

VALLEY NATIONAL BANCORP
Form 10-Q
May 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2016

OR

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

For the transition period from _____ to _____
Commission File Number 1-11277

VALLEY NATIONAL BANCORP
(Exact name of registrant as specified in its charter)

New Jersey 22-2477875
(State or other jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification Number)

1455 Valley Road 07470
Wayne, NJ
(Address of principal executive office) (Zip code)
973-305-8800
(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 254,383,833 shares were outstanding as of May 6, 2016

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except for share data)

	March 31, 2016	December 31, 2015
Assets	(Unaudited)	
Cash and due from banks	\$243,265	\$243,575
Interest bearing deposits with banks	233,228	170,225
Investment securities:		
Held to maturity (fair value of \$1,660,224 at March 31, 2016 and \$1,621,039 at December 31, 2015)	1,618,466	1,596,385
Available for sale	1,452,489	1,506,861
Total investment securities	3,070,955	3,103,246
Loans held for sale, at fair value	15,347	16,382
Loans	16,135,987	16,043,107
Less: Allowance for loan losses	(105,415)	(106,178)
Net loans	16,030,572	15,936,929
Premises and equipment, net	300,072	298,943
Bank owned life insurance	389,500	387,542
Accrued interest receivable	62,973	63,554
Goodwill	689,589	686,339
Other intangible assets, net	46,155	48,882
Other assets	645,867	656,999
Total Assets	\$21,727,523	\$21,612,616
Liabilities		
Deposits:		
Non-interest bearing	\$5,053,478	\$4,914,285
Interest bearing:		
Savings, NOW and money market	8,273,936	8,181,362
Time	3,081,012	3,157,904
Total deposits	16,408,426	16,253,551
Short-term borrowings	1,170,623	1,076,991
Long-term borrowings	1,660,284	1,810,728
Junior subordinated debentures issued to capital trusts	41,455	41,414
Accrued expenses and other liabilities	227,133	222,841
Total Liabilities	19,507,921	19,405,525
Shareholders' Equity		
Preferred stock (no par value, authorized 30,000,000 shares; issued 4,600,000 shares at March 31, 2016 and December 31, 2015)	111,590	111,590
Common stock (no par value, authorized 332,023,233 shares; issued 254,326,257 shares at March 31, 2016 and 253,787,561 shares at December 31, 2015)	88,735	88,626
Surplus	1,930,844	1,927,399
Retained earnings	131,494	125,171
Accumulated other comprehensive loss	(42,695)	(45,695)
Treasury stock, at cost (40,823 common shares at March 31, 2016)	(366)	—
Total Shareholders' Equity	2,219,602	2,207,091
Total Liabilities and Shareholders' Equity	\$21,727,523	\$21,612,616

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(in thousands, except for share data)

	Three Months Ended March 31,	
	2016	2015
Interest Income		
Interest and fees on loans	\$ 166,071	\$ 150,482
Interest and dividends on investment securities:		
Taxable	13,999	14,932
Tax-exempt	3,690	3,612
Dividends	1,480	1,739
Interest on federal funds sold and other short-term investments	357	220
Total interest income	185,597	170,985
Interest Expense		
Interest on deposits:		
Savings, NOW and money market	9,243	5,995
Time	9,585	7,974
Interest on short-term borrowings	1,872	94
Interest on long-term borrowings and junior subordinated debentures	16,744	24,836
Total interest expense	37,444	38,899
Net Interest Income	148,153	132,086
Provision for credit losses	800	—
Net Interest Income After Provision for Credit Losses	147,353	132,086
Non-Interest Income		
Trust and investment services	2,440	2,494
Insurance commissions	4,708	4,205
Service charges on deposit accounts	5,103	5,290
Gains on securities transactions, net	271	2,416
Fees from loan servicing	1,594	1,603
Gains on sales of loans, net	1,795	598
(Losses) gains on sales of assets, net	(10) 281
Bank owned life insurance	1,963	1,764
Change in FDIC loss-share receivable	(560) (3,920
Other	4,144	3,914
Total non-interest income	21,448	18,645
Non-Interest Expense		
Salary and employee benefits expense	60,259	56,712
Net occupancy and equipment expense	22,789	22,200
FDIC insurance assessment	5,099	3,792
Amortization of other intangible assets	2,849	2,393
Professional and legal fees	3,895	3,341
Amortization of tax credit investments	7,264	4,496
Telecommunication expense	2,386	2,006
Other	13,684	13,178
Total non-interest expense	118,225	108,118
Income Before Income Taxes	50,576	42,613
Income tax expense	14,389	12,272
Net Income	\$ 36,187	\$ 30,341

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Dividends on preferred stock	1,797	—
Net Income Available to Common Shareholders	\$34,390	\$ 30,341
Earnings Per Common Share:		
Basic	\$0.14	\$ 0.13
Diluted	0.14	0.13
Cash Dividends Declared per Common Share	0.11	0.11
Weighted Average Number of Common Shares Outstanding:		
Basic	254,075,342	232,338,775
Diluted	254,347,422	232,341,921
See accompanying notes to consolidated financial statements.		

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	\$36,187	\$30,341
Other comprehensive income (loss), net of tax:		
Unrealized gains and losses on available for sale securities		
Net gains arising during the period	8,283	3,936
Less reclassification adjustment for net gains included in net income	(170)	(1,409)
Total	8,113	2,527
Non-credit impairment losses on available for sale securities		
Net change in non-credit impairment losses on securities	(59)	(421)
Less reclassification adjustment for accretion of credit impairment losses included in net income	(286)	(84)
Total	(345)	(505)
Unrealized gains and losses on derivatives (cash flow hedges)		
Net losses on derivatives arising during the period	(6,552)	(5,259)
Less reclassification adjustment for net losses included in net income	1,741	951
Total	(4,811)	(4,308)
Defined benefit pension plan		
Amortization of net loss	43	119
Total other comprehensive income (loss)	3,000	(2,167)
Total comprehensive income	\$39,187	\$28,174
See accompanying notes to consolidated financial statements.		

VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$36,187	\$30,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,417	5,078
Stock-based compensation	2,369	2,479
Provision for credit losses	800	—
Net amortization of premiums and accretion of discounts on securities and borrowings	4,198	8,371
Amortization of other intangible assets	2,849	2,393
Gains on securities transactions, net	(271)	(2,416)
Proceeds from sales of loans held for sale	54,907	38,568
Gains on sales of loans, net	(1,795)	(598)
Originations of loans held for sale	(52,749)	(17,716)
Losses (gains) on sales of assets, net	10	(281)
FDIC loss-share receivable (excluding reimbursements)	560	3,920
Net change in:		
Trading securities	—	14,233
Fair value of borrowings hedged by derivative transactions	4,719	2,781
Cash surrender value of bank owned life insurance	(1,963)	(1,764)
Accrued interest receivable	581	743
Other assets	(6,079)	(40,365)
Accrued expenses and other liabilities	3,993	8,104
Net cash provided by operating activities	54,733	53,871
Cash flows from investing activities:		
Net loan repayments (originations)	95,706	(122,279)
Loans purchased	(190,741)	(139,935)
Investment securities held to maturity:		
Purchases	(83,955)	(145,973)
Sales	—	11,666
Maturities, calls and principal repayments	58,907	85,798
Investment securities available for sale:		
Purchases	(302,321)	(8,034)
Sales	2,081	13,974
Maturities, calls and principal repayments	366,882	38,678
Proceeds from sales of real estate property and equipment	3,919	4,551
Purchases of real estate property and equipment	(7,578)	(3,216)
Reimbursements from the FDIC	370	1,954
Net cash used in investing activities	(56,730)	(262,816)
Cash flows from financing activities:		
Net change in deposits	154,875	182,627
Net change in short-term borrowings	93,632	(12,915)
Repayments of long-term borrowings	(155,000)	—
Cash dividends paid to preferred shareholders	(1,797)	—
Cash dividends paid to common shareholders	(27,916)	(25,512)

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Purchase of common shares to treasury	(1,496) —
Common stock issued, net	2,392	(948)
Net cash provided by financing activities	64,690	143,252
Net change in cash and cash equivalents	62,693	(65,693)
Cash and cash equivalents at beginning of year	413,800	830,407
Cash and cash equivalents at end of period	\$476,493	\$764,714

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VALLEY NATIONAL BANCORP
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 (in thousands)

	Three Months Ended March 31,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	\$38,766	\$41,978
Federal and state income taxes	67	29,550
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$663	\$1,944
See accompanying notes to consolidated financial statements.		

VALLEY NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

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

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley’s financial position, results of operations and cash flows at March 31, 2016 and for all periods presented have been made. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2015.

Note 2. Business Combinations

Acquisitions

On January 4, 2016, Masters Coverage Corp., an all-line insurance agency that is a wholly-owned subsidiary of the Bank, acquired certain assets of an independent insurance agency located in New York. The purchase price totaled approximately \$1.4 million in cash and future cash consideration. The transaction generated goodwill and other intangible assets totaling \$701 thousand and \$660 thousand, respectively.

On December 1, 2015, Valley completed its acquisition of CNLBancshares, Inc. (CNL) and its wholly-owned subsidiary, CNLBank, headquartered in Orlando, Florida, a commercial bank with approximately \$1.6 billion in assets, \$825 million in loans and \$1.2 billion in deposits and 16 branch offices on the date of its acquisition by Valley. The common shareholders of CNL received 0.705 of a share of Valley common stock for each CNL share they owned prior to the merger. The total consideration for the acquisition was approximately \$230 million, consisting of 20.6 million shares of Valley’s common stock.

During the quarter ended March 31, 2016, Valley revised the estimated fair values of the acquired assets as of the acquisition date as the result of additional information obtained. The adjustments mostly related to the fair value of certain purchased credit-impaired (PCI) loans, core deposit intangibles and time deposits which, on a combined basis, resulted in a \$2.5 million increase in goodwill (see Note 10 for amount of goodwill as allocated to Valley’s business segments). If additional information (that existed at the date of close) becomes available, the fair value

estimates for acquired assets and assumed liabilities are subject to change for up to one year after the closing date of the CNL acquisition.

Note 3. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except for share data)	
Net income available to common shareholders	\$34,390	\$ 30,341
Basic weighted average number of common shares outstanding	254,075,342	252,338,775
Plus: Common stock equivalents	272,071	3,146
Diluted weighted average number of common shares outstanding	254,347,421	252,341,921
Earnings per common share:		
Basic	\$0.14	\$ 0.13
Diluted	0.14	0.13

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of performance-based restricted stock units, common stock options and warrants to purchase Valley's common shares. Common stock options and warrants with exercise prices that exceed the average market price of Valley's common stock during the periods presented have an anti-dilutive effect on the diluted earnings per common share calculation and therefore are excluded from the diluted earnings per share calculation. Anti-dilutive common stock options and warrants equaled approximately 4.6 million shares and 6.2 million for the three months ended March 31, 2016 and 2015, respectively.

Note 4. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three months ended March 31, 2016.

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities (in thousands)	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2015	\$ (5,336)	\$ (520)	\$ (17,644)	\$ (22,195)	\$ (45,695)
Other comprehensive income (loss) before reclassifications	8,283	(59)	(6,552)	—	1,672
Amounts reclassified from other comprehensive income (loss)	(170)	(286)	1,741	43	1,328
Other comprehensive income (loss), net	8,113	(345)	(4,811)	43	3,000
Balance at March 31, 2016	\$ 2,777	\$ (865)	\$ (22,455)	\$ (22,152)	\$ (42,695)

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three months ended March 31, 2016 and 2015.

Components of Accumulated Other Comprehensive Loss	Amounts Reclassified from Accumulated Other Comprehensive Loss Three Months Ended March 31,		Income Statement Line Item
	2016	2015	
	(in thousands)		
Unrealized gains on AFS securities before tax	\$ 271	\$ 2,416	Gains on securities transactions, net
Tax effect	(101)	(1,007)	
Total net of tax	170	1,409	
Non-credit impairment losses on AFS securities before tax:			
Accretion of credit loss impairment due to an increase in expected cash flows	489	144	Interest and dividends on investment securities (taxable)
Tax effect	(203)	(60)	
Total net of tax	286	84	
Unrealized losses on derivatives (cash flow hedges) before tax	(2,971)	(1,629)	Interest expense
Tax effect	1,230	678	
Total net of tax	(1,741)	(951)	
Defined benefit pension plan:			
Amortization of net loss	(72)	(205)	*
Tax effect	29	86	
Total net of tax	(43)	(119)	
Total reclassifications, net of tax	\$ (1,328)	\$ 423	

* Amortization of net loss is included in the computation of net periodic pension cost.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" simplifies several aspects of the stock compensation guidance in Topic 718 and other related guidance. The amendments focus on income tax accounting upon vesting or exercise of share-based payments, award classification, liability classification exception for statutory tax withholding requirements, estimating forfeitures, and cash flow presentation. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 with an early adoption permitted. ASU No. 2016-09 is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2016-02, "Leases (Topic 842)" requires the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Topic 842 will be effective for Valley for reporting periods beginning January 1, 2019, with an early adoption permitted. Valley must apply a modified

retrospective transition approach for the applicable leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Management is currently evaluating the impact of Topic 842 on Valley's consolidated financial statements.

ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities" requires that: (i) equity investments with readily determinable fair values must be measured at fair value with changes in fair value recognized in net income, (2) equity investments without readily determinable fair values must be measured at either fair value or at cost adjusted for changes in observable prices minus impairment. Changes in value under either of these methods would be recognized in net income, (3) entities that record financial liabilities at fair value due to a fair value option election must recognize changes in fair value in other comprehensive income if it is related to instrument-specific credit risk, and (4) entities must assess whether a valuation allowance is required for deferred tax assets related to available-for-sale debt securities. ASU No. 2016-01 is effective for Valley for reporting periods beginning January 1, 2018 and is not expected to have a material effect on Valley's consolidated financial statements.

ASU No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", which removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. ASU No. 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU No. 2015-07 began effective for Valley for reporting periods after January 1, 2016 and did not have an impact on Valley's fair value measurement disclosures at Note 6.

Note 6. Fair Value Measurement of Assets and Liabilities

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

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

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

The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at March 31, 2016 and December 31, 2015. The assets presented under “nonrecurring fair value measurements” in the table below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

	March 31, 2016	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	\$411,335	\$ 411,335	\$ —	\$ —
U.S. government agency securities	26,922	—	26,922	—
Obligations of states and political subdivisions	126,222	—	126,222	—
Residential mortgage-backed securities	782,648	—	771,801	10,847
Trust preferred securities	8,259	—	6,157	2,102
Corporate and other debt securities	78,208	17,887	60,321	—
Equity securities	18,895	464	18,431	—
Total available for sale	1,452,489	429,686	1,009,854	12,949
Loans held for sale ⁽¹⁾	15,347	—	15,347	—
Other assets ⁽²⁾	49,308	—	49,308	—
Total assets	\$ 1,517,144	\$ 429,686	\$ 1,074,509	\$ 12,949
Liabilities				
Other liabilities ⁽²⁾	\$70,199	\$ —	\$ 70,199	\$ —
Total liabilities	\$70,199	\$ —	\$ 70,199	\$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans ⁽³⁾	\$6,209	\$ —	\$ —	\$ 6,209
Loan servicing rights	4,142	—	—	4,142
Foreclosed assets ⁽⁴⁾	2,604	—	—	2,604
Total	\$12,955	\$ —	\$ —	\$ 12,955

	Fair Value Measurements at Reporting Date Using:			
	December 31, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	\$549,473	\$ 549,473	\$ —	\$ —
U.S. government agency securities	29,963	—	29,963	—
Obligations of states and political subdivisions	124,966	—	124,966	—
Residential mortgage-backed securities	696,428	—	684,777	11,651
Trust preferred securities	8,404	—	6,262	2,142
Corporate and other debt securities	77,552	17,710	59,842	—
Equity securities	20,075	1,198	18,877	—
Total available for sale	1,506,861	568,381	924,687	13,793
Loans held for sale ⁽¹⁾	16,382	—	16,382	—
Other assets ⁽²⁾	33,774	—	33,774	—
Total assets	\$1,557,017	\$ 568,381	\$ 974,843	\$ 13,793
Liabilities				
Other liabilities ⁽²⁾	\$50,844	\$ —	\$ 50,844	\$ —
Total liabilities	\$50,844	\$ —	\$ 50,844	\$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans ⁽³⁾	\$15,427	\$ —	\$ —	\$ 15,427
Loan servicing rights	2,571	—	—	2,571
Foreclosed assets ⁽⁴⁾	16,672	—	—	16,672
Total	\$34,670	\$ —	\$ —	\$ 34,670

Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal (1) balances totaling approximately \$14.8 million and \$16.1 million at March 31, 2016 and December 31, 2015, respectively.

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

(3) Excludes PCI loans.

(4) Includes covered (i.e., subject to loss-sharing agreements with the FDIC) other real estate owned totaling \$270 thousand and \$4.2 million at March 31, 2016 and December 31, 2015, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2016 and 2015 are summarized below:

	Available for Sale Securities Three Months Ended March 31, 2016 2015 (in thousands)	
Balance, beginning of the period	\$13,793	\$19,309
Total net losses included in other comprehensive income for the period	(585)	(792)
Sales	—	(2,675)
Settlements	(259)	(374)
Balance, end of the period	\$12,949	\$15,468

No changes in unrealized gains or losses on Level 3 securities were included in earnings during the three months ended March 31, 2016 and 2015. There were no transfers of assets into and out of Level 3, or between Level 1 and Level 2, during the three months ended March 31, 2016 and 2015.

There have been no material changes in the valuation methodologies used at March 31, 2016 from December 31, 2015.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley's own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best

information that is both reasonable and available without undue cost and effort.

In calculating the fair value for the available for sale securities under Level 3, Valley prepared present value cash flow models for certain private label mortgage-backed securities. The cash flows for the residential mortgage-

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backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security.

The following table presents quantitative information about Level 3 inputs used to measure the fair value of these securities at March 31, 2016:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	0.1-22.2%	10.8 %
		Default rate	3.7-20.6	8.4
		Loss severity	41.4-64.6	59.5

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

For the Level 3 available for sale private label mortgage-backed securities (consisting of 4 securities), cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk, and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

For the Level 3 available for sale pooled trust preferred securities (consisting of 1 security), the resulting estimated future cash flow was discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculation is received from an independent valuation adviser. In validating the fair value calculation from an independent valuation adviser, Valley reviews the accuracy of the inputs and the appropriateness of the unobservable inputs utilized in the valuation to ensure the fair value calculation is reasonable from a market participant perspective.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate and maturity of each mortgage. The market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at March 31, 2016 and December 31, 2015 based on the short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives,

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consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at March 31, 2016 and December 31, 2015), is determined based on the current market prices for similar instruments provided by Fannie Mae and Freddie Mac. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at March 31, 2016 and December 31, 2015.

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

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

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on certain discounting criteria. At March 31, 2016, appraisals are discounted based on specific market data by location and property type. During the quarter ended March 31, 2016, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The collateral dependent loan charge-offs to the allowance for loan losses totaled \$479 thousand and \$850 thousand for the three months ended March 31, 2016 and 2015, respectively. At March 31, 2016, collateral dependent impaired loans with a total recorded investment of \$7.1 million were reduced by specific valuation allowance allocations totaling \$872 thousand to a reported total net carrying amount of \$6.2 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, prepayment speeds, internal rate of return ("discount rate"), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At March 31, 2016, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 24 percent and a discount rate of 8.0 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recorded net impairment charges on its loan servicing rights totaling \$192 thousand and \$84 thousand for the three months ended March 31, 2016 and 2015, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. The appraisals of foreclosed assets were adjusted up to 3.7 percent at March 31, 2016. At March 31, 2016, foreclosed assets included \$2.6 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended March 31, 2016. The foreclosed assets charge-offs to the allowance for loan losses totaled \$139

thousand and \$457 thousand for the three months ended March 31, 2016 and 2015, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net loss within non-interest expense of \$617 thousand for the three months ended March 31, 2016 and an immaterial net loss for the three months ended March 31, 2015,

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Other Fair Value Disclosures

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

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

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

The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at March 31, 2016 and December 31, 2015 were as follows:

	Fair Value Hierarchy	March 31, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)					
Financial assets					
Cash and due from banks	Level 1	\$243,265	\$ 243,265	\$243,575	\$ 243,575
Interest bearing deposits with banks	Level 1	233,228	233,228	170,225	170,225
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	138,942	153,877	138,978	149,483
U.S. government agency securities	Level 2	12,225	12,738	12,859	13,130
Obligations of states and political subdivisions	Level 2	516,645	543,069	504,865	527,263
Residential mortgage-backed securities	Level 2	859,305	870,711	852,289	855,272
Trust preferred securities	Level 2	59,790	46,404	59,785	46,437
Corporate and other debt securities	Level 2	31,559	33,425	27,609	29,454
Total investment securities held to maturity		1,618,466	1,660,224	1,596,385	1,621,039
Net loans	Level 3	16,030,572	16,008,152	15,936,929	15,824,475
Accrued interest receivable	Level 1	62,973	62,973	63,554	63,554
Federal Reserve Bank and Federal Home Loan Bank stock ⁽¹⁾	Level 1	145,699	145,699	145,068	145,068
Financial liabilities					
Deposits without stated maturities	Level 1	13,327,414	13,327,414	13,095,647	13,095,647
Deposits with stated maturities	Level 2	3,081,012	3,122,098	3,157,904	3,203,389
Short-term borrowings	Level 1	1,170,623	1,170,623	1,076,991	1,076,991
Long-term borrowings	Level 2	1,660,284	1,823,824	1,810,728	1,945,741
Junior subordinated debentures issued to capital trusts	Level 2	41,455	43,797	41,414	44,127
Accrued interest payable ⁽²⁾	Level 1	11,789	11,789	13,110	13,110

(1) Included in other assets.

(2) Included in accrued expenses and other liabilities.

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities in the table above:

Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value because of the short maturity of these items.

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things (Level 2 inputs). Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of loans are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loan. The discount rate is a product of both the applicable index and credit spread, subject to the estimated current new loan interest rates. The credit spread component is static for all maturities and may not necessarily reflect the value of estimating all actual cash flows re-pricing. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value due to the short-term nature of these items.

Federal Reserve Bank and Federal Home Loan Bank stock. Federal Reserve Bank and FHLB stock are non-marketable equity securities and are reported at their redeemable carrying amounts, which approximate fair value.

Deposits. The carrying amounts of deposits without stated maturities (i.e., non-interest bearing, savings, NOW, and money market deposits) approximate their estimated fair value. The fair value of time deposits is based on the discounted value of contractual cash flows using estimated rates currently offered for alternative funding sources of similar remaining maturity.

Short-term and long-term borrowings. The carrying amounts of certain short-term borrowings, including securities sold under agreements to repurchase (and from time to time, federal funds purchased and FHLB borrowings) approximate their fair values because they frequently re-price to a market rate. The fair values of other short-term and long-term borrowings are estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When quoted prices are unavailable, the fair values of the borrowings are estimated by discounting the estimated future cash flows using current market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Junior subordinated debentures issued to capital trusts. The fair value of debentures issued to capital trusts is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley's credit spread over the current yield on a similar maturity of U.S. Treasury security or the three-month LIBOR for the variable rate indexed debentures (Level 2 inputs). The credit spread used to discount the expected cash flows was calculated based on the median current spreads for all fixed and variable publicly traded trust preferred securities issued by banks.

Note 7. Investment Securities

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at March 31, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
March 31, 2016				
U.S. Treasury securities	\$ 138,942	\$ 14,935	\$—	\$ 153,877
U.S. government agency securities	12,225	513	—	12,738
Obligations of states and political subdivisions:				
Obligations of states and state agencies	193,947	12,776	—	206,723
Municipal bonds	322,698	13,648	—	336,346
Total obligations of states and political subdivisions	516,645	26,424	—	543,069
Residential mortgage-backed securities	859,305	15,068	(3,662)	870,711
Trust preferred securities	59,790	48	(13,434)	46,404
Corporate and other debt securities	31,559	1,866	—	33,425
Total investment securities held to maturity	\$ 1,618,466	\$ 58,854	\$(17,096)	\$ 1,660,224
December 31, 2015				
U.S. Treasury securities	\$ 138,978	\$ 10,505	\$—	\$ 149,483
U.S. government agency securities	12,859	271	—	13,130
Obligations of states and political subdivisions:				
Obligations of states and state agencies	194,547	10,538	(10)	205,075
Municipal bonds	310,318	11,955	(85)	322,188
Total obligations of states and political subdivisions	504,865	22,493	(95)	527,263
Residential mortgage-backed securities	852,289	11,018	(8,035)	855,272
Trust preferred securities	59,785	36	(13,384)	46,437
Corporate and other debt securities	27,609	1,894	(49)	29,454
Total investment securities held to maturity	\$ 1,596,385	\$ 46,217	\$(21,563)	\$ 1,621,039

The age of unrealized losses and fair value of related securities held to maturity at March 31, 2016 and December 31, 2015 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)						
March 31, 2016						
Residential mortgage-backed securities	\$174,784	\$(1,010)	\$218,383	\$(2,652)	\$393,167	\$(3,662)
Trust preferred securities	—	—	45,002	(13,434)	45,002	(13,434)
Total	\$174,784	\$(1,010)	\$263,385	\$(16,086)	\$438,169	\$(17,096)
December 31, 2015						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	\$6,837	\$(5)	\$1,965	\$(5)	\$8,802	\$(10)
Municipal bonds	8,814	(72)	10,198	(13)	19,012	(85)
Total obligations of states and political subdivisions	15,651	(77)	12,163	(18)	27,814	(95)
Residential mortgage-backed securities	244,440	(2,916)	162,756	(5,119)	407,196	(8,035)
Trust preferred securities	—	—	45,047	(13,384)	45,047	(13,384)
Corporate and other debt securities	2,951	(49)	—	—	2,951	(49)
Total	\$263,042	\$(3,042)	\$219,966	\$(18,521)	\$483,008	\$(21,563)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at March 31, 2016 was 96 as compared to 74 at December 31, 2015.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at March 31, 2016 mainly related to certain investment grade securities issued by Fannie Mae.

The unrealized losses existing for more than twelve months for trust preferred securities at March 31, 2016 primarily related to four non-rated single-issuer trust preferred securities issued by bank holding companies. All single-issuer trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered “well-capitalized institutions” at March 31, 2016.

Management does not believe that any individual unrealized loss as of March 31, 2016 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates and market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of March 31, 2016, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was \$937.2 million.

The contractual maturities of investments in debt securities held to maturity at March 31, 2016 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	March 31, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	\$91,330	\$91,344
Due after one year through five years	159,946	171,623
Due after five years through ten years	302,843	325,292
Due after ten years	205,042	201,254
Residential mortgage-backed securities	859,305	870,711
Total investment securities held to maturity	\$1,618,466	\$1,660,224

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

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 6.6 years at March 31, 2016.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at March 31, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
March 31, 2016				
U.S. Treasury securities	\$411,059	\$ 295	\$(19)	\$411,335
U.S. government agency securities	26,290	645	(13)	26,922
Obligations of states and political subdivisions:				
Obligations of states and state agencies	43,704	839	(6)	44,537
Municipal bonds	80,610	1,389	(314)	81,685
Total obligations of states and political subdivisions	124,314	2,228	(320)	126,222
Residential mortgage-backed securities	778,775	7,852	(3,979)	782,648
Trust preferred securities*	10,401	—	(2,142)	8,259
Corporate and other debt securities	77,852	1,628	(1,272)	78,208
Equity securities	20,522	384	(2,011)	18,895
Total investment securities available for sale	\$1,449,213	\$ 13,032	\$(9,756)	\$1,452,489
December 31, 2015				
U.S. Treasury securities	\$551,173	\$ 4	\$(1,704)	\$549,473
U.S. government agency securities	29,316	665	(18)	29,963
Obligations of states and political subdivisions:				
Obligations of states and state agencies	44,285	196	(67)	44,414
Municipal bonds	80,717	209	(374)	80,552
Total obligations of states and political subdivisions	125,002	405	(441)	124,966
Residential mortgage-backed securities	701,764	3,348	(8,684)	696,428
Trust preferred securities*	10,458	—	(2,054)	8,404
Corporate and other debt securities	78,202	1,239	(1,889)	77,552
Equity securities	21,022	575	(1,522)	20,075
Total investment securities available for sale	\$1,516,937	\$ 6,236	\$(16,312)	\$1,506,861

* Includes two pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies, at March 31, 2016 and December 31, 2015.

The age of unrealized losses and fair value of related securities available for sale at March 31, 2016 and December 31, 2015 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
March 31, 2016						
U.S. Treasury securities	\$360,004	\$(19)	\$—	\$—	\$360,004	\$(19)
U.S. government agency securities	—	—	4,517	(13)	4,517	(13)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	1,576	(6)	—	—	1,576	(6)
Municipal bonds	—	—	12,513	(314)	12,513	(314)
Total obligations of states and political subdivisions	1,576	(6)	12,513	(314)	14,089	(320)
Residential mortgage-backed securities	141,851	(804)	172,436	(3,175)	314,287	(3,979)
Trust preferred securities	—	—	8,259	(2,142)	8,259	(2,142)
Corporate and other debt securities	14,207	(319)	31,566	(953)	45,773	(1,272)
Equity securities	—	—	13,784	(2,011)	13,784	(2,011)
Total	\$517,638	\$(1,148)	\$243,075	\$(8,608)	\$760,713	\$(9,756)
December 31, 2015						
U.S. Treasury securities	\$548,538	\$(1,704)	\$—	\$—	\$548,538	\$(1,704)
U.S. government agency securities	3,489	(5)	4,736	(13)	8,225	(18)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	24,359	(67)	—	—	24,359	(67)
Municipal bonds	38,207	(128)	13,551	(246)	51,758	(374)
Total obligations of states and political subdivisions	62,566	(195)	13,551	(246)	76,117	(441)
Residential mortgage-backed securities	293,615	(4,147)	164,010	(4,537)	457,625	(8,684)
Trust preferred securities	—	—	8,404	(2,054)	8,404	(2,054)
Corporate and other debt securities	21,203	(471)	36,137	(1,418)	57,340	(1,889)
Equity securities	—	—	14,273	(1,522)	14,273	(1,522)
Total	\$929,411	\$(6,522)	\$241,111	\$(9,790)	\$1,170,522	\$(16,312)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at March 31, 2016 was 120 as compared to 291 at December 31, 2015. At December 31, 2015 the unrealized losses included larger number of small loss position as compared to March 31, 2016.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at March 31, 2016 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae.

The unrealized losses for trust preferred securities at March 31, 2016 for more than twelve months in the table above largely relate to 1 pooled trust preferred security with an amortized cost of \$7.6 million and a fair value of \$6.1 million. This pooled trust preferred security had unrealized loss of \$1.5 million and an investment grade rating at March 31, 2016.

As of March 31, 2016, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was \$497.6 million.

The contractual maturities of investment securities available for sale at March 31, 2016 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	March 31, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	\$361,613	\$361,604
Due after one year through five years	91,097	92,129
Due after five years through ten years	118,340	119,037
Due after ten years	78,866	78,176
Residential mortgage-backed securities	778,775	782,648
Equity securities	20,522	18,895
Total investment securities available for sale	\$1,449,213	\$1,452,489

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

The weighted average remaining expected life for residential mortgage-backed securities available for sale at March 31, 2016 was 9.4 years.

Other-Than-Temporary Impairment Analysis

Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; prolonged decline in value of equity investments; or unanticipated changes in the competitive environment could have a negative effect on Valley's investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley's investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including two pooled trust preferred securities), corporate bonds, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the unpredictable nature of the U.S. economy and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security.

There were no other-than-temporary impairment losses on securities recognized in earnings for the three months ended March 31, 2016 and 2015. At March 31, 2016, four previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of \$11.7 million and \$10.8 million, respectively, while one previously impaired pooled trust preferred security had an amortized cost and fair value of \$2.8 million and \$2.1 million, respectively. The previously impaired pooled trust preferred security was not accruing interest during the three months ended March 31, 2016 and 2015. Additionally, one previously impaired pooled trust preferred security was sold during the first quarter of 2015 for an immaterial gain. See the table and discussion below for additional information.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has previously recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016 2015 (in thousands)	
Balance, beginning of period	\$5,837	\$8,947
Accretion of credit loss impairment due to an increase in expected cash flows	(489)	(144)
Sales	—	(2,382)
Balance, end of period	\$5,348	\$6,421

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

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016 2015 (in thousands)	
Sales transactions:		
Gross gains	\$271	\$3,274
Gross losses	—	(947)
	\$271	\$2,327
Maturities and other securities transactions:		
Gross gains	\$—	\$89
Total gains on securities transactions, net	\$271	\$2,416

Valley recognized gross gains from sales transactions of investment securities totaling \$3.3 million for the three months ended March 31, 2015 due to the sale of corporate debt securities and trust preferred securities with amortized cost totaling \$25.9 million. These transactions included a corporate debt security classified as held to maturity and a previously impaired pooled trust preferred security with amortized costs of \$9.8 million and \$2.6 million, respectively. Additionally, Valley recognized \$947 thousand of gross losses during the three months ended March 31, 2015 due to the sale of mostly trust preferred securities with a total amortized cost of \$8.3 million. The vast majority of the sales of investment securities were due to an investment portfolio re-balancing during the first quarter of 2015 due to changes in our regulatory capital calculation under the new Basel III regulatory capital reform (effective for Valley on January

1, 2015). Under ASC Topic 320, "Investments - Debt and Equity Securities," the sale of held to maturity securities based upon the change in capital requirements is permitted without tainting the remaining held to maturity investment portfolio.

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Note 8. Loans

The detail of the loan portfolio as of March 31, 2016 and December 31, 2015 was as follows:

	March 31, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans*	Total	Non-PCI Loans	PCI Loans*	Total
	(in thousands)					
Loans:						
Commercial and industrial	\$2,176,942	\$360,603	\$2,537,545	\$2,156,549	\$383,942	\$2,540,491
Commercial real estate:						
Commercial real estate	6,304,974	1,280,165	7,585,139	6,069,532	1,355,104	7,424,636
Construction	633,559	142,498	776,057	607,694	147,253	754,947
Total commercial real estate loans	6,938,533	1,422,663	8,361,196	6,677,226	1,502,357	8,179,583
Residential mortgage	2,892,643	209,171	3,101,814	2,912,079	218,462	3,130,541
Consumer:						
Home equity	380,459	111,096	491,555	391,809	119,394	511,203
Automobile	1,187,742	321	1,188,063	1,238,826	487	1,239,313
Other consumer	444,247	11,567	455,814	426,147	15,829	441,976
Total consumer loans	2,012,448	122,984	2,135,432	2,056,782	135,710	2,192,492
Total loans	\$14,020,566	\$2,115,421	\$16,135,987	\$13,802,636	\$2,240,471	\$16,043,107

*PCI loans include covered loans (mostly consisting of residential mortgage and commercial real estate loans) totaling \$86.8 million and \$122.3 million at March 31, 2016 and December 31, 2015, respectively.

Total non-covered loans include net unearned premiums and deferred loan costs of \$5.6 million and \$3.5 million at March 31, 2016 and December 31, 2015, respectively. The outstanding balances (representing contractual balances owed to Valley) for PCI loans totaled \$2.3 billion and \$2.4 billion at March 31, 2016 and December 31, 2015, respectively.

There were no sales of loans from the held for investment portfolio during the three months ended March 31, 2016 and 2015.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools. Valley's PCI loan portfolio included covered loans (i.e., loans in which the Bank will share losses with the FDIC under loss-sharing agreements) totaling \$86.8 million and \$122.3 million at March 31, 2016 and December 31, 2015, respectively.

The following table presents changes in the accretable yield for PCI loans during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Balance, beginning of period	\$415,179	\$336,208
Accretion	(28,059)	(26,350)
Balance, end of period	\$387,120	\$309,858

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements with the FDIC is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. The FDIC loss share receivable (which is included in other assets on Valley's consolidated statements of financial condition) totaled \$7.3 million and \$8.3 million at March 31, 2016 and December 31, 2015, respectively. The aggregate effect of changes in the FDIC loss-share receivable was a net reduction in non-interest income of \$560 thousand and \$3.9 million for the three months ended March 31, 2016 and 2015, respectively. The larger reduction during the first quarter of 2015 was mainly caused by the prospective recognition of the effect of additional cash flows from certain loan pools which were covered by commercial loan loss-sharing agreements that expired in March 2015.

Loan Portfolio Risk Elements and Credit Risk Management

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

Commercial and industrial loans. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long-standing customers of proven ability and strong repayment performance. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. Unsecured commercial and industrial loans totaled \$402.7 million and \$386.6 million at March 31, 2016 and December 31, 2015, respectively.

Commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. Both Valley originated and purchased commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Commercial real estate loans generally

involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Repayment of most commercial real estate 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

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required at origination, as well as stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley's primary markets.

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

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

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

Automobile loans. Valley uses both judgmental and scoring systems in the credit decision process for automobile loans. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Additionally, automobile charge-offs will vary based on strength or weakness in the used vehicle market, original advance rate, when in the life cycle of a loan a default occurs and the condition of the collateral being liquidated.

Where permitted by law, and subject to the limitations of the bankruptcy code, deficiency judgments are sought and acted upon to ultimately collect all money owed, even when a default resulted in a loss at collateral liquidation. Valley uses a third party to actively track collision and comprehensive risk insurance required of the borrower on the automobile and this third party provides coverage to Valley in the event of an uninsured collateral loss.

Other consumer loans. Valley's other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes exposures in personal lines of credit (including those secured by cash surrender value of life insurance), credit card loans and personal loans. Valley believes the aggregate risk exposure of these lines of credit and loans was not significant at March 31, 2016. Unsecured consumer loans totaled approximately \$20.4 million and \$18.8 million, including \$6.6 million and \$7.1 million of credit card loans, at March 31, 2016 and December 31, 2015, respectively.

Credit Quality

The following table presents past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis, and non-performing loans held for sale) by loan portfolio class at March 31, 2016 and December 31, 2015:

	Past Due and Non-Accrual Loans				Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	30-59 Days Past Due Loans (in thousands)	60-89 Days Past Due Loans (in thousands)	Accruing Loans 90 Days or More Past Due	Non-Accrual Loans			
March 31, 2016							
Commercial and industrial	\$8,395	\$613	\$ 221	\$ 11,484	\$ 20,713	\$2,156,229	\$2,176,942
Commercial real estate:							
Commercial real estate	1,389	120	131	26,604	28,244	6,276,730	6,304,974
Construction	1,326	—	—	5,978	7,304	626,255	633,559
Total commercial real estate loans	2,715	120	131	32,582	35,548	6,902,985	6,938,533
Residential mortgage	14,628	3,056	2,613	16,747	37,044	2,855,599	2,892,643
Consumer loans:							
Home equity	1,262	300	—	1,685	3,247	377,212	380,459
Automobile	1,336	374	65	122	1,897	1,185,845	1,187,742
Other consumer	602	57	1	—	660	443,587	444,247
Total consumer loans	3,200	731	66	1,807	5,804	2,006,644	2,012,448
Total	\$28,938	\$4,520	\$ 3,031	\$ 62,620	\$99,109	\$13,921,457	\$14,020,566
December 31, 2015							
Commercial and industrial	\$3,920	\$524	\$ 213	\$ 10,913	\$15,570	\$2,140,979	\$2,156,549
Commercial real estate:							
Commercial real estate	2,684	—	131	24,888	27,703	6,041,829	6,069,532
Construction	1,876	2,799	—	6,163	10,838	596,856	607,694
Total commercial real estate loans	4,560	2,799	131	31,051	38,541	6,638,685	6,677,226
Residential mortgage	6,681	1,626	1,504	17,930	27,741	2,884,338	2,912,079
Consumer loans:							
Home equity	1,308	111	—	2,088	3,507	388,302	391,809
Automobile	1,969	491	164	118	2,742	1,236,084	1,238,826
Other consumer	71	24	44	—	139	426,008	426,147
Total consumer loans	3,348	626	208	2,206	6,388	2,050,394	2,056,782
Total	\$18,509	\$5,575	\$ 2,056	\$ 62,100	\$88,240	\$13,714,396	\$13,802,636

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

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The following table presents the information about impaired loans by loan portfolio class at March 31, 2016 and December 31, 2015:

	Recorded Investment With No Allowance (in thousands)	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
March 31, 2016					
Commercial and industrial	\$ 7,758	\$ 19,838	\$ 27,596	\$ 33,913	\$ 3,578
Commercial real estate:					
Commercial real estate	32,587	42,816	75,403	79,295	4,088
Construction	8,685	1,257	9,942	9,952	37
Total commercial real estate loans	41,272	44,073	85,345	89,247	4,125
Residential mortgage	7,356	14,624	21,980	23,907	1,267
Consumer loans:					
Home equity	204	2,454	2,658	2,750	407
Total consumer loans	204	2,454	2,658	2,750	407
Total	\$ 56,590	\$ 80,989	\$ 137,579	\$ 149,817	\$ 9,377
December 31, 2015					
Commercial and industrial	\$ 7,863	\$ 17,851	\$ 25,714	\$ 33,071	\$ 3,439
Commercial real estate:					
Commercial real estate	30,113	37,440	67,553	71,263	3,354
Construction	8,847	5,530	14,377	14,387	317
Total commercial real estate loans	38,960	42,970	81,930	85,650	3,671
Residential mortgage	7,842	14,770	22,612	24,528	1,377
Consumer loans:					
Home equity	263	1,869	2,132	2,224	295
Total consumer loans	263	1,869	2,132	2,224	295
Total	\$ 54,928	\$ 77,460	\$ 132,388	\$ 145,473	\$ 8,782

The following table present by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
(in thousands)				
Commercial and industrial	\$ 28,331	\$ 240	\$ 28,282	\$ 246
Commercial real estate:				
Commercial real estate	72,398	639	78,523	486
Construction	9,802	48	16,670	150
Total commercial real estate loans	82,200	687	95,193	636
Residential mortgage	23,603	202	21,843	250
Consumer loans:				
Home equity	2,359	23	3,485	30
Total consumer loans	2,359	23	3,485	30
Total	\$ 136,493	\$ 1,152	\$ 148,803	\$ 1,162

Interest income recognized on a cash basis (included in the table above) was immaterial for the three months ended March 31, 2016 and 2015.

Troubled debt restructured loans. From time to time, Valley may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers who may be experiencing financial difficulties. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan (TDR). Valley's PCI loans are excluded from the TDR disclosures below because they are evaluated for impairment on a pool by pool basis. When an individual PCI loan within a pool is modified as a TDR, it is not removed from its pool. All TDRs are classified as impaired loans and are included in the impaired loan disclosures above.

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

Performing TDRs (not reported as non-accrual loans) totaled \$80.5 million and \$77.6 million as of March 31, 2016 and December 31, 2015, respectively. Non-performing TDRs totaled \$19.4 million and \$21.0 million as of March 31, 2016 and December 31, 2015, respectively.

The following tables present loans by loan portfolio class modified as TDRs during the three months ended March 31, 2016 and 2015. The pre-modification and post-modification outstanding recorded investments disclosed in the table below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at March 31, 2016 and 2015, respectively.

Troubled Debt Restructurings of	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
	(\$ in thousands)			
Commercial and industrial	4 \$ 4,961	\$ 4,887	6 \$ 1,584	\$ 1,534
Commercial real estate	2 658	404	1 5,000	5,000
Residential mortgage	2 392	381	1 280	278
Consumer	1 54	53	—	—
Total	9 \$ 6,065	\$ 5,725	8 \$ 6,864	\$ 6,812

The majority of the TDR concessions made during the three months ended March 31, 2016 and 2015 involved an extension of the loan term. The total TDRs presented in the above table had allocated specific reserves for loan losses totaling \$1.6 million and \$759 thousand at March 31, 2016 and 2015, respectively. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in Note 9. One commercial and industrial TDR loan totaling \$209 thousand was fully charged-off during the three months ended March 31, 2016. There were no charge-offs related to TDR modifications during the first quarter of 2015.

The following table presents non-PCI loans modified as TDRs within the previous 12 months for which there was a payment default (90 days or more past due) during the three months ended March 31, 2016.

	Number of Contracts	Amount (\$ in thousands)
Commercial and industrial	2	\$ 372
Commercial real estate	1	81
Residential mortgage	2	267
Consumer	1	30
Total	6	\$ 750

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

The following table presents the risk category of loans (excluding PCI loans) by class of loans at March 31, 2016 and December 31, 2015.

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
	(in thousands)				
March 31, 2016					
Commercial and industrial	\$2,075,347	\$57,283	\$ 44,312	\$ —	\$2,176,942
Commercial real estate	6,136,061	71,897	97,016	—	6,304,974
Construction	622,460	857	10,242	—	633,559
Total	\$8,833,868	\$130,037	\$ 151,570	\$ —	\$9,115,475
December 31, 2015					
Commercial and industrial	\$2,049,752	\$68,243	\$ 36,254	\$ 2,300	\$2,156,549
Commercial real estate	5,893,354	79,279	96,899	—	6,069,532
Construction	596,530	1,102	10,062	—	607,694
Total	\$8,539,636	\$148,624	\$ 143,215	\$ 2,300	\$8,833,775

For residential mortgages, automobile, home equity and other consumer loan portfolio classes (excluding PCI loans), Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of March 31, 2016 and December 31, 2015:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total Non-PCI Loans
	(in thousands)		
March 31, 2016			
Residential mortgage	\$2,875,896	\$ 16,747	\$ 2,892,643
Home equity	378,774	1,685	380,459
Automobile	1,187,620	122	1,187,742
Other consumer	444,247	—	444,247
Total	\$4,886,537	\$ 18,554	\$ 4,905,091
December 31, 2015			
Residential mortgage	\$2,894,149	\$ 17,930	\$ 2,912,079
Home equity	389,721	2,088	391,809
Automobile	1,238,708	118	1,238,826
Other consumer	426,147	—	426,147
Total	\$4,948,725	\$ 20,136	\$ 4,968,861

Valley evaluates the credit quality of its PCI loan pools based on the expectation of the underlying cash flows of each pool, derived from the aging status and by payment activity of individual loans within the pool. The following table presents the recorded investment in PCI loans by class based on individual loan payment activity as of March 31, 2016 and December 31, 2015.

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total PCI Loans
	(in thousands)		
March 31, 2016			
Commercial and industrial	\$351,442	\$ 9,161	\$360,603
Commercial real estate	1,266,695	13,470	1,280,165
Construction	141,319	1,179	142,498
Residential mortgage	205,928	3,243	209,171
Consumer	117,050	5,934	122,984
Total	\$2,082,434	\$ 32,987	\$2,115,421
December 31, 2015			
Commercial and industrial	\$373,665	\$ 10,277	\$383,942
Commercial real estate	1,342,030	13,074	1,355,104
Construction	141,547	5,706	147,253
Residential mortgage	214,713	3,749	218,462
Consumer	129,891	5,819	135,710
Total	\$2,201,846	\$ 38,625	\$2,240,471

Other real estate owned (OREO) totaled \$14.7 million and \$19.0 million (including \$2.4 million and \$5.0 million of OREO properties which are subject to loss-sharing agreements with the FDIC) at March 31, 2016 and December 31, 2015, respectively. OREO included foreclosed residential real estate properties totaling \$7.2 million and \$7.0 million at March 31, 2016 and December 31, 2015, respectively. Residential mortgage and consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled \$13.3 million and \$12.3 million at March 31, 2016 and December 31, 2015, respectively.

Note 9. Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the allowance for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for loan losses is based on ongoing evaluations of the probable estimated losses inherent in the loan portfolio, including unexpected additional credit impairment of PCI loan pools subsequent to acquisition.

The following table summarizes the allowance for credit losses at March 31, 2016 and December 31, 2015:

	March 31, December 31,	
	2016	2015
	(in thousands)	
Components of allowance for credit losses:		
Allowance for loan losses	\$ 105,415	\$ 106,178
Allowance for unfunded letters of credit	2,260	2,189
Total allowance for credit losses	\$ 107,675	\$ 108,367

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

	Three Months Ended	
	March 31,	2015
	(in thousands)	
Components of provision for credit losses:		
Provision for loan losses	\$ 729	\$ —
Provision for unfunded letters of credit	71	—
Total provision for credit losses	\$ 800	\$ —

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2016 and 2015:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
Three Months Ended						
March 31, 2016:						
Allowance for loan losses:						
Beginning balance	\$ 48,767	\$ 48,006	\$ 4,625	\$ 4,780	\$ —	\$ 106,178
Loans charged-off	(1,251)	(105)	(81)	(1,074)	—	(2,511)
Charged-off loans recovered	526	89	15	389	—	1,019
Net (charge-offs) recoveries	(725)	(16)	(66)	(685)	—	(1,492)
Provision for loan losses	375	464	(350)	240	—	729
Ending balance	\$ 48,417	\$ 48,454	\$ 4,209	\$ 4,335	\$ —	\$ 105,415
Three Months Ended						
March 31, 2015:						
Allowance for loan losses:						
Beginning balance	\$ 43,676	\$ 42,840	\$ 5,093	\$ 5,179	\$ 5,565	\$ 102,353
Loans charged-off	(753)	(150)	(49)	(714)	—	(1,666)
Charged-off loans recovered	1,051	460	114	319	—	1,944
Net recoveries (charge-offs)	298	310	65	(395)	—	278
Provision for loan losses	919	(1,494)	(1,066)	188	1,453	—

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Ending balance	\$44,893	\$ 41,656	\$ 4,092	\$ 4,972	\$ 7,018	\$102,631
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At December 31, 2015, Valley refined and enhanced its assessment of the adequacy of the allowance for loan losses, including both changes to look-back periods for certain portfolios, as well as enhancements to its qualitative factor framework. The enhancements were meant to increase the level of precision in the allowance for credit losses. As a result, Valley no longer has an “unallocated” segment in its allowance for credit losses, as the risks and uncertainties meant to be captured by the unallocated allowance have been included in the qualitative framework for the respective loan portfolio segment (reported in the table above) at March 31, 2016. As such, the unallocated allowance has in essence been reallocated to the applicable portfolios based on the risks and uncertainties it was meant to capture. The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology at March 31, 2016 and December 31, 2015.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
	(in thousands)				
March 31, 2016					
Allowance for loan losses:					
Individually evaluated for impairment	\$3,578	\$4,125	\$1,267	\$407	\$9,377
Collectively evaluated for impairment	44,839	44,329	2,942	3,928	96,038
Total	\$48,417	\$48,454	\$4,209	\$4,335	\$105,415
Loans:					
Individually evaluated for impairment	\$27,596	\$85,345	\$21,980	\$2,658	\$137,579
Collectively evaluated for impairment	2,149,346	6,853,188	2,870,663	2,009,790	13,882,987
Loans acquired with discounts related to credit quality	360,603	1,422,663	209,171	122,984	2,115,421
Total	\$2,537,545	\$8,361,196	\$3,101,814	\$2,135,432	\$16,135,987
December 31, 2015					
Allowance for loan losses:					
Individually evaluated for impairment	\$3,439	\$3,671	\$1,377	\$295	\$8,782
Collectively evaluated for impairment	45,328	44,335	3,248	4,485	97,396
Total	\$48,767	\$48,006	\$4,625	\$4,780	\$106,178
Loans:					
Individually evaluated for impairment	\$25,714	\$81,930	\$22,612	\$2,132	\$132,388
Collectively evaluated for impairment	2,130,835	6,595,296	2,889,467	2,054,650	13,670,248
Loans acquired with discounts related to credit quality	383,942	1,502,357	218,462	135,710	2,240,471
Total	\$2,540,491	\$8,179,583	\$3,130,541	\$2,192,492	\$16,043,107

Note 10. Goodwill and Other Intangible Assets

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

	Business Segment / Reporting Unit*				Total
	Wealth Management	Consumer Lending	Commercial Lending	Investment Management	
	(in thousands)				
Balance at December 31, 2015	\$ 20,517	\$ 199,119	\$ 314,260	\$ 152,443	\$ 686,339
Goodwill from business combinations	701	697	1,416	436	3,250
Balance at March 31, 2016	\$ 21,218	\$ 199,816	\$ 315,676	\$ 152,879	\$ 689,589

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

Goodwill from business combinations, in the table above, includes the effect of the combined adjustments to the estimated fair values of the acquired assets (including core deposits presented in the table below) and liabilities as of the acquisition date of CNL, and goodwill related to the acquisition of certain assets from an independent insurance agency during the first quarter of 2016 (see Note 2 for further details). There was no impairment of goodwill during the three months ended March 31, 2016 and 2015.

The following table summarizes other intangible assets as of March 31, 2016 and December 31, 2015:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
	(in thousands)			
March 31, 2016				
Loan servicing rights	\$ 65,176	\$ (48,934)	\$ (481)	\$ 15,761
Core deposits	61,504	(33,406)	—	28,098
Other	4,087	(1,791)	—	2,296
Total other intangible assets	\$ 130,767	\$ (84,131)	\$ (481)	\$ 46,155
December 31, 2015				
Loan servicing rights	\$ 75,932	\$ (59,251)	\$ (289)	\$ 16,392
Core deposits	62,714	(31,934)	—	30,780
Other	4,374	(2,664)	—	1,710
Total other intangible assets	\$ 143,020	\$ (93,849)	\$ (289)	\$ 48,882

Loan servicing rights are accounted for using the amortization method. Under this method, Valley amortizes the loan servicing assets in proportion to, and over the period of estimated net servicing revenues. On a quarterly basis, Valley stratifies its loan servicing assets into groupings based on risk characteristics and assesses each group for impairment based on fair value. Impairment charges on loan servicing rights are recognized in earnings when the book value of a stratified group of loan servicing rights exceeds its estimated fair value. See the "Assets and Liabilities Measured at Fair Value on a Non-recurring Basis" section of Note 6 for additional information regarding the fair valuation and impairment of loan servicing rights.

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 11 years. The line item labeled "Other" included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of approximately 20 years. Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three months ended March 31, 2016 and 2015.

The following table presents the estimated future amortization expense of other intangible assets for the remainder of 2016 through 2020:

	Loan Servicing Rights (in thousands)	Core Deposits	Other
2016	\$3,430	\$ 4,156	\$ 222
2017	3,624	4,842	280
2018	2,793	4,215	249
2019	2,075	3,671	235
2020	1,555	3,127	220

Valley recognized amortization expense on other intangible assets, including net impairment charges on loan servicing rights, totaling approximately \$2.8 million and \$2.4 million for the three months ended March 31, 2016 and 2015, respectively.

Note 11. Stock-Based Compensation

On April 28, 2016, Valley's shareholders approved the new 2016 Long-Term Stock Incentive Plan (the "2016 Stock Plan") administered by the Compensation and Human Resources Committee (the "Committee") appointed by Valley's Board of Directors. The purpose of the 2016 Stock Plan is to provide incentives to attract, retain and motivate officers and other key employees by providing a direct financial interest in Valley's continued success, and provide the flexibility to grant equity awards to non-employee directors as part of their compensation. The 2016 Stock Plan will also ensure that Valley has sufficient shares to meet its anticipated long-term equity compensation needs. Effective January 1, 2016, the 2.2 million of common shares remaining under Valley's 2009 Long-Term Stock Incentive Plan (the "2009 Stock Plan") became available for future grants under the 2016 Stock Plan. Accordingly, Valley will no longer grant new awards under the 2009 Stock Plan.

Under the 2016 Stock Plan Valley may award shares to its employees and non-employee directors up to 9.4 million shares of common stock (less one share for every share granted under the 2009 Stock Plan since December 31, 2015 and inclusive of shares available under the 2009 Stock Plan as of December 31, 2015) in the form of stock appreciation rights, both incentive and non-qualified stock options, restricted stock and restricted stock units (RSUs). The essential features of each award are described in the award agreement relating to that award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley's common stock on the last sale price reported for Valley's common stock on such date or the last sale price reported preceding such date, except for performance-based awards with a market condition. The grant date fair values of performance-based awards that vest based on a market condition are determined by a third party specialist using a Monte Carlo valuation model.

Valley awarded time-based restricted stock totaling 494 thousand shares and 459 thousand shares during the three months ended March 31, 2016 and 2015, respectively, to both executive officers and key employees of Valley. Valley also awarded 431 thousand shares of performance-based RSUs under the 2016 Stock Plan and 313 thousand shares of performance-based restricted stock during the three months ended March 31, 2016 and 2015, respectively, to certain executive officers (subject to shareholder approval of the 2016 Stock Plan). The RSUs earn dividend equivalents (equal to cash dividends paid on Valley's common share) over the applicable performance period. Dividend equivalents and accrued interest, per the terms of the agreements, are accumulated and paid to the grantee at the vesting date, or forfeited if the performance conditions are not met.

The performance-based awards vest based on (i) growth in tangible book value per share plus dividends (75 percent of performance shares) and (ii) total shareholder return as compared to our peer group (25 percent of performance shares). The majority of the performance-based awards "cliff" vest after three years based on the cumulative performance of Valley during that time period. The non-performance based awards have vesting periods ranging from three to six years. Generally, the restrictions on such awards lapse at an annual or bi-annual rate of one-third of the

total award commencing with the first or second anniversary of the date of grant, respectively. The average

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grant date fair value of non-performance and performance-based restricted stock awarded during the three months ended March 31, 2016 was \$8.72.

Valley recorded stock-based compensation expense of \$2.4 million and \$2.5 million for the three months ended March 31, 2016 and 2015, respectively. The fair values of stock awards are expensed over the shorter of the vesting or required service period. As of March 31, 2016, the unrecognized amortization expense for all stock-based employee compensation totaled approximately \$18.7 million and will be recognized over an average remaining vesting period of approximately 3 years.

Note 12. Guarantees

Guarantees that have been entered into by Valley include standby letters of credit of \$205.2 million as of March 31, 2016. Standby letters of credit represent the guarantee by Valley of the obligations or performance of a customer in the event the customer is unable to meet or perform its obligations to a third party. Of the total standby letters of credit, \$134.0 million, or 65.3 percent, are secured and, in the event of non-performance by the customer, Valley has rights to the underlying collateral, which include commercial real estate, business assets (physical plant or property, inventory or receivables), marketable securities and cash in the form of bank savings accounts and certificates of deposit. As of March 31, 2016, Valley had a \$735 thousand liability related to the standby letters of credit.

Note 13. Derivative Instruments and Hedging Activities

Valley enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

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

Fair Value Hedges of Fixed Rate Assets and Liabilities. Valley is exposed to changes in the fair value of certain of its fixed rate assets or liabilities due to changes in benchmark interest rates based on one-month LIBOR. From time to time, Valley uses interest rate swaps to manage its exposure to changes in fair value. Interest rate swaps designated as fair value hedges involve the receipt of variable rate payments from a counterparty in exchange for Valley making fixed rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. Valley includes the gain or loss on the hedged items in the same income statement line item as the loss or gain on the related derivatives.

Non-designated Hedges. Derivatives not designated as hedges may be used to manage Valley's exposure to interest rate movements or to provide service to customers but do not meet the requirements for hedge accounting under U.S. GAAP. Derivatives not designated as hedges are not entered into for speculative purposes.

Under a program, Valley executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Valley executes with a third party, such that Valley minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

During the second quarter of 2014, Valley issued \$25 million of market linked certificates of deposit through a broker dealer. The rate paid on these hybrid instruments is based on a formula derived from the spread between the long and short ends of the constant maturity swap (CMS) rate curve. This type of instrument is referred to as a "steepener" since it derives its value from the slope of the CMS curve. Valley has determined that these hybrid instruments contain an embedded swap contract which has been bifurcated from the host contract. Valley entered into a swap (with a total notional amount of \$25 million) almost simultaneously with the deposit issuance where the receive rate on the swap mirrors the pay rate on the brokered deposits. The bifurcated derivative and the stand alone swap are both marked to market through other non-interest expense. Although these instruments do not meet the hedge accounting requirements, the change in fair value of both the bifurcated derivative and the stand alone swap tend to move in opposite directions with changes in three-month LIBOR rate and therefore provide an effective economic hedge.

Valley regularly enters into mortgage banking derivatives which are non-designated hedges. These derivatives include interest rate lock commitments provided to customers to fund certain residential mortgage loans to be sold into the secondary market and forward commitments for the future delivery of such loans. Valley enters into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on Valley's commitments to fund the loans as well as on its portfolio of mortgage loans held for sale.

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

	March 31, 2016			December 31, 2015		
	Fair Value		Notional Amount	Fair Value		Notional Amount
	Other Assets	Other Liabilities		Other Assets	Other Liabilities	
	(in thousands)					
Derivatives designated as hedging instruments:						
Cash flow hedge interest rate caps and swaps	\$732	\$32,423	\$907,000	\$1,284	\$24,823	\$907,000
Fair value hedge interest rate swaps	12,385	1,404	133,158	7,658	1,306	133,209
Total derivatives designated as hedging instruments	\$13,117	\$33,827	\$1,040,158	\$8,942	\$26,129	\$1,040,209
Derivatives not designated as hedging instruments:						
Interest rate swaps and embedded derivatives	\$35,903	\$35,900	\$715,043	\$24,628	\$24,623	\$654,134