VALLEY NATIONAL BANCORP
Form 10-K
February 27, 2015

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 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	$