2014 which mostly related to the effect of the 1st United acquisition on the valuation of our deferred tax assets. See the “Net Interest Income,” “Non-Interest Income,” “Non-Interest Expense,” and “Income Taxes” sections below for more details on the items above impacting our 2014 annual results.

Economic Overview and Indicators. The economic environment modestly improved in 2014 compared to the prior year. Job growth accelerated, the housing market improved during the second half of the year and business fixed investment advanced moderately. On whole, commodity prices, most notably oil, declined, home prices increased and equity markets advanced compared with the end of 2013. This dynamic should boost household purchasing power and therefore support consumer spending and loan demand in 2015. Long-term interest rates were pressured lower throughout the year effecting credit spreads. During the fourth quarter of 2014, real gross domestic product (GDP) grew at a 3.2 percent annual rate after advancing 5.0 percent in the third quarter of 2014. Compared with the end of 2013, real gross domestic product advanced at a 2.6 percent rate during 2014.

Labor market conditions improved during 2014, with strong job gains and a lower unemployment rate as compared with the end of 2013. In 2014, there were ten consecutive months that added more than two-hundred thousand jobs to the economy. The unemployment rate ended the fourth quarter at 5.6 percent as noted in the table below, and 1.1 percentage points lower than compared with December 31, 2013.

The pace of existing home sales in the U.S. and New York City metropolitan area essentially stalled during the first half of 2014, but slowly rebounded through the fourth quarter of 2014. Compared with the third quarter of 2014, existing home sales activity softened. However, given that underlying buying conditions are generally favorable with mortgage interest rates still low and job growth remaining strong, we believe the pace of home sales should strengthen during 2015. Evidence of first-time home buyer activity has picked up in recent months and should provide additional support for the housing market in 2015.

Energy prices, including some industrial commodities such as copper, have declined in 2014 compared with the end of 2013. The precipitous drop in oil prices in late 2014 and early 2015 should support consumer spending as it becomes further evident the price decline is more than transitory. West Texas Intermediate crude oil ended the fourth quarter at $53.45, decreasing 46 percent as compared to December 31, 2013.

The Federal Reserve’s Open Market Committee (the “Committee”) continued to maintain a target range of zero to 0.25 percent for its federal funds rate throughout 2014. In determining how long to maintain this current policy, the

Committee will assess (both realized and future expected) progress toward its objectives of maximum employment and two percent inflation. The Committee also maintained its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and will continue rolling over maturing Treasury securities at auction. This policy should help maintain accommodative financial conditions. Although many market watchers and economists believe the Federal Reserve will begin to gradually increase its target federal funds rate in the latter half of 2015, the Committee maintained that it can be patient in beginning to normalize the stance of its monetary policy.

The 10-year U.S. Treasury note yield ended the fourth quarter at 2.17 percent, 87 basis points lower compared with December 31, 2013. The spread between the 2- and 10-year U.S. Treasury note yields ended the fourth quarter of 2014 at 1.50 percentage points, 44 basis points lower sequentially and 116 basis points lower compared with the end of 2013.

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During the fourth quarter of 2014 and the first quarter of 2015, market interest rates for residential mortgages declined to levels not seen since June 2013. The decline has positively impacted the volume of mortgage refinance activity initiated during the fourth quarter of 2014 and through the early stages of 2015. However at this point, we do not see the new and refinanced mortgage loan activity returning to the record origination levels that Valley experienced during most of the 12-month period ending June 30, 2013. In the fourth quarter of 2014 and early 2015, we also continued to see strong demand for commercial real estate and construction loans, especially within the New York City markets. However, the continued pressure on long-term interest rates coupled with the potential increase in short-term interest rates and other negative developments in the global economy will likely provide a difficult operating environment in 2015 and may challenge our business operations and results, as highlighted throughout the remaining MD&A discussion below.

The following economic indicators are just a few of the many factors that may be used to assess the market conditions in our primary markets of northern and central New Jersey, the New York City metropolitan area, and Florida.

	For the Month Ended				
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Selected Economic Indicators:					
Unemployment rate:					
U.S.	5.60 %	5.90 %	6.10 %	6.70 %	6.70 %
New York Metro Region*	5.60 %	6.30 %	6.70 %	7.40 %	6.60 %
New Jersey	6.20 %	6.50 %	6.60 %	7.20 %	7.20 %
New York	5.20 %	5.20 %	6.60 %	6.90 %	7.00 %
Miami-Fort Lauderdale Metro Region	5.60 %	6.60 %	6.40 %	6.50 %	6.00 %
Florida	5.60 %	6.10 %	6.20 %	6.30 %	6.30 %

	Three Months Ended				
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
		($ in millions)			
Personal income:					
New Jersey	NA	$509,563	$507,339	$500,870	$497,484
New York	NA	$1,116,714	$1,109,298	$1,097,279	$1,082,685
Florida	NA	853,465	847,539	833,230	821,681
New consumer bankruptcies:					
New Jersey	NA	0.11 %	0.13 %	0.10 %	0.12 %
New York	NA	0.06 %	0.08 %	0.06 %	0.08 %
Florida	NA	0.11 %	0.13 %	0.11 %	0.13 %
Change in home prices:					
U.S.	(0.10)%	(0.10)%	0.90 %	0.20 %	(0.30)%
New York Metro Region*	0.25 %	(0.31)%	(0.01)%	1.51 %	2.04 %
Florida	2.38 %	0.48 %	2.24 %	3.30 %	4.43 %
New consumer foreclosures:					
New Jersey	NA	0.07 %	0.07 %	0.09 %	0.09 %
New York	NA	0.03 %	0.04 %	0.06 %	0.04 %
Florida	NA	0.07 %	0.07 %	0.09 %	0.08 %
Homeowner vacancy rates:					
New Jersey	1.60 %	1.40 %	1.70 %	1.70 %	1.90 %
New York	2.20 %	1.70 %	1.40 %	1.50 %	2.30 %

Florida	2.80	%	2.30	%	2.40	%	2.50	%	2.40	%

NA—not available
* As reported by the Bureau of Labor Statistics for the NY-NJ-PA Metropolitan Statistical Area.
Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of New York, S&P Indices, and the U.S.
Census Bureau.

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Loans. Total non-covered loans (i.e., loans which are not subject to our loss-sharing agreements with the FDIC) increased by $1.8 billion, or 15.6 percent, to $13.3 billion at December 31, 2014 from December 31, 2013 largely due to $1.2 billion in loans acquired in the 1st United acquisition and solid organic growth in both commercial real estate (including construction) loans and automobile loans in 2014. Total commercial real estate loans of $6.6 billion at December 31, 2014 organically grew by $493.8 million, or 9.1 percent, as compared to December 31, 2013 (excluding $657.4 million of loans acquired from 1st United within this portfolio). Automobile loans increased $243.4 million, or 27.0 percent, to $1.1 billion at December 31, 2014 from December 31, 2013, mostly due to loan growth driven by a strong U.S. auto market and a steadily improving economy in 2014. Commercial and industrial loans totaled $2.2 billion at December 31, 2014 and increased by $242.2 million from December 31, 2013 largely due to $143.3 million of loans acquired from 1st United and increased new loan demand in 2014. However, commercial loan growth has been limited to a certain extent by, among other factors, fierce market competition for quality borrowers and normal collections and prepayment activity in 2014. At December 31, 2014, other consumer loans totaled $310.3 million and increased by $95.2 million from December 31, 2013 largely due to continued growth in collateralized personal lines of credit, as well as $11.8 million of loans acquired from 1st United. Home equity loans totaled $491.7 million at December 31, 2014 and increased $42.7 million from December 31, 2013 entirely due to $57.5 million in loans acquired from 1st United, partially offset by repayment activity as new customer demand as remained tepid. Residential mortgage loans totaled $2.5 billion at December 31, 2014 and remained relatively unchanged from December 31, 2013 as portfolio growth was significantly limited by a steep decline in consumer refinance activity since mid-2013 and, to a lesser extent, our loan originations for sale in the secondary market which totaled over 29 percent of our new and refinanced loan originations during 2014. Total covered loans (i.e., loans subject to our loss-sharing agreements with the FDIC) increased to $211.9 million, or 1.6 percent of our total loans, at December 31, 2014 as compared to $96.2 million, or 0.8 percent of total loans, at December 31, 2013 mainly due to $180.7 million in covered loans acquired from 1st United, partially offset by normal collection and prepayment activity.

Our residential mortgage loan origination activity remained at moderate low levels during most of 2014 as compared to 2013 largely due to the higher level of long-term market interest rates since June 2013, which significantly reduced the level of consumer refinance activity. As a result, our new and refinanced residential mortgage loan originations decreased 77.9 percent to $310.7 million for the year ended December 31, 2014 as compared to $1.4 billion in 2013. During 2014, Valley sold only $84.9 million of residential mortgages originated for sale (including $10.5 million of residential mortgage loans held for sale at December 31, 2013), as compared to approximately $1.1 billion of mortgages sold during the year ended December 31, 2013. Due to the decline in sales volume (and to a lesser extent lower gain on sale margins), gains on sales of residential mortgage loans declined to $2.6 million (which excludes $872 thousand of net losses on non-performing commercial loans held for sale during 2014) for the year ended December 31, 2014 as compared to $33.7 million in 2013. Despite a recent decrease in market interest rates since the fourth quarter of 2014 and the expectation that there may be a renewed increase in consumer demand for new and refinanced mortgage loans, we do not anticipate a significant increase (to levels experienced in the first half of 2013) in our refinanced mortgage loan pipeline during the first quarter of 2015. Additionally, if market interest rates were to remain at or increase from current levels, we may elect to decrease the amount of our loans originated for sale, as the yield on such loans would be attractive to hold in our loan portfolio. See further details on our loan activities, including the covered loan portfolio, under the “Loan Portfolio” section below.

Asset Quality. Given the current state of the national and local economy, labor markets, and the average level of delinquency rates last reported by the banking industry, we believe our loan portfolio’s credit performance remained at an acceptable level at December 31, 2014. Our past due loans and non-accrual loans, discussed further below, exclude PCI loans. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are accounted for on a pool basis and are not subject to delinquency classification in the same manner as loans originated by Valley. All of the loans acquired from 1st United on November 1, 2014 are accounted for as PCI loans.

Total non-PCI loan portfolio delinquencies (including loans past due 30 days or more and non-accrual loans) as a percentage of total loans decreased to 0.65 percent at December 31, 2014 compared to 1.23 percent at December 31, 2013. Of the 0.65 percent in delinquencies at December 31, 2014, 0.02 percent, or $3.0 million, represented performing matured loans in the normal process of renewal. Non-accrual loans (excluding non-performing loans held for sale) decreased to $55.8 million, or 0.41 percent of our entire loan portfolio of $13.5 billion, at December 31, 2014 as compared to $95.1 million, or 0.82 percent of total loans, at December 31, 2013. Overall, our non-performing assets (which include non-performing loans held for sale) decreased by 33.4 percent to $83.1 million at December 31, 2014 as compared to $124.9 million at December 31, 2013 largely due to the declines in non-accrual loans, as well as other real estate owned. The $39.3 million, or 41.3 percent, decrease in non-accrual loans was largely due to the transfer of $35.6 million of non-performing loans (primarily within the commercial real estate loan and commercial and industrial loan categories) to loans held during the first quarter of 2014, as well as some positive loan collection activity, including the full payoff of three non-accrual commercial real estate loans totaling $3.3 million during the fourth quarter of 2014. The transfer of the loans, required to be at the lower of cost (i.e., the carrying balance) or fair value, resulted in charge-offs totaling $8.3 million to the allowance for loan losses and an aggregate adjusted net carrying value of $27.3 million within the loans held for sale category at the date of transfer. At December 31, 2014, our loans held for sale included only one remaining non-performing

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commercial real estate loan totaling approximately $7.1 million, after valuation write-downs subsequent to its transfer from the loan portfolio to loans held for sale at March 31, 2014. Loans sales and the valuation write-downs related to non-performing loans held for sale resulted in an aggregate net loss of $872 thousand for the year ended December 31, 2014 recognized as a component of the net gains on sales of loans category of our non-interest income.

Our lending strategy is based on underwriting standards designed to maintain high credit quality and we remain optimistic regarding the overall future performance of our loan portfolio. However, due to the potential for future credit deterioration caused by the unpredictable future strength of the U.S. economy and the housing and the labor markets, management cannot provide assurance that our non-performing assets will remain at, or decline from, the levels reported as of December 31, 2014. See the “Non-performing Assets” section below for further analysis of our asset quality.

Investments. During the year ended December 31, 2014, we recognized net gains on securities transactions of $745 thousand as compared to $14.7 million in 2013. Of the $14.7 million in net gains in 2013, $10.7 million related to Valley’s decision to sell previously impaired trust preferred securities issued by one deferring bank holding company during the fourth quarter of 2013. Valley sold these impaired, non-accrual debt securities classified as available for sale (with a combined unamortized cost of $41.8 million) for net proceeds of $52.5 million in October 2013. There were no other-than-temporary impairment charges attributable to credit during the year ended December 31, 2014 and 2013 as compared to $5.2 million in 2012. See further details in the “Investment Securities Portfolio” section below and Note 4 to the consolidated financial statements.

Deposits and Other Borrowings. The mix of total deposits continued to shift away from time deposits to the other deposit categories during 2014 due to the low level of rates that we offered on certificates of deposit during most of the year and the maturity of higher cost time deposits. Non-interest bearing deposits represented approximately 31 percent of total average deposits for the year ended December 31, 2014, while savings, NOW and money market accounts were 50 percent and time deposits were 19 percent. Average non-interest bearing deposits increased $166.1 million to $3.7 billion for the year ended December 31, 2014 as compared to 2013 due to increases in both retail and commercial deposits caused by the low level of fixed interest rate investment alternatives, such as time deposits, as well as approximately $94 million in average balances related to non-interest bearing deposits to our new Florida 20-branch network since the acquisition of 1st United in November 2014. Average savings, NOW and money market account balances also increased $577.9 million to $5.9 billion in 2014 largely due to an increase in brokered money market account balances (with agreed upon terms of up to five years) used as a larger part of our loan growth funding strategy and other liquidity needs during the second half of 2014, as well as approximately $98 million in average balances related to our Florida branch network. And lastly, average time deposits declined $93.1 million to $2.2 billion for 2014 as compared to 2013 mainly due to the low level of rates offered on our new certificates of deposit for most of 2014 and the continued run-off of maturing higher cost retail certificates of deposits, partially offset by approximately $48 million in average balances from the Florida branches. However, actual time deposit balances increased by $559.1 million to $2.7 billion at December 31, 2014 from September 30, 2014 due to significant organic growth from new retail time deposit campaigns in New Jersey, New York and Florida, as well as $256.5 million in deposits assumed from 1st United during the fourth quarter of 2014. See further discussion of our average interest bearing liabilities under the “Net Interest Income” section below.

During 2014, we continued to closely monitor our cost of funds to optimize our net interest margin in the prolonged low interest rate environment, as discussed further in the “Net Interest Income” section below. In late December 2014, we elected to use a portion of our low yielding excess liquidity to prepay $275 million of our long-term borrowings, which had a combined weighted average interest rate of 4.52 percent and contractual maturity dates in November 2015. The debt extinguishment resulted in a loss consisting of prepayment penalties totaling approximately $10.1 million for the year ended December 31, 2014. Additionally, we anticipate future opportunities to reduce our overall funding cost, as certain high cost long-term borrowings totaling approximately $1.7 billion begin to mature in the third quarter of 2015 through the end of 2018, or if the opportunity to prepay such borrowings (similar to the debt prepayment in the fourth quarter of 2014) arises where there is not a significant negative impact to our capital position due to certain factors, such as periodic gains from other infrequent items. We believe that these maturities, with an average cost of 3.89 percent, are likely to substantially decrease the level of our future funding costs based upon today's expectations of future market interest rates on similar borrowings, as well as several forward starting interest rate swap derivatives entered into during the second half of 2013 to hedge the risk of an increase in current market interest rates before the maturity date of $207 million of the borrowings. The $275 million of prepaid debt in the fourth quarter of 2014 was also hedged with forward starting derivatives in 2013 and will require us to enter into the same amount of debt instruments with new durations of 3 to 5 years (i.e., through the expiration of the derivative contracts) in November 2015. See Note 14 to the consolidated financial statements for additional information regard all of our derivative transactions.

Operating Environment. The financial markets continue to work through a period marked by unprecedented change due to current and future regulatory and market reform, including new regulations under the Dodd-Frank Act and the Basel Rules highlighted in the “Supervision and Regulation” section of Item 1 of this Annual Report. Although the U.S. economic environment and labor markets have shown an improvement during 2014, the low market interest rate environment and the fragile global economy may pose significant obstacles in the future for us and the markets in which we participate. However, we believe our

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current capital position, ability to evaluate credit and other investment opportunities, conservative balance sheet, and commitment to excellent customer service will afford us a competitive advantage in the future. Additionally, we believe we are well positioned to move quickly on market expansion opportunities as they may arise, including through possible acquisitions of other institutions within New Jersey, the New York City Metropolitan area and Florida.

Net Interest Income

Net interest income consists of interest income and dividends earned on interest earning assets less interest expense on interest bearing liabilities and represents the main source of income for Valley. The net interest margin on a fully tax equivalent basis is calculated by dividing tax equivalent net interest income by average interest earning assets and is a key measurement used in the banking industry to measure income from interest earning assets.

Annual Period 2014. Net interest income on a tax equivalent basis increased $27.1 million to $482.7 million for 2014 compared with $455.6 million for 2013. The increase was mainly driven by a $893.7 million increase in average loan balances, a 17 basis point increase in the yield on average taxable investments and a 16 basis point decline in the cost of average long-term borrowings as compared to 2013. The growth in average loans during 2014 was fueled mostly by solid demand for commercial real estate loans, automobile loans and secured personal lines of credit throughout the year, an uptick in construction loans in our New York City markets in the second half of 2014, and approximately $1.2 billion in loans acquired from 1st United on November 1, 2014.

The net interest margin on a tax equivalent basis was 3.21 percent for the year ended December 31, 2014, an increase of 1 basis point as compared to 3.20 percent for 2013. The moderate increase was largely due to a 14 basis point decline in the cost of interest bearing liabilities mostly driven by the aforementioned 16 basis point decrease in our cost of average long-term borrowings, as well as a 4 basis point decline in the cost of average time deposits. The decrease in the cost of our average long-term borrowings was primarily caused by our redemptions of 7.75 percent junior subordinated debentures totaling $146.8 million during the second half of 2013, and partially replacing the debt with lower cost subordinated notes. The cost of time deposits decreased mostly due to the normal run-off of maturing high cost certificate of deposit balances throughout 2014, the low level rates offered on new time deposits relative to the overall cost of our time deposits, and, to a much lesser extent, the lower costs associated with time deposits assumed from 1st United during the fourth quarter of 2014. Largely mitigating these lower costs, the yield on average interest earning assets declined 9 basis points to 4.29 percent for 2014 as compared to 4.38 percent in 2013. Despite relatively higher long-term market interest rates to start the year, these rates trended downward for most of the second half of 2014, and again reached near historically low levels by December 31, 2014. The decline in yield on interest earning assets was mainly attributable to the low market interest rates on (new and refinanced) loans throughout 2014 as compared to our overall yield of the portfolio and a large volume of prepayments of high yielding loans, including PCI loans. As a result, the yield on average loans declined 23 basis points to 4.58 percent for 2014 as compared to 4.80 percent in 2013. However, our average taxable investment portfolio yield increased 17 basis points during 2014 as compared to one year ago largely due to a slow down in prepayments, and as a result, a decline in the premium amortization on residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises as the overall level of interest rates on average was slightly higher than 2013. Additionally, our overall yield on interest earning assets was positively impacted by a $125.9 million decline in average federal funds sold and other interest bearing deposits (mostly held in overnight interest bearing deposits at the Federal Reserve Bank of New York) as compared to 2013 as this low yielding excess liquidity was utilized more for new loans and investments during 2014.

Our earning asset portfolio is comprised of both fixed-rate and adjustable-rate loans and investments. Many of our earning assets are priced based upon the prevailing treasury rates, the Valley prime rate (set by Valley management based on various internal and external factors) or on the U.S. prime interest rate as published in The Wall Street Journal. On average, the 10 year treasury rate increased from 2.34 percent in 2013 to 2.54 percent in 2014, positively impacting our yield on average loans as new and renewed fixed-rate loans were originated at slightly higher interest rates in 2014 (but still well below the overall yield of 4.58 percent on average loans in 2014). However, Valley’s prime rate and the U.S. prime rate have remained at 4.50 percent and 3.25 percent, respectively, since the fourth quarter of

2008. Our U.S. prime rate based loan portfolio should have an immediate positive impact on the yield of our average earning assets should the prime rate move upward in 2015, while an increase in treasury rates above current levels should also have a positive, but more gradual, effect on our interest income based on our ability to originate new and renewed fixed rate loans. We do not expect our Valley prime rate portfolio to have an immediate benefit to our interest income in a rising interest rate environment due to its current level above the U.S. prime rate. However, the Valley prime rate is set by management and will likely increase before the U.S. prime rate reaches its current level of 4.50 percent. Additionally, interest income on approximately $1.8 billion of our residential mortgage-backed securities with net unamortized purchase premiums totaling $58.6 million at December 31, 2014 could improve if and when interest rates were to continue upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. Conversely, increases in the

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prepayment speeds due to declining interest rates will increase the amount of premium amortization expense recognized against interest income related to these securities.
Average interest earning assets totaling $16.8 billion for the year ended December 31, 2014 increased $798.6 million, or 5.6 percent, as compared to 2013. Average loan balances increased $893.7 million to $12.1 billion in 2014 and drove all of the $15.4 million increase in the interest income on a tax equivalent basis for loans as compared to 2013, which was partially offset by the low interest rates on new and renewed loans. The increase in average loans was primarily due to the aforementioned commercial real estate loan, automobile loan and secured personal lines of credit growth seen throughout 2014, an uptick in construction loan demand primarily in our New York City markets in the second half of 2014, and approximately $1.2 billion in loans acquired from 1st United on November 1, 2014. Average investment securities increased $30.8 million to approximately $2.8 billion in 2014 primarily due to higher levels of excess liquidity reinvested into taxable investments, primarily consisting of residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises. Average federal funds sold and other interest bearing deposits decreased $125.9 million to $170.5 million for the year ended December 31, 2014 as compared to 2013 due to much lower levels of overnight liquidity held primarily during the first nine months of 2014 as the excess liquidity was largely deployed into new loans and taxable investments.
Average interest bearing liabilities increased $562.0 million to $11.3 billion for the year ended December 31, 2014 from the same period in 2013 mainly due to a $577.9 million increase in average savings, NOW, and money market accounts resulting mostly from an increase in brokered money market account balances (with agreed upon terms of up to five years) used as a larger part of our loan growth funding strategy and other liquidity needs during the second half of 2014, as well as approximately $98 million in average balances related to our Florida branch network. Average short-term borrowings also increased $134.1 million to $290.8 million in 2014 as compared to 2013 mostly due to higher levels of overnight federal funds purchased and short-term FHLB advances utilized as short-term funding sources for loan growth in 2014. Average long-term borrowings moderately declined by $56.9 million to $2.8 billion in 2014 as compared to 2013, but the mix of borrowings did shift slightly to lower rate borrowings during the full year of 2014 as we redeemed our 7.75 percent junior subordinated debentures with contractual principal balances totaling $146.8 million and partially replaced them with the issuance of $125 million of 5.125 percent subordinated notes mostly during the second half of 2013. See the "Fourth Quarter of 2014" section below for more information regarding changes in our interest bearing liabilities during 2014.

Fourth Quarter of 2014. Net interest income on a tax equivalent basis totaling $130.6 million for the fourth quarter of 2014 increased $14.0 million and $12.6 million as compared to the third quarter of 2014 and fourth quarter of 2013, respectively. Interest income on a tax equivalent basis increased to $172.9 million for the fourth quarter of 2014 as compared to $157.4 million for the third quarter of 2014. The $15.5 million increase from the third quarter of 2014 was mainly due to a $1.1 billion increase in average loans largely caused by $1.2 billion of loans acquired from 1st United on November 1, 2014 coupled with strong organic loan growth over the second half of 2014, and a 7 basis point increase in the yield on average loans. Interest expense increased $1.5 million to $42.3 million for the three months ended December 31, 2014. The increase in interest expense from the third quarter of 2014 was primarily driven by a $1.3 billion increase in average interest bearing deposits for the fourth quarter of 2014 and higher interest rates offered on most of our deposit products. The increase in average interest bearing deposits was largely due to $848.3 million in interest bearing deposits assumed from 1st United, new retail time deposit campaigns including Florida and higher average brokered money market account balances in the fourth quarter of 2014.

The net interest margin on a tax equivalent basis was 3.20 percent for the fourth quarter of 2014, an increase of 4 basis points from 3.16 percent in the linked third quarter of 2014 and 7 basis points decrease from 3.27 percent for the three months ended December 31, 2013. The yield on average interest earning assets decreased by 3 basis points on a linked quarter basis. The lower yield was mainly a result of the $340.9 million increase in average federal funds sold and other interest bearing deposits and this category's higher percentage of the total composition of average interest earnings assets, as well as a 9 basis point decline in the yield on average taxable investments, partially offset by a 7 basis point increase in the yield on average loans. The increase in average federal funds sold and other interest bearing deposits largely resulted from excess liquidity caused, in part, by the timing of new loan originations, lower than expected seasonal declines in government deposits and our very successful retail time deposit campaign during the fourth quarter of 2014. The yield on average taxable investment securities declined largely due to a higher level of premium amortization on residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises. The yield on average loans benefited from higher yielding PCI loans acquired from 1st United and additional accretion on our other PCI loan portfolios largely due to better than expected cash flows on certain loan pools since the date of acquisition. However, these items were partially offset by new and refinanced loan volumes at current interest rates that remain relatively low compared to the overall yield of our loan portfolio and a moderate decline in late fees during the fourth quarter of 2014. The level of yields on new loans has been negatively impacted by the low market interest rates caused not only from the Fed's current monetary policy, but also from intense competition in our markets for quality commercial customers. The overall cost of average interest bearing liabilities decreased by 10 basis point from 1.47 percent in the linked third quarter of 2014 primarily due to a 7 basis point decrease in the cost of average time deposits largely caused by the time deposits assumed from 1st United, and, to a

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much lesser extent, maturing higher cost time deposits. Our cost of total deposits totaled 0.41 percent for the fourth quarter of 2014 and remained unchanged as compared to the three months ended September 30, 2014.

We continuously manage our balance sheet and explore ways to reduce our cost of funds to optimize our returns. Potential future loan growth from both the commercial real estate and consumer lending segments (that has continued into the early stages of 2015) is anticipated to positively impact our future net interest income. Additionally, we elected to use a portion of our low yielding excess liquidity to prepay $275 million of our long-term borrowings in late December 2014. The fourth quarter 2014 prepayment of this debt, with a weighted average interest rate of 4.52 percent, is expected to help reduce our cost of average interest bearing liabilities in the first quarter of 2015. However, our margin continues to face the risk of compression in the future due to, among other factors, the relatively low level of interest rates on most interest earning asset alternatives, further repayment of higher yielding interest earning assets, the re-pricing risk related to our interest earning assets with short durations if long-term market interest rates were to decline below current levels, and the negative impact on interest expense from certain cash flow hedge derivative transactions related to money market deposit accounts. Additionally, a large portion of our cost of average borrowings remains tied to fixed rate long-term FHLB advances and repos, as well as $100 million in subordinated debt issued in 2005, with contractual interest rates significantly above current market rates for similar borrowings. There are no meaningful maturities of these borrowings until the second half of 2015 and, until then, we expect these borrowings to negatively impact our net interest margin. However as previously noted in the "Executive Summary" section above, we entered into several forward starting interest rate swap derivative transactions during 2013 to hedge the risk of an increase in current market interest rates before the maturity of such borrowings. See Note 14 to the consolidated financial statements for additional information on our derivative hedging transactions.

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The following table reflects the components of net interest income for each of the three years ended December 31, 2014, 2013 and 2012:

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY AND NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	2014			2013			2012		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)								
Assets									
Interest earning assets:									
Loans [(1)(2)]	$12,081,683	$552,847	4.58 %	$11,187,968	$537,422	4.80 %	$11,238,269	$581,828	5.18 %
Taxable investments [(3)]	2,232,559	68,730	3.08	2,186,670	63,632	2.91	2,169,106	75,805	3.49
Tax-exempt investments [(1)(3)]	556,067	22,590	4.06	571,205	22,194	3.89	478,838	20,242	4.23
Federal funds sold and other interest bearing deposits	170,474	369	0.22	296,359	738	0.25	223,515	535	0.24
Total interest earning assets	15,040,783	644,536	4.29	14,242,202	623,986	4.38	14,109,728	678,410	4.81
Allowance for loan losses	(109,341)			(123,103)			(133,322)		
Cash and due from banks	318,380			364,174			434,038		
Other assets	1,598,642			1,506,963			1,436,408		
Unrealized gains (losses) on securities available for sale, net	(23,152)			(14,983)			(12,854)		
Total assets	$16,825,312			$15,975,253			$15,833,998		
Liabilities and Shareholders' Equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$5,938,245	$19,671	0.33 %	$5,360,367	$17,863	0.33 %	$5,094,919	$20,090	0.39 %
Time deposits	2,249,189	27,882	1.24	2,342,283	29,928	1.28	2,708,919	37,466	1.38
Total interest bearing deposits	8,187,434	47,553	0.58	7,702,650	47,791	0.62	7,803,838	57,556	0.74
	290,818	972	0.33	156,733	590	0.38	328,438	1,387	0.42

Short-term borrowings									
Long-term borrowings (4)	2,837,088	113,321	3.99	2,893,951	119,996	4.15	2,904,893	122,369	4.21
Total interest bearing liabilities	11,315,340	161,846	1.43	10,753,334	168,377	1.57	11,037,169	181,312	1.64
Non-interest bearing deposits	3,731,727			3,565,672			3,228,183		
Other liabilities	159,280			136,948			67,649		
Shareholders' equity	1,618,965			1,519,299			1,500,997		
Total liabilities and shareholders' equity	$16,825,312			$15,975,253			$15,833,998		
Net interest income/interest rate spread (5)		482,690	2.86%		455,609	2.81%		497,098	3.17%
Tax equivalent adjustment		(7,933)			(7,889)			(7,217)	
Net interest income, as reported		$474,757			$447,720			$489,881	
Net interest margin (6)			3.16%			3.14%			3.47%
Tax equivalent effect			0.05			0.06			0.05
Net interest margin on a fully tax equivalent basis (6)			3.21%			3.20%			3.52%

(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 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 Valley 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

	Years Ended December 31, 2014 Compared to 2013			2013 Compared to 2012		
	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*	$41,653	$(26,228)	$15,425	$(2,593)	$(41,813)	$(44,406)
Taxable investments	1,356	3,742	5,098	609	(12,782)	(12,173)
Tax-exempt investments*	(598)	994	396	3,682	(1,730)	1,952
Federal funds sold and other interest bearing deposits	(282)	(87)	(369)	181	22	203
Total increase (decrease) in interest income	42,129	(21,579)	20,550	1,879	(56,303)	(54,424)
Interest expense:						
Savings, NOW and money market deposits	1,915	(107)	1,808	1,006	(3,233)	(2,227)
Time deposits	(1,169)	(877)	(2,046)	(4,824)	(2,714)	(7,538)
Short-term borrowings	407	(25)	382	(660)	(137)	(797)
Long-term borrowings and junior subordinated debentures	(1,820)	(4,855)	(6,675)	(460)	(1,913)	(2,373)
Total (decrease) increase in interest expense	(667)	(5,864)	(6,531)	(4,938)	(7,997)	(12,935)
Increase (decrease) in net interest income	$42,796	$(15,715)	$27,081	$6,817	$(48,306)	$(41,489)

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

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Non-Interest Income

Non-interest income represented 11 percent and 17 percent of total interest income plus non-interest income for 2014 and 2013, respectively. For the year ended December 31, 2014, non-interest income decreased $51.0 million compared with 2013 mainly due to decreases in net gains on sales of loans, net gains on securities transactions and in the change of the FDIC loss-share receivable, partially offset by increases in net gains on sales of assets and other non-interest income. The following table presents the components of non-interest income for the years ended December 31, 2014, 2013, and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
Trust and investment services	$9,512	$8,610	$7,690
Insurance commissions	16,853	15,907	15,494
Service charges on deposit accounts	22,771	24,115	24,752
Gains on securities transactions, net	745	14,678	2,587
Net impairment losses on securities recognized in earnings	—	—	(5,247)
Trading (losses) gains, net:			
Trading securities	(31)	28	219
Junior subordinated debentures carried at fair value	—	881	2,574
Total trading (losses) gains, net	(31)	909	2,793
Fees from loan servicing	7,013	7,020	4,843
Gains on sales of loans, net	1,731	33,695	46,998
Gains (losses) on sales of assets, net	18,087	10,947	(329)
Bank owned life insurance	6,392	5,962	6,855
Change in FDIC loss-share receivable	(20,792)	(8,427)	(7,459)
Other	15,335	15,237	21,969
Total non-interest income	$77,616	$128,653	$120,946

Service charges on deposit accounts decreased $1.3 million to $22.8 million for the year ended December 31, 2014 as compared to $24.1 million in 2013 mainly due to general decreases in service charges on checking accounts, automatic teller machines (ATM) fees, overdraft and insufficient funds fees. In most cases, the majority of the decline in such fees reflect better account management by our customers, as well as certain limitations imposed on our customer account-based fees driven by bank regulation and the highly competitive nature of our business.

Net gains on securities transactions decreased $13.9 million for the year ended December 31, 2014 as compared to $14.7 million in 2013. The decrease was mostly due to a $10.7 million gain on the sale of previously impaired trust preferred securities classified as available for sale (that were issued by one deferring bank holding company) in the fourth quarter of 2013. We sold these non-accrual debt securities for net proceeds of $52.5 million. See Note 4 of the consolidated financial statements for more details.

Net gains on sales of loans decreased $32.0 million for the year ended December 31, 2014 as compared to the same period in 2013 primarily due to a significant decline in loans originated for sale as our new and refinanced loan origination volumes were slowed by the increase in the level of market interest rates since June 2013. As a result, we sold only $85 million of residential mortgages for the year ended December 31, 2014 as compared to approximately $1.1 billion of residential mortgage loans sold during 2013. In addition, residential mortgage loan originations (including both new and refinanced loans) declined $1.1 billion to $310.7 million for the year ended December 31, 2014 as compared to $1.4 billion of residential mortgage loans during 2013. Our net gains on sales of loans for each period are comprised of both gains on sales of residential mortgages and the net change in the mark to market gains and losses on our loans held for sale carried at fair value at each period end. The net change in the fair value of loans held for sale resulted in a $4.7 million net loss for the year ended December 31, 2013. The net change in the fair value of loans held for sale for the year ended December 31, 2014 did not have a material impact on the net losses and gains on sale of loans during 2014. Despite a decrease in market interest rates since the fourth quarter of 2014, we do not expect a material change in our gains on the sales of residential mortgage loans originated for sale during the first quarter of 2015. Our decision to either sell or retain our mortgage loan production is dependent upon, amongst other factors, the levels of interest rates, consumer demand, the economy and our ability to maintain the appropriate level of interest rate risk on our balance sheet. See further discussions of our residential mortgage loan origination activity under “Loans” in the executive summary section of this MD&A above and the fair valuation of our loans held for sale at Note 3 of the consolidated financial statements.

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Net gains on sale of assets increased $7.1 million for the year ended December 31, 2014 as compared to $10.9 million for 2013. The net gain on sale of assets for the year ended December 31, 2014 primarily related to a $17.8 million gain from sale of a Manhattan branch location in December 2014. Comparatively, the net gain on sale of assets for the same period in 2013 mostly resulted from the termination of a branch operating lease during the fourth quarter of 2013 related to a building sale-leaseback transaction entered into during 2007. As a result, the unamortized deferred gain of $11.3 million related to the original building sale (and scheduled to be amortized over the remaining lease term) was immediately recognized during the fourth quarter of 2013.

The Bank and the FDIC share in the losses on loans and real estate owned as part of the loss-sharing agreements entered into on both of our FDIC-assisted transactions. The asset arising from the loss-sharing agreements is referred to as the "FDIC loss-share receivable" on our consolidated statements of financial condition. Within the non-interest income category, we may recognize income or expense related to the change in the FDIC loss-share receivable resulting from (i) a change in the estimated credit losses on the pools of covered loans, (ii) income from reimbursable expenses incurred during the period, (iii) accretion of the discount resulting from the present value of the receivable recorded at the acquisition dates, and (iv) prospective recognition of decreases in the receivable attributable to better than originally expected cash flows on certain covered loan pools. The aggregate effect of changes in the FDIC loss-share receivable amounted to a $20.8 million net reduction in non-interest income for the year ended December 31, 2014 as compared to $8.4 million for 2013. The larger reduction for 2014 was mainly due to the prospective recognition of decreases in the FDIC loss-share receivable caused by better than originally expected cash flows on certain loan pools (mostly covered by our commercial loss-sharing agreement with the FDIC that will expire in March 2015), as well as a negative (credit) provision for losses on covered loans resulting in a $4.6 million decrease in the estimated losses covered by the loss-share agreements with the FDIC. See "FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets" section below in this MD&A and Note 5 to the consolidated financial statements for further details.

See the "Results of Operations—2013 Compared to 2012" section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2012 to 2013.

Non-Interest Expense

Non-interest expense increased $22.0 million to $403.3 million for the year ended December 31, 2014 from $381.3 million for 2013. The increase from 2013 was mainly attributable to a $10.1 million loss on the extinguishment of debt during the fourth quarter of 2014, as well as an increase in amortization of tax credit investments. The following table presents the components of non-interest expense for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
		(in thousands)	
Salary and employee benefits expense	$193,489	$194,410	$199,968
Net occupancy and equipment expense	74,492	71,634	71,245
FDIC insurance assessment	14,051	16,767	14,292
Amortization of other intangible assets	9,919	8,258	9,783
Professional and legal fees	16,859	16,491	15,005
Loss on extinguishment of debt	10,132	—	—
Amortization of tax credit investments	24,196	14,352	4,157
Advertising	4,666	6,127	7,103
Other	55,451	53,299	53,347
Total non-interest expense	$403,255	$381,338	$374,900

Salary and employee benefits expense moderately declined by $921 thousand for the year ended December 31, 2014 as compared to 2013. Within the category, pension expense for Valley's qualified and non-qualified plans (frozen in 2013) declined by $11.2 million as compared to 2013 (See Note 12 to the consolidated financial statements for additional information). Partially offsetting the decline, 401(k) plan expense increased by $3.4 million during 2014 caused by the increase in the employer matching contribution effective January 1, 2014 and additional staffing expenses related to the acquisition of 1st United during the fourth quarter of 2014 totaling approximately $3.2 million. During 2014, we also experienced incremental increases in stock incentive compensation expense, medical health insurance expense, workers compensation expense, and decrease in deferred compensation as compared to 2013.

Net occupancy and equipment expenses increased $2.9 million for the year ended December 31, 2014 as compared to 2013 due, in large part, to additional costs associated with the 20 branch network acquired from 1st United in the fourth quarter of 2014. Additionally, we experienced higher than normal cleaning and maintenance expenses in 2014 as compared to 2013 largely related to snow removal services caused by the inclement weather conditions in the Northeast during the first quarter of 2014.

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The FDIC insurance assessment decreased $2.7 million in 2014 as compared to 2013 mostly due to a specific adjustment to our individual assessment made by the FDIC during the second quarter of 2013.

Amortization of other intangible assets increased 1.7 million for the year ended December 31, 2014 as compared to 2013 mainly due to a decrease in net recoveries of the impairment charges on certain loan servicing rights during 2014, partially offset by normal decreases in amortization expense of both core deposit intangibles and loan servicing rights. Valley recognized net impairment charges on its loan servicing rights totaling $88 thousand for the year ended December 31, 2014 as compared to recoveries of impairment charges on its loan servicing rights totaling $2.5 million for 2013.

Advertising expense decreased $1.5 million for the year ended December 31, 2014 as compared to 2013. The decrease was mainly caused by a lower volume of promotional activity for our residential mortgage refinance programs during 2014 partly due to the maturation of the refinance programs in our markets and the significant slowdown in consumer refinance activity since the second half of 2013.

The loss on extinguishment of debt consisted of prepayment penalties incurred for the early redemption of long-term borrowings during 2014. In late December 2014, we elected to use a portion of our low yielding excess liquidity to prepay $275 million of our long-term borrowings, which had a combined weighted average interest rate of 4.52 percent and contractual maturity dates in November 2015.

Amortization of tax credit investments increased $9.8 million for the year ended December 31, 2014 as compared to $14.4 million in 2013 mostly due to an increase in tax-advantaged investments in the fourth quarter of 2014, as well as valuation write-downs related to such investments during the second quarter of 2014. These investments, while negatively impacting the level of our operating expenses and efficiency ratio, directly reduce our income tax expense and effective tax rate. See "Income Taxes" section below for additional information.

Other non-interest expense increased $2.2 million for the year ended December 31, 2014 as compared to 2013. The increase was mainly due to a $2.7 million increase in the net loss on other real estate owned caused mostly by valuation write-downs during the fourth quarter of 2014 and additional operating costs related to the 1st United acquisition, partially offset by a $1.3 million decrease in net other real estate owned expense. Other significant components of other non-interest expense include data processing, telephone, service fees, debit card expenses, postage, stationery, insurance, and title search fees which all fluctuated by immaterial amounts as compared to 2013. We also incurred merger expenses totaling $2.6 million during 2014 (primarily within professional and legal fees) related to the acquisition of 1st United on November 1, 2014. See Note 2 to the consolidated financial statements for further details regarding the acquisition.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus non-interest income. 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. Our efficiency ratio for the year ended December 31, 2014 was 73.00 percent as compared to 66.16 percent in 2013. The increase in our efficiency ratio over the last twelve month period is largely due to significant declines in net gains on the sales of residential mortgage loans and securities transactions, and an increase in the reduction to non-interest income related to the change in our FDIC loss-share receivable mainly due to better than expected loss experience on certain covered loan pools. Additionally, our efficiency ratio is negatively impacted by the aforementioned amortization of tax credit investments within our non-interest expense that result in tax credits which reduce our income tax expense. If the impact of the reduction to our FDIC loss-share receivable and the amortization of tax credit investments totaling a combined $45.0 million and $22.8 million for the years ended December 31, 2014 and 2013, respectively, were excluded, our efficiency ratio would have been 66.1 percent and 62.8 percent, respectively, for same years ended 2014 and 2013.

Exclusive of such items, we strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet, including our continuous review of branch costs and opportunities to "right size" the number and size of our branch locations, and leverage new lower cost delivery channels. As part of these efforts, we continue to evaluate the profitability of our entire 224-branch network, consisting of 120 leased and 104 owned locations. Where possible we will “right size” branches and their staff to better reflect the technological changes taking

place in our delivery system (e.g., 24 hour on-line banking, remote deposit, etc.) which continue to be utilized by a higher percentage of our customer base each year, as well as the amount of lobby traffic at each branch. Additionally, we continuously monitor the profitability and customer traffic at each branch location and assess our ability to shrink the size of the office or close it when there is a negative long term outlook for the location and/or an opportunity to move existing customers to another branch location.
See the “Results of Operations—2013 Compared to 2012” section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2012 to 2013.

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Income Taxes

Income tax expense was $31.1 million for the year ended December 31, 2014, reflecting an effective tax rate of 21.1 percent, as compared to $47.0 million for the year ended 2013, reflecting an effective tax rate of 26.3 percent. The decrease in 2014 tax expense and tax rate was primarily the result of: (1) a decline in pre-tax income, (2) increased tax credit investments and (3) a $11.0 million reduction in our reserve for unrecognized tax benefits, partially offset by (4) a $7.6 million charge within income tax expense during the fourth quarter of 2014 which mostly related to the effect of the 1st United acquisition in Florida on the valuation of our state deferred tax assets.

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 quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. 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. Based on the current information available, we anticipate that our effective tax rate will range from 27 percent to 29 percent for 2015, primarily reflecting the impacts of tax-exempt income, tax-advantaged investments and general business credits.

See additional information regarding our income taxes under our "Critical Accounting Policies and Estimates" section above, as well as Note 13 to the consolidated financial statements.

Business Segments

We have four business segments that we monitor and report on to manage our business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Our reportable segments have been determined based upon Valley's internal structure of operations and lines of business. Each business segment is reviewed routinely for its asset growth, contribution to income before income taxes and return on average interest earning assets and impairment (if events or circumstances indicate a possible inability to realize the carrying amount). Expenses related to the branch network, all other components of retail banking, along with the back office departments of our subsidiary bank are allocated from the corporate and other adjustments segment to each of the other three business segments. Interest expense and internal transfer expense (for general corporate expenses) are allocated to each business segment utilizing a "pool funding" methodology, which involves the allocation of 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 result in income and expense measurements that differ from amounts under U.S. GAAP. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. See Note 21 to the consolidated financial statements for the segments' financial data.

Consumer lending. The consumer lending segment is mainly comprised of residential mortgage loans, home equity loans and automobile loans and represented in aggregate 33.6 percent of the total loan portfolio at December 31, 2014. The duration of the residential mortgage loan portfolio (which represented 19.1 percent of our total loan portfolio at December 31, 2014) is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans (representing 8.5 percent of total loans at December 31, 2014) is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles. The consumer lending segment also includes the Wealth Management Division, comprised of trust, asset management, insurance services, and asset-based lending support services.

Average interest earning assets in this segment increased $207.1 million to approximately $4.1 billion for the year ended December 31, 2014 as compared to 2013. The increase was largely due to continued solid organic growth in automobile loan portfolio due to a strong U.S. auto market driven, in part, by low interest rates, other steadily improving economic indicators, as well as a decline in gas prices during the fourth quarter of 2014. Secured personal lines of credit also experienced solid growth in 2014 due to both demand for new commitments and a high level of customer usage. Additionally, we acquired residential and other consumer loans totaling $137.5 million and $74.5 million at December 31, 2014, respectively, from the 1st United acquisition on November 1, 2014. These increases were partially offset by a decline in our organic residential mortgage and home equity loan originations due to a continued slowdown in the consumer refinance market for most of 2014, coupled with normal repayment activity. Income before income taxes generated by the consumer lending segment decreased $19.1 million to $28.4 million for the year ended December 31, 2014 as compared to $47.5 million in 2013 mainly due to a decline of $28.7 million in non-interest income, which totaled $40.6 million year ended December 31, 2014 as compared to 2013, partially offset by a $12.5 million decrease in non-interest expense. The decrease in non-interest income was primarily due to a $32.0 million decline in net gains

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on sales of loans as a result of the continued slowdown in the refinance and origination of residential mortgages loans originated for sale cause by an increase in the level of market interest rates since June 2013 and a larger percentage of total loan originations being held for investment (see further details in the "Non-Interest Income" section above).

The net interest margin for the consumer lending segment decreased 22 basis points to 2.74 percent during 2014 as a result of a 28 basis point decrease in interest yield on average loans due to the low level of market interest rates on newly originated loans as compared to the overall consumer portfolio yield throughout 2014. Offsetting some of this negative impact, the segment’s funding costs decreased 6 basis points from 2013. Over the last twelve month period, our cost of funds continued to be positively impacted by the redemptions of our 7.75 percent junior subordinated debentures totaling $146.8 million during the second half of 2013, and partially replacing the debt with lower cost subordinated notes, and the normal run-off of maturing high cost certificates of deposit.

The return on average interest earning assets before income taxes was 0.69 percent for 2014 compared to 1.21 percent for the prior year period.

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 business segment that is most sensitive to movements in market interest rates. Commercial and industrial loans, including $13.8 million of covered loans, totaled approximately $2.3 billion and represented 16.7 percent of the total loan portfolio at December 31, 2014. Commercial real estate loans and construction loans, including $131.9 million of covered loans, totaled $6.7 billion and represented 49.7 percent of the total loan portfolio at December 31, 2014.

Average interest earning assets in this segment increased $686.6 million to $8.0 billion for the year ended December 31, 2014 as compared to $7.3 billion in 2013. The increase was primarily attributable to to continued strong broad-based organic growth in the non-PCI commercial real estate loan portfolio over the 12-month period, and, to a much lesser extent, loans acquired from 1st United on November 1, 2014, partially offset by normal collections and prepayments. The commercial and industrial loan portfolio moderately increased during 2014 mainly due to strong competition for quality new and existing loan relationships throughout our primary markets.

For the year ended December 31, 2014, income before income taxes for the commercial lending segment increased $7.4 million to $113.7 million as compared to 2013 due to an increase in net interest income and a decrease in the provision for credit losses, partially offset by a decrease in non-interest income and an increase in the internal transfer expense. Net interest income increased $16.2 million to $319.4 million for for the year ended December 31, 2014 as compared to 2013 largely due to higher average loans, as well as better performance within our PCI loan portfolios. The provision for credit losses decreased $12.6 million to $1.4 million for the the year ended December 31, 2014 as compared to 2013 primarily as a result of improving credit quality metrics, including lower net loan charge-offs, and a higher negative provision for covered loans as additional estimated credit losses on certain loan pools have not been realized as the economy and collateral valuations have improved during 2014. Non-interest income decreased $12.4 million to a $19.6 million loss for for the year ended December 31, 2014 as compared to a loss of $7.2 million for 2013 largely due to the reduction to non-interest income related the aggregate effect of changes in the FDIC loss-share receivable. Internal transfer expense also increased $7.9 million to $126.5 million for for the year ended December 31, 2014 as compared to 2013 mainly due to the higher volume of loans.

The net interest margin for this segment decreased 15 basis points to 4.02 percent during 2014 mainly as a result of a 21 basis point decrease in the yield on average loans, partially offset by a 6 basis point decrease in the cost of our funding sources as compared to 2013. The return on average interest earning assets before income taxes was 1.43 percent for 2014 compared to 1.46 percent for the prior year period.

Investment management. The investment management segment generates a large portion of our income through investments in various types of securities and interest-bearing deposits with other banks. These investments are mainly comprised of fixed rate securities, 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), as part of our asset/liability management strategies. The fixed rate investments are one of Valley’s least sensitive assets to changes in market interest rates. However, a portion of the investment portfolio is invested in shorter-duration securities to maintain the overall asset sensitivity of our balance sheet (see the "Asset/Liability Management" section below for further analysis). Net gains and losses on the change in fair value of trading securities and net impairment losses on securities are reflected in the corporate and other adjustments segment.

Average investments decreased $95.1 million to $3.0 billion for the year ended December 31, 2014 as compared to 2013 mostly due to normal repayments and lower excess liquidity available for investment as we funded new loan growth over the last 12-month period.

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For the year ended December 31, 2014, income before income taxes for the investment management segment increased $11.2 million to $20.0 million compared to $8.8 million in 2013 primarily due to a $7.9 million increase in net interest income coupled with a $3.0 million decrease in the internal transfer expense due to the lower volume of investments in 2014. The increase in net interest income was mainly driven higher yields on average investment securities which continued to be somewhat enhanced by a reduction in prepayments and premium amortization on certain mortgage-backed securities over most of the last 12-month period as a result of the relatively higher level of long-term market interest rates since the second half of 2013.

The net interest margin increased 33 basis points to 2.10 percent during the year ended December 31, 2014 as compared to 2013 as a result of a 27 basis point increase in yield on investments, partially offset by a 6 basis point decrease in costs associated with our funding sources. The return on average interest earning assets before income taxes was 0.68 percent for 2014 as compared to 0.29 percent for the prior year period.

Corporate and other adjustments. The amounts disclosed as “corporate and other adjustments” represent income and expense items not directly attributable to a specific segment, including net trading and securities gains and 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 (that were redeemed during the second half of 2013), interest expense related to subordinated notes, as well as income and expense from derivative financial instruments.

The pre-tax net income for the corporate segment decreased $31.2 million for the year ended December 31, 2014 to a net loss of $14.8 million as compared to $16.4 million of net income for 2013. This decrease was mainly due to an increase in non-interest expense and a decrease in non-interest income, partially offset by an increase in internal transfer income and lower net interest expense. The non-interest expense increased $33.3 million to $284.7 million for the year ended December 31, 2014 as compared to 2013 due, in part, to a $10.1 million of loss on extinguishment of debt during 2014 and $9.8 million increase in the amortization of tax credit investments (see further details in the "Non-Interest Expense" section above). The non-interest income decreased $10.4 million to $50.2 million for the year ended December 31, 2014 as compared to the prior year period mainly due to a $13.9 million decrease in net gains on securities transactions. The internal transfer income increased $6.3 million to $239.0 million for the year ended December 31, 2014 as compared to the prior year. The decrease in net interest expense was mostly related to the redemption of the 7.75 percent junior subordinated debentures in July and October of 2013.

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 optimizing the level of new residential mortgage originations retained in our mortgage portfolio through increasing or decreasing loan sales in the secondary market, product pricing levels, the desired maturity levels for new originations, the composition levels of both our interest earning assets and interest bearing liabilities, 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 December 31, 2014. 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 December 31, 2014. 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 December 31, 2014. Although the size of Valley’s balance sheet is forecasted to remain static as of December 31, 2014 in our model, the composition is adjusted to reflect new interest earning assets and funding originations coupled with rate spreads utilizing our actual originations during 2014. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2014.

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

Changes in Interest Rates	Estimated Change in Future Net Interest Income	
	Dollar Change	Percentage Change
(in basis points)	($ in thousands)	
+200	$540	0.11 %
+100	(2,658)	(0.52)
- 100	(16,025)	(3.13)

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 interest rates to optimize the net interest income, while structuring the balance sheet in response to actual or potential changes in interest rates. Additionally, our net interest income is impacted by the level of competition within our marketplace. Competition can negatively impact the level of interest rates attainable on loans and increase the cost of deposits, which may result in downward pressure on our net interest margin in future periods. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

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

As noted in the table above, a 100 basis point immediate increase in interest rates is projected to decrease net interest income over the next twelve months by 0.52 percent. Our balance sheet sensitivity to such a move in interest rates at December 31, 2014 decreased as compared to December 31, 2013 (which was a decrease of 0.87 percent in net interest income over a 12 month period) due, in part, to a $232.9 million increase in interest bearing deposits with banks (mostly held overnight with the Federal Reserve Bank of New York) and a $134.7 million decrease in short-term borrowings, both of which are immediately sensitive to an increase in interest rates. Additionally, our current interest rate sensitivity to a 100 basis point increase in interest rates is somewhat limited by the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management), which currently exceeds the U.S. prime rate by 125 basis points. Due to its current level above the U.S. prime rate, the Valley prime rate is not projected to increase under the 100 basis point immediate increase scenario in our simulation, but would increase and positively impact our net interest income in a 200 basis point immediate increase in interest rates scenario. Our projections for such prime rate based loans could vary from the actual movements in the Valley prime rate, which is set by management and may change prior to the U.S. prime rate reaching its current level of 4.50 percent. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows, will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

Although we do not expect our Valley prime rate loan portfolio to have an immediate benefit to our interest income in a rising interest rate environment, we attempt to manage the Bank's aggregate sensitivity in a manner to mitigate the potential lag in the portfolio's re-pricing. We expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period.

Our interest rate swaps and caps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits based on the prime rate (as reported by The Wall Street Journal). We have 4 cash flow hedge interest rate swaps with a total notional value of $300 million at December 31, 2014 that currently pay fixed and receive floating rates, as well as 3 interest rate caps with a total notional value of $225 million. Additionally, we also currently utilize fair value and non-designated hedge interest rate swaps to effectively convert fixed rate loans, brokered certificates of deposit and long-term borrowings to floating rate instruments. These cash flow hedges are expected to benefit our net interest income in a rising interest rate environment. However, due to the prolonged low level of market interest rates and the strike rate of these instruments, the cash flow hedge interest rate swaps, as well as a large portion of our interest rate caps, negatively impacted our net interest income during the years ended December 31, 2014, 2013 and 2012. We expect this negative trend to continue into

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2015 due to the Federal Reserve's current monetary policies impacting the level of market interest rates. See Note 14 to the consolidated financial statements for further details on our derivative transactions.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities that were outstanding at December 31, 2014 and their associated fair values. The expected cash flows are categorized based on each financial instrument's anticipated maturity or interest rate reset date in each of the future periods presented.
INTEREST RATE SENSITIVITY ANALYSIS

	Rate	2015	2016	2017	2018	2019	Thereafter	Total Balance	Fair Value
	($ in thousands)								
Interest sensitive assets:									
Interest bearing deposits with banks	0.28%	$367,838	$—	$—	$—	$—	$—	$367,838	$367,838
Investment securities held to maturity	3.33	409,171	167,994	141,110	112,894	92,121	855,026	1,778,316	1,815,976
Investment securities available for sale	2.27	232,453	111,462	97,161	80,488	56,084	309,322	886,970	886,970
Trading securities	8.19	—	—	—	—	—	14,233	14,233	14,233
Loans held for sale, at fair value	3.12	24,295	—	—	—	—	—	24,295	24,295
Loans	4.23	5,276,053	1,822,316	1,529,823	1,302,882	1,036,589	2,506,250	13,473,913	13,188,183
Total interest sensitive assets	3.94%	$6,309,810	$2,101,772	$1,768,094	$1,496,264	$1,184,794	$3,684,831	$16,545,565	$16,297,495
Interest sensitive liabilities:									
Deposits:									
Savings, NOW and money market	0.23%	$2,634,156	$997,587	$997,587	$1,329,137	$274,417	$823,249	$7,056,133	$7,056,133
Time	1.30	1,434,546	721,490	285,195	70,809	73,750	156,678	2,742,468	2,807,522
Short-term borrowings	0.31	146,781	—	—	—	—	—	146,781	146,781
	3.96	125,000	364,500	905,000	315,000	—	816,908	2,526,408	2,738,122

Long-term borrowings									
Junior subordinated debentures	5.68	—	—	24,743	—	—	16,509	41,252	44,584
Total interest sensitive liabilities	1.24%	$4,340,483	$2,083,577	$2,212,525	$1,714,946	$348,167	$1,813,344	$12,513,042	$12,793,142
Interest sensitivity gap		$1,969,327	$18,195	$(444,431)	$(218,682)	$836,627	$1,871,487	$4,032,523	$3,504,353
Ratio of interest sensitive assets to interest sensitive liabilities		1.45:1	1.01:1	0.80:1	0.87:1	3.40:1	2.03:1	1.32:1	1.27:1

The above table provides an approximation of the projected re-pricing of assets and liabilities at December 31, 2014 on the basis of contractual maturities, adjusted for anticipated prepayments of principal (including anticipated call dates on long-term borrowings and junior subordinated debentures), and scheduled rate adjustments. The prepayment experience reflected herein is based on historical experience combined with market consensus expectations derived from independent external sources. The actual repayments of these instruments could vary substantially if future prepayments differ from historical experience or current market expectations. For non-maturity deposit liabilities, in accordance with standard industry practice and our historical experience, we used prepayment and decay rates to estimate deposit runoff.

Our cash flow derivatives are designed to protect us from upward movement in interest rates on certain deposits. The interest rate sensitivity table reflects the sensitivity at current interest rates. As a result, the notional amount of our derivatives is not included in the table. We use various assumptions to estimate fair values. See Note 3 of the consolidated financial statements for further discussion of fair value measurements.

The total gap re-pricing within one year as of December 31, 2014 was a positive $2.0 billion, representing a ratio of interest sensitive assets to interest sensitive liabilities of 1.45:1. Current market prepayment speeds and balance sheet management strategies implemented throughout 2014 have allowed us to maintain our asset sensitivity level reported in the table above comparable to December 31, 2013. The total gap re-pricing position, as reported in the table above, reflects the projected interest rate sensitivity

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of our principal cash flows based on market conditions as of December 31, 2014. As the market level of interest rates and associated prepayment speeds move, the total gap re-pricing position will change accordingly, but not likely in a linear relationship. Management does not view our one year gap position as of December 31, 2014 as presenting an unusually high risk potential, although no assurances can be given that we are not at risk from interest rate increases or decreases.

Liquidity

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

The 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 deposit $100 thousand and over, federal funds purchased, repurchase agreements and FHLB advances) greater than 50 percent of total assets. The Bank was in compliance with the foregoing policies at December 31, 2014.

On the asset side of the balance sheet, the Bank has numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity that are maturing within 90 days or would otherwise qualify as maturities if sold (i.e., 85 percent of original cost basis has been repaid), investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold and receivables related to unsettled securities transactions. These liquid assets totaled approximately $1.9 billion, representing 11.3 percent of earning assets, at December 31, 2014 and $1.3 billion, representing 9.3 percent of earning assets, at December 31, 2013. The increase in liquid assets at December 31, 2014 was largely due to increases in cash and interest bearing deposits with banks resulting of excess liquidity caused, in part, by the timing of new loan originations, lower that expected seasonal declines in government deposits and our successful retail deposit campaigns during the fourth quarter of 2014. Of the $1.9 billion of liquid assets at December 31, 2014, approximately $414 million of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately $477.6 million in principal from securities in the total investment portfolio over the next twelve months due to normally scheduled principal repayments and expected prepayments of certain securities, primarily residential mortgage-backed securities.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments (including loans held for sale at December 31, 2014) are projected to be approximately $3.9 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 $10.8 billion and $10.1 billion for the years ended December 31, 2014 and 2013, respectively, representing 71.9 percent and 71.0 percent of average earning assets at December 31, 2014 and 2013, 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.

The following table lists, by maturity, all certificates of deposit of $100 thousand and over at December 31, 2014:

	2014
	(in thousands)

Less than three months	$203,873
Three to six months	132,545
Six to twelve months	365,286
More than twelve months	687,921
Total	$1,389,625

Additional funding may be provided from short-term liquidity borrowings through deposit gathering networks and in the form of federal funds purchased obtained through our well established relationships with several correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $750 million for a short time from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York and

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has the ability to borrow from them in the form of FHLB advances secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. In addition to the FHLB advances, the Bank has pledged such assets to collateralize a $350 million letter of credit issued by the FHLB on Valley's behalf to secure certain public deposits at December 31, 2014. Furthermore, we are able to obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At December 31, 2014, our borrowing capacity under the Fed's discount window was approximately $1.1 billion.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as securities sold under agreements to repurchase ("repos"). Our short-term borrowings decreased $134.7 million to $146.8 million at December 31, 2014 as compared to $281.5 million at December 31, 2013 mainly due to lower repo balances and a $50.0 million decrease in federal funds purchased. At December 31, 2014 and 2013, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

The following table sets forth information regarding Valley's short-term repos at the dates and for the years ended December 31, 2014, 2013, and 2012:

	2014	2013	2012
	($ in thousands)		
Securities sold under agreements to repurchase:			
Average balance outstanding	$152,046	$154,881	$169,662
Maximum outstanding at any month-end during the period	175,949	231,455	189,359
Balance outstanding at end of period	146,781	231,455	154,323
Weighted average interest rate during the period	0.34 %	0.34 %	0.45 %
Weighted average interest rate at the end of the period	0.28	0.27	0.26

Corporation Liquidity. Valley's recurring cash requirements primarily consist of quarterly dividend payments to common shareholders and interest expense payments on subordinated notes and junior subordinated debentures issued to capital trusts. As part of our on-going asset/liability management strategies, Valley could also use cash to repurchase shares of its outstanding common stock under its share repurchase program or redeem its callable junior subordinated debentures. These cash needs are routinely satisfied by dividends collected from the Bank. Projected cash flows from the Bank are expected to be adequate to pay common dividends, if declared, and interest expense payable to subordinated note holders and capital trusts, given the current capital levels and current profitable operations of the bank subsidiary. In addition to dividends received from the Bank, Valley can satisfy its cash requirements by utilizing its own cash, selling securities from its available for sale investment portfolio, as well as potential new funds borrowed from outside sources or capital issuances. Valley also has the right to defer interest payments on the junior subordinated debentures, and therefore distributions on its trust preferred securities for consecutive quarterly periods up to five years, but not beyond the stated maturity dates, and subject to other conditions.

Investment Securities Portfolio

Securities are classified as held to maturity and carried at amortized cost when Valley has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity, and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss, net of tax. Available for sale securities are not considered trading account securities, but rather are securities which may be sold on a non-routine basis. Securities classified as trading are held primarily for sale in the short term or as part of our balance sheet management strategies and are carried at fair value, with unrealized gains and losses included immediately in the net trading gains and losses category of non-interest income. Valley determines the appropriate classification of securities at the time of purchase. The decision to purchase or sell securities is based upon the current assessment of long and short-term economic and financial conditions, including the interest rate environment and other statement of financial condition components. Securities with limited marketability and/or restrictions, such as Federal Home Loan Bank and Federal Reserve Bank stocks, are carried at cost and are included in other assets.

As of December 31, 2014, our investment portfolio was comprised of U.S. Treasury securities, U.S. government agencies, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 13 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (including 3 pooled securities), high quality corporate bonds and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders' equity, except for residential mortgage-backed securities issued by Ginnie Mae, Fannie Mae and Freddie Mac.

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Among other securities, our investments in the private label mortgage-backed securities, trust preferred securities, perpetual preferred securities, equity securities, and bank issued corporate bonds may pose a higher risk of future impairment charges to us as a result of the uncertain economic recovery and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security.

Investment securities at December 31, 2014, 2013, and 2012 were as follows:

	2014	2013	2012
	(in thousands)		
Held to maturity			
U.S. Treasury securities	$139,121	$139,255	$99,869
U.S. government agency securities	14,081	4,427	—
Obligations of states and political subdivisions:			
Obligations of states and state agencies	197,440	192,653	180,304
Municipal bonds	302,578	353,233	326,169
Total obligations of states and political subdivisions	500,018	545,886	506,473
Residential mortgage-backed securities	986,992	886,043	813,647
Trust preferred securities	98,456	103,458	127,505
Corporate and other debt securities	39,648	52,668	52,213
Total investment securities held to maturity (amortized cost)	$1,778,316	$1,731,737	$1,599,707
Available for sale			
U.S. Treasury securities	$49,443	$84,665	$97,625
U.S. government agency securities	33,825	48,627	45,762
Obligations of states and political subdivisions:			
Obligations of states and state agencies	11,136	10,643	213
Municipal bonds	32,915	27,057	16,414
Total obligations of states and political subdivisions	44,051	37,700	16,627
Residential mortgage-backed securities	644,276	508,029	510,154
Trust preferred securities	20,537	19,215	57,432
Corporate and other debt securities	74,012	83,398	30,708
Total debt securities	866,144	781,634	758,308
Equity securities	20,826	48,058	49,508
Total investment securities available for sale (fair value)	$886,970	$829,692	$807,816
Trading			
Trust preferred securities	$14,233	$14,264	$22,157
Total trading securities (fair value)	$14,233	$14,264	$22,157
Total investment securities	$2,679,519	$2,575,693	$2,429,680

As of December 31, 2014, total investments increased $103.8 million or 4.0 percent as compared to 2013 due, in part, to purchases of residential mortgage-backed securities mainly issued by Fannie Mae and Ginnie Mae (which are fully guaranteed by the U.S. Government) within both the held to maturity and available for sale portfolios. This increase was partially offset by decreases in municipal and corporate bonds classified as held to maturity, as well as U.S Treasury securities, U.S government agency securities and equity securities within the available for sale portfolio.

At December 31, 2014, we had $987.0 million and $644.3 million of residential mortgage-backed securities classified as held to maturity and available for sale securities, respectively. Approximately 54 percent and 53 percent of these residential mortgage-backed securities, respectively, were issued and guaranteed by Ginnie Mae. The residential mortgage-backed securities also include $606 thousand and $23.6 million of private label mortgage-backed securities classified as held to maturity and available for sale, respectively, at December 31, 2014. The remainder of our outstanding residential mortgage-backed security balances at December 31, 2014 were issued by either Freddie Mac or Fannie Mae.

Our trading securities portfolio consisted of two single-issuer bank trust preferred securities at December 31, 2014 and 2013. During 2013, one trading security was called for early redemption. There was no other trading activity in the portfolio during 2014 and 2013.

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The following table presents the maturity distribution schedule (unadjusted for any expected prepayments) with the corresponding weighted-average yields of held to maturity and available for sale debt securities at December 31, 2014:

	0-1 year		1-5 years		5-10 years		Over 10 years		Total	
	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)
	($ in thousands)									
Held to maturity										
U.S. Treasury securities	$—	— %	$—	— %	$107,231	2.91 %	$31,890	3.06 %	$139,121	2.94 %
U.S. government agency securities	—	—	—	—	—	—	14,081	3.20	14,081	3.61
Obligations of states and political subdivisions: (3)										
Obligations of states and state agencies	—	—	9,805	1.86	71,675	4.28	115,960	4.82	197,440	4.48
Municipal bonds	61,775	1.19	29,045	4.91	150,751	5.03	61,007	4.27	302,578	4.08
Total obligations of states and political subdivisions	61,775	1.19	38,850	4.14	222,426	4.79	176,967	4.63	500,018	4.24
Residential mortgage-backed securities (4)	—	—	2,371	4.48	16,347	3.05	968,274	2.59	986,992	2.60
Trust preferred securities	—	—	—	—	—	—	98,456	5.51	98,456	5.51
Corporate and other debt securities	10,064	1.39	15,350	8.37	5,250	4.20	8,984	6.57	39,648	5.64
Total	$71,839	1.22 %	$56,571	5.30 %	$351,254	4.12 %	$1,298,652	3.14 %	$1,778,316	3.33 %
Available for sale										
U.S. Treasury securities	$—	— %	$—	— %	$49,443	1.60 %	$—	— %	$49,443	1.60 %
U.S. government agency securities	—	—	—	—	13,664	2.14	20,161	2.40	33,825	2.29
Obligations of states and political subdivisions: (3)										
Obligations of states and state agencies	—	—	—	—	—	—	11,136	3.12	11,136	3.12
Municipal bonds	—	—	5,427	(0.36)	6,459	(0.80)	21,029	4.06	32,915	2.38
Total obligations of states and political subdivisions	—	—	5,427	(0.36)	6,459	(0.80)	32,165	3.73	44,051	2.57
Residential mortgage-backed securities (4)	2,570	4.25	3,261	4.79	32,512	2.95	605,933	2.43	644,276	2.48
	—	—	—	—	—	—	20,537	1.28	20,537	1.28

Trust preferred securities										
Corporate and other debt securities	—	—	61,298	2.38	12,712	2.35	2	—	74,012	2.37
Total (5)	$2,570	4.25 %	$69,986	2.28 %	$114,790	1.99 %	$678,798	2.46 %	$866,144	2.39 %

(1) Held to maturity amounts are presented at amortized costs, stated at cost less principal reductions, if any, and adjusted for accretion of discounts and amortization of premiums. Available for sale amounts are presented at fair value.

(2) Average yields are calculated on a yield-to-maturity basis.

(3) Average yields on obligations of states and political subdivisions are generally tax-exempt and calculated on a tax-equivalent basis using a statutory federal income tax rate of 35 percent.

(4) Residential mortgage-backed securities are shown using stated final maturity.

(5) Excludes equity securities, which do not have maturities.

The residential mortgage-backed securities portfolio is a significant source of our liquidity through the monthly cash flow of principal and interest. Mortgage-backed securities, like all securities, are sensitive to change in the interest rate environment, increasing and decreasing in value as interest rates fall and rise. As interest rates fall, the potential increase in prepayments can reduce the yield on the mortgage-backed securities portfolio, and reinvestment of the proceeds will be at lower yields. Conversely, rising interest rates may reduce cash flows from prepayments and extend anticipated duration of these assets. We monitor the changes in interest rates, cash flows and duration, in accordance with our investment policies. Management seeks out investment securities with an attractive spread over our cost of funds.

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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 accounting guidance, when a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, we have to first consider (i) whether we intend to sell the security, and (ii) whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but we do not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (i) the amount related to credit loss, and (ii) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, we compare the present value of cash flows expected to be collected with the amortized cost basis of the security. As discussed above, the portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income or loss. 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 loss. 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, Valley considers several factors that include, but are not limited to the following:

- The severity and duration of the decline, including the causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility;
- Adverse conditions specifically related to the security, an industry, or geographic area;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency or, if applicable, any regulatory actions impacting the security issuer;
- Recoveries or additional declines in fair value after the balance sheet date;
- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and
- Our intent to sell debt security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis.

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not Valley expects to collect all contractual cash flows. Valley also evaluated its investment securities held as of December 31, 2014 to identify those that meet the definition of a Covered Fund as set forth in the final rules issued on December 10, 2013 to implement section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (commonly referred to as the "Volcker Rule"). In that regard, Valley considered the impact of the related interim final rule issued by its primary banking regulators on January 14, 2014 to address the treatment of certain collateralized debt obligations backed primarily by trust preferred securities (TruPS CDOs), including the non-exclusive list of TruPS CDOs that are exempt from the Covered Fund provisions under the interim final rule. Valley identified no investments held as of December 31, 2014 that meet the definition of a Covered Fund and that are required to be divested by July 21, 2015 (or before recovery of their individual amortized cost basis) under the foregoing rules. See

"Other-Than-Temporary Impairment Analysis" section of Note 4 to the consolidated financial statements for additional information regarding our quarterly impairment analysis by security type.

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

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The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at December 31, 2014.

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity investment grades:*				
AAA Rated	$1,277,750	$38,220	$(6,384)	$1,309,586
AA Rated	263,822	10,722	(540)	274,004
A Rated	28,481	1,428	(10)	29,899
BBB Rated	52,840	5,786	(97)	58,529
Non-investment grade	20,958	50	(428)	20,580
Not rated	134,465	768	(11,855)	123,378
Total investment securities held to maturity	$1,778,316	$56,974	$(19,314)	$1,815,976
Available for sale investment grades:*				
AAA Rated	$728,733	$5,668	$(6,610)	$727,791
AA Rated	26,052	954	(1,666)	25,340
A Rated	44,629	804	(774)	44,659
BBB Rated	36,105	221	(1,056)	35,270
Non-investment grade	30,149	1,099	(1,622)	29,626
Not rated	24,290	597	(603)	24,284
Total investment securities available for sale	$889,958	$9,343	$(12,331)	$886,970

* Rated using external rating agencies (primarily S&P and Moody's). Ratings categories include 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 $134.5 million in investments not rated by the rating agencies with aggregate unrealized losses of $11.9 million at December 31, 2014. The unrealized losses for this category primarily relate to 4 single-issuer bank trust preferred issuances with a combined amortized cost of $35.9 million. All single-issuer bank trust preferred securities classified as held to maturity, including the aforementioned four securities, 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 at December 31, 2014, 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.

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 of this MD&A and Note 1 to the consolidated financial statements for further discussion of this policy.

Impaired Trust Preferred Securities. In 2012, Valley recognized additional estimated credit losses of $4.5 million on two pooled trust preferred securities classified as available for sale due to further credit deterioration in the financial condition of the issuer. These securities were initially found to be other-than-temporarily impaired in 2008, as each of Valley's tranches in the securities had projected cash flows below their future contractual principal and interest payments. Additional estimated credit losses were recognized on one or both of these securities during 2009 through

2011, as higher default rates decreased the expected cash flows from the securities. At December 31, 2014, the two previously impaired pooled trust preferred securities had a combined amortized cost of $5.4 million and fair value of $4.7 million, respectively.

Impaired Residential Mortgage-Backed Securities. During 2012, Valley recognized net impairment losses of $722 thousand on residential mortgage-backed securities in earnings due to additional estimated credit losses on one of six previously

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impaired private label mortgage-backed securities. At December 31, 2014, the previously impaired private label mortgage-backed securities had a combined amortized cost of $13.7 million and fair value of $14.6 million, respectively.

There was no other-than-temporarily impairment recognized in earnings as a result of Valley's impairment analysis of its securities during 2014 and 2013 as the collateral supporting much of the securities has improved or performed as expected.

Loan Portfolio

The following table reflects the composition of the loan portfolio for the years indicated.

	At December 31,									
	2014		2013		2012		2011		2010	
	($ in thousands)									
Non-covered loans										
Commercial and industrial	$2,237,298		$1,995,084		$2,084,826		$1,878,387		$1,825,066	
Commercial real estate:										
Commercial real estate	6,032,190		4,981,675		4,417,709		3,574,089		3,378,252	
Construction	529,963		429,231		425,444		411,003		428,232	
Total commercial real estate	6,562,153		5,410,906		4,843,153		3,985,092		3,806,484	
Residential mortgage	2,515,675		2,499,965		2,462,429		2,285,590		1,925,430	
Consumer:										
Home equity	491,745		449,009		485,458		469,604		512,745	
Automobile	1,144,831		901,399		786,528		772,490		850,801	
Other consumer	310,320		215,084		179,731		136,634		88,614	
Total consumer loans	1,946,896		1,565,492		1,451,717		1,378,728		1,452,160	
Total non-covered loans	13,262,022		11,471,447		10,842,125		9,527,797		9,009,140	
Covered loans (1)	211,891		96,165		180,674		271,844		356,655	
Total loans (2)	$13,473,913		$11,567,612		$11,022,799		$9,799,641		$9,365,795	
As a percent of total loans:										
Commercial and industrial	16.6	%	17.3	%	19.0	%	19.2	%	19.5	%
Commercial real estate	48.7		46.8		43.9		40.6		40.6	
Residential mortgage	18.7		21.6		22.3		23.3		20.6	
Consumer loans	14.4		13.5		13.2		14.1		15.5	
Covered loans	1.6		0.8		1.6		2.8		3.8	
Total	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

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

(2) Total loans are net of unearned discounts and deferred loan fees totaling $9.0 million, $5.6 million, $3.4 million, $7.5 million and $9.3 million at December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

Purchased credit-impaired (PCI) loans, which include covered loans subject to loss-sharing agreements, are loans acquired at a discount that is due, in part, to credit quality. At December 31, 2014, our non-covered loan portfolio included $1.5 billion of PCI loans. See further details regarding these transactions and the non-covered PCI loans at Notes 1 and 5 to the consolidated financial statements and our MD&A discussion below.

Non-covered Loans

Non-covered loans (loans which are not subject to our loss-sharing agreements with the FDIC) increased by $1.8 billion to $13.3 billion at December 31, 2014 from December 31, 2013 largely due to $954.3 million in non-covered PCI loans acquired in the 1st United acquisition during the fourth quarter of 2014 and solid organic growth within both commercial real estate (including construction) loan and automobile loan portfolios throughout most of 2014. Commercial and industrial loans totaled $2.2 billion at December 31, 2014 and increased by $242.2 million from December 31, 2013 largely due to $143.3 million of PCI loans acquired from 1st United and increased new loan demand, generally in our New York markets, as well as continued growth in new lending relationships moving to Valley from other financial institutions in 2014. However, commercial loan growth has been limited to a certain extent by, among other factors, fierce market competition for quality borrowers and normal collections and prepayment activity in 2014.

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Commercial real estate loans (excluding construction loans) increased $1.1 billion to $6.0 billion at December 31, 2014 mainly due to $619.4 million of loans acquired from 1st United within this portfolio and organic growth driven by strong loan origination volumes and demand that were seen across many segments of commercial real estate borrowers. The organic growth within the commercial real estate portfolio was supplemented by a bulk purchase of third party originated loans totaling $101.9 million during late September 2014. Construction loans increased $100.7 million mostly due to stronger new loan demand for multi-family, apartment rental, and condominium property developments within New York City, Brooklyn and Queens during the second half of the year, as well as $38 million of loans acquired in the 1st United acquisition during the fourth quarter of 2014.

Residential mortgage loans totaled $2.5 billion at December 31, 2014 and remained relatively unchanged from December 31, 2013 as portfolio growth was significantly limited by a steep decline in consumer refinance activity since mid-2013 and, to a lesser extent, our loan originations for sale in the secondary market which totaled over 29 percent of our new and refinanced loan originations during 2014. Our new and refinanced residential mortgage loan originations decreased 77.9 percent to $310.7 million for the year ended December 31, 2014 as compared to $1.4 billion in 2013. During 2014, Valley sold only $84.9 million of residential mortgages originated for sale (including $10.5 million of residential mortgage loans held for sale at December 31, 2013), as compared to approximately $1.1 billion of mortgages sold during the year ended December 31, 2013. We retain mortgage originations based on credit criteria and loan to value levels, the composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments. From time to time, we purchase residential mortgage loans, as well as automobile loans, originated by, and sometimes serviced by, other financial institutions based on several factors, including current loan origination volumes, market interest rates, excess liquidity and other asset/liability management strategies. All of the purchased loans are selected using Valley's normal underwriting criteria at the time of purchase. We purchased approximately $26.7 million of residential mortgage loans from third party originators during the year ended December 31, 2014. Despite a recent decrease in market interest rates since the fourth quarter of 2014 and the expectation that there may be a renewed increase in consumer demand for new and refinanced mortgage loans, we do not anticipate a significant increase (to levels experienced in the first half of 2013) in our refinanced mortgage loan pipeline during the first quarter of 2015. Additionally, if market interest rates were to remain at or increase from current levels, we may elect to decrease the amount of our loans originated for sale, as the yield on such loans may be attractive to hold in our loan portfolio.

Total consumer loans increased $381.4 million from December 31, 2013 mainly due to increases in automobile and other consumer loans. Automobile loans increased $243.4 million to $1.1 billion at December 31, 2014 from December 31, 2013, as our new organic loan volumes continued to be solid due to the overall strength of the U.S. auto markets. Valley has not deviated from its conservative underwriting standards, nor participated in the subprime auto lending markets to achieve its growth in auto lending. We made no auto loan purchases from third party originators during 2014. We believe that the current industry outlook for 2015 auto sales is positive; however, strong competition for credits meeting our strict underwriting standards may restrict the perceived benefits of such sale projections to Valley's ability to grow auto loans during 2015. Additionally, Valley could elect to originate automobile loans for sale, rather than investment, if the low level of market interest rates did not warrant the interest rate risk to our overall loan portfolio and balance sheet. Other consumer loans increased $95.2 million to $310.3 million at December 31, 2014 as compared to 2013 largely due to continued growth in collateralized personal lines of credit, as well as $11.8 million of loans acquired from 1st United. Home equity loans increased $42.7 million in 2014 as compared to one year ago due to $57.5 million in loans acquired from 1st United, partially offset by continued repayment activity and a lack of overall demand caused, in part, by the slowdown in the consumer refinance market since June 2013.

We are cautiously optimistic that we will continue to experience solid overall loan growth in the first quarter of 2015 and beyond, despite the strong market competition for high quality commercial credits within the New York metropolitan area and the relatively low levels of residential mortgage loan activity. However, we can make no assurances that our total loans will increase, or remain at current levels in the future.

Much of our lending is in northern and central New Jersey, New York City and Long Island, with the exception of loans acquired in our recent acquisition of 1st United (mostly sourced in Florida) and smaller auto and residential mortgage loan portfolios derived from the other neighboring states, which could present a geographic and credit risk if there was another significant broad based economic downturn or a prolonged economic recovery within the region. We are witnessing some increased activity across Valley's entire geographic footprint, including strong loan pipelines in new Florida lending operations, however the New York and Long Island markets continue to account for a disproportionate percentage of our overall lending activity. To mitigate these risks, we make efforts to maintain a diversified portfolio as to type of borrower and loan to guard against a potential downward turn in any one economic sector. See the "Changes in Loan Portfolio Composition" section of Item 1 of this Annual Report above for additional information regarding our loan composition by state at December 31, 2014.

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The following table reflects the contractual maturity distribution of the commercial and industrial and construction loans within our non-covered loan portfolio as of December 31, 2014:

	One Year or Less	One to Five Years	Over Five Years	Total
	(in thousands)			
Commercial and industrial—fixed-rate	$578,964	$321,989	$37,646	$938,599
Commercial and industrial—adjustable-rate	801,087	445,522	52,090	1,298,699
Construction—fixed-rate	28,920	72,744	—	101,664
Construction—adjustable-rate	121,836	306,463	—	428,299
	$1,530,807	$1,146,718	$89,736	$2,767,261

We may renew loans at maturity when requested by a customer. In such instances, we generally conduct a review which includes an analysis of the borrower's financial condition and, if applicable, a review of the adequacy of collateral via a new appraisal from an independent, bank approved, certified or licensed property appraiser or readily available market resources. A rollover of the loan at maturity may require a principal reduction or other modified terms.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans mostly consist of loans acquired in business combinations subsequent to 2011 and covered loans in which the Bank will share losses with the FDIC under loss-sharing agreements that have resulted from two FDIC-assisted transactions by Valley in 2010 and acquired loss-sharing agreements from 1st United in 2014 (which related to prior FDIC-assisted transactions from 2009 to 2011). Our covered loan portfolio, consisting primarily of commercial real estate loans and residential mortgage loans, totaled $211.9 million at December 31, 2014. As required by U.S. GAAP, all of our PCI loans are accounted for under ASC Subtopic 310-30. This accounting guidance requires the PCI loans to be aggregated and accounted for as pools of loans based on common risk characteristics. A pool is accounted for as one asset with a single composite interest rate, aggregate fair value and expected cash flows.

For PCI loan pools accounted for under ASC Subtopic 310-30, the difference between the contractually required payments due and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the non-accretable difference. The contractually required payments due represent the total undiscounted amount of all uncollected principal and interest payments. Contractually required payments due may increase or decrease for a variety of reasons, e.g. when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. The Bank estimates the undiscounted cash flows expected to be collected by incorporating several key assumptions including probability of default, loss given default, and the amount of actual prepayments after the acquisition dates. The non-accretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses and uncollectable contractual interest expected to be incurred over the life of the loans. The excess of the undiscounted cash flows expected at the acquisition date over the carrying amount (fair value) of the PCI loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the loans, or pool of loans, using the level yield method. The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment assumptions, and changes in expected principal and interest payments over the estimated lives of the loans. Prepayments affect the estimated life of PCI loans and could change the amount of interest income, and possibly principal, expected to be collected. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools.

At both acquisition and subsequent quarterly reporting dates, Valley uses a third party service provider to assist with determining the contractual and estimated cash flows. Valley provides the third party with updated loan-level information derived from Valley's main operating system, contractually required loan payments and expected cash flows for each loan pool individually reviewed by Valley. Using this information, the third party provider determines both the contractual cash flows and cash flows expected to be collected. The loan-level information used to reforecast the cash flows is subsequently aggregated on a pool basis. The expected payment data, discount rates, impairment data and changes to the accretable yield received back from the third party are reviewed by Valley to determine whether this information is accurate and the resulting financial statement effects are reasonable.

Similar to contractual cash flows, we reevaluate expected cash flows on a quarterly basis. Unlike contractual cash flows which are determined based on known factors, significant management assumptions are necessary in forecasting the estimated cash flows. We attempt to ensure the forecasted expectations are reasonable based on the information currently available; however, due to the uncertainties inherent in the use of estimates, actual cash flow results may differ from our forecast and the differences may be significant. To mitigate such differences, we carefully prepare and review the assumptions utilized in forecasting estimated cash flows.

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At the time of acquisition, the estimated cash flows on our PCI loans were based on observable market information, as well as Valley's own specific assumptions regarding each loan. Valley performed credit due diligence on the majority of the loans acquired in both 2012 and 2014, and the FDIC-assisted transactions in 2010. In addition, Valley engaged a third party to perform credit valuations and expected cash flow forecasts on the acquired loans. The initial expected cash flows for loans accounted for under ASC Subtopic 310-30 were prepared on a loan-level basis utilizing the assumptions developed by Valley in conjunction with the third party. In accordance with ASC Subtopic 310-30, the individual loan-level cash flow assumptions were then aggregated on the basis of pools of loans with similar risk characteristics. Thereafter, on a quarterly basis, Valley analyzes the actual cash flow versus the forecasts at the loan pool level and variances are reviewed to determine their cause. In re-forecasting future estimated cash flow, Valley will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which Valley does not reforecast estimated cash flows, the prior reporting period's estimated cash flows are adjusted to reflect the actual cash received and credit events which transpired during the current reporting period.

The following tables summarize the changes in the carrying amounts of non-covered PCI loans and covered loans (net of the allowance for losses on covered loans), and the accretable yield on these loans for the years ended December 31, 2014 and 2013.

	2014 Carrying Amount, Net (in thousands)	Accretable Yield	2013 Carrying Amount, Net	Accretable Yield
Non-covered PCI loans:				
Balance, beginning of the period	$710,103	$198,198	$986,990	$126,749
Acquisition	970,570	214,917	—	—
Accretion	55,268	(55,268)	49,435	(49,435)
Payments received	(225,736)	—	(326,322)	—
Net (decrease) increase in expected cash flows	—	(77,081)	—	120,884
Transfers to other real estate owned	(295)	—	—	—
Balance, end of the period	$1,509,910	$280,766	$710,103	$198,198
Covered loans, net:				
Balance, beginning of the period	$89,095	$25,601	$171,182	$42,560
Acquisition	190,282	32,076	—	—
Accretion	19,239	(19,239)	17,023	(17,023)
Payments received	(89,769)	—	(91,414)	—
Net increase in expected cash flows	—	17,004	—	64
Transfers to other real estate owned	(2,827)	—	(9,972)	—
Provision for losses on covered loans	5,671	—	2,276	—
Balance, end of the period	$211,691	$55,442	$89,095	$25,601

The net (decrease) increase in expected cash flows for certain pools of loans (included in the table above) is recognized prospectively as an adjustment to the yield over the estimated remaining life of the individual pools. The net decrease of $77.1 million related to non-covered PCI loans during 2014 was mainly due to an increase in the expected repayment speeds for certain loan pools during the second quarter of 2014. Conversely, the net increase of $120.9 million related to non-covered PCI loans during 2013 was largely due to additional cash flows caused by longer than originally expected durations for other pools of non-covered PCI loans. Based upon the most recent reforecasted cash flows during the second quarter of 2014, the average expected life of the non-covered PCI loans (excluding the PCI loans acquired from 1st United) decreased to 2.2 years from approximately 4 years last forecasted during the second quarter of 2013.

Covered loans in the table above are presented net of the allowance for losses on covered loans, which totaled $200 thousand and $7.1 million at December 31, 2014 and 2013, respectively. This allowance was established due to a decrease in the expected cash flows for certain pools of covered loans based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. During the years ended December 31, 2014 and 2013, we recorded credits to the provision for losses on covered loans (or "negative provisions") totaling $5.9 million and $2.3 million, respectively, as a component of our provision for credit losses in the consolidated statement of income due to declines in additional estimated credit impairment since acquisition.

Although we recognized additional credit impairment for certain covered pools prior to 2012 and the lower levels of accretion shown in the table above due to the normal contraction in the PCI loan portfolios, excluding loans recently acquired from 1st

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United, on an aggregate basis the acquired pools of non-covered and covered loans continue to perform better than originally expected at the acquisition dates. Based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on these loan pools over future periods. The decrease in the FDIC loss-share receivable due to the increase in expected cash flows for covered loan pools is recognized on a prospective basis over the shorter period of the lives of the loan pools and the loss-share agreements accordingly. We reduced the FDIC loss-share receivable by $15.8 million during 2014 due to the prospective recognition of the effect of additional cash flows from pooled loans with a corresponding reduction in non-interest income for the period. See section below for further details regarding the FDIC loss-share receivable.

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

The receivable arising from the loss sharing agreements (referred to as the “FDIC loss-share receivable” on our statements of financial condition) is measured separately from the covered loan pools because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. As of the acquisition dates for the two FDIC-assisted transactions in 2010, we recorded an aggregate FDIC loss-share receivable of $108.0 million, consisting of the present value of the expected future cash flows the Bank expected to receive from the FDIC under the loss-sharing agreements. Likewise, we recorded a $7.5 million addition to the FDIC loss-share receivable related to the estimated amounts receivable under loss-sharing agreements acquired from 1st United on November 1, 2014 (as presented in the table below). The FDIC loss-share receivable is reduced as the loss sharing payments are received from the FDIC for losses realized on covered loans and other real estate owned acquired in the FDIC-assisted transactions. Actual or expected losses in excess of the acquisition date estimates, accretion of the acquisition date present value discount, and other reimbursable expenses covered by the FDIC loss-sharing agreements will result in an increase in the FDIC loss-share receivable and the immediate recognition of non-interest income in our financial statements, together with an increase in the non-accretable difference. A decrease in expected losses would generally result in a corresponding decline in the FDIC loss-share receivable and the non-accretable difference. Reductions in the FDIC loss-share receivable due to actual or expected losses that are less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable pools of covered loans or (ii) the term of the loss sharing agreements with the FDIC.

The following table presents changes in the FDIC loss-share receivable for the years ended December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Balance, beginning of the period	$32,757	$44,996
Acquisition	7,465	—
Discount accretion of the present value at the acquisition dates	40	130
Effect of additional cash flows on covered loans (prospective recognition)	(15,760)	(10,465)
Decrease in the provision for losses on covered loans	(4,608)	(2,783)
Other reimbursable expenses	2,622	4,691
Reimbursements from the FDIC	(5,582)	(3,812)
Other	(3,086)	—
Balance, end of the period	$13,848	$32,757

The aggregate effects of changes in the FDIC loss-share receivable was a reduction in non-interest income of $20.8 million, $8.4 million and $7.5 million for the years ended December 31, 2014 , 2013 and 2012 respectively. The majority of the reduction in non-interest income relates to the prospective recognition of decreases in the FDIC loss-share receivable caused by better than originally expected cash flows on certain loan pools mainly covered by our commercial loan loss-sharing agreement with the FDIC that will expire in March 2015. During 2014, FDIC loss-share receivable was also reduced by $3.1 million (as shown in the "other" category in the table above) due to the FDIC's portion of loan recoveries related to closed (or zero-balance) loan pools. Although we can provide no assurance that the overall reduction to non-interest income related to our FDIC loss-share receivable will decline in the future, we currently anticipate this amount to decline in 2015, specially after the expiration of the aforementioned commercial loss-sharing agreement.

See Note 5 to the consolidated financial statements for further details on our covered loans, FDIC loss-share receivable, and the FDIC-assisted transactions.

Non-performing Assets

Non-performing assets (excluding PCI loans) include non-accrual loans, non-performing loans held for sale, other real estate owned (OREO), other repossessed assets (which consist of three aircraft and several automobiles) and non-accrual debt securities

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at December 31, 2014. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is sufficiently collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are generally reported at the lower of cost or fair value, less cost to sell at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. Given the state of the current economy, and comparable to many of our peers, the level of non-performing assets remained relatively low as a percentage of the total loan portfolio and non-performing assets over the last five years and has decreased significantly at December 31, 2014 as compared to 2013 (as shown in the table below). For details regarding performing and non-performing PCI loans, see the "Credit quality indicators" section in Note 5 to the consolidated financial statements.

Our past due loans and non-accrual loans in the table below exclude our non-covered and covered PCI loans. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are accounted for on a pool basis and are not subject to delinquency classification in the same manner as loans originated by Valley. The following table sets forth by loan category, accruing past due and non-performing assets on non-covered loans on the dates indicated in conjunction with our asset quality ratios:

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	At December 31, 2014	2013	2012	2011	2010
	($ in thousands)				
Accruing past due loans [1]					
30 to 59 days past due					
Commercial and industrial	$1,630	$6,398	$3,397	$3,683	$8,243
Commercial real estate	8,938	9,142	11,214	10,355	12,959
Construction	448	1,186	1,793	1,522	2,804
Residential mortgage	6,200	6,595	13,730	6,125	10,720
Consumer	2,982	3,792	5,887	7,458	11,831
Total 30 to 59 days past due	20,198	27,113	36,021	29,143	46,557
60 to 89 days past due					
Commercial and industrial	1,102	571	181	664	5,609
Commercial real estate	113	2,442	2,031	2,760	1,604
Construction	—	4,577	4,892	1,130	—
Residential mortgage	3,575	1,939	5,221	2,371	1,962
Consumer	764	784	1,340	1,517	2,807
Total 60 to 89 days past due	5,554	10,313	13,665	8,442	11,982
90 or more days past due					
Commercial and industrial	226	233	283	657	12
Commercial real estate	49	7,591	2,950	422	—
Construction	3,988	—	2,575	1,823	196
Residential mortgage	1,063	1,549	2,356	763	1,556
Consumer	152	118	501	351	723
Total 90 or more days past due	5,478	9,491	8,665	4,016	2,487
Total accruing past due loans	$31,230	$46,917	$58,351	$41,601	$61,026
Non-accrual loans [1]					
Commercial and industrial	$8,467	$21,029	$22,424	$26,648	$13,721
Commercial real estate	22,098	43,934	58,625	42,186	32,981
Construction	5,223	8,116	14,805	19,874	27,312
Residential mortgage	17,760	19,949	32,623	31,646	28,494
Consumer	2,209	2,035	3,331	3,910	2,547
Total non-accrual loans	55,757	95,063	131,808	124,264	105,055
Non-performing loans held for sale	7,130	—	—	—	—
Other real estate owned (OREO) [2]	14,249	19,580	15,612	15,227	10,498
Other repossessed assets	1,232	6,447	7,805	796	1,707
Non-accrual debt securities [3]	4,729	3,771	40,303	27,151	—
Total non-performing assets (NPAs)	$83,097	$124,861	$195,528	$167,438	$117,260
Performing troubled debt restructured loans	$97,743	$107,037	$105,446	$100,992	$89,696
Total non-accrual loans as a % of loans	0.41 %	0.82 %	1.20 %	1.27 %	1.12 %
Total NPAs as a % of loans and NPAs	0.61	1.07	1.74	1.68	1.24
Total accruing past due and non-accrual loans as a % of loans	0.65	1.23	1.73	1.69	1.77
Allowance for losses on non-covered loans as a % of non-accrual loans	183.21	112.08	91.58	96.79	112.63

[1] Past due loans and non-accrual loans exclude PCI loans that are accounted for on a pool basis.

(2) This table excludes OREO properties related to the FDIC-assisted transactions totaling \$9.2 million, \$12.3 million, \$8.9 million, \$6.4 million, \$7.8 million at December 31, 2014, 2013, 2012, 2011 and 2010, respectively, and is subject to the loss-sharing agreements with the FDIC.

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(3) Includes other-than-temporarily impaired trust preferred securities classified as available for sale, which are presented at carrying value, net of unrealized losses totaling $621 thousand, $1.6 million, $6.9 million and $24.6 million at December 31, 2014, 2013, 2012 and 2011, respectively.

Total NPAs decreased $41.8 million to $83.1 million at December 31, 2014 compared to $124.9 million at December 31, 2013. The decrease was largely due to a decline of $39.3 million in non-accrual loans as well as declines in OREO and other repossessed assets totaling $10.5 million, partially offset by a $7.1 million increase in non-performing loans held for sale. See additional analysis of these items below. Approximately 81 percent of the total non-accrual loans are comprised of commercial real estate, construction and residential mortgage loans, which are collateralized by real estate. The combined loan charge-offs totaled $10.2 million in 2014 related to these loan categories as compared to $15.3 million for the same loan categories in 2013, as Valley continues to have relatively low loss rates on such loans largely due to its conservative underwriting standards including, conservative loan to value ratios.

Loans past due 30 to 59 days decreased $6.9 million to $20.2 million at December 31, 2014 compared to $27.1 million at December 31, 2013 mainly due to a decline of $4.8 million in commercial and industrial loans and moderately improved performance across all other loan types within this delinquency category. Within the commercial real estate loan category totaling $8.9 million at December 31, 2014, $4.0 million represented one potential problem loan, while $3.0 million represented performing matured loans in the normal process of renewal.

Loans past due 60 to 89 days decreased approximately $4.7 million to $5.6 million at December 31, 2014 as compared to $10.3 million at December 31, 2013 primarily due to a $4.6 million decline in construction loan delinquencies. The $4.6 million decrease in construction loans was entirely due to the completion of the renewal underwriting process for one performing matured loan during the first quarter of 2014.

Loans 90 days or more past due and still accruing decreased $4.0 million to $5.5 million at December 31, 2014 compared to $9.5 million one year ago. Within this past due category, commercial real estate loans decreased $7.5 million primarily due to $7.6 million of performing matured loans in the normal process of renewal at December 31, 2013 that subsequently completed the renewal process during the second quarter of 2014 and are currently performing to the contractual loan terms at December 31, 2014. Partially offsetting the decrease in commercial real estate and most other loan categories, construction loans increased $4.0 million entirely due to one potential problem loan at December 31, 2014. All of the loans past due 90 days or more and still accruing are considered to be well secured and in the process of collection.

Non-accrual loans decreased $39.3 million to $55.8 million at December 31, 2014 as compared to $95.1 million at December 31, 2013. The year over year decrease was mainly due to declines in the commercial and industrial and commercial real estate loan categories caused by transfer of $35.6 million of non-performing loans to loans held for sale during the first quarter of 2014. The transfer of the non-performing loans held for sale resulted in partial loan charge-offs of $8.3 million at the date of transfer. These loans also had aggregate allocated reserves of $6.1 million within our allowance for loan losses prior to the date of transfer and charge-off. All of these loans, except for one commercial real estate loan totaling $7.1 million at December 31, 2014, were sold during the second quarter of 2014. Subsequent valuation write-downs related to the one remaining non-performing loan held for sale and the sale of the other non-performing loans resulted in a total net loss of $872 thousand recognized as a component of the net gains on sales of loans category of our non-interest income for the year ended December 31, 2014. Although the timing of collection is uncertain, management believes that most of the non-accrual loans are well secured and largely collectible based on, in part, our quarterly review of impaired loans and the valuation of the underlying collateral, if applicable. Our impaired loans (mainly consisting of non-accrual commercial and industrial loans and commercial real estate loans over $250 thousand and all troubled debt restructured loans) totaled $145.0 million at December 31, 2014 and had $12.5 million in related specific reserves included in our total allowance for loan losses. If interest on non-accrual loans had been accrued in accordance with the original contractual terms, such interest income would have amounted to approximately $2.2 million, $4.8 million and $7.2 million for the years ended December 31, 2014, 2013 and 2012, respectively; none of these amounts were included in interest income during these periods. Interest income recognized on a cash basis for loans classified as non-accrual totaled $735 thousand, $1.3 million and $590

thousand for the years ended December 31, 2014, 2013 and 2012, respectively.
OREO (which consists of 42 commercial and residential properties), excluding OREO subject to loss-sharing agreements with the FDIC, decreased $5.4 million to $14.2 million at December 31, 2014 as compared to $19.6 million at December 31, 2013. The decrease was mostly due to lower volume of completed foreclosures which totaled 28 properties in 2014 as compared to 44 properties in 2013. During 2014, sales of 41 properties totaling $14.6 million and OREO valuation write-downs totaling $2.5 million were partially offsetting by the 28 property foreclosures totaling $8.1 million (after partial charge-offs to the allowance for loan losses at the transfer date) and 4 properties totaling $3.6 million acquired from 1st United. Our residential mortgage loan foreclosure activity remains relatively low due to the nominal amount of individual loan delinquencies within the residential mortgage and home equity portfolios and the average time to complete a foreclosure in the State of New Jersey, which currently

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exceeds two and a half years. We believe this lengthy legal process negatively impacts the level of our non-accrual loans and NPAs, and the ability to compare our NPA levels to similar banks located outside of our primary markets as of December 31, 2014.

Other repossessed assets, mainly consisting of 3 aircraft, totaled $1.2 million at December 31, 2014 as compared to $6.4 million at December 31, 2013. The decrease from 2013 was mostly due to the sale of two repossessed aircrafts with an aggregate carrying value of $5.2 million which resulted in immaterial net loss during the year ended December 31, 2014.

The $4.7 million of non-accrual debt securities, consisting of two previously impaired pooled trust preferred security issuances, totaled $4.7 million at December 31, 2014 as compared to $3.8 million at December 31, 2013. These securities had an aggregate unamortized cost of $5.4 million at both December 31, 2014 and 2013. The $36.5 million decrease in non-accrual debt securities from December 31, 2012 to December 31, 2013 was primarily due to our sale of previously impaired trust preferred securities issued by one deferring bank holding company during 2013, which had a combined carrying value (or fair value) of $36.7 million at December 31, 2012. See additional information at the “Investment Securities Portfolio” section of this MD&A and Note 4 to the consolidated financial statements.

Troubled debt restructured loans (TDRs) represent loan modifications for customers experiencing financial difficulties where a concession has been granted. Performing TDRs (i.e., TDRs not reported as loans 90 days or more past due and still accruing or as non-accrual loans) totaled $97.7 million at December 31, 2014 and consisted of 99 loans (primarily in the commercial and industrial loan and commercial real estate portfolios) as compared to $107.0 million at December 31, 2013. On an aggregate basis, the $97.7 million in performing TDRs at December 31, 2014 had a modified weighted average interest rate of approximately 4.71 percent as compared to a pre-modification weighted average interest rate of 5.11 percent. See Note 5 to the consolidated financial statements for additional disclosures regarding our TDRs.

Potential Problem Loans

Although we believe that substantially all risk elements at December 31, 2014 have been disclosed in the categories presented above, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans. As part of the analysis of the loan portfolio, management determined that there were approximately $138.2 million and $152.6 million in potential problem loans at December 31, 2014 and 2013, respectively, which were not classified as non-accrual loans in the non-performing asset table above. Potential problem loans are defined as performing loans for which management has concerns about the ability of such borrowers to comply with the loan repayment terms and which may result in a non-performing loan. Our decision to include performing loans in potential problem loans does not necessarily mean that management expects losses to occur, but that management recognizes potential problem loans carry a higher probability of default. At December 31, 2014, the potential problem loans consisted of various types of performing commercial credits internally risk rated substandard because the loans exhibited well-defined weaknesses and required additional attention by management. See further discussion regarding our internal loan classification system at Note 5 to the consolidated financial statements. There can be no assurance that Valley has identified all of its potential problem loans at December 31, 2014.

Asset Quality and Risk Elements

Lending is one of the most important functions performed by Valley and, by its very nature, lending is also the most complicated, risky and profitable part of our business. For our commercial loan portfolio, comprised of commercial and industrial loans, commercial real estate loans, and construction loans, a separate credit department is responsible for risk assessment and periodically evaluating overall creditworthiness of a borrower. Additionally, efforts are made to limit concentrations of credit so as to minimize the impact of a downturn in any one economic sector. We believe our loan portfolio is diversified as to type of borrower and loan. However, loans collateralized by real estate, including $197.7 million of covered loans, represent approximately 72.5 percent of total loans at December 31, 2014. Most of the loans collateralized by real estate are in northern and central New Jersey and New York City, presenting a geographical credit risk if there was a further significant broad-based deterioration in economic conditions within the region. See Part I, Item 1A. Risk Factors - "Our financial results and condition may be adversely impacted by weak economic conditions, particularly if unemployment does not continue to improve or increases".

Consumer loans are comprised of residential mortgage loans, home equity loans, automobile loans and other consumer loans. Residential mortgage loans are secured by 1-4 family properties generally located in counties where we have branch presence in New Jersey, New York and Florida, as well as counties contiguous thereto, if applicable, including eastern Pennsylvania. We do provide mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Residential mortgage loan underwriting policies based on Fannie Mae and Freddie Mac guidelines are adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2014 was 56 percent while FICO® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 760. Home equity and automobile loans are secured loans and are made based on an evaluation of the collateral and the borrower’s creditworthiness. In addition to New Jersey, automobile

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loans are primarily originated in several other contiguous states. Due to the level of our underwriting standards applied to all loans, management believes the out of state loans generally present no more risk than those made within New Jersey. However, each loan or group of loans made outside of our primary markets poses different geographic risks based upon the economy of that particular region.

Management realizes that some degree of risk must be expected in the normal course of lending activities. Allowances are maintained to absorb such loan losses inherent in the portfolio. The allowance for credit losses and related provision are an expression of management's evaluation of the credit portfolio and economic climate.

Allowance for Credit Losses

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

- segmentation of the loan portfolio based on the major loan categories, which consist of commercial, commercial real estate (including construction), residential mortgage, and other consumer loans (including automobile and home equity loans);
- tracking the historical levels of classified loans and delinquencies;
- assessing the nature and trend of loan charge-offs;
- providing specific reserves on impaired loans;
- evaluating the non-covered PCI loan pools for additional credit impairment subsequent to the acquisition dates; and
- applying economic outlook factors, assigning specific incremental reserves where necessary.

Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration when evaluating the adequacy of the allowance for credit losses.

The allowance for loan losses consists of five elements: (i) specific reserves for individually impaired credits, (ii) reserves for adversely classified, or higher risk rated, loans that are not impaired, (iii) reserves for other loans based on historical loss factors (using the appropriate look-back and loss emergence periods), (iv) 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, and (v) an allowance for impaired covered loan pools.

The Credit Risk Management Department individually evaluates non-accrual (non-homogeneous) loans within the commercial and industrial loan and commercial real estate loan portfolio segments over $250 thousand and troubled debt restructured loans within all the loan portfolio segments for impairment based on the underlying anticipated method of payment consisting of either the expected future cash flows or the related collateral. If payment is expected solely based on the underlying collateral, an appraisal is completed to assess the fair value of the collateral. Collateral dependent impaired loan balances are written down to the current fair value (less estimated selling costs) of each loan's underlying collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank's collection process. (See the "Assets and Liabilities Measured on Non-recurring Basis" section of Note 3 to the consolidated financial statements for further details). If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan's original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for credit losses. At December 31, 2014, a $12.5 million specific valuation allowance was included in the allowance for credit losses related to $145.0 million of impaired loans that had such an allowance. See Note 5 to the consolidated financial statements for more details regarding impaired loans.

The allowance allocations for non-classified loans within all of our loan portfolio segments are calculated by applying historical loss factors by specific loan types to the applicable outstanding loans and unfunded commitments. Loss factors are based on the Bank's historical loss experience over a look-back period determined to provide the appropriate amount of data to accurately estimate expected losses as of period end. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each historical loss factor accordingly. The loss emergence period is the estimated time from the date of a loss event (such as a personal bankruptcy) to the actual recognition of the loss (typically via the first fully or partial loan charge-off), and is determined based upon a study of our past loss experience by loan segment. The loss factors may also be adjusted for

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significant changes in the current loan portfolio quality that, in management's judgment, affect the collectability of the portfolio as of the evaluation date.

The allowance contains reserves identified as the unallocated portion in the table below to cover inherent losses within a given loan category which have not been otherwise reviewed or measured on an individual basis. Such reserves include management's evaluation of the national and local economy, loan portfolio volumes, the composition and concentrations of credit, credit quality and delinquency trends. These reserves reflect management's attempt to ensure that the overall allowance reflects a margin for imprecision and the uncertainty that is inherent in estimates of probable credit losses.

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

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	($ in thousands)				
Average loans outstanding	$12,081,683	$11,187,968	$11,238,269	$9,608,480	$9,474,994
Beginning balance—Allowance for credit losses	$117,112	$132,495	$136,185	$126,504	$103,655
Loans charged-off: (1)					
Commercial and industrial	(12,722)	(19,837)	(16,103)	(29,229)	(15,475)
Commercial real estate	(4,894)	(7,060)	(9,596)	(6,305)	(1,823)
Construction	(4,576)	(3,786)	(2,092)	(4,053)	(1,738)
Residential mortgage	(1,004)	(4,446)	(3,518)	(3,222)	(3,741)
Consumer	(3,702)	(5,120)	(5,339)	(5,906)	(10,882)
	(26,898)	(40,249)	(36,648)	(48,715)	(33,659)
Charged-off loans recovered: (2)					
Commercial and industrial	6,874	4,219	4,475	2,365	4,121
Commercial real estate	2,198	816	222	134	156
Construction	912	929	50	197	—
Residential mortgage	248	768	701	129	97
Consumer	1,957	2,039	1,958	2,236	2,678
	12,189	8,771	7,406	5,061	7,052
Net charge-offs (1)(2)	(14,709)	(31,478)	(29,242)	(43,654)	(26,607)
Provision charged for credit losses	1,884	16,095	25,552	53,335	49,456
Ending balance—Allowance for credit losses	$104,287	$117,112	$132,495	$136,185	$126,504
Components of allowance for credit losses:					
Allowance for non-covered loans	$102,153	$106,547	$120,708	$120,274	$118,326
Allowance for covered loans	200	7,070	9,492	13,528	6,378
Allowance for loan losses	102,353	113,617	130,200	133,802	124,704
Allowance for unfunded letters of credit	1,934	3,495	2,295	2,383	1,800
Allowance for credit losses	$104,287	$117,112	$132,495	$136,185	$126,504
Components of provision for credit losses:					
Provision for losses on non-covered loans	$9,317	$17,171	$25,640	$31,242	$42,943
Provision for losses on covered loans	(5,872)	(2,276)	—	21,510	6,378
Provision for loan losses	3,445	14,895	25,640	52,752	49,321
Provision for unfunded letters of credit	(1,561)	1,200	(88)	583	135
Provision for credit losses	$1,884	$16,095	$25,552	$53,335	$49,456
	0.11%	0.28%	0.22%	0.30%	0.28%

Ratio of net charge-offs of non-covered loans to average loans outstanding					
Ratio of net charge-offs during the period to average loans outstanding	0.12	0.28	0.26	0.45	0.28
Allowance for non-covered loan losses as a % of non-covered loans	0.77	0.93	1.11	1.26	1.31
Allowance for credit losses as a % of total loans	0.77	1.01	1.20	1.39	1.35

(1) Includes covered loans charge-offs totaling $1.5 million, $146 thousand, $4.0 million and $14.4 million during 2014, 2013, 2012 and 2011, respectively. There were no charge-offs of covered loans during 2010.

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(2) Includes charged-off covered loan recoveries totaling $462 thousand during 2014. There were no recoveries of charged-off covered loans during 2013, 2012, 2011 and 2010.

Net charge-offs have remained relatively low in the last five years as compared to many of our peers and the slow pace of the economic recovery over such period. During this five-year period, our net charge-offs were at a high of 0.45 percent of average loans during 2011 and a low of 0.12 percent during 2014. Our net loan charge-offs decreased $16.8 million to $14.7 million in 2014 as compared to $31.5 million in 2013 mainly due to lower gross charge-offs in all loan categories, except for construction loans (as shown in the table above). The total loans charged-off of $26.9 million in 2014, which declined $13.4 million from 2013, included $8.3 million in aggregate loan charge-offs related to the valuation of certain non-performing loans transferred to loans held for sale at March 31, 2014. These non-performing loans held for sale had aggregate related reserves of $6.1 million within our allowance for loan losses prior to the date of transfer and partial charge-off. Our net loan charge-offs during 2014 also benefited from a $3.4 million increase in charged-off loan recoveries as compared to 2013 primarily due to a few large commercial and industrial loan recoveries and better collections of charged off commercial real estate loans in 2014. For the covered loan pools, net charge-offs totaled $997 thousand for the year ended December 31, 2014 as compared to $146 thousand in 2013. The charge-offs of impaired covered loans are substantially covered by loss-sharing agreements with the FDIC. Despite the improving outlook for our loan portfolio and the economy, there can be no assurance that our levels of net-charge-offs will continue to improve during 2015, and not deteriorate in the future.

The provision for credit losses decreased $14.2 million to $1.9 million in 2014 as compared to $16.1 million in 2013 mainly due to decreases of $7.9 million and $2.7 million in the provision for non-covered loans and provision for unfunded letters of credit, respectively, caused by several positive trends in our loan portfolio's credit quality during the last 12-month period, including lower levels of delinquencies, internally classified loans and net loan charge-offs. We recorded a negative (credit) provision for covered loan losses totaling $5.9 million for the year ended December 31, 2014 as compared to a negative provision of $2.3 million in 2013 related to decreases in the estimated additional credit impairment of certain covered loan pools (initially recognized in 2011 and 2010) subsequent to acquisition dates.

The following table summarizes the allocation of the allowance for credit losses to specific loan portfolio categories for the past five years:

	2014		2013		2012		2011		2010	
	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans
	($ in thousands)									
Loan Category:										
Commercial and industrial*	$45,440	16.6 %	$54,534	17.3 %	$59,260	18.9 %	$65,076	19.2 %	$58,229	19.5 %
Commercial real estate:										
Commercial real estate	27,426	44.8	25,570	43.1	24,651	40.1	19,222	36.4	15,755	36.0
Construction	15,414	3.9	10,341	3.7	17,393	3.9	12,905	4.2	14,162	4.6
Residential mortgage	5,063	18.7	7,663	21.6	9,361	22.3	9,058	23.3	9,128	20.6
Consumer	5,179	14.4	4,356	13.5	5,542	13.2	8,677	14.1	14,499	15.5
Unallocated	5,565	—	7,578	—	6,796	—	7,719	—	8,353	—
	104,087		110,042		123,003		122,657		120,126	

Allowance for non-covered loans and unfunded letters of credit														
Allowance for covered loans	200	1.6		7,070	0.8		9,492	1.6		13,528	2.8		6,378	3.8
Total allowance for credit losses	$104,287	100	%	$117,112	100	%	$132,495	100	%	$136,185	100	%	$126,504	100	%

* Includes the allowance for unfunded letters of credit.

The allowance for non-covered loans and unfunded letters of credit as a percentage of total non-covered loans was 0.78 percent at December 31, 2014 as compared to 0.96 percent at December 31, 2013. The decrease from December 31, 2013 was largely due to continued improvement in most of our credit quality indicators, strong economic outlook, as well as the additional non-covered PCI loans acquired from 1st United on November 1, 2014, which totaled $954.3 million at December 31, 2014. PCI

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loans, including all of the loans acquired from 1st United during the fourth quarter of 2014, are accounted for on a pool basis and initially recorded net of fair valuation discounts related to credit which may be used to absorb future losses on such loans before any allowance for loan losses is recognized subsequent to acquisition. Due to the adequacy of such discounts, there were no allowance reserves related to non-covered PCI loans at December 31, 2014 and 2013. Our allowance for non-covered loans and unfunded letters of credit as a percentage of total non-covered loans (excluding all non-covered PCI loans with carrying values totaling approximately $1.5 billion) was 0.89 percent at December 31, 2014 as compared to 1.02 percent at December 31, 2013.

Our allowance allocation for losses on non-covered commercial loans decreased $9.1 million to $45.4 million at December 31, 2014 as compared to $54.5 million at December 31, 2013 largely due to a $6.1 million decrease in specific reserves for individually impaired credits and continued improvement in most other credit quality metrics. The allocation for losses on non-covered construction loans increased $5.1 million to $15.4 million at December 31, 2014 from $10.3 million at December 31, 2013 largely due to a higher level of net loan charge-offs during 2014 (particularly in the fourth quarter of 2014), the longer duration of the loss emergence period estimated for such losses (which are limited to a very few credits), and 17.0 percent loan growth experienced within the non-PCI loan portion of portfolio during 2014, but entirely due to new loan volume in the second half of 2014. The allocations for losses on non-covered commercial real estate loans and consumer loans also increased during 2014 largely due to the significant loan growth in both of these portfolios over the last 12-month period. Overall, levels of loan delinquencies and internally classified loans continued to trend downward during 2014 as a result of the strengthening economy and significant repayments within our impaired loan portfolio. Additionally, our total net loan charge-offs of $14.7 million in 2014 were at the lowest level reported since 2007, both in terms of total dollars and as a percentage of average loans outstanding, despite the recognition of $8.3 million in loan charge-offs related to the valuation estimates for certain non-performing loans transferred to loans held for sale during the first quarter of 2014. The decision to sell these loans, and record the charge to the allowance for non-covered loan losses, was based on a pooled loan cost/benefit analysis, and not actual individual customer loss events during 2014. These items as well as several other factors, including our cautiously optimistic outlook for the economy, positively impacted our estimate of the allowance for credit losses at December 31, 2014.

Management believes that the unallocated allowance is appropriate given the uncertain strength of the economic and housing market recoveries, the size of the loan portfolio and level of loan delinquencies at December 31, 2013. See Note 6 to the consolidated financial statements for additional information regarding our allowance for loan losses.

Loan Repurchase Contingencies

We engage in the origination of residential mortgages for sale into the secondary market. Such loan sales were a significant portion of our mortgage loan production from the third quarter of 2012 until late in the second quarter of 2013 when market interest rates were at historical lows and consumer demand was robust, and more modest until December 2014. In connection with loan 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 due to such loans. However, the performance of our loans sold has been historically strong due to our strict underwriting standards and procedures. Over the past several years, we have experienced a nominal amount of repurchase requests, and only a few of which have actually resulted in repurchases by Valley (only two and four loan repurchases in 2014 and 2013, respectively). None of the loan repurchases resulted in losses. Accordingly, no reserves pertaining to loans sold were established on our consolidated financial statements at December 31, 2014 and 2013. See "Item 1A. Risk Factors—We may incur future losses in connection with repurchases and indemnification payments related to mortgages that we have sold into the secondary market" of this Annual Report for additional information.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders' equity. At December 31, 2014 and 2013, shareholders' equity totaled approximately $1.9 billion and $1.5 billion, or 9.9 percent and 9.5 percent of total assets, respectively. During 2014, total shareholders' equity increased by $322.0 million primarily due to the (i) the additional capital issued in the 1st United Bancorp acquisition totaling $291.2 million, (ii) net income of $116.2 million, (iii) a $5.8 million increase attributable to the effect of our stock incentive plan, (iv) $5.0 million of net proceeds from the reissuance of treasury stock and issuance of authorized common shares issued under our dividend reinvestment plan totaling 499 thousand shares, partially offset by (v) a $4.2 million increase in our accumulated other comprehensive loss, and (vi) cash dividends declared on common stock totaling $91.6 million. See Note 18 to the consolidated financial statements for more information regarding the changes in our accumulated other comprehensive loss during 2014.

Risk-based capital guidelines define a two-tier capital framework. Tier 1 capital consists of common shareholders' equity and trust preferred securities issued by our capital trusts less disallowed intangibles and adjusted to exclude unrealized gains and losses, net of deferred tax. Total risk-based capital consists of Tier 1 capital, qualifying subordinated borrowings of both Valley and Valley National Bank 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.

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On July 2, 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by Valley and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5 percent and a common equity Tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0 percent to 6.0 percent and require a minimum leverage ratio of 4.0 percent. The final rule became effective January 1, 2015, subject to a transition period.

Based upon the new final regulatory guidance, our Tier 1 capital treatment of the trust preferred securities issued by our capital trusts are 75 percent disallowed as of January 1, 2015 and will be fully phased out of Tier 1 capital on January 1, 2016. Valley's Tier 1 capital position included $44.0 million of its outstanding trust preferred securities issued by capital trusts as of both December 31, 2014 and 2013, respectively.

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) per common share. Our retention ratio was 21.6 percent and 9.10 percent for the years ended December 31, 2014 and 2013, respectively. Our rate of earnings retention increased from the year ended December 31, 2013 largely due to a 32.3 percent reduction in our quarterly cash dividend amount per common share (see more details below), as well as, among other factors, the positive impact on earnings from the loan growth within several segments of our loan portfolio, and a decrease in cost of our long-term borrowings due to the early redemption of our 7.75 percent junior subordinated debentures in 2013. However, the potential future deterioration in our earnings and financial condition resulting from a protracted period of low market interest rates, continued intense competition for strong loan relationships, net impairment losses on securities within our investment portfolio or a downturn in the economy may negatively impact our future earnings and ability to maintain our dividend at current levels.

Cash dividends declared amounted to $0.44 and $0.60 per common share for the years ended December 31, 2014 and 2013, respectively. In November 2013, the Board reduced the quarterly dividend amount per share by $0.0525. While our performance and capital are strong, the quarterly retention of a higher amount of capital should provide us more flexibility to expand our banking franchise. The dividend reduction was not the result of any regulatory actions. 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. The Federal Reserve has cautioned all bank holding companies about distributing dividends which may reduce the level of capital or not allow capital to grow in anticipation of new higher capital levels as required under the new Basel Rules.

Valley maintains an effective shelf registration statement with the SEC that allows Valley to periodically offer and sell in one or more offerings, individually or in any combination, of Valley's common stock, preferred stock and other non-equity securities. The shelf registration statement provides Valley with capital raising flexibility and enables Valley to promptly access the capital markets in order to pursue growth opportunities that may become available in the future or permits Valley to comply with any changes in the regulatory environment that call for increased capital requirements. Valley's ability, and any decision to issue and sell securities pursuant to the shelf registration statement, is subject to market conditions and Valley's capital needs at such time. Additional equity offerings, including shares issued under Valley's dividend reinvestment plan may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Such offerings may be necessary in the future due to several reasons beyond management's control, including numerous external factors that could negatively impact the strengthening of the U.S. economy or our ability to maintain or increase the level of our net income. See Note 17 to the consolidated financial statements for additional information on Valley's stock issuances and repurchase plan.

Off-Balance Sheet Arrangements

Contractual Obligations and Commitments. In the ordinary course of operations, Valley enters into various financial obligations, including contractual obligations that may require future cash payments. As a financial services provider, we routinely enter into commitments to extend credit, including loan commitments, standby and commercial letters of credit. Such commitments are subject to the same credit policies and approval process accorded to loans made by the Bank. See Note 14 of the consolidated financial statements for additional information.

The following table summarizes Valley's contractual obligations and other commitments to make future payments as of December 31, 2014. Payments for deposits, borrowings and debentures do not include interest. Payments related to leases, capital expenditures, other purchase obligations and commitments to sell loans are based on actual payments specified in the underlying contracts. Commitments to extend credit and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used based upon our historical experience, the total amounts of these commitments do not necessarily reflect future cash requirements.

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	Note to Financial Statements	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
				(in thousands)		
Contractual obligations:						
Time deposits	9	$1,434,546	$1,006,686	$ 144,559	$156,677	$2,742,468
Long-term borrowings [1]	10	125,000	1,079,500	505,000	810,000	2,519,500
Junior subordinated debentures issued to capital trusts [1]	11	—	—	—	45,363	45,363
Operating leases	14	24,133	48,622	47,501	303,764	424,020
Capital expenditures		8,405	—	—	—	8,405
Other purchase obligations [2]		15,848	6,619	485	160	23,112
Total		$1,607,932	$2,141,427	$ 697,545	$1,315,964	$5,762,868
Other commitments:						
Commitments to extend credit	14	$2,603,076	$530,606	$ 82,898	$392,253	$3,608,833
Standby letters of credit	14	114,473	7,311	47,652	25,126	194,562
Commitments to sell loans	14	27,932	—	—	—	27,932
Total		$2,745,481	$537,917	$ 130,550	$417,379	$3,831,327

(1) Amounts presented consist of the contractual principal balances. Carrying values and call dates are set forth in Notes 10 and 11 to the consolidated financial statements for long-term borrowings and junior subordinated debentures issued to capital trusts, respectively.

(2) This category primarily consists of contractual obligations for communication and technology costs.

Valley also has obligations under its pension benefit plans, not included in the above table, as further described in Note 12 of the consolidated financial statements.

Derivative Instruments and Hedging Activities. We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate and liquidity risks, primarily by managing the amount, sources, and duration of our assets and liabilities and, from time to time, the use of derivative financial instruments. Specifically, we enter 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. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments mainly related to certain variable-rate borrowings and fixed-rate loan assets. Valley also enters into mortgage banking derivatives which are non-designated hedges. These derivatives include interest rate lock commitments provided to customers to fund certain residential mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. Valley enters into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on Valley’s commitments to fund the loans as well as on its portfolio of mortgage loans held for sale.

See Note 14 to the consolidated financial statements for quantitative information on our derivative financial instruments and hedging activities.

Trust Preferred Securities. In addition to the commitments and derivative financial instruments of the types described above, our off-balance sheet arrangements include a $1.4 million ownership interest in the common securities of our statutory trusts to issue trust preferred securities. See “Capital Adequacy” section above and Note 11 of the consolidated financial statements.

Results of Operations—2013 Compared to 2012

Net interest income on a tax equivalent basis decreased $41.5 million to $455.6 million for 2013 compared with $497.1 million for 2012. The decrease was mainly driven by lower interest rates on new loans and investments and the prepayment of higher yielding assets in both of these earning asset categories, partially offset by lower costs on interest bearing liabilities resulting from lower interest rates offered on most deposit products, maturing high cost time deposits and the early redemption of our 7.75 percent junior subordinated debentures during the second half of 2013. Average loan balances decreased $50.3 million to $11.2 billion in 2013 and only accounted for a small portion of the $44.4 million decline in the interest income on a tax equivalent basis for loans as compared to 2012, which was mostly driven by the low interest rates on new and renewed loans. The decrease in average loans was primarily due to declines in higher yielding PCI loans (mostly within the commercial loan categories) and the lack of commercial and industrial loan growth, mostly offset by solid organic commercial real estate loan growth in the second half of 2013 and steady quarterly growth in the automobile loan portfolio throughout 2013. Average investment securities increased $109.9 million to approximately $2.8 billion in 2013 primarily due to higher levels of excess liquidity reinvested into non-taxable municipal bond investments, as well as Ginnie Mae issued residential mortgage-backed securities within the taxable investment portfolio. However, the higher average investment balances only partly negated the negative impact of the 2013 reinvestments at low market rates which primarily led to a $10.2 million decrease in interest income on a tax equivalent basis for investment securities as compared to 2012.

Average interest bearing liabilities decreased $283.8 million to $10.8 billion for the year ended December 31, 2013 from the same period in 2012 mainly due to a $366.6 million decline in average time deposits caused by the continued run-off of high cost certificates of deposit. Average short-term borrowings also decreased $171.7 million from 2012 mostly due to lower levels of short-term FHLB advances utilized as a loan funding source in 2013 as residential mortgage loan originations declined due to an increase in long-term market rates in June 2013 which significantly slowed the consumer loan refinance market. These decreases were partially offset by a $265.4 million increase in average savings, NOW, and money market account balances. The cost of average time deposits, long-term borrowings, savings, NOW and money market accounts, and short-term borrowings decreased 11, 7, 6, and 5 basis points, respectively, during 2013 due to the continued low level of market interest rates throughout the year and, as applicable, the aforementioned maturity of higher cost funds and early redemption of the 7.75 percent junior subordinated debentures.

Non-interest income represented 17 percent and 15 percent of total interest income plus non-interest income for 2013 and 2012, respectively. For the year ended December 31, 2013, non-interest income increased $7.7 million compared with 2012 mainly due to increases in net gains on securities transactions, gains on sales of assets and a decrease in other-than-temporary impairment charges on securities recognized in earnings, partially offset by decreases in net gains on sales of loans and other non-interest income.

Net gains on securities transactions increased $12.1 million to $14.7 million for the year ended December 31, 2013 as compared to $2.6 million in 2012 largely due to a $10.7 million gain on sale of previously impaired trust preferred securities classified as available for sale that were issued by one deferring bank holding company. Valley also recognized gains totaling $3.4 million during the first quarter of 2013 due to the sales of zero percent yielding Freddie Mac and Fannie Mae perpetual preferred stock with amortized cost totaling $941 thousand.

Net impairment losses on securities decreased $5.2 million for the year ended December 31, 2013 as compared to 2012 as no credit impairment losses on securities were recognized during 2013. The net impairment losses for year ended December 31, 2012 were largely related to additional estimated credit losses on previously impaired trust preferred securities issued by one bank holding company.

Net gains on sale of assets increased $11.3 million for the year ended December 31, 2013 as compared to a $329 thousand loss for 2012 mostly as a result of the termination of a branch operating lease during the fourth quarter of 2013 related to a building sale-leaseback transaction entered into during 2007. As a result, the unamortized deferred gain of $11.3 million related to the original building sale (and scheduled to be amortized over the remaining lease term) was immediately recognized during the fourth quarter of 2013.

Net gains on sales of loans decreased $13.3 million for the year ended December 31, 2013 as compared to the same period in 2012 primarily due to a significant decline in loans originated for sale as our new and refinanced loan origination volumes were slowed by the negative impact of the increase in the level of market interest rates since June 2013.

Other non-interest income decreased $6.8 million to $15.2 million for the year ended December 31, 2013 as compared to $22.0 million for 2012. This decrease was largely the result of other non-interest income recognized during 2012 for the reversal of purchase accounting valuation liabilities totaling $7.4 million, which related to expired and unused lines of credit assumed in FDIC-assisted transactions.

Non-interest expense increased $6.4 million to $381.3 million for the year ended December 31, 2013 from $374.9 million for 2012. The increase from 2012 was mainly attributable to increases in other non-interest expense, the FDIC insurance assessment, and professional and legal fees, partially offset by decreases in salaries and employee benefits, amortization of other intangibles and advertising expense. Other non-interest expense increased $10.1 million for the year ended December 31, 2013 as compared to 2012. The increase was mainly due to a $10.2 million increase in the amortization of tax credit investments during 2013 as we invested to a greater extent in tax advantaged investments. The FDIC insurance assessment increased $2.5 million in 2013 as compared to 2012 mostly due to a specific adjustment to our individual assessment made by the FDIC during the second quarter of 2013. Professional and legal fees increased $1.5 million for the year ended December 31, 2013 as compared to 2012 mainly due to an increase in legal expenses related to general corporate matters, as well as the partial redemption of our junior subordinated

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debentures and related trust preferred securities in 2013. These increases were offset by $5.6 million decrease in salary and employee benefits expense for the year ended December 31, 2013 as compared to 2012 largely due to decreases in our cash incentive compensation accruals, pension expense, and medical health insurance expense, partially offset by normal annual salary increases. Pension expense declined due to Valley's decision in June 2013 to freeze the benefits earned under our qualified and non-qualified plans effective December 31, 2013. Amortization of other intangible assets decreased $1.5 million for the year ended December 31, 2013 as compared to 2012 mainly due to an increase in the net recoveries of impairment charges on certain loan servicing rights during 2013, partially offset by higher amortization expense caused, in part, by additional loan servicing rights recorded over the last twelve-month period. In addition, advertising expense decreased $976 thousand to $6.1 million for the year ended December 31, 2013 as compared to $7.1 million in 2012. The decrease was mainly caused by a lower volume of promotional activity for our residential mortgage refinance programs during 2013 partly due to the maturation of the refinance programs in our markets and the slowdown in consumer refinance activity during the second half of 2013.

Income tax expense was $47.0 million for the year ended December 31, 2013, reflecting an effective tax rate of 26.3 percent, as compared to $66.7 million for the year ended 2012, reflecting an effective tax rate of 31.7 percent. The decrease in 2013 tax expense and tax rate was largely caused by the decline in pre-tax income and an increase in tax credit investments in 2013.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information regarding Quantitative and Qualitative Disclosures About Market Risk, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity."

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Item 8. Financial Statements and Supplementary Data

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2014	2013
	(in thousands except for share data)	
Assets		
Cash and due from banks	$462,569	$234,253
Interest bearing deposits with banks	367,838	134,915
Investment securities:		
Held to maturity, fair value of $1,815,976 at December 31, 2014 and $1,711,427 at December 31, 2013	1,778,316	1,731,737
Available for sale	886,970	829,692
Trading securities	14,233	14,264
Total investment securities	2,679,519	2,575,693
Loans held for sale, at fair value	24,295	10,488
Non-covered loans	13,262,022	11,471,447
Covered loans	211,891	96,165
Less: Allowance for loan losses	(102,353)	(113,617)
Net loans	13,371,560	11,453,995
Premises and equipment, net	282,997	270,138
Bank owned life insurance	375,640	344,023
Accrued interest receivable	57,333	53,964
Due from customers on acceptances outstanding	4,197	5,032
FDIC loss-share receivable	13,848	32,757
Goodwill	575,892	428,234
Other intangible assets, net	38,775	36,130
Other assets	539,392	576,919
Total Assets	$18,793,855	$16,156,541
Liabilities		
Deposits:		
Non-interest bearing	$4,235,515	$3,717,271
Interest bearing:		
Savings, NOW and money market	7,056,133	5,422,722
Time	2,742,468	2,179,269
Total deposits	14,034,116	11,319,262
Short-term borrowings	146,781	281,455
Long-term borrowings	2,526,408	2,792,306
Junior subordinated debentures issued to capital trusts	41,252	41,089
Bank acceptances outstanding	4,197	5,032
Accrued expenses and other liabilities	178,084	176,357
Total Liabilities	16,930,838	14,615,501
Shareholders’ Equity		
Preferred stock, no par value, authorized 30,000,000 shares; none issued	—	—
Common stock, no par value, authorized 332,023,233 shares; issued 232,127,098 shares at December 31, 2014 and 199,629,268 shares at December 31, 2013	81,072	69,941
Surplus	1,693,752	1,403,375

Retained earnings	130,845	106,340
Accumulated other comprehensive loss	(42,495)	(38,252)
Treasury stock, at cost (16,123 common shares at December 31, 2014 and 36,159 common shares at December 31, 2013)	(157)	(364)
Total Shareholders’ Equity	1,863,017	1,541,040
Total Liabilities and Shareholders’ Equity	$18,793,855	$16,156,541

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2014	2013	2012
	(in thousands, except for share data)		
Interest Income			
Interest and fees on loans	$552,821	$537,301	$581,696
Interest and dividends on investment securities:			
Taxable	62,458	57,392	68,698
Tax-exempt	14,683	14,426	13,157
Dividends	6,272	6,240	7,107
Interest on federal funds sold and other short-term investments	369	738	535
Total interest income	636,603	616,097	671,193
Interest Expense			
Interest on deposits:			
Savings, NOW and money market	19,671	17,863	20,090
Time	27,882	29,928	37,466
Interest on short-term borrowings	972	590	1,387
Interest on long-term borrowings and junior subordinated debentures	113,321	119,996	122,369
Total interest expense	161,846	168,377	181,312
Net Interest Income	474,757	447,720	489,881
Provision for credit losses	1,884	16,095	25,552
Net Interest Income After Provision for Credit Losses	472,873	431,625	464,329
Non-Interest Income			
Trust and investment services	9,512	8,610	7,690
Insurance commissions	16,853	15,907	15,494
Service charges on deposit accounts	22,771	24,115	24,752
Gains on securities transactions, net	745	14,678	2,587
Other-than-temporary impairment losses on securities	—	—	—
Portion recognized in other comprehensive income (before taxes)	—	—	(5,247)
Net impairment losses on securities recognized in earnings	—	—	(5,247)
Trading (losses) gains, net	(31)	909	2,793
Fees from loan servicing	7,013	7,020	4,843
Gains on sales of loans, net	1,731	33,695	46,998
Gains (losses) on sales of assets, net	18,087	10,947	(329)
Bank owned life insurance	6,392	5,962	6,855
Change in FDIC loss-share receivable	(20,792)	(8,427)	(7,459)
Other	15,335	15,237	21,969
Total non-interest income	77,616	128,653	120,946
Non-Interest Expense			
Salary and employee benefits expense	193,489	194,410	199,968
Net occupancy and equipment expense	74,492	71,634	71,245
FDIC insurance assessment	14,051	16,767	14,292
Amortization of other intangible assets	9,919	8,258	9,783
Professional and legal fees	16,859	16,491	15,005
Loss on extinguishment of debt	10,132	—	—
Amortization of tax credit investments	24,196	14,352	4,157
Advertising	4,666	6,127	7,103

Other	55,451	53,299	53,347
Total non-interest expense	403,255	381,338	374,900
Income Before Income Taxes	147,234	178,940	210,375
Income tax expense	31,062	46,979	66,748
Net Income	$116,172	$131,961	$143,627
Earnings Per Common Share:			
Basic	$0.56	$0.66	$0.73
Diluted	0.56	0.66	0.73
Cash Dividends Declared Per Common Share	0.44	0.60	0.65
Weighted Average Number of Common Shares Outstanding:			
Basic	205,716,293	199,309,425	197,354,159
Diluted	205,716,293	199,309,425	197,354,372

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net income	$116,172	$131,961	$143,627
Other comprehensive income (loss), net of tax:			
Unrealized gains and losses on securities available for sale			
Net gains (losses) arising during the period	19,398	(13,239)	5,682
Less reclassification adjustment for net gains included in net income	(433)	(8,522)	(1,545)
Total	18,965	(21,761)	4,137
Non-credit impairment losses on available for sale and held to maturity securities			
Net change in non-credit impairment losses on securities	1,334	3,637	9,942
Less reclassification adjustment for credit impairment losses included in net income	(383)	(268)	2,449
Total	951	3,369	12,391
Unrealized gains and losses on derivatives (cash flow hedges)			
Net (losses) gains on derivatives arising during the period	(12,147)	2,400	(3,351)
Less reclassification adjustment for net losses included in net income	3,886	4,005	3,760
Total	(8,261)	6,405	409
Defined benefit pension plan			
Net (losses) gains arising during the period	(16,207)	21,577	(6,839)
Amortization of prior service cost	177	1,454	38
Amortization of net loss	132	1,145	1,396
Recognition of loss due to curtailment	—	468	—
Total	(15,898)	24,644	(5,405)
Total other comprehensive (loss) gain	(4,243)	12,657	11,532
Total comprehensive income	$111,929	$144,618	$155,159

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Common Shares Outstanding (in thousands)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance - December 31, 2011	178,683	$59,955	$1,179,135	$78,599	$(62,441)	$(412)	$1,254,836
Net income	—	—	—	143,627	—	—	143,627
Other comprehensive income, net of tax	—	—	—	—	11,532	—	11,532
Cash dividends declared on common stock	—	—	—	(128,661)	—	—	(128,661)
Effect of stock incentive plan, net	1,339	136	5,596	(65)	—	(1,063)	4,604
Common stock dividend declared	—	—	(108,982)	—	—	—	(108,982)
Common stock dividend paid	—	3,288	105,694	—	—	—	108,982
Common stock issued	18,416	6,115	209,408	(5)	—	921	216,439
Balance - December 31, 2012	198,438	69,494	1,390,851	93,495	(50,909)	(554)	1,502,377
Net income	—	—	—	131,961	—	—	131,961
Other comprehensive income, net of tax	—	—	—	—	12,657	—	12,657
Cash dividends declared on common stock	—	—	—	(119,081)	—	—	(119,081)
Effect of stock incentive plan, net	380	227	6,500	(34)	—	(1,221)	5,472
Common stock issued	775	220	6,024	(1)	—	1,411	7,654
Balance - December 31, 2013	199,593	69,941	1,403,375	106,340	(38,252)	(364)	1,541,040
Net income	—	—	—	116,172	—	—	116,172
Other comprehensive loss, net of tax	—	—	—	—	(4,243)	—	(4,243)
Cash dividends declared on common stock	—	—	—	(91,581)	—	—	(91,581)
Effect of stock incentive plan, net	1,299	234	6,269	(83)	—	(614)	5,806
Common stock issued	31,219	10,897	284,108	(3)	—	821	295,823
Balance - December 31, 2014	232,111	$81,072	$1,693,752	$130,845	$(42,495)	$(157)	$1,863,017

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
Cash flows from operating activities:			
Net income	$116,172	$131,961	$143,627
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,465	19,712	18,477
Stock-based compensation	7,489	6,055	4,816
Provision for credit losses	1,884	16,095	25,552
Net amortization of premiums and accretion of discounts on securities and borrowings	26,949	16,229	21,124
Amortization of other intangible assets	9,919	8,258	9,783
Gains on securities transactions, net	(745)	(14,678)	(2,587)
Net impairment losses on securities recognized in earnings	—	—	5,247
Proceeds from sales of loans held for sale	85,452	1,083,297	999,380
Gains on sales of loans, net	(1,731)	(33,695)	(46,998)
Originations of loans held for sale	(91,463)	(953,125)	(923,182)
(Gains) losses on sales of assets, net	(18,087)	(10,947)	329
Net deferred income tax expense	11,455	30,329	28,398
FDIC loss-share receivable (excluding reimbursements)	20,792	8,427	7,459
Net change in:			
Trading securities	31	7,893	(219)
Fair value of borrowings carried at fair value	—	(881)	(2,574)
Cash surrender value of bank owned life insurance	(6,392)	(5,962)	(6,855)
Accrued interest receivable	423	(1,589)	5,446
Other assets	17,231	(17,587)	49,345
Accrued expenses and other liabilities	(14,868)	(4,428)	(13,257)
Net cash provided by operating activities	183,976	285,364	323,311
Cash flows from investing activities:			
Net loan originations	(649,616)	(368,724)	(203,354)
Loans purchased	(128,684)	(231,008)	(136,241)
Investment securities held to maturity:			
Purchases	(397,186)	(619,299)	(360,614)
Maturities, calls and principal repayments	347,531	473,362	705,487
Investment securities available for sale:			
Purchases	(28,415)	(289,181)	(455,601)
Sales	62,025	57,003	257,497
Maturities, calls and principal repayments	153,673	183,006	248,721
Death benefit proceeds from bank owned life insurance	—	1,821	1,689
Proceeds from sales of real estate property and equipment	43,360	18,034	9,337
Purchases of real estate property and equipment	(21,862)	(14,852)	(22,735)
(Payments to) reimbursements from the FDIC	5,582	3,812	21,935
Cash and cash equivalents acquired in acquisitions	102,025	—	117,587
Net cash (used in) provided by investing activities	(511,567)	(786,026)	183,708
Cash flows from financing activities:			

Net change in deposits	1,300,011	55,244	210,623
Net change in short-term borrowings	(151,470)	127,132	(87,526)
Issuance of long-term borrowings	—	125,000	—

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CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

Repayments of long-term borrowings	(275,000)	(26,133)	(28,000)
Redemption of junior subordinated debentures	—	(142,313)	(10,000)
Cash dividends paid to common shareholders	(88,119)	(129,271)	(125,870)
Common stock issued, net	3,408	7,071	7,805
Net cash provided by (used in) financing activities	788,830	16,730	(32,968)
Net change in cash and cash equivalents	461,239	(483,932)	474,051
Cash and cash equivalents at beginning of year	369,168	853,100	379,049
Cash and cash equivalents at end of year	$830,407	$369,168	$853,100
Supplemental disclosures of cash flow information:			
Cash payments for:			
Interest on deposits and borrowings	$162,762	$167,860	$183,120
Federal and state income taxes	34,236	15,317	50,111
Supplemental schedule of non-cash investing activities:			
Transfer of loans to other real estate owned	$11,012	$19,679	$14,365
Loans transferred to loans held for sale	27,329	—	124,261
Acquisition:			
Non-cash assets acquired:			
Investments securities held to maturity	$7,930	$—	$—
Investment securities available for sale	216,074	—	275,650
Loans	1,160,852	—	1,088,421
Premises and equipment, net	11,234	—	9,457
Bank owned life insurance	25,224	—	—
Accrued interest receivable	3,792	—	5,294
FDIC loss-share receivable	7,465	—	—
Goodwill	147,658	—	109,758
Other intangible assets, net	11,500	—	8,050
Other assets	42,876	—	72,137
Total non-cash assets acquired	1,634,605	—	1,568,767
Liabilities assumed:			
Deposits	1,414,843	—	1,380,293
Short-term borrowings	16,796	—	29,000
Junior subordinated debentures issued to capital trusts	—	—	15,645
Accrued expenses and other liabilities	13,768	—	52,998
Total liabilities assumed	1,445,407	—	1,477,936
Net non-cash assets acquired	$189,198	$—	$90,831
Net cash and cash equivalents acquired in acquisition	$102,025	$—	$117,587
Common stock issued in acquisition	$291,223	$—	$208,418

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Note 1)
Business
Valley National Bancorp, a New Jersey Corporation (Valley), is a bank holding company whose principal wholly-owned subsidiary is Valley National Bank (the "Bank"), a national banking association providing a full range of commercial, retail and trust and investment services through its branch and ATM network throughout northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn, Queens, Long Island, and southeast and central Florida. The Bank also lends to borrowers outside its branch network. The Bank is subject to intense competition from other financial services companies and is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by certain regulatory authorities.
Valley National Bank's subsidiaries are all included in the consolidated financial statements of Valley. These subsidiaries include:
- an all-line insurance agency offering property and casualty, life and health insurance;
- asset management advisers which are Securities and Exchange Commission (SEC) registered investment advisors;
- title insurance agencies in New Jersey, New York and Florida;
- subsidiaries which hold, maintain and manage investment assets for the Bank;
- a subsidiary which owns and services auto loans;
- a subsidiary which specializes in health care equipment and other commercial equipment leases;
- a subsidiary which owns and services general aviation aircraft loans and existing commercial equipment leases; and
- a subsidiary which owns and services New York commercial loans and specializes in asset-based lending.

The Bank's subsidiaries also include real estate investment trust subsidiaries (the "REIT" subsidiaries) which own real estate related investments and a REIT subsidiary which owns some of the real estate utilized by the Bank and related real estate investments. Except for Valley's REIT subsidiaries, all subsidiaries mentioned above are directly or indirectly wholly-owned by the Bank. Because each REIT subsidiary must have 100 or more shareholders to qualify as a REIT, each REIT subsidiary has issued less than 20 percent of its outstanding non-voting preferred stock to individuals, most of whom are non-senior management Bank employees. The Bank owns the remaining preferred stock and all the common stock of the REITs.
Basis of Presentation
The consolidated financial statements of Valley include the accounts of its commercial bank subsidiary, Valley National 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 (U.S. 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 11 below for more details. Certain prior period amounts have been reclassified to conform to the current presentation.
In preparing the consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.
On November 1, 2014, Valley acquired 1st United Bancorp, Inc. (1st United) and its wholly owned subsidiary, 1st United Bank, a commercial bank. Effective January 1, 2012, Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank. See the supplemental schedule of non-cash investing activities of the Consolidated Statements of Cash Flows and Note 2 for additional information.

On May 25, 2012, Valley issued a five percent common stock dividend to shareholders of record on May 11, 2012. There were no common stock dividends issued during 2014 and 2013.

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Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other banks (including the Federal Reserve Bank of New York) and, from time to time, overnight federal funds sold. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. These reserve balances totaled $45.5 million and $58.2 million at December 31, 2014 and 2013, respectively.
Investment Securities
At the time of purchase, management elects to classify investment securities into one of three categories: held to maturity, available for sale or trading. Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold to maturity. Investment securities to be held for indefinite periods are classified as available for sale and carried at fair value, with unrealized holding gains and losses reported as a component of other comprehensive income or loss, net of tax. Securities that may be sold and reinvested over short durations as part of management’s asset/liability management strategies are classified as trading and are carried at fair value, with changes in unrealized holding gains and losses included in non-interest income in the accompanying consolidated statements of income as a component of net trading gains. Realized gains or losses on the sale of available for sale and trading securities are recognized by the specific identification method and are included in net gains on securities transactions and net trading gains, respectively. Investments in Federal Home Loan Bank and Federal Reserve Bank stock, which have limited marketability, are carried at cost in other assets.
Quarterly, Valley evaluates its investment securities classified as held to maturity or available for sale for other-than-temporary impairment. Other-than-temporary impairment means Valley believes the security’s impairment is due to factors that could include the issuer’s inability to pay interest or dividends, the potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, Valley has to first consider (a) whether it intends to sell the security, and (b) whether it is more likely than not that Valley will be required to sell the security prior to recovery of its amortized cost basis. If neither of these circumstances applies to a security, but Valley does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. 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 portion related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income or loss. 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, Valley considers factors that include, among others, 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; Valley’s 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); Valley’s intent to sell security investments; and whether it is more likely than not that Valley will be required to sell such securities before recovery of their individual amortized cost basis. For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not it is probable that current and/or future contractual cash flows have been or may be impaired. See the “Other-Than-Temporary Impairment Analysis” section of Note 4 for further discussion.
Interest income on investments includes amortization of purchase premiums and discounts. Realized gains and losses are derived based on the amortized cost of the security sold. Valley discontinues the recognition of interest on debt securities if the securities meet both of the following criteria: (i) regularly scheduled interest payments have not been paid or have been deferred by the issuer, and (ii) full collection of all contractual principal and interest payments is not deemed to be the most likely outcome, resulting in the recognition of other-than-temporary impairment of the security.
Loans Held for Sale

Loans held for sale generally consist of conforming residential mortgage loans originated and intended for sale in the secondary market and are carried at their estimated fair value on an instrument-by-instrument basis as permitted by the fair value option election under U.S. GAAP. Changes in fair value are recognized in non-interest income in the accompanying consolidated statements of income as a component of net gains on sales of loans. Origination fees and costs related to loans held for sale are recognized as earned and as incurred. Loans held for sale are generally sold with loan servicing rights retained by Valley. Gains recognized on loan sales include the value assigned to the rights to service the loan. See “Loan Servicing Rights” section below. From time to time, Valley may elect to transfer non-performing loans from commercial and industrial or commercial real estate portfolios. At December 31, 2014, loans held for sale consisted of residential mortgage loans originated for sale and one non-performing commercial real estate loan totaling $17.2 million and $7.1 million, respectively.

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Loans and Loan Fees
Loans are reported at their outstanding principal balance net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans and premium or discounts on purchased loans, except for purchased credit-impaired loans. Loan origination and commitment fees, net of related costs are deferred and amortized as an adjustment of loan yield over the estimated life of the loans approximating the effective interest method.
Loans are deemed to be past due when the contractually required principal and interest payments have not been received as they become due. Loans are placed on non-accrual status generally, when they become 90 days past due and the full and timely collection of principal and interest becomes uncertain. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on nonaccrual loans are generally applied against principal. A loan in which the borrowers' obligation has not been released in bankruptcy courts may be restored to an accruing basis when it becomes well secured and is in the process of collection, or all past due amounts become current under the loan agreement and collectability is no longer doubtful.
Purchased Credit-Impaired Loans (Including Covered Loans)
Purchased credit-impaired (PCI) loans are loans acquired at a discount (that is due, in part, to credit quality). Valley's PCI loan portfolio primarily consists of loans acquired in business combinations subsequent to 2011 and (covered) loans in which the Bank will share losses with the FDIC under loss-sharing agreements that have resulted from past FDIC-assisted transactions by Valley and 1st United acquired in 2014. The PCI loans are initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. Beginning in 2010, Valley has accounted for interest income on all loans acquired at a discount (that is due, in part, to credit quality) based on the acquired loans' expected cash flows. The acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flow.
The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or an allowance for loan losses. Increases in expected cash flows subsequent to the acquisition are recognized prospectively through adjustment of the yield on the pool over its remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Therefore, the allowance for loan losses on these impaired pools reflect only losses incurred after the acquisition (representing the present value of all cash flows that were expected at acquisition but currently are not expected to be received). The allowance for loan losses on covered loans (acquired through FDIC-assisted transactions) is determined without consideration of the amounts recoverable through the FDIC loss-share agreements (see "FDIC Loss-Share Receivable" below). At December 31, 2014 and 2013, there was no reserve for impairment of non-covered PCI loans in our allowance for loan losses.
The Bank periodically evaluates the remaining contractual required payments due and estimates of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Changes in the contractual required payments due and estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications between accretable yield and the non-accretable difference. On an aggregate basis, the PCI loan pools acquired prior to 2014 have performed better than originally expected, and based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as an additional accretable yield that is recognized as a prospective increase to our interest income on loans. Additionally, the FDIC loss-share receivable is prospectively reduced by the guaranteed portion of the additional cash flows expected to be received, with a corresponding reduction to non-interest income.

PCI loans that may have been classified as non-performing loans by an acquired bank are no longer classified as non-performing because these loans are accounted for on a pooled basis. Management's judgment is required in classifying loans in pools as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the pool cash flows to be collected, even if certain loans within the pool are contractually past due.

Allowance for Credit Losses

The allowance for credit losses (the "allowance") is increased through provisions charged against current earnings and additionally by crediting amounts of recoveries received, if any, on previously charged-off loans. The allowance is reduced by charge-offs on loans or unfunded letters of credit which are determined to be a loss, in accordance with established policies, when all efforts of collection have been exhausted.

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The allowance is maintained at a level estimated to absorb probable credit losses inherent in the loan portfolio as well as other credit risk related charge-offs. The allowance is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio and off-balance sheet unfunded letters of credits, as well as reserves for impairment of PCI loans subsequent to their acquisition date. As discussed under the "Purchased Credit-Impaired Loans" section above, the allowance for credit losses at both December 31, 2014 and 2013 includes reserves for impairment of covered loans subsequent to their acquisition date. The Bank's methodology for evaluating the appropriateness of the allowance includes grouping the non-covered loan portfolio into loan segments based on common risk characteristics, tracking the historical levels of classified loans and delinquencies, estimating the appropriate loss emergence period for each loan segment, providing specific reserves on impaired loans, and assigning incremental reserves where necessary based upon qualitative and economic outlook factors including numerous variables, such as the nature and trends of recent loan charge-offs. Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration.

The allowance for loan losses consists of five elements: (i) specific reserves for individually impaired credits, (ii) reserves for adversely classified, or higher risk rated, loans that are not impaired, (iii) reserves for other loans based on historical loss factors (using the appropriate look-back and loss emergence periods), (iv) 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, and (v) an allowance for impaired covered loan pools.

The Credit Risk Management Department individually evaluates non-accrual (non-homogeneous) commercial and industrial loans and commercial real estate loans over $250 thousand and all troubled debt restructured loans. The value of an impaired loan is measured based upon the underlying anticipated method of payment consisting of either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, if the loan is collateral dependent, and its payment is expected solely based on the underlying collateral. If the value of an impaired loan is less than its carrying amount, impairment is recognized through a provision to the allowance for loan losses. Collateral dependent impaired loan balances are written down to the estimated current fair value (less estimated selling costs) of each loan's underlying collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank's collection process. If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan's original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for loan losses. Accrual of interest is discontinued on an impaired loan when management believes, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are generally credited to the loan balance, and no interest income is recognized on these loans until the principal balance has been determined to be fully collectible. Residential mortgage loans and consumer loans usually consist of smaller balance homogeneous loans that are collectively evaluated for impairment, and are specifically excluded from the impaired loan portfolio, except where the loan is classified as a troubled debt restructured loan.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of the loans. Loans are evaluated based on an internal credit risk rating system for the commercial and industrial loan and commercial real estate loan portfolio segments and non-performing loan status for the residential and consumer loan portfolio segments. Loans are risk-rated based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship manager level for all commercial and industrial loans and commercial real estate loans, and evaluated by the Loan Review Department on a test basis. Loans with a grade that is below "Pass" grade are adversely classified. See Note 5 for details. Any change in the credit risk grade of performing and/or non-performing loans affects the amount of the related allowance. Once a loan is adversely classified, the assigned relationship manager and/or a special assets officer in conjunction with the Credit Risk Management Department analyze the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower’s ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower’s industry, among other things. Loans identified as losses by management are charged-off. Commercial loans are generally assessed for full or partial charge-off to the net realizable value for collateral dependent loans when a loan is between 90 or 120 days past due or sooner if it is probable that a loan may not be fully collectable. Residential loans and home equity loans are generally charged-off to net realizable value when the loan is 120 days past due (or sooner when the borrowers’ obligation has been released in bankruptcy). Automobile loans are fully charged-off when the loan is 120 days past due or partially charged-off to the net realizable value of collateral, if the collateral is recovered prior to such time. Unsecured consumer loans are generally fully charged-off when the loan is 150 days past due.

The allowance allocations for other loans (i.e.; risk rated loans that are not adversely classified and loans that are not risk rated) are calculated by applying historical loss factors for each loan portfolio segment to the applicable outstanding loan portfolio balances. Loss factors are calculated using statistical analysis supplemented by management judgment. The statistical analysis

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considers historical default rates, historical loss severity in the event of default, and the average loss emergence period for each loan portfolio segment. The management analysis includes an evaluation of loan portfolio volumes, the composition and concentrations of credit, credit quality and current delinquency trends.

The allowance also contains reserves to cover inherent losses within each of Valley's loan portfolio segments, which have not been otherwise reviewed or measured on an individual basis. Such reserves include management's evaluation of national and local economic and business conditions, loan portfolio volumes, the composition and concentrations of credit, credit quality and delinquency trends. These reserves reflect management's attempt to ensure that the overall allowance reflects a margin for imprecision and the uncertainty that is inherent in estimates of probable credit losses. See Notes 5 and 6 for Valley's loan credit quality and additional allowance disclosures.

Premises and Equipment, Net

Premises and equipment are stated at cost less accumulated depreciation computed using the straight-line method over the estimated useful lives of the related assets. Generally, these useful lives range from three to forty years. Leasehold improvements are amortized over the term of the lease or estimated useful life of the asset, whichever is shorter. Major improvements are capitalized, while repairs and maintenance costs are charged to operations as incurred. Upon retirement or disposition, any gain or loss is credited or charged to operations.

Bank Owned Life Insurance

Valley owns bank owned life insurance (BOLI) to help offset the cost of employee benefits. BOLI is recorded at its cash surrender value. Valley's BOLI is invested primarily in U.S. Treasury securities and residential mortgage-backed securities issued by government sponsored enterprises and Ginnie Mae. The majority of the underlying investment portfolio is managed by one independent investment firm. The change in the cash surrender value is included as a component of non-interest income and is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals.

Other Real Estate Owned

Valley acquires other real estate owned (OREO) through foreclosure on loans secured by real estate. OREO is reported at the lower of cost or fair value, as established by a current appraisal (less estimated costs to sell), and is included in other assets. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain these properties, unrealized losses resulting from valuation write-downs after the date of foreclosure, and realized gains and losses upon sale of the properties are included in other non-interest expense. OREO and other repossessed assets totaled $24.7 million and $38.3 million (including $9.2 million and $12.3 million of OREO properties related to the FDIC-assisted transactions, which are subject to the loss-sharing agreements) at December 31, 2014 and 2013, respectively.

FDIC Loss-Share Receivable

The receivable arising from the loss sharing agreements (referred to as the "FDIC loss-share receivable" on Valley's consolidated statements of financial condition) is measured separately from the covered loan pools because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. Although this asset represents a contractual receivable from the FDIC, there is no contractual interest rate associated with the asset. At the date of acquisition, the FDIC loss-share receivable was measured at its fair value based on expected future cash flows covered by the loss share agreements. In addition, the asset is based on the credit adjustments estimated for each loan pool and the loss-share percentages. FDIC loss-share receivable relates to loss-sharing agreements for the LibertyPointe Bank and The Park Avenue Bank transactions in 2010 and the loss-sharing agreements acquired in connection with the acquisition of 1st United during 2014 (discussed further below).

The FDIC loss-share receivable acquired from 1st United relates to commercial and single-family (residential) loan loss-sharing agreements with the FDIC. On October 21, 2011, 1st United assumed all deposits and certain identified assets and liabilities of Old Harbor Bank and entered into a loss-sharing agreement with the FDIC in which losses will be shared on the acquired loan and other real estate owned portfolio up to 70 percent of those covered assets acquired or $49 million of losses. On December 17, 2010, 1st United assumed all deposits and certain identified assets and liabilities of The Bank of Miami and entered into a loss-sharing agreement with the FDIC in which losses will be shared on the acquired loan and other real estate owned portfolio up to 80 percent of of those covered assets acquired. On December 11, 2009, 1st United assumed all deposits (except certain brokered deposits) and certain identified assets and liabilities of Republic Federal Bank and entered into a loss-sharing agreement with the FDIC in which losses will be shared on the acquired loan and other real estate owned portfolio up to 80 percent of losses up to $36 million. The FDIC will reimburse Valley for 95 percent of losses in excess of $36 million.

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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. At December 31, 2014, our FDIC loss-share receivable totaled $13.8 million, of which $6.9 million related to the loss-sharing agreements acquired from 1st United.

The difference between the present value at acquisition date and the undiscounted cash flow expected to be collected from the FDIC is accreted into non-interest income over the life of the FDIC loss-share receivable. The FDIC loss-share receivable is reduced as loss-sharing payments are received from the FDIC for realized losses on covered loans and other real estate owned. Actual or expected losses in excess of the acquisition date estimates result in an increase in the FDIC loss-share receivable. However, a reduction in the FDIC loss-share receivable due to actual or expected losses that are less than the acquisition date estimates is recognized prospectively over the shorter of (i) the estimated life of the respective pools of covered loans or (ii) the term of the loss-sharing agreements with the FDIC. The increases and decreases to the FDIC loss-share receivable are recorded as a component of non-interest income. 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 Note 5 for further details.

Goodwill

Intangible assets resulting from acquisitions under the purchase method of accounting consist of goodwill and other intangible assets (see “Other Intangible Assets” below). Goodwill is not amortized and is subject to an annual assessment for impairment. The goodwill impairment analysis is generally a two-step test. During 2014 and 2013, Valley elected to perform step one of the two-step goodwill impairment test for all of its reporting units. However, Valley may choose to perform an optional qualitative assessment allowable under Accounting Standards Update (ASU) No. 2011-8, “Testing Goodwill for Impairment” to determine whether it is necessary to perform the two-step quantitative goodwill impairment test for one or more units in future periods.

Goodwill is allocated to Valley’s reporting unit, which is a business segment or one level below, at the date goodwill is actually recorded. If the carrying value of a reporting unit exceeds its estimated fair value, a second step in the analysis is performed to determine the amount of impairment, if any. The second step compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. If the carrying value of a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded equal to the excess amount in the current period earnings. Valley reviews goodwill annually or more frequently if a triggering event indicates impairment may have occurred, to determine potential impairment by determining if the fair value of the reporting unit has fallen below the carrying value.

Other Intangible Assets

Other intangible assets primarily consist of loan servicing rights (largely generated from loan servicing retained by the Bank on residential mortgage loan originations sold in the secondary market to government sponsored enterprises), core deposits (the portion of an acquisition purchase price which represents value assigned to the existing deposit base), customer lists, and covenants not to compete obtained through acquisitions. Other intangible assets are amortized using various methods over their estimated lives and are periodically evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impairment is deemed to exist, an adjustment is recorded to earnings in the current period for the difference between the fair value of the asset and its carrying amount. See further details regarding loan servicing rights below.

Loan Servicing Rights

Loan servicing rights are recorded when originated mortgage loans are sold with servicing rights retained, or when servicing rights are purchased. Valley initially records the loan servicing rights at fair value. Subsequently, the loan servicing rights are carried at the lower of unamortized cost or market (i.e., fair value). The fair values of the loan servicing rights are determined using a method which utilizes servicing income, discount rates, prepayment speeds and default rates specifically relative to Valley’s portfolio for originated mortgage servicing rights.

The unamortized costs associated with acquiring loan servicing rights, net of any valuation allowances, are included in other intangible assets in the consolidated statements of financial condition and 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. A valuation allowance is established through an impairment charge to earnings to the extent the unamortized cost of a stratified group of loan servicing rights exceeds its estimated fair value. Increases in the fair value of impaired loan servicing rights are recognized as a reduction of the valuation allowance, but not in excess of such allowance.

Stock-Based Compensation

Compensation expense for stock options and restricted stock awards (i.e., non-vested stock awards) is based on the fair value of the award on the date of the grant and is recognized ratably over the service period of the award. Under Valley's long-term incentive compensation plans, award grantees that are eligible for retirement do not have a service period requirement. Compensation expense for these awards is recognized immediately in earnings. The service period for non-retirement eligible employees is the shorter of the stated vesting period of the award or the period until the employee's retirement eligibility date. The fair value of each option granted is estimated using a binomial option pricing model. The fair value of restricted stock awards is based upon the last sale price reported for Valley's common stock on the date of grant or the last sale price reported preceding such date, except for performance-based restricted stock awards with a market condition. The grant date fair value of a performance-based restricted stock award that vest based on a market condition is determined by a third party specialist using a Monte Carlo valuation model.

Fair Value Measurements

In general, fair values of financial instruments are based upon quoted market prices, where available. When observable market prices and parameters are not fully available, management uses valuation techniques based upon internal and third party models requiring more management judgment to estimate the appropriate fair value measurements. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, including adjustments based on internal cash flow model projections that utilize assumptions similar to those incorporated by market participants. Other adjustments may include amounts to reflect counterparty credit quality and Valley's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. See Note 3 for additional information.

Income Taxes

Valley uses the asset and liability method to provide income taxes on all transactions recorded in the consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the enacted tax rates that will be in effect when the underlying items of income and expense are expected to be realized.

Valley's expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount we expect to realize. Deferred income tax expense or benefit results from differences between assets and liabilities measured for financial reporting versus income-tax return purposes. The effect on deferred taxes of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

Valley maintains a reserve related to certain tax positions that management believes contain an element of uncertainty. Periodically, Valley evaluates each of its tax positions and strategies to determine whether the reserve continues to be appropriate. See Note 13 for further analysis of Valley's accounting for income taxes.

Comprehensive Income

Comprehensive income or loss is defined as the change in equity of a business entity during a period due to transactions and other events and circumstances, excluding those resulting from investments by and distributions to shareholders. Comprehensive income consists of net income and other comprehensive income or loss. Valley's components of other comprehensive income or loss, net of deferred tax, include: (i) unrealized gains and losses on securities available for sale (including the non-credit portion of other-than-temporary impairment charges relating to these securities); (ii) unrealized gains and losses on derivatives used in cash flow hedging relationships; and (iii) the pension benefit adjustment for the unfunded portion of its various employee, officer, and director pension plans. Valley presents comprehensive income and its components in the consolidated statements of comprehensive income

for all periods presented. See Note 18 for additional disclosures.
Earnings Per Common Share
For Valley, the numerator of both the basic and diluted earnings per common share is net income. The weighted average number of common shares outstanding used in the denominator for basic earnings per common share is increased to determine

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the denominator used for diluted earnings per common share by the effect of potentially dilutive common stock equivalents utilizing the treasury stock method.

The following table shows the calculation of both basic and diluted earnings per common share for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
	(in thousands, except for share data)		
Net income	$116,172	$131,961	$143,627
Basic weighted-average number of common shares outstanding	205,716,293	199,309,425	197,354,159
Plus: Common stock equivalents	—	—	213
Diluted weighted-average number of common shares outstanding	205,716,293	199,309,425	197,354,372
Earnings per common share:			
Basic	$0.56	$0.66	$0.73
Diluted	0.56	0.66	0.73

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 equaled approximately 6.2 million, 6.7 million, and 7.2 million of common shares for the years ended December 31, 2014, 2013, and 2012, respectively.

Common Stock Dividends

Cash dividends to common stockholders are payable and accrued when declared by Valley's Board of Directors.

Treasury Stock

Treasury stock is recorded using the cost method and accordingly is presented as a reduction of shareholders' equity.

Derivative Instruments and Hedging Activities

As part of its asset/liability management strategies and to accommodate commercial borrowers, Valley has used interest rate swaps and caps to hedge variability in future fair values or cash flows caused by changes in interest rates. Valley also uses derivatives not designated as hedges for non-speculative purposes to manage its exposure to interest rate movements related to a service for certain customers, certain mortgage banking activities consisting of customer interest rate lock commitments and forward contracts to sell residential mortgage loans, and certain hybrid instruments, consisting of market linked certificates of deposit with an embedded swap contract. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Valley records all derivatives as assets or liabilities at fair value on the consolidated statements of financial condition.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income or loss and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. On a quarterly basis, Valley assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. If a hedging relationship is terminated due to ineffectiveness, and the derivative instrument is not re-designated to a new hedging relationship, the subsequent change in fair value of such instrument is charged directly to earnings. Derivatives not designated as hedges do not meet the hedge accounting requirements under U.S. GAAP. Changes in fair value of derivatives not designated in hedging relationships are recorded directly in earnings. In 2012, Valley made an accounting policy election to use the exception under the ASU No. 2011-4 and calculate the credit valuation adjustments to the fair value of derivatives on a net basis by counterparty portfolio. See Note 3 for additional information.

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New Authoritative Accounting Guidance

ASU No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure" requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure. (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU No. 2014-14 is effective for reporting periods (including interim periods) beginning after December 15, 2014 and is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU No. 2014-12 is effective for reporting periods after January 1, 2015 and is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward repurchase agreements and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The accounting-related changes are effective for the first interim or annual period beginning after December 15, 2014. The disclosures for certain transactions accounted for as sales are required for interim and annual periods beginning after December 15, 2014. The disclosures for repos, securities lending transactions, and repos-to-maturity accounted for as secured borrowings are required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption of the ASU No. 2014-11 is prohibited. As of December 31, 2014, all of Valley's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, Valley's adoption of ASU No. 2014-11 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, this ASU requires interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual and interim periods beginning after December 15, 2014. Valley’s adoption of ASU No. 2014-04 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” amends existing guidance to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with Subtopic 970-323. ASU No. 2014-01 is effective for annual periods and interim reporting periods within those annual periods beginning after December 15, 2014. Early adoption is permitted. Valley's adoption of ASU No. 2014-01 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. ASU No. 2013-11 became effective for Valley on January 1, 2014 and did not have a significant impact on its consolidated financial statements.

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BUSINESS COMBINATIONS (Note 2)
Acquisition of 1st United Bancorp, Inc.
On November 1, 2014, Valley acquired 1st United Bancorp, Inc. (1st United) and its wholly-owned subsidiary, 1st United Bank, a commercial bank with approximately $1.7 billion in assets, $1.2 billion in loans, and $1.4 billion in deposits, before purchase accounting adjustments. The 1st United acquisition brings to Valley a 20 branch network covering some of the most attractive urban banking markets in Florida, including locations throughout southeast Florida, the Treasure Coast, central Florida and central Gulf Coast regions. The common shareholders of 1st United received 0.89 of a share of Valley common stock for each 1st United share they owned prior to the merger. The total consideration for the acquisition was approximately $300 million, consisting of 30.7 million shares of Valley common stock and $8.9 million of cash consideration paid to 1st United stock option holders. In conjunction with the merger, Valley shareholders approved an amendment of its certificate of incorporation to increase its authorized common shares by 100 million shares during the third quarter of 2014.
Merger expenses totaled $2.6 million for the December 31, 2014, which largely related to professional and legal fees included in non-interest expense on the consolidated statements of income. Valley also recorded a $7.6 million charge within income tax expense for the fourth quarter of 2014 which mostly related to the affect of the 1st United acquisition on the valuation of our deferred tax assets.
The following table sets forth assets acquired and liabilities assumed in the 1st United acquisition, at their estimated fair values as of the closing date of the transaction:

	November 1, 2014 (in thousands)
Assets acquired:	
Cash and cash equivalents	$102,025
Investment securities held to maturity	7,930
Investment securities available for sale	216,074
Total investment securities	224,004
Non-covered loans	970,570
Covered loans	190,282
Total loans	1,160,852
Premises and equipment	11,234
Bank owned life insurance	25,224
Accrued interest receivable	3,792
FDIC loss-share receivable	7,465
Goodwill	147,658
Other intangible assets	11,500
Other assets	42,876
Total assets acquired	$1,736,630
Liabilities assumed:	
Deposits:	
Non-interest bearing	$566,545
Savings, NOW and money market	591,749
Time	256,549
Total deposits	1,414,843
Short-term borrowings	16,796
Accrued expenses and other liabilities	13,768
Total liabilities assumed	$1,445,407
Common stock issued in acquisition	$291,223

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

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and subject to change. The fair value estimates are subject to change for up to one year after closing date of the transaction if additional information relative to closing dates fair values becomes available. As Valley continues to analyze the acquired assets and liabilities, there may be adjustments to the recorded carrying values. However, Valley does not expect significant future adjustments to the recorded amounts at December 31, 2014.

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 1st United acquisition.

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. The estimated fair values of the investment securities 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.

Loans. The acquired loan portfolio was segregated into categories for valuation purposes primarily based on loan type (commercial, mortgage, or consumer) and credit risk rating. The estimated fair 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 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.

The difference between the fair value and the expected cash flows from the acquired loans will be accreted to interest income over the remaining term of the loans in accordance with Accounting Standards Codification (ASC) Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." See Note 5 for further details.

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. 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 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 is amortized over an estimated useful life of 11 years to approximate the existing deposit relationships acquired.

Deposits. The fair values of deposit liabilities with no stated maturity (i.e., non-interest bearing accounts and savings, NOW and money market accounts) are equal to the carrying amounts payable on demand. The fair values of certificates of deposit

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represent contractual cash flows, discounted to present value using interest rates currently offered on deposits with similar characteristics and remaining maturities.

Short-term borrowings. The short-term borrowings consist of securities sold under agreement to repurchase. The carrying amounts approximate their fair values because they frequently re-price to a market rate.

Acquisition of State Bancorp, Inc.
On January 1, 2012, Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank with approximately $1.7 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. Of the acquired branch offices, 14 remain within our 43 branch network in New York and are located mostly in Long Island and Queens. The shareholders of State Bancorp received a fixed one-for-one exchange ratio for Valley National Bancorp common stock. The total consideration for the acquisition totaled $208 million.
Additionally, a warrant issued by State Bancorp (in connection with its redeemed preferred stock issuance) to the U.S. Treasury in December 2008 was assumed by Valley as of the acquisition date. The ten-year warrant to purchase up to 489 thousand of Valley common shares has an exercise price of $11.30 per share, and is exercisable on a net exercise basis. Valley has not negotiated the possible redemption of the warrant with the U.S. Treasury. However, the Treasury may request that we make an offer to redeem the warrant in the future, or request that warrant shares be individually sold at public auction. The entire warrant remained outstanding at December 31, 2014.

FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES (Note 3)
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).

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Assets and Liabilities Measured at Fair Value on a Recurring Basis and Non-Recurring Basis
The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at December 31, 2014 and 2013. The assets presented under "nonrecurring fair value measurements" in the table below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$49,443	$49,443	$—	$—
U.S. government agency securities	33,825	—	33,825	—
Obligations of states and political subdivisions	44,051	—	44,051	—
Residential mortgage-backed securities	644,276	—	629,696	14,580
Trust preferred securities	20,537	—	15,808	4,729
Corporate and other debt securities	74,012	18,241	55,771	—
Equity securities	20,826	1,337	19,489	—
Total available for sale	886,970	69,021	798,640	19,309
Trading securities	14,233	—	14,233	—
Loans held for sale (1)	17,165	—	17,165	—
Other assets (2)	20,987	—	20,987	—
Total assets	$939,355	$69,021	$851,025	$19,309
Liabilities				
Other liabilities (2)	$33,330	$—	$33,330	$—
Total liabilities	$33,330	$—	$33,330	$—
Non-recurring fair value measurements:				
Non-performing loans held for sale	$7,130	$—	$—	$7,130
Collateral dependent impaired loans (3)	13,985	—	—	13,985
Loan servicing rights	3,987	—	—	3,987
Foreclosed assets (4)	18,098	—	—	18,098
Total	$43,200	$—	$—	$43,200

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	December 31, 2013 (in thousands)	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$84,665	$84,665	$—	$—
U.S. government agency securities	48,627	—	48,627	—
Obligations of states and political subdivisions	37,700	—	37,700	—
Residential mortgage-backed securities	508,029	—	483,277	24,752
Trust preferred securities	19,215	—	15,444	3,771
Corporate and other debt securities	83,398	27,273	56,125	—
Equity securities	48,058	26,905	21,153	—
Total available for sale	829,692	138,843	662,326	28,523
Trading securities	14,264	—	14,264	—
Loans held for sale (1)	10,488	—	10,488	—
Other assets (2)	15,122	—	15,122	—
Total assets	$869,566	$138,843	$702,200	$28,523
Liabilities				
Other liabilities (2)	$20,586	$—	$20,586	$—
Total liabilities	$20,586	$—	$20,586	$—
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$35,700	$—	$—	$35,700
Loan servicing rights	3,677	—	—	3,677
Foreclosed assets (4)	25,929	—	—	25,929
Total	$65,306	$—	$—	$65,306

(1) Loans held for sale (which consist of residential mortgages) are carried at fair value and had contractual unpaid principal balances totaling approximately $16.9 million and $10.4 million at December 31, 2014 and 2013, respectively.

(2) Amount represents derivative financial instruments.

(3) Excludes PCI loans.

(4) Includes covered other real estate owned totaling $3.2 million and $7.6 million at December 31, 2014 and 2013, respectively.

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The changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2014 and 2013 are summarized below:

	Available For Sale Securities		
	2014	2013	2012
	(in thousands)		
Balance, beginning of the period	$28,523	$71,674	$77,311
Total net gains (losses) for the period included in:			
Net income	—	—	(5,247)
Other comprehensive income	1,648	657	18,482
Sales	(7,718)	(36,681)	(9,146)
Settlements	(3,144)	(7,127)	(9,726)
Balance, end of the period	$19,309	$28,523	$71,674
Change in unrealized losses for the period included in earnings for assets held at year end *	$—	$—	$(5,247)

* Represents the net impairment losses on securities recognized in earnings for the period.

Transfers into and out of Level 3 assets are generally made in response to a decrease or an increase, respectively, in the availability of observable market data used in the securities' pricing obtained primarily through independent pricing services or dealer market participants. See further details regarding the valuation techniques used for the fair value measurement of the financial instruments below. There were no transfers of assets into and out of Level 3, or between Level 1 and Level 2 during 2014 and 2013.

There have been no material changes in the valuation methodologies used at December 31, 2014 from December 31, 2013.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All of 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 are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair values utilizing Level 1 inputs. The majority of 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 provider 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 an independent pricing service, may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts 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 utilizes unobservable inputs which reflect Valley's own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best

information that is both reasonable and available without undue cost and effort.
In calculating the fair value for the available for sale securities under Level 3, Valley prepared present value cash flow models for 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.

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The following table presents quantitative information about Level 3 inputs used to measure the fair value of these securities at December 31, 2014:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average	
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	0.2 - 19.8%	12.9	%
		Default rate	3.0 - 21.6	8.7	
		Loss severity	41.3 - 62.0	56.5	

Significant increases or decreases in any of the unobservable inputs in the table above in isolation would result in a significantly lower or higher fair value measurement of the securities. Generally, a change in the assumption used for the default rate is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

For the Level 3 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.

For two pooled securities in the Level 3 available for sale trust preferred securities category, 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 fair value calculations for both securities are received from an independent valuation advisor. In validating the fair value calculation from an independent valuation advisor, Valley reviews the accuracy of the inputs and the appropriateness of the unobservable inputs utilized in the valuation to ensure the fair value calculation is reasonable from a market participant perspective.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 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 and maturity of each mortgage. 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 December 31, 2014 and 2013 based on the short duration these assets were held and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analyses using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at December 31, 2014 and 2013), is determined based on the current market prices for similar instruments provided by Freddie Mac and Fannie Mae. The fair values of most 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 December 31, 2014 and 2013.

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

The following valuation techniques were used for certain non-financial assets measured at fair value on a nonrecurring basis, including non-performing loans held for sale carried at estimated fair value (less selling costs) when less than the unamortized cost, impaired loans reported at the fair value of the underlying collateral, loan servicing rights, other real estate owned and other repossessed assets (upon initial recognition or subsequent impairment) as described below.

Non-performing loans held for sale. At December 31, 2014, non-performing loans held for sale consisted of one commercial real estate loan that was transferred to the loans held for sale account during 2014. The fair value of the loan was determined using Level 2 inputs, and a third party broker was engaged to solicit interest from potential purchasers. The broker coordinated loan level due diligence with interested parties and established a formal bidding process in which each participant was required to provide an indicative non-binding bid. At December 31, 2014, Valley established the fair market value based on a non-binding sale agreement selected by Valley during the bidding process that is expected to close during the first half of 2015. The loan was re-measured and reported at a fair value of $7.1 million at December 31, 2014. During 2014, valuation write-downs charged to non-interest income related to this non-performing loan held for sale totaled $3.0 million.

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 estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on customized discounting criteria. At December 31, 2014, appraisals were discounted up to 38.2 percent based on specific market data by location and property type. During 2014 and 2013, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The collateral dependent loan charge-offs to the allowance for loan losses totaled $6.5 million and $26.9 million for the years ended December 31, 2014 and 2013, respectively. These collateral dependent impaired loans with a total recorded investment of $15.0 million and $41.8 million at December 31, 2014 and 2013, respectively, were reduced by specific valuation allowance allocations totaling $1.0 million and $6.1 million to a reported total net carrying amount of $14.0 million and $35.7 million at December 31, 2014 and 2013, respectively.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights 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, prepayment speeds, internal rate of return (“discount rate”), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At December 31, 2014, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0.0 percent up to 27.0 percent and a discount rate of 8.0 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recognized net impairment charges on loan servicing rights totaling $88 thousand and net recoveries of impairment charges totaling $2.5 million for the years ended December 31, 2014 and 2013, respectively.

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 adjusted based on customized discounting criteria, similar to the criteria used for impaired loans described above. The appraisals of foreclosed assets were discounted up to 2.3 percent at December 31, 2014. During the years ended December 31, 2014 and 2013, foreclosed assets measured at fair value upon initial recognition or subsequent re-measurement totaled

$18.1 million and $25.9 million, respectively. The charge-offs of foreclosed assets to the allowance for loan losses totaled $3.7 million and $5.7 million for the years ended December 31, 2014 and 2013, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in losses of $4.7 million and $3.1 million included in non-interest expense for the years ended December 31, 2014 and 2013, respectively.

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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 years ended December 31, 2014, 2013 and 2012:

		Gains (Losses) on Change in Fair Value		
Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	2014	2013	2012
		(in thousands)		
Assets:				
Available for sale securities	Net impairment losses on securities	$—	$—	$(5,247)
Trading securities	Trading (losses) gains, net	(31)	28	219
Loans held for sale	Gains on sales of loans, net	1,731	33,695	46,998
Liabilities:				
Junior subordinated debentures issued to capital trusts	Trading (losses) gains, net	—	881	2,574
Total		$1,700	$34,604	$44,544

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

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

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

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The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at December 31, 2014 and 2013 were as follows:

	Fair Value Hierarchy	December 31, 2014 Carrying Amount (in thousands)	Fair Value	2013 Carrying Amount	Fair Value
Financial assets					
Cash and due from banks	Level 1	$462,569	$462,569	$234,253	$234,253
Interest bearing deposits with banks	Level 1	367,838	367,838	134,915	134,915
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	139,121	151,300	139,255	144,307
U.S. government agency securities	Level 2	14,081	14,385	4,427	4,365
Obligations of states and political subdivisions	Level 2	500,018	519,693	545,886	543,151
Residential mortgage-backed securities	Level 2	986,992	998,981	886,043	871,021
Trust preferred securities	Level 2	98,456	86,243	103,458	91,489
Corporate and other debt securities	Level 2	39,648	45,374	52,668	57,094
Total investment securities held to maturity		1,778,316	1,815,976	1,731,737	1,711,427
Net loans	Level 3	13,371,560	13,085,830	11,453,995	11,294,348
Accrued interest receivable	Level 1	57,333	57,333	53,964	53,964
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	133,117	133,117	137,234	137,234
Financial liabilities					
Deposits without stated maturities	Level 1	11,291,648	11,291,648	9,139,993	9,139,993
Deposits with stated maturities	Level 2	2,742,468	2,807,522	2,179,269	2,206,427
Short-term borrowings	Level 1	146,781	146,781	281,455	281,455
Long-term borrowings	Level 2	2,526,408	2,738,122	2,792,306	3,036,953
Junior subordinated debentures issued to capital trusts	Level 2	41,252	44,584	41,089	45,261
Accrued interest payable (2)	Level 1	15,526	15,526	16,442	16,442

(1) Included in other assets.
(2) Included in accrued expenses and other liabilities.

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities in the table above:
Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value because of the short maturity of these items.
Investment securities held to maturity. Fair values are based on prices 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 (Level 2 inputs). Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts 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. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

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Loans. Fair values of loans 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. The discount rate is a product of both the applicable index and credit spread, subject to the estimated current new loan interest rates. The credit spread component is static for all maturities and may not necessarily reflect the value of estimating all actual cash flows repricing. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.
Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value due to the short-term nature of these items.
Federal Reserve Bank and Federal Home Loan Bank stock. Federal Reserve Bank and FHLB stock are non-marketable equity securities and are reported at their redeemable carrying amounts, which approximate the fair value.
Deposits. The carrying amounts of deposits without stated maturities (i.e., non-interest bearing, savings, NOW, and money market deposits) approximate their estimated fair value. 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 carrying amounts of certain short-term borrowings, including securities sold under agreement to repurchase (and from time to time, federal funds purchased and FHLB borrowings) approximate their fair values because they frequently re-price to a market rate. The fair values of other short-term and long-term borrowings are estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When quoted prices are unavailable, the fair values of the borrowings are estimated by discounting the estimated future cash flows using current market discount rates of financial instruments with similar characteristics, terms and remaining maturity.
Junior subordinated debentures issued to capital trusts. The fair value of debentures issued to capital trusts not carried at 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 of U.S. Treasury security or the three-month LIBOR for the variable rate indexed debentures (Level 2 inputs). The credit spread used to discount the expected cash flows was calculated based on the median current spreads for all fixed and variable publicly traded trust preferred securities issued by banks.
INVESTMENT SECURITIES (Note 4)
As of December 31, 2014, Valley had approximately $1.8 billion, $887.0 million, and $14.2 million in held to maturity, available for sale, and trading investment securities, respectively. Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; prolonged decline in value of equity investments; 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 (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 unpredictable nature of the U.S. economy and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security. See the "Other-Than-Temporary Impairment Analysis" section below for further discussion.

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Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of investment securities held to maturity at December 31, 2014 and 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
	(in thousands)				
December 31, 2014					
U.S. Treasury securities	$139,121	$12,179	$—		$151,300
U.S. government agency securities	14,081	304	—		14,385
Obligations of states and political subdivisions:					
Obligations of states and state agencies	197,440	9,410	(412	)	206,438
Municipal bonds	302,578	10,955	(278	)	313,255
Total obligations of states and political subdivisions	500,018	20,365	(690	)	519,693
Residential mortgage-backed securities	986,992	18,233	(6,244	)	998,981
Trust preferred securities	98,456	167	(12,380	)	86,243
Corporate and other debt securities	39,648	5,726	—		45,374
Total investment securities held to maturity	$1,778,316	$56,974	$(19,314	)	$1,815,976
December 31, 2013					
U.S. Treasury securities	$139,255	$5,567	$(515	)	$144,307
U.S. government agency securities	4,427	—	(62	)	4,365
Obligations of states and political subdivisions:					
Obligations of states and state agencies	192,653	1,944	(5,473	)	189,124
Municipal bonds	353,233	6,053	(5,259	)	354,027
Total obligations of states and political subdivisions	545,886	7,997	(10,732	)	543,151
Residential mortgage-backed securities	886,043	12,609	(27,631	)	871,021
Trust preferred securities	103,458	363	(12,332	)	91,489
Corporate and other debt securities	52,668	4,426	—		57,094
Total investment securities held to maturity	$1,731,737	$30,962	$(51,272	)	$1,711,427

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The age of unrealized losses and fair value of related securities held to maturity at December 31, 2014 and 2013 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)					
December 31, 2014						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$4,927	$(50)	$19,050	$(362)	$23,977	$(412)
Municipal bonds	—	—	28,815	(278)	28,815	(278)
Total obligations of states and political subdivisions	4,927	(50)	47,865	(640)	52,792	(690)
Residential mortgage-backed securities	107,357	(563)	276,580	(5,681)	383,937	(6,244)
Trust preferred securities	—	—	66,194	(12,380)	66,194	(12,380)
Total	$112,284	$(613)	$390,639	$(18,701)	$502,923	$(19,314)
December 31, 2013						
U.S. Treasury securities	$64,537	$(515)	$—	$—	$64,537	$(515)
U.S. government agency securities	4,365	(62)	—	—	4,365	(62)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	80,612	(5,473)	—	—	80,612	(5,473)
Municipal bonds	85,988	(5,154)	1,326	(105)	87,314	(5,259)
Total obligations of states and political subdivisions	166,600	(10,627)	1,326	(105)	167,926	(10,732)
Residential mortgage-backed securities	465,400	(27,631)	—	—	465,400	(27,631)
Trust preferred securities	9,750	(250)	56,480	(12,082)	66,230	(12,332)
Total	$710,652	$(39,085)	$57,806	$(12,187)	$768,458	$(51,272)

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, in some cases, 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 December 31, 2014 was 57 as compared to 133 at December 31, 2013.

The unrealized losses for the residential mortgage-backed securities category of the held to maturity portfolio at December 31, 2014 are almost entirely within the more than twelve months category in the table above, and mostly relate to investment grade mortgage-backed securities issued or guaranteed by a government sponsored enterprise.

The unrealized losses for trust preferred securities at December 31, 2014 are all within the more than twelve months category and primarily relate to four non-rated single-issuer securities, issued by bank holding companies. All single-issuer 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, the issuers meet the regulatory capital requirements to be considered "well-capitalized institutions" at December 31, 2014.

Management does not believe that any individual unrealized loss as of December 31, 2014 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates, widening credit spreads, 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 December 31, 2014, 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 $854.9 million.

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The contractual maturities of investments in debt securities held to maturity at December 31, 2014 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.

	December 31, 2014	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$71,839	$72,059
Due after one year through five years	54,200	58,318
Due after five years through ten years	334,907	354,802
Due after ten years	330,378	331,816
Residential mortgage-backed securities	986,992	998,981
Total investment securities held to maturity	$1,778,316	$1,815,976

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 7.3 years at December 31, 2014.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of investment securities available for sale at December 31, 2014 and 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2014				
U.S. Treasury securities	$51,063	$2	$(1,622)	$49,443
U.S. government agency securities	33,163	748	(86)	33,825
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,160	—	(24)	11,136
Municipal bonds	33,340	127	(552)	32,915
Total obligations of states and political subdivisions	44,500	127	(576)	44,051
Residential mortgage-backed securities	643,382	5,854	(4,960)	644,276
Trust preferred securities*	23,194	296	(2,953)	20,537
Corporate and other debt securities	73,585	1,645	(1,218)	74,012
Equity securities	21,071	671	(916)	20,826
Total investment securities available for sale	$889,958	$9,343	$(12,331)	$886,970
December 31, 2013				
U.S. Treasury securities	$99,835	$—	$(15,170)	$84,665
U.S. government agency securities	48,407	923	(703)	48,627
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,441	—	(798)	10,643
Municipal bonds	27,671	751	(1,365)	27,057
Total obligations of states and political subdivisions	39,112	751	(2,163)	37,700
Residential mortgage-backed securities	524,781	3,967	(20,719)	508,029
Trust preferred securities*	23,333	113	(4,231)	19,215
Corporate and other debt securities	83,819	1,682	(2,103)	83,398

Equity securities	47,617	1,614	(1,173)	48,058
Total investment securities available for sale	$866,904	$9,050	$(46,262)	$829,692

* 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 securities available for sale at December 31, 2014 and 2013 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)					
December 31, 2014						
U.S. Treasury securities	$—	$—	$48,504	$(1,622)	$48,504	$(1,622)
U.S. government agency securities	—	—	5,442	(86)	5,442	(86)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	—	—	11,136	(24)	11,136	(24)
Municipal bonds	13,337	(426)	14,637	(126)	27,974	(552)
Total obligations of states and political subdivisions	13,337	(426)	25,773	(150)	39,110	(576)
Residential mortgage-backed securities	57,543	(121)	244,910	(4,839)	302,453	(4,960)
Trust preferred securities	2,210	(117)	12,085	(2,836)	14,295	(2,953)
Corporate and other debt securities	27,500	(294)	28,269	(924)	55,769	(1,218)
Equity securities	158	(41)	14,769	(875)	14,927	(916)
Total	$100,748	$(999)	$379,752	$(11,332)	$480,500	$(12,331)
December 31, 2013						
U.S. Treasury securities	$84,665	$(15,170)	$—	$—	$84,665	$(15,170)
U.S. government agency securities	26,402	(703)	—	—	26,402	(703)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	10,598	(798)	—	—	10,598	(798)
Municipal bonds	13,461	(1,365)	—	—	13,461	(1,365)
Total obligations of states and political subdivisions	24,059	(2,163)	—	—	24,059	(2,163)
Residential mortgage-backed securities	368,306	(18,434)	24,734	(2,285)	393,040	(20,719)
Trust preferred securities	2,024	(25)	15,022	(4,206)	17,046	(4,231)
Corporate and other debt securities	53,654	(2,073)	2,471	(30)	56,125	(2,103)
Equity securities	223	(6)	14,248	(1,167)	14,471	(1,173)
Total	$559,333	$(38,574)	$56,475	$(7,688)	$615,808	$(46,262)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at December 31, 2014 was 96 as compared to 99 at December 31, 2013.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at December 31, 2014 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae.

The unrealized losses for trust preferred securities at December 31, 2014 in the more than twelve months category in the table above largely relate to 2 pooled trust preferred securities with a combined amortized cost of $10.8 million and a fair value of $8.7 million. One of the two pooled trust preferred securities had a unrealized loss of $1.4 million and an investment grade rating at December 31, 2014. The second pooled trust preferred security had a unrealized loss of $698 thousand, a non-investment grade rating and was initially other-than-temporarily impaired in 2008 with additional estimated credit losses recognized in 2009 and 2011. All of the single-issuer trust preferred securities are all paying in accordance with their terms and have no deferrals of interest or defaults and, if applicable, meet the regulatory capital requirements to be considered “well-capitalized institutions” at December 31, 2014.

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Management does not believe that any individual unrealized loss as of December 31, 2014 represents an other-than-temporary impairment, except for the previously impaired securities discussed above, as management mainly attributes the declines in value to changes in interest rates and recent market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

As of December 31, 2014, 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 $414.0 million.

The contractual maturities of investments securities available for sale at December 31, 2014 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.

	December 31, 2014	
	Amortized Cost	Fair Value
	(in thousands)	
Due after one year through five years	$65,662	$66,725
Due after five years through ten years	84,594	82,278
Due after ten years	75,249	72,865
Residential mortgage-backed securities	643,382	644,276
Equity securities	21,071	20,826
Total investment securities available for sale	$889,958	$886,970

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

The weighted-average remaining expected life for residential mortgage-backed securities available for sale at December 31, 2014 was 5.4 years.

Other-Than-Temporary Impairment Analysis

To determine whether a security’s impairment is other-than-temporary, Valley considers several factors that include, but are not limited to the following:

- The severity and duration of the decline, including the causes of the decline in fair value, such as an issuer’s credit problems, interest rate fluctuations, or market volatility;
- Adverse conditions specifically related to the issuer of the security, an industry, or geographic area;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency or, if applicable, any regulatory actions impacting the security issuer;
- Recoveries or additional declines in fair value after the balance sheet date;
- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and
- Our intent to sell debt security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis.

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not Valley expects to collect all contractual cash flows. Valley also evaluated its investment securities held as of December 31, 2014 to identify those that meet the definition of a Covered Fund as set forth in the final rules issued on December 10, 2013 to implement section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (commonly referred to as the “Volcker Rule”). In that regard, Valley considered the impact of the related interim final rule issued by its primary banking regulators on January 14, 2014 to address the treatment of certain collateralized debt obligations backed primarily by trust preferred securities (TruPS CDOs), including the non-exclusive list of TruPS CDOs that are exempt from the Covered Fund provisions under the interim final rule. Valley identified no investments held as of December 31, 2014 that meet the definition of a Covered Fund and that are required to be divested by July 21, 2015 (or before recovery of their individual amortized cost basis) under the foregoing rules.

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In assessing the level of other-than-temporary impairment attributable to credit loss for debt securities, Valley compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the consolidated statements of income, less the portion recognized in other comprehensive income or loss. 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 or loss to earnings in the period of such assessments. The amortized cost basis of an impaired debt security is reduced by the portion of the total impairment related to credit loss.

At December 31, 2014, approximately 55 percent of the $544.1 million carrying value of obligations of states and political subdivisions were issued by the states of (or municipalities within) New Jersey, New York and Maryland. The obligations of states and political subdivisions mainly consist of general obligation bonds and, to much lesser extent, special revenue bonds which had an aggregated amortized cost and fair value of $18.4 million and $19.2 million, respectively, at December 31, 2014. The special revenue bonds were mainly issued by the Port Authorities of New York and New Jersey, as well as various school districts. The gross unrealized losses associated with the obligations of states and political subdivisions totaling $1.3 million as of December 31, 2014 were primarily driven by changes in interest rates. Substantially all of these investments are investment grade. The securities were generally underwritten in accordance with Valley's investment standards prior to the decision to purchase. As part of Valley's pre-purchase analysis and on-going quarterly assessment of impairment of the obligations of states and political subdivisions, our Credit Risk Management (CRM) Department conducts an independent financial analysis and risk rating assessment of each security issuer based on the issuer's most recently issued financial statements and other publicly available information. The internal risk rating was developed by CRM using a risk acceptance criteria (RAC) score which considers a multitude of credit factors, including the issuer's operating results, debt levels, liquidity and debt service capacity. The analysis of debt levels includes unfunded liabilities and assesses these obligations relative to the economy and aggregate debt burden on a per capita basis, if applicable. The RAC score is used as a guideline by CRM for determining the final internal risk rating assigned to the issuer. CRM also obtains the external credit rating agencies' debt ratings for the issuer and incorporates the lowest external debt rating in the RAC score. Specifically, the external debt rating is one of eight credit factors assessed in the development of the RAC score and represents, along with the rating agency outlook for the issuer, 25 percent of the final composite RAC score. As a result, Valley does not solely rely on external credit ratings in determining our final internal risk rating. For many securities, Valley believes the external credit ratings may not accurately reflect the actual credit quality of the security and therefore should not be viewed in isolation as a measure of the quality of our investments. Additionally, CRM does not consider potential credit support offered by insurance guarantees on certain bond securities in determining the internal risk rating, either at the date of the pre-purchase investment analysis or in subsequent assessments of impairment. Obligations of states and political subdivisions will continue to be monitored as part of our ongoing impairment analysis, and as of December 31, 2014 are expected to perform in accordance with their contractual terms. As a result, Valley expects to recover the entire amortized cost basis of these securities.

For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the cash flows from the individual loans collateralizing the security using expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows is identified to determine whether other-than-temporary impairment exists. See the "Other-Than-Temporarily Impaired Securities" section below for further details regarding the impairment of these securities.

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. Over the past several years, an increasing number of banking institutions have been required to defer trust preferred payments and various banking institutions have been put in receivership by the FDIC. A deferral event by a bank holding company for which Valley holds trust preferred securities may require the recognition of an other-than-temporary impairment charge if Valley determines that it is more likely than not that all contractual interest and principal cash flows may not be collected. Among other factors, the probability of the collection of all interest and principal determined by Valley in its impairment analysis declines if there is an increase in the estimated deferral period of the issuer. Additionally, a FDIC receivership for any single-issuer would result in an impairment and significant loss. Including the other factors outlined above, Valley analyzes the performance of the issuers on a quarterly basis, including a review of performance data from the issuers' 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. All of the issuers had capital ratios at December 31, 2014 that were 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 of the trust preferred securities.

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.

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Higher projected default rates will decrease the expected future cash flows from each security. If the projected decrease in cash flows affects the cash flows projected for the tranche held by Valley, the security would be considered to be other-than-temporarily impaired. Two of the pooled trust preferred securities were initially impaired in 2008 with additional estimated credit losses recognized during 2009 and 2011, and are not accruing interest. See the "Other-Than-Temporarily Impaired Securities" section below for additional information.

The perpetual preferred securities, reported in equity securities, are hybrid investments that are assessed for impairment by Valley as if they were debt securities. Therefore, Valley assessed the creditworthiness of each security issuer, as well as any potential change in the anticipated cash flows of the securities as of December 31, 2014. 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

Impaired Trust Preferred Securities. In 2012, Valley recognized additional estimated credit losses of $4.5 million on two pooled trust preferred securities classified as available for sale due to further credit deterioration in the financial condition of the issuer. These securities were initially found to be other-than-temporarily impaired in 2008, as each of Valley’s tranches in the securities had projected cash flows below their future contractual principal and interest payments. Additional estimated credit losses were recognized on one or both of these securities during 2009 through 2011, as higher default rates decreased the expected cash flows from the securities. At December 31, 2014, the two previously impaired pooled trust preferred securities had a combined amortized cost of $5.4 million and fair value of $4.7 million, respectively.

The previously impaired trust preferred securities discussed above were not accruing interest as of December 31, 2014 2013, and 2012. As disclosed in Note 1, Valley discontinues the recognition of interest on debt securities if the securities meet both of the following criteria: (i) regularly scheduled interest payments have not been paid or have been deferred by the issuer, and (ii) full collection of all contractual principal and interest payments is not deemed to be the most likely outcome, resulting in the recognition of other-than-temporary impairment of the security.

Impaired Residential Mortgage-Backed Securities. During 2012, Valley recognized net impairment losses of $722 thousand on residential mortgage-backed securities in earnings due to additional estimated credit losses on one of six previously impaired private label mortgage-backed securities. At December 31, 2014, the previously impaired private label mortgage-backed securities had a combined amortized cost of $13.7 million and fair value of $14.6 million, respectively.

There was no other-than-temporarily impairment recognized in earnings as a result of Valley's impairment analysis of its securities during 2014 and 2013. See the “Other-Than-Temporary Impairment Analysis” section above for further details.

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions included in earnings for the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
	(in thousands)		
Sales transactions:			
Gross gains	$746	$14,098	$6,621
Gross losses	(2)	(44)	(1,050)
	$744	$14,054	$5,571
Maturities and other securities transactions:			
Gross gains	$10	$662	$2,327
Gross losses	(9)	(38)	(5,311)
	$1	$624	$(2,984)
Gains on securities transactions, net	$745	$14,678	$2,587

The gross gains totaling $14.1 million for the year ended December 31, 2013, included a $10.7 million gain on sale of the previously impaired trust preferred securities issued by one deferring bank holding company.
During the year ended December 31, 2012, Valley recognized gross losses totaling $5.3 million due to the early redemption of trust preferred securities issued by one bank holding company.

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The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income or loss for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
	(in thousands)		
Balance, beginning of period	$9,990	$33,290	$29,070
Additions:			
Subsequent credit impairments	—	—	5,247
Reductions:			
Sales	(382)	(22,839)	—
Accretion of credit loss impairment due to an increase in expected cash flows	(661)	(461)	(1,027)
Balance, end of period	$8,947	$9,990	$33,290

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 each period presented. Other-than-temporary impairments recognized in earnings for credit impaired debt securities are presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairment). The credit loss component is reduced if Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) Valley receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

Trading Securities

The fair value of trading securities (consisting of 2 single-issuer bank trust preferred securities) was $14.2 million and $14.3 million at December 31, 2014 and 2013, respectively. Interest income on trading securities totaled $1.2 million, $1.4 million, and $1.8 million for the years ended December 31, 2014, 2013, and 2012, respectively.

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LOANS (Note 5)
The detail of the loan portfolio as of December 31, 2014 and 2013 was as follows:

	December 31, 2014			December 31, 2013		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Non-covered loans:						
Commercial and industrial	$1,959,927	$277,371	$2,237,298	$1,820,136	$174,948	$1,995,084
Commercial real estate:						
Commercial real estate	5,053,742	978,448	6,032,190	4,521,920	459,755	4,981,675
Construction	476,094	53,869	529,963	406,877	22,354	429,231
Total commercial real estate loans	5,529,836	1,032,317	6,562,153	4,928,797	482,109	5,410,906
Residential mortgage	2,419,044	96,631	2,515,675	2,485,239	14,726	2,499,965
Consumer:						
Home equity	400,136	91,609	491,745	410,875	38,134	449,009
Automobile	1,144,780	51	1,144,831	901,399	—	901,399
Other consumer	298,389	11,931	310,320	214,898	186	215,084
Total consumer loans	1,843,305	103,591	1,946,896	1,527,172	38,320	1,565,492
Total non-covered loans	11,752,112	1,509,910	13,262,022	10,761,344	710,103	11,471,447
Covered loans:						
Commercial and industrial	—	13,813	13,813	—	26,249	26,249
Commercial real estate	—	128,691	128,691	—	61,494	61,494
Construction	—	3,171	3,171	—	—	—
Residential mortgage	—	60,697	60,697	—	7,623	7,623
Consumer	—	5,519	5,519	—	799	799
Total covered loans	—	211,891	211,891	—	96,165	96,165
Total loans	$11,752,112	$1,721,801	$13,473,913	$10,761,344	$806,268	$11,567,612

Total non-covered loans are net of unearned discounts and deferred loan fees totaling $9.0 million and $5.6 million at December 31, 2014 and 2013, respectively. The outstanding balances (representing contractual balances owed to Valley) for non-covered PCI loans and covered loans totaled $1.6 billion and $253.7 million at December 31, 2014, respectively, and $796.1 million and $227.2 million at December 31, 2013, respectively.

During the first quarter of 2014, we elected to transfer certain non-performing loans totaling $35.6 million (before $8.3 million of loan charge-offs at the transfer date) from the non-covered loan portfolio (primarily within the commercial real estate loan and commercial and industrial loan categories) to loans held for sale. With the exception of one loan held for sale at December 31, 2014, all of the transferred loans were sold during the second quarter of 2014. There were no other sales or transfers of loans from the held for investment portfolio during 2014 and 2013.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are 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), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools. See Note 1 for additional information.

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The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the non-covered and covered PCI loans acquired in the 1st United acquisition (see Note 2), as of the November 1, 2014 closing date for the acquisition.

	(in thousands)
Contractually required principal and interest	$1,448,932
Contractual cash flows not expected to be collected (non-accretable difference)	(41,087)
Expected cash flows to be collected	1,407,845
Interest component of expected cash flows (accretable yield)	(246,993)
Fair value of acquired loans	$1,160,852

The following table presents changes in the accretable yield for PCI loans for the years ended December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Balance, beginning of period	$223,799	$169,309
Acquisition	246,993	—
Accretion	(74,507)	(66,458)
Net (decrease) increase in expected cash flows	(60,077)	120,948
Balance, end of period	$336,208	$223,799

The net (decrease) increase in expected cash flows for certain pools of loans (included in the table above) is recognized prospectively as an adjustment to the yield over the estimated remaining life of the individual pools. The net decrease of $60.1 million during 2014 was largely due to an increase in the expected repayment speeds for certain non-covered PCI loan pools during the second quarter of 2014. Conversely, the net increase of $120.9 million during 2013 was primarily due to additional cash flows caused by longer than originally expected durations for other pools of non-covered PCI loans. Based upon the most recent reforecasted cash flows during the second quarter of 2014, the average expected life of the non-covered PCI loans (excluding the PCI loans acquired from 1st United) decreased to 2.2 years from approximately 4 years last forecasted during the second quarter of 2013.

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements (referred to as the “FDIC loss-share receivable” on our consolidated statements of financial condition) is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

Changes in FDIC loss-share receivable for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
	(in thousands)	
Balance, beginning of the period	$32,757	$44,996
Acquisition	7,465	—
Discount accretion of the present value at the acquisition dates	40	130
Effect of additional cash flows on covered loans (prospective recognition)	(15,760)	(10,465)
Decrease in the provision for losses on covered loans	(4,608)	(2,783)
Other reimbursable expenses	2,622	4,691
Reimbursements from the FDIC	(5,582)	(3,812)
Other	(3,086)	—
Balance, end of the period	$13,848	$32,757

The aggregate effects of changes in the FDIC loss-share receivable was a reduction in non-interest income of $20.8 million, $8.4 million and $7.5 million for the years ended December 31, 2014 , 2013 and 2012 respectively. During 2014, FDIC loss-share receivable was also reduced by $3.1 million (as shown in the "other" category in the table above) due to the FDIC's portion of loan recoveries related to closed (or zero-balance) loan pools.

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Related Party Loans

In the ordinary course of business, Valley has granted loans to certain directors, executive officers and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability.

The following table summarizes the changes in the total amounts of loans and advances to the related parties during the year ended December 31, 2014:

	2014 (in thousands)
Outstanding at beginning of year	$242,371
New loans and advances	12,185
Repayments	(28,661)
Outstanding at end of year	$225,895

All loans to related parties are performing as of December 31, 2014.

Loan Portfolio Risk Elements and Credit Risk Management

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

Commercial and industrial loans. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. Unsecured commercial and industrial loans totaled $345.1 million and $314.6 million at December 31, 2014 and 2013, respectively.

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

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

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being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

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

Home equity loans. Home equity lending consists of both fixed and variable interest rate products. Valley mainly provides home equity loans to its residential mortgage customers within the footprint of its primary lending territory. Valley generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75 percent when originating a home equity loan.

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

Other consumer loans. Valley’s other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit was not significant at December 31, 2014. Unsecured consumer loans totaled approximately $31.4 million and $21.4 million, including $7.6 million and $8.3 million of credit card loans, at December 31, 2014 and December 31, 2013, respectively.

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Credit Quality

The following tables present past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis) by loan portfolio class at December 31, 2014 and 2013:

	Past Due and Non-Accrual Loans						
	30-59 Days Past Due Loans	60-89 Days Past Due Loans	Accruing Loans 90 Days Or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	(in thousands)						
December 31, 2014							
Commercial and industrial	$1,630	$1,102	$ 226	$ 8,467	$11,425	$1,948,502	$1,959,927
Commercial real estate:							
Commercial real estate	8,938	113	49	22,098	31,198	5,022,544	5,053,742
Construction	448	—	3,988	5,223	9,659	466,435	476,094
Total commercial real estate loans	9,386	113	4,037	27,321	40,857	5,488,979	5,529,836
Residential mortgage	6,200	3,575	1,063	17,760	28,598	2,390,446	2,419,044
Consumer loans:							
Home equity	761	282	—	2,022	3,065	397,071	400,136
Automobile	1,902	391	126	90	2,509	1,142,271	1,144,780
Other consumer	319	91	26	97	533	297,856	298,389
Total consumer loans	2,982	764	152	2,209	6,107	1,837,198	1,843,305
Total	$20,198	$5,554	$ 5,478	$ 55,757	$86,987	$11,665,125	$11,752,112
December 31, 2013							
Commercial and industrial	$6,398	$571	$233	$21,029	$28,231	$1,791,905	$1,820,136
Commercial real estate:							
Commercial real estate	9,142	2,442	7,591	43,934	63,109	4,458,811	4,521,920
Construction	1,186	4,577	—	8,116	13,879	392,998	406,877
Total commercial real estate loans	10,328	7,019	7,591	52,050	76,988	4,851,809	4,928,797
Residential mortgage	6,595	1,939	1,549	19,949	30,032	2,455,207	2,485,239
Consumer loans:							
Home equity	495	241	—	1,866	2,602	408,273	410,875
Automobile	2,957	489	85	169	3,700	897,699	901,399
Other consumer	340	54	33	—	427	214,471	214,898
Total consumer loans	3,792	784	118	2,035	6,729	1,520,443	1,527,172
Total	$27,113	$10,313	$9,491	$95,063	$141,980	$10,619,364	$10,761,344

If interest on non-accrual loans had been accrued in accordance with the original contractual terms, such interest income would have amounted to approximately $2.2 million, $4.8 million, and $7.2 million for the years ended December 31, 2014, 2013, and 2012, respectively; none of these amounts were included in interest income during these periods. Interest income recognized on a cash basis for loans classified as non-accrual totaled $735 thousand, $1.3 million and $590 thousand for the years ended December 31, 2014, 2013and 2012, respectively.

Impaired loans. Impaired loans, consisting of non-accrual commercial and industrial loans and commercial real estate loans over $250 thousand and all loans which were modified in troubled debt restructurings, are individually evaluated for impairment. PCI loans are not classified as impaired loans because they are accounted for on a pool basis.

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The following table presents the information about impaired loans by loan portfolio class at December 31, 2014 and 2013:

	Recorded Investment With No Related Allowance (in thousands)	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
December 31, 2014					
Commercial and industrial	$6,579	$21,645	$28,224	$33,677	$4,929
Commercial real estate:					
Commercial real estate	29,784	44,713	74,497	77,007	5,342
Construction	14,502	2,299	16,801	20,694	160
Total commercial real estate loans	44,286	47,012	91,298	97,701	5,502
Residential mortgage	6,509	15,831	22,340	24,311	1,629
Consumer loans:					
Home equity	235	2,911	3,146	3,247	465
Total consumer loans	235	2,911	3,146	3,247	465
Total	$57,609	$87,399	$145,008	$158,936	$12,525
December 31, 2013					
Commercial and industrial	$3,806	$43,497	$47,303	$59,891	$11,032
Commercial real estate:					
Commercial real estate	46,872	47,973	94,845	110,227	7,874
Construction	11,771	8,022	19,793	21,478	802
Total commercial real estate loans	58,643	55,995	114,638	131,705	8,676
Residential mortgage	10,082	18,231	28,313	32,664	3,735
Consumer loans:					
Home equity	1,010	84	1,094	1,211	82
Total consumer loans	1,010	84	1,094	1,211	82
Total	$73,541	$117,807	$191,348	$225,471	$23,525

The following table presents, by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2014, 2013, and 2012:

	2014 Average Recorded Investment (in thousands)	Interest Income Recognized	2013 Average Recorded Investment	Interest Income Recognized	2012 Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$30,485	$1,114	$55,814	$1,686	$47,940	$1,463
Commercial real estate:						
Commercial real estate	74,256	2,488	110,447	2,946	101,972	2,640
Construction	21,515	547	20,752	252	21,421	270
Total commercial real estate loans	95,771	3,035	131,199	3,198	123,393	2,910
Residential mortgage	26,863	812	29,059	996	31,620	716
Consumer loans:						
Home equity	2,214	49	1,191	65	943	14

Total consumer loans	2,214	49	1,191	65	943	14
Total	$155,333	$5,010	$217,263	$5,945	$203,896	$5,103

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Troubled debt restructured loans. From time to time, Valley may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers who may be experiencing financial difficulties. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan (TDR). Valley's PCI loans are excluded from the TDR disclosures below because they are evaluated for impairment on a pool by pool basis. When an individual PCI loan within a pool is modified as a TDR, it is not removed from its pool. All TDRs are classified as impaired loans and are included in the impaired loan disclosures above.
The majority of the concessions made for TDRs involve lowering the monthly payments on loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. The concessions rarely result in the forgiveness of principal or accrued interest. In addition, Valley frequently obtains additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and Valley's underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.
Performing TDRs (not reported as non-accrual loans) totaled \$97.7 million and \$107.0 million as of December 31, 2014 and 2013, respectively. Non-performing TDRs totaled \$19.4 million and \$48.4 million as of December 31, 2014 and 2013, respectively.
The following table presents non-PCI loans by loan class modified as TDRs during the years ended December 31, 2014 and 2013. The pre-modification and post-modification outstanding recorded investments disclosed in the table below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at December 31, 2014 and 2013, respectively.

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		($ in thousands)	
December 31, 2014			
Commercial and industrial	12	$12,057	$10,793
Commercial real estate:			
Commercial real estate	12	17,817	13,967
Construction	4	6,339	4,731
Total commercial real estate	16	24,156	18,698
Residential mortgage	9	5,662	5,348
Consumer	5	2,051	2,234
Total	42	$43,926	$37,073
December 31, 2013			
Commercial and industrial	16	$27,415	$22,718
Commercial real estate:			
Commercial real estate	13	13,788	13,818
Construction	8	16,682	18,133
Total commercial real estate	21	30,470	31,951
Residential mortgage	38	8,661	7,681
Consumer	7	500	445
Total	82	$67,046	$62,795

The majority of the TDR concessions within the commercial and industrial loan and commercial real estate loan portfolios made during both 2014 and 2013 involved an extension of the loan term and/or an interest rate reduction.

The total TDRs presented in the table above had allocated specific reserves for loan losses that totaled $3.6 million and $7.9 million at December 31, 2014 and 2013, respectively. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in Note 6. Partial loan charge-offs related to loans modified as TDRs presented in the table above totaled $861 thousand and $1.1 million during 2014 and 2013, respectively. Additionally, two commercial loans totaling $6.1 million with one borrower that were modified as TDRs during 2013 were fully charged-off during 2013. There were no full charge-offs resulting from loans modified as TDRs during 2014.

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The following table presents non-PCI loans modified as TDRs within the previous 12 months from, and for which there was a payment default (90 or more past due) during year ended December 31, 2014:

Troubled Debt Restructurings Subsequently Defaulted	December 31, 2014 Number of Contracts	Recorded Investment
	($ in thousands)	
Commercial and industrial	2	$2,132
Commercial real estate	4	1,397
Total	6	$3,529

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

The following table presents the risk category of loans by class of loans (excluding PCI loans) based on the most recent analysis performed at December 31, 2014 and 2013.

Credit exposure— by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
	(in thousands)				
December 31, 2014					
Commercial and industrial	$1,865,472	$50,453	$44,002	$—	$1,959,927
Commercial real estate	4,903,185	40,232	110,325	—	5,053,742
Construction	455,145	1,923	16,482	2,544	476,094
Total	$7,223,802	$92,608	$170,809	$2,544	$7,489,763
December 31, 2013					
Commercial and industrial	$1,689,613	$56,007	$74,501	$15	$1,820,136
Commercial real estate	4,348,642	48,159	125,119	—	4,521,920
Construction	373,480	11,697	15,720	5,980	406,877
Total	$6,411,735	$115,863	$215,340	$5,995	$6,748,933

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For residential mortgages, automobile, home equity and other consumer loan portfolio classes (excluding PCI loans), Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of December 31, 2014 and 2013:

Credit exposure— by payment activity	Performing Loans (in thousands)	Non-Performing Loans	Total Non-PCI Loans
December 31, 2014			
Residential mortgage	$2,401,284	$17,760	$2,419,044
Home equity	398,114	2,022	400,136
Automobile	1,144,690	90	1,144,780
Other consumer	298,292	97	298,389
Total	$4,242,380	$19,969	$4,262,349
December 31, 2013			
Residential mortgage	$2,465,290	$19,949	$2,485,239
Home equity	409,009	1,866	410,875
Automobile	901,230	169	901,399
Other consumer	214,898	—	214,898
Total	$3,990,427	$21,984	$4,012,411

Valley evaluates the credit quality of its PCI loan pools based on the expectation of the underlying cash flows of each pool, derived from the aging status and by payment activity of individual loans within the pool. The following table presents the recorded investment in PCI loans by class based on individual loan payment activity as of December 31, 2014 and 2013:

Credit exposure— by payment activity	Performing Loans (in thousands)	Non-Performing Loans	Total PCI Loans
December 31, 2014			
Commercial and industrial	$272,027	$19,157	$291,184
Commercial real estate	1,091,784	15,355	1,107,139
Construction	52,802	4,238	57,040
Residential mortgage	153,789	3,539	157,328
Consumer	103,686	5,424	109,110
Total	$1,674,088	$47,713	$1,721,801
December 31, 2013			
Commercial and industrial	$185,185	$16,012	$201,197
Commercial real estate	498,184	23,065	521,249
Construction	16,791	5,563	22,354
Residential mortgage	21,381	968	22,349
Consumer	37,980	1,139	39,119
Total	$759,521	$46,747	$806,268

ALLOWANCE FOR CREDIT LOSSES (Note 6)

The allowance for credit losses consists of the allowance for losses on non-covered loans and allowance for losses on covered loans related to credit impairment of certain covered loan pools subsequent to acquisition, as well as the allowance 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 unfunded letter of credit commitments at the balance sheet date.

The allowance for losses on non-covered loans is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio, including unexpected credit impairment of non-covered PCI loan pools subsequent to the acquisition date.

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The following table summarizes the allowance for credit losses for the years ended December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Components of allowance for credit losses:		
Allowance for non-covered loans	$102,153	$106,547
Allowance for covered loans	200	7,070
Total allowance for loan losses	102,353	113,617
Allowance for unfunded letters of credit	1,934	3,495
Total allowance for credit losses	$104,287	$117,112

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

	2014	2013	2012
	(in thousands)		
Components of provision for credit losses:			
Provision for non-covered loans	$9,317	$17,171	$25,640
Provision for covered loans	(5,872)	(2,276)	—
Total provision for loan losses	3,445	14,895	25,640
Provision for unfunded letters of credit	(1,561)	1,200	(88)
Total provision for credit losses	$1,884	$16,095	$25,552

The following table details the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013, including both covered and non-covered loans:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
December 31, 2014						
Allowance for loan losses:						
Beginning balance	$51,551	$42,343	$7,786	$4,359	$7,578	$113,617
Loans charged-off [1][3]	(12,722)	(9,470)	(1,004)	(3,702)	—	(26,898)
Charged-off loans recovered [2]	6,874	3,110	248	1,957	—	12,189
Net charge-offs	(5,848)	(6,360)	(756)	(1,745)	—	(14,709)
Provision for loan losses	(2,027)	6,857	(1,937)	2,565	(2,013)	3,445
Ending balance	$43,676	$42,840	$5,093	$5,179	$5,565	$102,353
December 31, 2013						
Allowance for loan losses:						
Beginning balance	$64,370	$44,069	$9,423	$5,542	$6,796	$130,200
Loans charged-off [1]	(19,837)	(10,846)	(4,446)	(5,120)	—	(40,249)
Charged-off loans recovered	4,219	1,745	768	2,039	—	8,771
Net charge-offs	(15,618)	(9,101)	(3,678)	(3,081)	—	(31,478)
Provision for loan losses	2,799	7,375	2,041	1,898	782	14,895
Ending balance	$51,551	$42,343	$7,786	$4,359	$7,578	$113,617

(1) Includes covered loans charge-offs totaling $1.5 million and $146 thousand during 2014 and 2013, respectively, primarily in the commercial and industrial loan portfolio.

(2) Includes covered loan recoveries totaling $462 thousand during 2014. There were no covered loan recoveries during 2013.

(3) The commercial and industrial loan and commercial real estate loan categories included $4.8 million and $4.0 million of charge-offs, respectively, related to the valuation of non-performing loans transferred to loans held for

sale during 2014.

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The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology for the years ended December 31, 2014 and 2013. Loans individually evaluated for impairment represent Valley's impaired loans. Loans acquired with discounts related to credit quality represent Valley's PCI loans.

	Commercial and Industrial (in thousands)	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
December 31, 2014						
Allowance for loan losses:						
Individually evaluated for impairment	$4,929	$5,502	$1,629	$465	$—	$12,525
Collectively evaluated for impairment	38,577	37,338	3,434	4,714	5,565	89,628
Loans acquired with discounts related to credit quality	170	—	30	—	—	200
Total	$43,676	$42,840	$5,093	$5,179	$5,565	$102,353
Loans:						
Individually evaluated for impairment	$28,224	$91,298	$22,340	$3,146	$—	$145,008
Collectively evaluated for impairment	1,931,703	5,438,538	2,396,704	1,840,159	—	11,607,104
Loans acquired with discounts related to credit quality	291,184	1,164,179	157,328	109,110	—	1,721,801
Total	$2,251,111	$6,694,015	$2,576,372	$1,952,415	$—	$13,473,913
December 31, 2013						
Allowance for loan losses:						
Individually evaluated for impairment	$11,032	$8,676	$3,735	$82	$—	$23,525
Collectively evaluated for impairment	40,007	27,235	3,928	4,274	7,578	83,022
Loans acquired with discounts related to credit quality	512	6,432	123	3	—	7,070
Total	$51,551	$42,343	$7,786	$4,359	$7,578	$113,617
Loans:						
Individually evaluated for impairment	$47,303	$114,638	$28,313	$1,094	$—	$191,348
Collectively evaluated for impairment	1,772,833	4,814,159	2,456,926	1,526,078	—	10,569,996
Loans acquired with discounts related to credit quality	201,197	543,603	22,349	39,119	—	806,268
Total	$2,021,333	$5,472,400	$2,507,588	$1,566,291	$—	$11,567,612

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PREMISES AND EQUIPMENT, NET (Note 7)
At December 31, 2014 and 2013, premises and equipment, net consisted of:

	2014	2013
	(in thousands)	
Land	$73,734	$66,620
Buildings	199,960	191,207
Leasehold improvements	74,965	73,328
Furniture and equipment	210,455	197,161
	559,114	528,316
Accumulated depreciation and amortization	(276,117)	(258,178)
Total premises and equipment, net	$282,997	$270,138

Depreciation and amortization of premises and equipment included in non-interest expense for the years ended December 31, 2014, 2013 and 2012 amounted to approximately $19.5 million, $19.7 million, and $18.5 million, respectively.
During the fourth quarter of 2014, we sold a branch located at 62 West 47th Street in Manhattan for a pre-tax gain of approximately $17.8 million and entered into a long-term lease with an unrelated third party for a new location.
GOODWILL AND OTHER INTANGIBLE ASSETS (Note 8)
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	Investment Management	Total
	(in thousands)				
Balance at December 31, 2012	$20,517	$128,451	$174,763	$104,503	$428,234
Balance at December 31, 2013	$20,517	$128,451	$174,763	$104,503	$428,234
Goodwill from business combinations	—	40,471	78,137	29,050	147,658
Balance at December 31, 2014	$20,517	$168,922	$252,900	$133,553	$575,892

* 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 2014, goodwill from business combinations related to the acquisition of 1st United (see Note 2 for further details). There were no changes to the carrying amounts of goodwill allocated to Valley's business segments, or reporting units thereof, for goodwill impairment analysis during 2013. There was no impairment of goodwill during the years ended December 31, 2014, 2013, and 2012.

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The following tables summarize other intangible assets as of December 31, 2014 and 2013:

	Gross Intangible Assets (in thousands)	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
December 31, 2014				
Loan servicing rights	$72,154	$(51,708)	$(592)	$19,854
Core deposits	46,694	(29,916)	—	16,778
Other	4,591	(2,448)	—	2,143
Total other intangible assets	$123,439	$(84,072)	$(592)	$38,775
December 31, 2013				
Loan servicing rights	$71,100	$(45,032)	$(504)	$25,564
Core deposits	35,194	(27,238)	—	7,956
Other	5,878	(3,268)	—	2,610
Total other intangible assets	$112,172	$(75,538)	$(504)	$36,130

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 11 years. The line item labeled "Other" included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of 18 years. In 2014, Valley recorded $11.5 million in core deposit intangibles resulting from the 1st United Bancorp acquisition. Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the years ended December 31, 2014, 2013, and 2012.

The following table summarizes the change in loan servicing rights during the years ended December 31, 2014, 2013 and 2012:

	2014 (in thousands)	2013	2012
Loan servicing rights			
Balance at beginning of year	$26,068	$19,984	$12,900
Origination of loan servicing rights	1,065	13,265	12,039
Amortization expense	(6,687)	(7,181)	(4,955)
Balance at end of year	$20,446	$26,068	$19,984
Valuation allowance			
Balance at beginning of year	$(504)	$(3,046)	$(2,670)
Impairment adjustment	(88)	2,542	(376)
Balance at end of year	$(592)	$(504)	$(3,046)
Balance at end of year, net of valuation allowance	$19,854	$25,564	$16,938

Loan servicing rights are accounted for using the amortization method (see Note 1 for more details).

The Bank is a servicer of residential mortgage and SBA loan portfolios, and it is compensated for loan administrative services performed for mortgage servicing rights of loans originated and sold by the Bank, and to a lesser extent, purchased mortgage servicing rights. The aggregate principal balances of residential mortgage loans serviced by the Bank for others approximated $2.3 billion, $2.5 billion, and $1.8 billion at December 31, 2014, 2013, and 2012, respectively. The SBA loans serviced by the Bank for third-party investors totaled $26.9 million, $28.4 million, and $30.4 million at December 31, 2014, 2013 and 2012, respectively. The outstanding balance of all loans serviced for others is not included in the consolidated statements of financial condition.

Valley recognized amortization expense on other intangible assets, including recoveries and net impairment charges on loan servicing rights (reflected in the table above), of $9.9 million, $8.3 million, and $9.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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The following presents the estimated amortization expense of other intangible assets over the next five-year period:

	Loan Servicing Rights	Core Deposits	Other
	(in thousands)		
2015	$5,347	$3,645	$434
2016	4,144	2,909	233
2017	3,234	2,354	220
2018	2,458	1,975	193
2019	1,795	1,679	181

DEPOSITS (Note 9)

Included in time deposits at December 31, 2014 and 2013 are certificates of deposit over $100 thousand of $1.4 billion and $1.0 billion, respectively. Interest expense on time deposits of $100 thousand or more totaled approximately $5.9 million, $7.9 million, and $8.2 million in 2014, 2013, and 2012, respectively.

The scheduled maturities of time deposits as of December 31, 2014 are as follows:

Year	Amount
	(in thousands)
2015	$1,434,546
2016	721,490
2017	285,196
2018	70,809
2019	73,750
Thereafter	156,677
Total time deposits	$2,742,468

Deposits from certain directors, executive officers and their affiliates totaled $57.7 million and $62.9 million at December 31, 2014 and 2013, respectively.

BORROWED FUNDS (Note 10)

Short-Term Borrowings

Short-term borrowings at December 31, 2014 and 2013 consisted of the following:

	2014	2013
	(in thousands)	
Securities sold under agreements to repurchase	$146,781	$231,455
Federal funds purchased	—	50,000
Total short-term borrowings	$146,781	$281,455

The weighted average interest rate for short-term borrowings was 0.28 percent at both December 31, 2014 and 2013.

Long-Term Borrowings

Long-term borrowings at December 31, 2014 and 2013 consisted of the following:

	2014	2013
	(in thousands)	
FHLB advances	$1,832,166	$1,982,268
Securities sold under agreements to repurchase	462,500	587,500
Subordinated debt	231,308	221,757
Other	434	781
Total long-term borrowings	$2,526,408	$2,792,306

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In late December 2014, Valley prepaid $150 million and $125 million of the long-term FHLB advances and securities sold under the agreement to repurchase, respectively. These borrowings had a combined weighted average interest rate of 4.52 percent and contractual maturity dates in November 2015. The debt extinguishment resulted in a loss, consisting of prepayment penalties, totaling approximately $10.1 million for the year ended December 31, 2014.

FHLB Advances. The long-term FHLB advances had a weighted average interest rate of 3.83 percent and 3.89 percent at December 31, 2014 and 2013, respectively. These FHLB advances are secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. The pledged assets to the FHLB also collateralize a $350 million letter of credit issued by the FHLB on Valley's behalf to secure certain public deposits held at the Bank. Interest expense recorded on FHLB advances totaled $78.2 million, $78.4 million, and $79.5 million for the years ended December 31, 2014, 2013, and 2012, respectively.

The long-term FHLB advances at December 31, 2014 are scheduled for repayment as follows:

Year	Amount (in thousands)
2015	$25,102
2016	182,100
2017	584,969
2018	404,995
2019	—
Thereafter	635,000
Total long-term FHLB advances	$1,832,166

The long-term advances with scheduled repayments in years after 2016, reported in the table above, include $810 million in advances which are callable for early redemption by the FHLB during 2015 with interest rates ranging from 2.27 percent to 4.09 percent.

The long-term borrowings for securities sold under agreements to repurchase at December 31, 2014 are scheduled for repayment as follows:

Year	Amount (in thousands)
2016	$92,500
2017	220,000
2018	100,000
2019	50,000
Total long-term securities sold under agreements to repurchase	$462,500

Subordinated Debt. In 2005, the Bank issued $100.0 million of 5.0 percent subordinated notes due July 15, 2015 with no call dates or prepayments allowed. Interest on the subordinated notes is payable semi-annually in arrears at an annual rate of 5.0 percent on January 15 and July 15 of each year. On September 27, 2013, Valley issued $125.0 million of its 5.125 percent subordinated debentures (notes) due September 27, 2023 with no call dates or prepayments allowed, unless certain conditions exist. Interest on the subordinated debentures is payable semi-annually in arrears on March 27 and September 27 of each year. In conjunction with the issuance, Valley entered into an interest rate swap transaction used to hedge the change in the fair value of the subordinated notes (see Note 14 to the consolidated financial statements for further details on this derivative transaction). The hedged subordinated notes had a net carrying value of $131.3 million and $121.8 million at December 31, 2014 and 2013, respectively. Total interest expense on subordinated notes (including the changes in interest expense related to the interest rate swap) totaled $8.5 million, $5.9 million and $5.0 million at December 31, 2014, 2014, 2013 and 2012, respectively.

Pledged Securities. The fair value of securities pledged to secure public deposits, repurchase agreements, lines of credit, FHLB advances and for other purposes required by law approximated $1.3 billion at both December 31, 2014 and 2013.

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JUNIOR SUBORDINATED DEBENTURES ISSUED TO CAPITAL TRUSTS (Note 11)
Valley established VNB Capital Trust I and assumed in acquisitions GCB Capital Trust III, State Bancorp Capital Trust I, and State Bancorp Capital Trust II statutory trusts 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. The junior subordinated debentures, the sole assets of the trusts, are unsecured obligations of Valley, and are subordinate and junior in right of payment to all present and future senior and subordinated indebtedness and certain other financial obligations of Valley. Valley does not consolidate its capital trusts based on U.S. GAAP but wholly owns all of the common securities of each trust.
On July 26, 2013, Valley redeemed $15.4 million of the contractual principal amount of the 7.75 percent junior subordinated debentures carried at fair value option, and related trust preferred securities issued by VNB Capital Trust I. On October 25, 2013, Valley redeemed all its remaining junior subordinated debentures issued to VNB Capital Trust I with an aggregate contractual principal balance of 131.3 million, and all of its trust preferred securities, as well as all of the outstanding common securities of the Capital Trust.
The junior subordinated debentures issued to VNB Capital Trust I were measured at fair value under the fair value option, with changes in fair value recognized as charges or credits to current earnings. Net trading gains included non-cash credits of $881 thousand and $2.6 million for the years ended December 31, 2013 and 2012, 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 December 31, 2014:

	December 31, 2014			
	GCB Capital Trust III		State Bancorp Capital Trust I	State Bancorp Capital Trust II
	($ in thousands)			
Junior Subordinated Debentures:				
Carrying value (1)	$24,914		$8,524	$7,814
Contractual principal balance	$24,743		$10,310	$10,310
Annual interest rate (2)	6.96	%	3-month LIBOR + 3.45%	3-month LIBOR + 2.85%
Stated maturity date	July 30, 2037		November 7, 2032	January 23, 2034
Initial call date	July 30, 2017		November 7, 2007	January 23, 2009
Trust Preferred Securities:				
Face value	$24,000		$10,000	$10,000
Annual distribution rate (2)	6.96	%	3-month LIBOR + 3.45%	3-month LIBOR + 2.85%
Issuance date	July 2, 2007		October 29, 2002	December 19, 2003
Distribution dates (3)	Quarterly		Quarterly	Quarterly

(1) The carrying value for GCB Capital Trust III includes an unamortized purchase accounting premium of $171 thousand, and the carrying values for State Bancorp Capital Trust I and State Bancorp Capital Trust II include purchase accounting discounts of $1.8 million and $2.5 million, respectively.
(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 for all of the junior subordinated debentures and related trust preferred securities excludes the effect of the purchase accounting adjustments.
(3) All cash distributions are cumulative.

The junior subordinated debentures issued to GCB Capital Trust III, State Bancorp Capital Trust I and State Bancorp Capital Trust II had total carrying values of $25.0 million, $8.4 million and $7.7 million, respectively, and total contractual principal balances of $24.7 million, $10.3 million and $10.3 million, respectively, at December 31, 2013. The trust preferred securities issued by GCB Capital Trust III, and State Bancorp Capital Trust I and State Bancorp Capital Trust II had total face values of $24.0 million, $10.0 million and $10.0 million, respectively, at December 31, 2013.

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 redemption on the date no earlier than the call dates noted in the table above. 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

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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 included in Valley’s consolidated Tier 1 capital and total capital for regulatory purposes at December 31, 2014. However, based upon the new final regulatory guidance, our Tier 1 capital treatment of the trust preferred securities issued by our capital trusts (currently allowable under the Dodd-Frank Act) is 75 percent disallowed as of January 1, 2015 and will be fully phased out of Tier 1 capital on January 1, 2016.

BENEFIT PLANS (Note 12)

Pension Plan

The Bank has a non-contributory defined benefit plan (qualified plan) covering most of its employees. The qualified plan benefits are based upon years of credited service and the employee’s highest average compensation as defined. Additionally, the Bank has a supplemental non-qualified, non-funded retirement plan, which is designed to supplement the pension plan for key officers, and Valley has a non-qualified, non-funded directors’ retirement plan (both of these plans are referred to as the “non-qualified plans” below).

On June 19, 2013, the Board of Directors approved amendments to freeze the benefits earned under the qualified and non-qualified plans effective December 31, 2013. As a result, participants in each plan will not accrue further benefits and their pension benefits will be determined based on the compensation and service as of December 31, 2013. Plan benefits will not increase for any compensation or service earned after such date. However, participants’ benefits will continue to vest as long as they work for Valley.

As a result of these actions, Valley re-measured the projected benefit obligation of the affected plans and the funded status of each plan at June 30, 2013. The freeze and re-measurement decreased the projected benefit obligations by $22.9 million and decreased accumulated other comprehensive loss, net of tax, by $19.9 million during the six months ended June 30, 2013. The decrease in the plan obligations was mainly due to an increase in the discount rate from December 31, 2012 and the curtailment of plan benefits. At June 30, 2013, Valley used a discount rate of 4.87 percent for the re-measurement of the pension benefit obligation as compared to 4.26 percent at December 31, 2012. The discount rate is based on our consistent methodology of determining our discount rate based on an established yield curve that incorporates a broad group of Aa3 or higher rated bonds with durations equal to the expected benefit payment streams required by each plan. The assumption for the expected rate of return on plan assets was 7.50 percent at June 30, 2013 and remained unchanged from December 31, 2012. Additionally, a curtailment loss totaling $750 thousand was recognized as a component of net periodic pension expense during the second quarter of 2013 due to the re-measurement and freeze of the plans.

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The following table sets forth the change in the projected benefit obligation, the change in fair value of plan assets and the funded status and amounts recognized in Valley's consolidated financial statements for the qualified and non-qualified plans at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$145,034	$161,065
Service cost	—	7,104
Interest cost	6,897	6,645
Plan amendments	—	119
Actuarial loss (gain)	28,749	(13,003)
Curtailments	—	(12,981)
Benefits paid	(4,341)	(3,915)
Projected benefit obligation at end of year	$176,339	$145,034
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$184,910	$138,857
Actual return on plan assets	13,813	24,723
Employer contributions	264	25,245
Benefits paid	(4,341)	(3,915)
Fair value of plan assets at end of year*	$194,646	$184,910
Funded status of the plan	$18,307	$39,876
Asset recognized	18,307	39,876
Accumulated benefit obligation	176,339	145,034

* Includes accrued interest receivable of $652 thousand and $704 thousand as of December 31, 2014 and 2013, respectively.

Amounts recognized as a component of accumulated other comprehensive loss as of year-end that have not been recognized as a component of the net periodic pension expense for Valley's qualified and non-qualified plans are presented in the following table. Valley expects to recognize approximately $821 thousand of the net actuarial loss reported in the following table as of December 31, 2014 as a component of net periodic pension expense during 2015.

	2014	2013
	(in thousands)	
Net actuarial loss	$43,091	$15,415
Deferred tax benefit	(18,031)	(6,430)
Total	$25,060	$8,985

The non-qualified plans had a projected benefit obligation, accumulated benefit obligation, and fair value of plan assets as follows:

	2014	2013
	(in thousands)	
Projected benefit obligation	$18,118	$15,390
Accumulated benefit obligation	18,118	15,390
Fair value of plan assets	—	—

In determining discount rate assumptions, management looks to current rates on fixed-income corporate debt securities that receive a rating of Aa3 or higher from Moody's with durations equal to the expected benefit payments streams required of each plan. The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of benefit obligations for the qualified and non-qualified plans as of December 31, 2014 and 2013 were as follows:

	2014		2013	
Discount rate	4.02	%	4.89	%
Future compensation increase rate	—		2.75	

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The net periodic pension expense for the qualified and non-qualified plans included the following components for the years ended December 31, 2014, 2013, and 2012:

	2014	2013	2012
	(in thousands)		
Service cost	$—	$7,104	$7,338
Interest cost	6,897	6,645	6,516
Expected return on plan assets	(12,967)	(12,015)	(8,937)
Amortization of prior service cost	—	898	873
Amortization of net loss	226	1,970	2,401
Recognized loss due to curtailment	—	750	—
Total net periodic pension expense	$(5,844)	$5,352	$8,191

Other changes in the qualified and non-qualified plan assets and benefit obligations recognized in other comprehensive income or loss for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
	(in thousands)	
Net loss (gain)	$27,902	$(37,955)
Prior service cost	—	119
Recognized prior service cost	—	(2,386)
Amortization of actuarial loss	(226)	(1,970)
Total recognized in other comprehensive income	$27,676	$(42,192)
Total recognized in net periodic pension expense and other comprehensive income (before tax)	$21,833	$(36,840)

The benefit payments, which reflect expected future service, as appropriate, expected to be paid in future years are presented in the following table:

Year	Amount
	(in thousands)
2015	$7,116
2016	7,337
2017	7,532
2018	7,792
2019	8,160
2020 to 2024	45,680

The weighted average discount rate, expected long-term rate of return on assets and rate of compensation increase used in determining Valley's pension expense for the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Discount rate*	4.89%	4.26/4.87%	4.87%
Expected long-term return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increase	N/A	2.75%	2.75%

* The discount rate for 2013 increased from 4.26 percent to 4.87 percent due to the plans' freeze and remeasurement at June 30, 2013.

The expected rate of return on plan assets assumption is based on the concept that it is a long-term assumption independent of the current economic environment and changes would be made in the expected return only when long-term inflation expectations change, asset allocations change or when asset class returns are expected to change for the long-term.

In accordance with Section 402 (c) of ERISA, the qualified plan's investment managers are granted full discretion to buy, sell, invest and reinvest the portions of the portfolio assigned to them consistent with the Bank's Pension

Committee’s policy and guidelines. The target asset allocation set for the qualified plan are equity securities ranging from 25 percent to 65 percent and fixed income securities ranging from 35 percent to 75 percent. The absolute investment objective for the equity portion is to earn at least 7 percent cumulative annual real return, after adjustment by the Consumer Price Index (CPI), over rolling five- periods,

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while the relative objective is to earn returns above the S&P 500 Index over rolling three-year periods. For the fixed income portion, the absolute objective is to earn at least a 3 percent cumulative annual real return, after adjustment by the CPI over rolling five-year periods with a relative objective of earning returns above the Merrill Lynch Intermediate Government/Corporate Index over rolling three-year periods. Cash equivalents will be invested in money market funds or in other high quality instruments approved by the Trustees of the qualified plan.

The exposure of the plan assets of the qualified plan to a concentration of credit risk is limited by the Bank's Pension Committee's diversification of the investments into various investment options with multiple asset managers. The Pension Committee engages an investment management advisory firm that regularly monitors the performance of the asset managers and ensures they are within compliance of the policies adopted by the Trustees. If the risk profile and overall return of assets managed are not in line with the risk objectives or expected return benchmarks for the qualified plan, the advisory firm may recommend the termination of an asset manager to the Pension Committee.

In general, the plan assets of the qualified plan are investment securities that are well-diversified in terms of industry, capitalization and asset class. The following table presents the qualified plan weighted-average asset allocations by asset category that are measured at fair value on a recurring basis by level within the fair value hierarchy under ASC Topic 820. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Note 3 for further details regarding the fair value hierarchy.

				Fair Value Measurements at Reporting Date Using:		
	% of Total Investments		December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)					
Assets:						
Investments:						
Equity securities	41	%	$80,174	$80,174	$—	$—
Corporate bonds	22		42,750	—	42,750	—
Mutual funds	18		35,709	35,709	—	—
U.S. Treasury securities	11		21,604	21,604	—	—
Cash and money market funds	7		12,895	12,895	—	—
U.S. government agency securities	1		862	—	862	—
Total investments	100	%	$193,994	$150,382	$43,612	$—

				Fair Value Measurements at Reporting Date Using:		
	% of Total Investments		December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)					
Assets:						
Investments:						
Equity securities	42	%	$77,565	$77,565	$—	$—
Corporate bonds	23		41,863	—	41,863	—
Mutual funds	18		33,690	33,690	—	—
U.S. Treasury securities	10		19,057	19,057	—	—
Cash and money market funds	5		9,939	9,939	—	—
U.S. government agency securities	1		1,896	—	1,896	—
Trust preferred securities	1		196	196	—	—
Total investments	100	%	$184,206	$140,447	$43,759	$—

Equity securities, U.S. Treasury securities, cash and money market funds, and trust preferred securities are valued at fair value in the table above utilizing exchange quoted prices in active markets for identical instruments (Level 1 inputs). Mutual funds are measured at their respective net asset values, which represents fair values of the securities held in the funds based on exchange quoted prices available in active markets (Level 1 inputs).

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Corporate bonds and U.S. government agency securities are reported at fair value utilizing Level 2 inputs. The prices for these investments are derived from market quotations and matrix pricing obtained through an independent pricing service. Such 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.

Based upon actuarial estimates, Valley does not expect to make any contributions to the qualified plan. Funding requirements for subsequent years are uncertain and will significantly depend on whether the plan’s actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes, Valley may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

Other Non-Qualified Plans

Valley maintains other non-qualified plans for former directors of banks acquired, as well as a non-qualified plan for former senior management of Merchants Bank of New York acquired in January of 2001. Valley did not merge these plans into its existing non-qualified plans. Collectively, at December 31, 2014 and 2013, the remaining obligations under these plans were $4.1 million and $5.0 million, respectively, of which $2.1 million and $2.7 million, respectively, were funded by Valley. As of December 31, 2014 and 2013, the entire obligations were included in other liabilities and $1.2 million (net of an $882 thousand tax benefit) and $1.3 million (net of a $965 thousand tax benefit), respectively, were recorded in accumulated other comprehensive loss. The $1.2 million in accumulated other comprehensive loss will be reclassified to expense on a straight-line basis over the remaining benefit periods of these non-qualified plans.

Bonus Plan

Valley National Bank and its subsidiaries may award cash incentive and merit bonuses to its officers and employees based upon a percentage of the covered employees’ compensation as determined by the achievement of certain performance objectives. Amounts charged to salary expense were $6.8 million, $6.0 million, and $7.4 million during 2014, 2013 and 2012, respectively.

Savings and Investment Plan

Valley National Bank maintains a KSOP defined as a 401(k) plan with an employee stock ownership feature. This plan covers eligible employees of the Bank and its subsidiaries and allows employees to contribute a percentage of their salary, with the Bank matching a certain percentage of the employee contribution in cash and invested in accordance with each participant’s investment elections. The Bank recorded $6.0 million, $2.6 million, and $2.7 million in expense for contributions to the plan for the years ended December 31, 2014, 2013, and 2012, respectively. Effective January 1, 2014, Valley increased the benefits under the Bank’s 401(k) plan in an effort to offset a portion of the employee benefits no longer accruing under the qualified pension plan after December 31, 2013. At such date, Valley’s contributions will be increased to a dollar-for-dollar matching contribution of up to six percent of eligible compensation contributed by an employee each pay period.

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 Employee 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, as amended, Valley may award shares to its employees for up to 7.4 million shares of common stock in the form of stock appreciation rights, incentive stock options, non-qualified stock options, restricted stock awards and restricted stock units. As of December 31, 2014, 3.5 million shares of common stock were available for issuance under the Employee Stock Incentive Plan. 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, except for performance-based restricted stock awards with a market condition. The grant date fair value of performance-based

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restricted stock that vests based on a market condition is determined by a third party specialist using a Monte Carlo valuation model. The maximum term to exercise an incentive stock option is ten years from the date of grant and is subject to a vesting schedule.

Valley recorded stock-based compensation expense for restricted stock awards and incentive stock options of $7.5 million, $6.0 million and $4.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. The stock-based compensation expense for 2014, 2013 and 2012 included $3.9 million, $2.7 million and $2.5 million, respectively, related to stock awards granted to retirement eligible employees and was immediately recognized. The fair values of all other stock awards are expensed over the shorter of the vesting or required service period. As of December 31, 2014, the unrecognized amortization expense for all stock-based compensation totaled approximately $15.2 million and will be recognized over an average remaining vesting period of approximately 5 years.

Restricted Stock. Restricted stock is awarded to key employees providing for the immediate award of our common stock subject to certain vesting and restrictions under the Employee Stock Incentive Plan. Compensation expense is measured based on the grant-date fair value of the shares.

The following table sets forth the changes in restricted stock awards outstanding for the years ended December 31, 2014, 2013 and 2012:

	Restricted Stock Awards Outstanding		
	2014	2013	2012
Outstanding at beginning of year	1,709,312	1,492,060	316,488
Granted	1,488,960	479,541	1,423,152
Vested	(524,663)	(217,305)	(192,870)
Forfeited	(98,993)	(44,984)	(54,710)
Outstanding at end of year	2,574,616	1,709,312	1,492,060

The amount of compensation costs related to restricted stock awards included in salary expense amounted to $7.5 million, $6.0 million and $4.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Included in the $1.5 million restricted shares granted (in the table above) during 2014, 240 thousand shares were performance-based awards made to certain executive officers and 1.3 million shares were time-based awards to both executive officers and key employees of Valley. The performance-based awards vest based on (i) growth in tangible book value per share plus dividends (75 percent of performance shares) and (ii) total shareholder return as compared to our peer group 25 percent of performance shares). A portion of the performance-based awards vest after three years based on the cumulative performance of Valley during that time period with an opportunity for earlier vesting of a portion of the shares based on growth in tangible book value performance as specified in the agreement. The restrictions on nonperformance based awards will continue to lapse at the rate of one-third of the total award per year commencing with the first anniversary of the date of grant. The average grant date fair value of non-performance and performance-based restricted stock awarded during the year ended December 31, 2014 was $9.86 and $9.10 per share, respectively.

The Director Restricted Stock Plan provides the non-employee members of the Board of Directors with the opportunity to forgo some or their entire annual cash retainer and meeting fees in exchange for shares of Valley restricted stock. On January 29, 2014, the Director Restricted Stock Plan was amended to provide that no additional fees may be exchanged for Valley’s restricted stock effective April 1, 2014. The Director Restricted Stock Plan will terminate after the restricted stock remaining under the plan as of April 1, 2014 vests and is delivered, or is forfeited pursuant to such plan.

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The following table sets forth the changes in director's restricted stock awards outstanding for the years ended December 31, 2014, 2013 and 2012:

	Restricted Stock Awards Outstanding		
	2014	2013	2012
Outstanding at beginning of year	121,792	117,147	106,544
Granted	—	26,828	28,902
Vested	(23,706)	(21,963)	(18,299)
Forfeited	—	(220)	—
Outstanding at end of year	98,086	121,792	117,147

Stock Options. The fair value of each option granted on the date of grant is estimated using a binomial option pricing model. The fair values are estimated using assumptions for dividend yield based on the annual dividend rate; stock volatility, based on Valley's historical and implied stock price volatility; risk free interest rates, based on the U.S. Treasury constant maturity bonds, in effect on the actual grant dates, with a remaining term approximating the expected term of the options; and expected exercise term calculated based on Valley's historical exercise experience. There were no stock options granted in 2014, 2013 and 2012.

Summary of stock options activity as of December 31, 2014, 2013 and 2012 and changes during the years ended on those dates is presented below:

	2014		2013		2012	
Stock Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,322,593	$17	2,860,081	$17	3,000,406	$17
Assumed in acquisition*	—	—	—	—	356,490	17
Exercised	—	—	—	—	(1,019)	12
Forfeited or expired	(494,002)	19	(537,488)	19	(495,796)	16
Outstanding at end of year	1,828,591	17	2,322,593	17	2,860,081	17
Exercisable at year-end	1,828,591	17	2,320,696	17	2,756,007	18

* Stock options acquired in connection with the State Bancorp acquisition.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

Options Outstanding and Exercisable

Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$10-14	148,527	5.8	$12
14-15	459,267	3.2	15
15-17	180,734	1.9	17
17-18	495,785	0.9	18
18-21	544,278	1.7	19
	1,828,591	2.2	17

The aggregate intrinsic value of options outstanding and exercisable was immaterial at December 31, 2014.

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INCOME TAXES (Note 13)
Income tax expense for the years ended December 31, 2014, 2013, and 2012 consisted of the following:

	2014	2013	2012
	(in thousands)		
Current expense (benefit):			
Federal	$25,156	$13,203	$35,684
State	(5,549)	3,447	2,666
	19,607	16,650	38,350
Deferred expense:			
Federal and State	11,455	30,329	28,398
Total income tax expense	$31,062	$46,979	$66,748

The tax effects of temporary differences that gave rise to the significant portions of the deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$42,574	$48,042
Depreciation	15,082	13,327
Employee benefits	17,893	14,325
Investment securities, including other-than-temporary impairment losses	15,972	24,735
Net operating loss carryforwards	39,462	53,926
Purchase accounting	31,327	6,863
Other	18,138	21,063
Total deferred tax assets	180,448	182,281
Deferred tax liabilities:		
Pension plans	13,081	21,774
Other investments	14,662	11,096
Other	21,127	17,811
Total deferred tax liabilities	48,870	50,681
Net deferred tax asset (included in other assets)	$131,578	$131,600

Valley's federal net operating loss carryforwards totaled approximately $9 million and expire during the period from 2029 through 2030 and state net operating loss carryforwards totaled approximately $835 million at December 31, 2014 and expire during the period from 2015 through 2034. Valley also has federal alternative minimum tax credit carryforwards of approximately $610 thousand at December 31, 2014, which are available to reduce future federal regular income taxes, over an indefinite period.

Based upon taxes paid and projections of future taxable income over the periods in which the net deferred tax assets are deductible, management believes that it is more likely than not that Valley will realize the benefits of these deductible differences and loss carryforwards.

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Reconciliation between the reported income tax expense and the amount computed by multiplying consolidated income before taxes by the statutory federal income tax rate of 35 percent for the years ended December 31, 2014, 2013, and 2012 were as follows:

	2014	2013	2012
	(in thousands)		
Federal income tax at expected statutory rate	$51,532	$62,629	$73,631
(Decrease) increase due to:			
Tax-exempt interest, net of interest incurred to carry tax-exempt securities	(4,406)	(4,876)	(4,478)
Bank owned life insurance	(2,237)	(2,087)	(2,399)
State income tax expense, net of federal tax effect	12,866	9,904	8,204
Tax credits	(20,555)	(17,408)	(10,070)
Reduction in reserve for uncertainties	(6,971)	(1,821)	(1,105)
Other, net	833	638	2,965
Income tax expense	$31,062	$46,979	$66,748

A reconciliation of Valley's gross unrecognized tax benefits for 2014, 2013, and 2012 are presented in the table below:

	2014	2013	2012
	(in thousands)		
Beginning balance	$30,713	$31,052	$33,000
Additions based on tax positions related to prior years	1,408	1,482	4,195
Settlements with taxing authorities	(9,050)	(1,216)	(5,038)
Reductions due to expiration of statute of limitations	(4,424)	(605)	(1,105)
Ending balance	$18,647	$30,713	$31,052

The entire balance of unrecognized tax benefits, if recognized, would favorably affect our effective income tax rate. It is reasonably possible that the liability for unrecognized tax benefits could increase or decrease in the next twelve months due to completion of tax authorities' exams or the expiration of statutes of limitations. Management estimates that the liability for unrecognized tax benefits could decrease by $16 million within the next twelve months.

Valley's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. Valley has accrued approximately $4.5 million and $5.2 million of interest associated with Valley's uncertain tax positions at December 31, 2014 and 2013, respectively.

Valley files income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, Valley is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2009. Valley is also currently under routine examination by various state jurisdictions, and we expect the examinations to be completed within the next twelve months. Valley has considered, for all open audits, any potential adjustments in establishing our reserve for unrecognized tax benefits as of December 31, 2014.

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COMMITMENTS AND CONTINGENCIES (Note 14)

Lease Commitments

Certain bank facilities are occupied under non-cancelable long-term operating leases, which expire at various dates through 2058. Certain lease agreements provide for renewal options and increases in rental payments based upon increases in the consumer price index or the lessors' cost of operating the facility. Minimum aggregate lease payments for the remainder of the lease terms are as follows:

Year	Gross Rents	Sublease Rents	Net Rents
	(in thousands)		
2015	$24,133	$2,806	$21,327
2016	24,676	2,720	21,956
2017	23,946	2,590	21,356
2018	24,022	2,225	21,797
2019	23,479	2,089	21,390
Thereafter	303,764	10,554	293,210
Total lease commitments	$424,020	$22,984	$401,036

Net occupancy expense for years ended December 31, 2014, 2013, and 2012 included net rental expense of approximately $21.2 million, $19.9 million, and $23.8 million, respectively, net of rental income of $3.1 million, $3.3 million, and $2.5 million, respectively, for leased bank facilities.

In December 2013, Valley terminated a 20 year branch operating lease related to a building sale-leaseback transaction entered into during 2007. As a result of the lease termination, Valley recognized a gain of $11.3 million within the net gains on sales of assets category of other non-interest income for the year ended December 31, 2013. The $11.3 million gain represented the outstanding deferred gain on the original building sale that would have been amortized to income over the remaining lease term. The negotiated lease termination penalty recognized in 2013 was immaterial.

Financial Instruments With Off-balance Sheet Risk

In the ordinary course of business in meeting the financial needs of its customers, Valley, through its subsidiary Valley National Bank, is a party to various financial instruments, which are not reflected in the consolidated financial statements. These financial instruments include standby and commercial letters of credit, unused portions of lines of credit and commitments to extend various types of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated financial statements. The commitment or contract amount of these instruments is an indicator of the Bank's level of involvement in each type of instrument as well as the exposure to credit loss in the event of non-performance by the other party to the financial instrument. The Bank seeks to limit any exposure of credit loss by applying the same credit policies in making commitments, as it does for on-balance sheet lending facilities.

The following table provides a summary of financial instruments with off-balance sheet risk at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Commitments under commercial loans and lines of credit	$2,290,048	$1,958,955
Home equity and other revolving lines of credit	749,716	669,447
Outstanding commercial mortgage loan commitments	429,474	382,939
Standby letters of credit	194,562	224,002
Outstanding residential mortgage loan commitments	79,849	43,618
Commitments under unused lines of credit—credit card	54,128	57,017
Commercial letters of credit	5,618	8,016
Commitments to sell loans	27,932	25,796

Obligations to advance funds under commitments to extend credit, including commitments under unused lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have specified expiration dates, which may be extended upon request, or other termination clauses and generally require payment of a fee. These commitments do not necessarily represent future cash requirements as it is anticipated that many of these

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commitments will expire without being fully drawn upon. The Bank's lending activity for outstanding loan commitments is primarily to customers within the states of New Jersey, New York, Pennsylvania and Florida.
Standby letters of credit represent the guarantee by the Bank of the obligations or performance of the bank customer in the event of the default of payment of nonperformance to a third party beneficiary.
Loan sale commitments represent contracts for the sale of residential mortgage loans to third parties in the ordinary course of the Bank's business. These commitments require the Bank to deliver loans within a specific period to the third party. The risk to the Bank is its non-delivery of loans required by the commitment, which could lead to financial penalties. The Bank has not defaulted on its loan sale commitments.
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 and liquidity risks, 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 related to assets and liabilities outlined below.
Cash Flow Hedges of Interest Rate Risk. Valley's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, Valley uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of either fixed or variable-rate amounts in exchange for the receipt of variable or fixed-rate amounts from a counterparty. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.
At December 31, 2014, Valley had the following cash flow hedge derivatives:

- Four forward starting interest rate swaps with a total notional amount of $300 million to hedge the changes in cash flows associated with certain prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts. Two of the four swaps, totaling $200 million, expire in October 2016 and require Valley to pay fixed-rate amounts at approximately 4.73 percent, in exchange for the receipt of variable-rate payments at the prime rate. Starting in July 2012, the other two swaps totaling $100 million require the payment by Valley of fixed-rate amounts at approximately 5.11 percent in exchange for the receipt of variable-rate payments at the prime rate and expire in July 2017.
- Two interest rate caps with a total notional amount of $100 million, strike rates of 6.00 percent and 6.25 percent, and a maturity date of July 15, 2015 used to hedge the total change in cash flows associated with prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts, which have variable interest rates indexed to the prime rate.
- One interest rate cap with a total notional amount of $125 million with a strike rate of 7.44 percent and a maturity date of September 27, 2023 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.
- Seven forward starting interest rate swaps with a total notional amount of $482 million to hedge the changes in cash flows associated with certain FHLB advances within long-term borrowings. Starting between November 2015 and April 2016, the interest rate swaps will require Valley to pay fixed-rate amounts ranging from approximately 2.51 to 2.97 percent, in exchange for the receipt of variable-rate payments at the three-month LIBOR rate. The seven swaps have expiration dates ranging from November 2018 to November 2020.

During the third quarter of 2013, Valley entered into a $65 million forward-settle interest rate swap to protect Valley against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows related to interest payments on its subordinated notes issuance in September 2013. The forward-settle swap was cash settled to coincide with the date of the subordinated note issuance. The change in fair value of the forward-settle swap was recorded in accumulated other comprehensive loss and is amortized into interest expense over the life of the debt.

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

At December 31, 2014, Valley had the following cash flow hedge derivatives:

- One interest rate swap with a notional amount of approximately $8.4 million used to hedge the change in the fair value of a commercial loan.
- One interest rate swap transaction with a notional amount of $125 million, maturing in September 2023, used to hedge the change in the fair value of Valley’s 5.125 percent subordinated notes issued in September 2013.

Non-designated Hedges. Derivatives not designated as hedges may be used to manage Valley’s exposure to interest rate movements or to provide service to customers but do not meet the requirements for hedge accounting under U.S. GAAP. Derivatives not designated as hedges are not entered into for speculative purposes. Under a program, Valley executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Valley executes with a third party, such that Valley minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

During the second quarter of 2014, Valley issued $25 million of market linked certificates of deposit through a broker dealer. The rate paid on these hybrid instruments is based on a formula derived from the spread between the long and short ends of the constant maturity swap (CMS) rate curve. This type of instrument is referred to as a "steepener" since it derives its value from the slope of the CMS curve. Valley has determined that these hybrid instruments contain an embedded swap contract which has been bifurcated from the host contract. Valley entered into a swap (with a total notional amount of $25 million) almost simultaneously with the deposit issuance where the receive rate on the swap mirrors the pay rate on the brokered deposits. The bifurcated derivative and the stand alone swap are both marked to market through other non-interest expense. Although these instruments do not meet the hedge accounting requirements, the change in fair value of both the bifurcated derivative and the stand alone swap tend to move in opposite directions with changes in 90 day LIBOR rate and therefore provide an effective economic hedge.

Valley also regularly enters into mortgage banking derivatives which are non-designated hedges. These derivatives include interest rate lock commitments provided to customers to fund certain residential mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. Valley enters into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on Valley’s commitments to fund the loans as well as on its portfolio of mortgage loans held for sale.

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

	December 31, 2014			December 31, 2013		
	Fair Value			Fair Value		
	Other Assets	Other Liabilities	Notional Amount	Other Assets	Other Liabilities	Notional Amount
	(in thousands)					
Derivatives designated as hedging instruments:						
Cash flow hedge interest rate caps and swaps	$2,229	$19,302	$1,007,000	$9,883	$10,925	$1,007,000
Fair value hedge interest rate swaps	6,257	1,482	133,406	99	4,691	184,591
Total derivatives designated as hedging instruments	$8,486	$20,784	$1,140,406	$9,982	$15,616	$1,191,591
Derivatives not designated as hedging instruments:						
Interest rate swaps and embedded derivatives	$12,464	$12,455	$378,849	$4,823	$4,823	$259,832
Mortgage banking derivatives	37	91	40,857	317	147	46,784
Total derivatives not designated as hedging instruments	$12,501	$12,546	$419,706	$5,140	$4,970	$306,616

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

	2014	2013	2012
	(in thousands)		
Amount of loss reclassified from accumulated other comprehensive loss to interest expense	$(6,663)	$(6,898)	$(6,478)
Amount of (loss) gain recognized in other comprehensive income (loss)	(20,910)	4,255	(5,774)

The net gains or losses related to cash flow hedge ineffectiveness were immaterial during the years ended December 31, 2014, 2013 and 2012. The accumulated net after-tax losses related to effective cash flow hedges included in accumulated other comprehensive loss was $14.5 million and $6.3 million at December 31, 2014 and 2013, 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. Valley estimates that $6.4 million will be reclassified as an increase to interest expense in 2015.

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

	2014	2013	2012
	(in thousands)		
Derivative—interest rate swaps:			
Interest income	$(13)	$728	$(57)
Interest expense	9,380	(3,774)	(200)
Hedged item—loans, deposits and long-term borrowings:			
Interest income	$13	$(728)	$57
Interest expense	(9,449)	3,805	220

During the years ended December 31, 2014, 2013 and 2012, the amounts recognized in non-interest expense related to the ineffectiveness of fair value hedges were immaterial. Valley also recognized a net reduction to interest expense of $100 thousand, $584 thousand, and $561 thousand for the years ended December 31, 2014, 2013 and 2012, respectively, related to Valley’s fair value hedges on brokered time deposits, which includes net settlements on the derivatives. The fair value hedges on brokered time deposits expired in March 2014.

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Net gains (losses) included in the consolidated statements of income related to derivative instruments not designated as hedging instruments were as follows:

	2014	2013	2012
	(in thousands)		
Non-designated hedge interest rate derivatives			
Other non-interest expense	$(214)	$128	$253

Collateral Requirements Credit Risk Related Contingency 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 providing that if Valley defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Valley could also be declared in default on its derivative counterparty agreements. Additionally, Valley has an agreement with several of its derivative counterparties that contains provisions that require Valley's debt to maintain an investment grade credit rating from each of the major credit rating agencies, from which it receives a credit rating. If Valley's credit rating is reduced below investment grade or such rating is withdrawn or suspended, then the counterparty could terminate the derivative positions, and Valley would be required to settle its obligations under the agreements. As of December 31, 2014, Valley was in compliance with all of the provisions of its derivative counterparty agreements.

As of December 31, 2014, 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 $11.5 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties. At December 31, 2014, Valley had $31.7 million in collateral posted with its counterparties.

Litigation

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

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BALANCE SHEET OFFSETTING (Note 15)

Certain financial instruments, including derivatives (consisting of interest rate caps and swaps) and repurchase agreements (accounted for as secured long-term borrowings), may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. Valley is party to master netting arrangements with its financial institution counterparties; however, Valley does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of cash or marketable investment securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. Master repurchase agreements which include "right of set-off" provisions generally have a legally enforceable right to offset recognized amounts. In such cases, the collateral would be used to settle the fair value of the repurchase agreement should Valley be in default. The table below presents information about Valley's financial instruments that are eligible for offset in the consolidated statements of financial condition as of December 31, 2014 and 2013.

	Gross Amounts Recognized (in thousands)	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset Financial Instruments	Cash Collateral	Net Amount
December 31, 2014						
Assets:						
Interest rate caps and swaps	$20,950	$—	$20,950	$(8,504)	$—	$12,446
Liabilities:						
Interest rate caps and swaps	$33,239	$—	$33,239	$(8,504)	$24,735	$—
Repurchase agreements	395,000	—	395,000	—	(395,000)*	—
Total	$428,239	$—	$428,239	$(8,504)	$(370,265)	$—
December 31, 2013						
Assets:						
Interest rate caps and swaps	$14,805	$—	$14,805	$(8,284)	$—	$6,521
Liabilities:						
Interest rate caps and swaps	$20,439	$—	$20,439	$(8,284)	$(12,155)	$—
Repurchase agreements	520,000	—	520,000	—	(520,000)*	—
Total	$540,439	$—	$540,439	$(8,284)	$(532,155)	$—

* Represents fair value of non-cash pledged investment securities.

REGULATORY AND CAPITAL REQUIREMENTS (Note 16)

Valley's primary source of cash is dividends from the Bank. Valley National Bank, a national banking association, is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. In addition, the dividends declared cannot be in excess of the amount which would cause the subsidiary bank to fall below the minimum required for capital adequacy purposes.

Valley and Valley National Bank are subject to the regulatory capital requirements administered by the Federal Reserve Bank and the OCC. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct significant impact on Valley's consolidated financial statements. Under capital adequacy guidelines Valley and Valley National Bank must meet specific capital guidelines that involve quantitative measures of Valley's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Valley and Valley National Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, as defined in the regulations. As of December 31, 2014, Valley exceeded all capital adequacy requirements to which it was subject.

At December 31, 2014, all of Valley National Bank’s ratios were above the minimum levels required to be considered “well capitalized,” under the regulatory framework for prompt corrective action, which require Tier 1 capital to risk-weighted assets of at least 6 percent, Total risk-based capital to risk-weighted assets of 10 percent and a minimum Tier 1 leverage ratio of 5 percent.

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To be categorized as well capitalized under the capital adequacy guidelines set by the federal regulators, Valley and Valley National Bank must maintain minimum Total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

On July 2, 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by Valley and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5 percent and a common equity Tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0 percent to 6.0 percent and require a minimum leverage ratio of 4.0 percent. The final rule became effective January 1, 2015, subject to a transition period.

The actual capital positions and ratios for Valley and Valley National Bank as of December 31, 2014 and 2013 are presented in the following table:

	Actual			Minimum Capital Requirements			To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
	($ in thousands)							
As of December 31, 2014								
Total Risk-based Capital								
Valley	$1,547,753	11.4	%	$1,084,479	8.0	%	N/A	N/A%
Valley National Bank	1,481,184	10.9		1,083,516	8.0		1,354,395	10.0
Tier 1 Risk-based Capital								
Valley	1,318,466	9.7		542,240	4.0		N/A	N/A
Valley National Bank	1,376,897	10.2		541,758	4.0		813,637	6.0
Tier 1 Leverage Capital								
Valley	1,318,466	7.5		707,082	4.0		N/A	N/A
Valley National Bank	1,376,897	7.8		706,992	4.0		883,740	5.0
As of December 31, 2013								
Total Risk-based Capital								
Valley	$1,403,836	11.9	%	$946,448	8.0	%	N/A	N/A%
Valley National Bank	1,376,695	11.6		945,854	8.0		1,182,317	10.0
Tier 1 Risk-based Capital								
Valley	1,141,526	9.7		473,224	4.0		N/A	N/A
Valley National Bank	1,239,510	10.5		472,927	4.0		709,390	6.0
Tier 1 Leverage Capital								
Valley	1,141,526	7.3		628,256	4.0		N/A	N/A
Valley National Bank	1,239,510	7.9		627,333	4.0		784,167	5.0

Based upon the new final regulatory guidance, our Tier 1 capital treatment of the trust preferred securities issued by Valley's capital trusts (currently allowable under the Dodd-Frank Act) are 75 percent disallowed as of January 1, 2015 and will be fully phased out of Tier 1 capital on January 1, 2016. Valley's Tier 1 capital position included $44.0 million of its outstanding trust preferred securities issued by capital trusts as of December 31, 2014 and 2013.

COMMON STOCK (Note 17)

Dividend Reinvestment Plan. Effective June 29, 2009, Valley may issue up to 10.0 million authorized and previously unissued or treasury shares of Valley common stock for purchases under Valley's dividend reinvestment plan (DRIP). Under the DRIP, a shareholder may choose to have future cash dividends automatically invested in Valley common stock and make voluntary optional cash payments of up to $100 thousand per quarter to purchase shares of Valley common stock. Shares purchased under this plan will be issued directly from Valley or in open market transactions. During 2014, 2013 and 2012, 499 thousand, 775 thousand, and 721 thousand of common shares, respectively, were reissued from treasury stock or issued from authorized common shares under the DRIP for net proceeds totaling $5.0 million, $7.6 million and $8.0 million, respectively.

Common Stock Warrants. On January 1, 2012, Valley assumed in the acquisition of State Bancorp, a warrant issued by State Bancorp (in connection with its redeemed preferred stock issuance) to the U.S. Treasury in December 2008. The ten-year

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warrant to purchase up to 489 thousand of Valley common shares has an exercise price of $11.30 per share, and is exercisable on a net exercise basis. Valley has not negotiated the possible redemption of the warrant with the U.S. Treasury. However, the Treasury may request that we make an offer to redeem the warrant in the future, or request that warrant shares be individually sold at public auction. The entire warrant remained outstanding and unexercised at December 31, 2014.

In July 2008, Valley issued approximately 918 thousand warrants as part of the purchase price for the acquisition of Greater Community Bancorp. Each warrant is entitled to purchase approximately $1.2155 Valley common shares at $15.64 per share and is exercisable through the expiration date of June 30, 2015. The Valley warrants are considered equity instruments and are publicly traded and listed on the NASDAQ Capital Market under the ticker symbol “VLYWW”. All of the warrants remained outstanding and unexercised at December 31, 2014.

In connection with the issuance of senior preferred shares in 2008, Valley issued to the U.S. Treasury a ten year warrant to purchase up to approximately $2.5 million Valley common shares. During 2010, the U.S. Treasury sold the warrants through a public auction, in which Valley did not receive any of the proceeds. The warrants are currently traded on the New York Stock Exchange under the ticker symbol “VLY WS”. Each warrant entitles the holder to purchase approximately 1.103 Valley common shares at $16.12 per share and is exercisable through the expiration date of November 14, 2018.

Repurchase Plan. In 2007, Valley’s Board of Directors approved the repurchase of up to $4.7 million common shares. Purchases of Valley’s common shares 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. Under the repurchase plan, Valley made no purchases of its outstanding shares during the years ended December 31, 2014, 2013 and 2012.

Other Stock Repurchases. Valley also purchases shares directly from its employees in connection with employee elections to withhold taxes related to the vesting of restricted stock awards. During the years ended December 31, 2014, 2013 and 2012, Valley purchased approximately 174 thousand, 78 thousand, and 55 thousand shares, respectively, of its outstanding common stock at an average price of $9.96, $9.91 and $9.41, respectively, for such purpose.

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OTHER COMPREHENSIVE INCOME (Note 18)

The following table presents the tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31, 2014, 2013, and 2012. Components of other comprehensive income (loss) include changes in net unrealized gains (losses) on securities available for sale (including the non-credit portion of 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 pension benefit adjustment for unfunded portion of various employee, officer and director pension plans.

	2014			2013			2012		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
	(in thousands)								
Unrealized gains (losses) on available for sale (AFS) securities									
Net gains (losses) arising during the period	$33,329	$(13,931)	$19,398	$(22,679)	$9,440	$(13,239)	$9,993	$(4,311)	$5,682
Less reclassification adjustment for net gains included in net income	(745)	312	(433)	(14,678)	6,156	(8,522)	(2,587)	1,042	(1,545)
Net change	32,584	(13,619)	18,965	(37,357)	15,596	(21,761)	7,406	(3,269)	4,137
Non-credit impairment losses on securities available for sale and held to maturity									
Net change in non-credit impairment losses on securities	2,299	(965)	1,334	6,266	(2,629)	3,637	15,032	(5,090)	9,942
Less reclassification adjustment for credit impairment losses included in net income	(661)	278	(383)	(461)	193	(268)	4,220	(1,771)	2,449
Net change	1,638	(687)	951	5,805	(2,436)	3,369	19,252	(6,861)	12,391
Unrealized gains and losses on derivatives (cash flow hedges)									
Net (losses) gains arising during the period	(20,910)	8,763	(12,147)	4,255	(1,855)	2,400	(5,773)	2,422	(3,351)
Less reclassification adjustment for net losses included in net income	6,663	(2,777)	3,886						