VALLEY NATIONAL BANCORP
Form 10-Q
November 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2014
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 (State or other jurisdiction of Incorporation or Organization)	22-2477875 (I.R.S. Employer Identification Number)
1455 Valley Road Wayne, NJ (Address of principal executive office)	07470 (Zip code)

973-305-8800
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):
Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 231,492,358 shares were outstanding as of November 6, 2014.

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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)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$352,799	$234,253
Interest bearing deposits with banks	60,655	134,915
Investment securities:		
Held to maturity (fair value of $1,838,632 at September 30, 2014 and $1,711,427 at December 31, 2013)	1,813,312	1,731,737
Available for sale	758,421	829,692
Trading securities	14,186	14,264
Total investment securities	2,585,919	2,575,693
Loans held for sale, at fair value	10,701	10,488
Non-covered loans	12,119,086	11,471,447
Covered loans	46,291	96,165
Less: Allowance for loan losses	(102,438)	(113,617)
Net loans	12,062,939	11,453,995
Premises and equipment, net	273,857	270,138
Bank owned life insurance	348,616	344,023
Accrued interest receivable	53,545	53,964
Due from customers on acceptances outstanding	5,426	5,032
FDIC loss-share receivable	16,180	32,757
Goodwill	428,234	428,234
Other intangible assets, net	30,168	36,130
Other assets	497,371	576,919
Total Assets	$16,726,410	$16,156,541
Liabilities		
Deposits:		
Non-interest bearing	$3,596,621	$3,717,271
Interest bearing:		
Savings, NOW and money market	6,081,538	5,422,722
Time	2,183,328	2,179,269
Total deposits	11,861,487	11,319,262
Short-term borrowings	297,719	281,455
Long-term borrowings	2,797,828	2,792,306
Junior subordinated debentures issued to capital trusts	41,211	41,089
Bank acceptances outstanding	5,426	5,032
Accrued expenses and other liabilities	138,541	176,357
Total Liabilities	15,142,212	14,615,501
Shareholders’ Equity		
Preferred stock, (no par value, authorized 30,000,000 shares; none issued)	—	—
Common stock, (no par value, authorized 332,023,233 shares; issued 200,685,721 shares at September 30, 2014 and 199,629,268 shares at December 31, 2013)	70,204	69,941
Surplus	1,411,246	1,403,375
Retained earnings	131,241	106,340

Accumulated other comprehensive loss	(28,387)	(38,252)
Treasury stock, at cost (10,755 common shares at September 30, 2014 and 36,159 common shares at December 31, 2013)	(106)	(364)
Total Shareholders’ Equity	1,584,198	1,541,040
Total Liabilities and Shareholders’ Equity	$16,726,410	$16,156,541

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	$135,108	$134,160	$402,525	$401,125
Interest and dividends on investment securities:				
Taxable	15,134	14,440	47,299	41,854
Tax-exempt	3,647	3,566	11,033	10,888
Dividends	1,522	1,517	4,702	4,701
Interest on federal funds sold and other short-term investments	48	96	102	614
Total interest income	155,459	153,779	465,661	459,182
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	4,860	4,359	13,671	13,430
Time	6,981	7,279	20,196	23,184
Interest on short-term borrowings	218	94	840	378
Interest on long-term borrowings and junior subordinated debentures	28,732	30,378	84,843	90,598
Total interest expense	40,791	42,110	119,550	127,590
Net Interest Income	114,668	111,669	346,111	331,592
Provision for credit losses	(423)	5,334	(2,096)	9,655
Net Interest Income After Provision for Credit Losses	115,091	106,335	348,207	321,937
Non-Interest Income				
Trust and investment services	2,411	2,138	7,097	6,372
Insurance commissions	3,632	4,224	12,621	12,276
Service charges on deposit accounts	5,722	6,362	17,109	17,874
Gains on securities transactions, net	103	9	102	4,008
Trading (losses) gains, net	(35)	2,231	(78)	(241)
Fees from loan servicing	1,806	1,851	5,262	5,089
(Losses) gains on sales of loans, net	(95)	2,729	1,497	32,155
Gains (losses) on sales of assets, net	83	(1,010)	211	(600)
Bank owned life insurance	1,571	1,553	4,593	4,318
Change in FDIC loss-share receivable	(3,823)	(2,005)	(11,610)	(7,180)
Other	2,680	4,308	9,183	12,509
Total non-interest income	14,055	22,390	45,987	86,580
Non-Interest Expense				
Salary and employee benefits expense	45,501	47,434	140,683	145,739
Net occupancy and equipment expense	17,011	18,430	55,708	55,498
FDIC insurance assessment	3,534	3,909	10,214	12,836
Amortization of other intangible assets	2,201	2,264	6,898	5,794
Professional and legal fees	3,609	4,112	11,671	12,289
Advertising	1,664	1,203	2,814	4,855
Other	17,290	17,109	51,934	48,235
Total non-interest expense	90,810	94,461	279,922	285,246
Income Before Income Taxes	38,336	34,264	114,272	123,271

Income tax expense	10,654	7,143	23,235	30,918
Net Income	$27,682	$27,121	$91,037	$92,353
Earnings Per Common Share:				
Basic	$0.14	$0.14	$0.45	$0.46
Diluted	0.14	0.14	0.45	0.46
Cash Dividends Declared per Common Share	0.11	0.16	0.33	0.49
Weighted Average Number of Common Shares Outstanding:				
Basic	200,614,091	199,445,874	200,406,801	199,206,945
Diluted	200,614,091	199,445,874	200,406,801	199,206,945

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$27,682	$27,121	$91,037	$92,353
Other comprehensive income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net (losses) gains arising during the period	(488)	1,929	13,851	(15,111)
Less reclassification adjustment for net gains included in net income	(60)	(6)	(59)	(2,330)
Total	(548)	1,923	13,792	(17,441)
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	313	226	619	6,977
Less reclassification adjustment for accretion of credit impairment losses included in net income	(115)	(110)	(294)	(219)
Total	198	116	325	6,758
Unrealized gains and losses on derivatives (cash flow hedges)				
Net gains (losses) on derivatives arising during the period	1,251	(2,866)	(7,273)	(907)
Less reclassification adjustment for net losses included in net income	973	950	2,911	3,036
Total	2,224	(1,916)	(4,362)	2,129
Defined benefit pension plan				
Net gains arising during the period	—	—	—	18,769
Amortization of prior service cost	—	134	—	395
Amortization of net loss	36	209	110	1,145
Recognition of loss due to curtailment	—	—	—	468
Total	36	343	110	20,777
Total other comprehensive income	1,910	466	9,865	12,223
Total comprehensive income	$29,592	$27,587	$100,902	$104,576

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$91,037	$92,353
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,562	14,639
Stock-based compensation	5,582	4,743
Provision for credit losses	(2,096)	9,655
Net amortization of premiums and accretion of discounts on securities and borrowings	18,324	19,025
Amortization of other intangible assets	6,898	5,794
Gains on securities transactions, net	(102)	(4,008)
Proceeds from sales of loans held for sale	75,182	1,031,767
Gains on sales of loans, net	(1,497)	(32,155)
Originations of loans held for sale	(67,483)	(901,624)
(Gains) losses on sales of assets, net	(211)	600
FDIC loss-share receivable (excluding reimbursements)	11,610	7,180
Net change in:		
Trading securities	78	7,887
Fair value of borrowings carried at fair value	—	275
Cash surrender value of bank owned life insurance	(4,593)	(4,318)
Accrued interest receivable	419	(513)
Other assets	57,493	39,877
Accrued expenses and other liabilities	(36,048)	(23,354)
Net cash provided by operating activities	169,155	267,823
Cash flows from investing activities:		
Net loan originations	(495,941)	(186,038)
Loans purchased	(128,684)	(231,008)
Investment securities held to maturity:		
Purchases	(358,393)	(509,223)
Maturities, calls and principal repayments	268,868	394,003
Investment securities available for sale:		
Purchases	(20,830)	(283,736)
Sales	5,447	4,401
Maturities, calls and principal repayments	106,323	153,421
Death benefit proceeds from bank owned life insurance	—	1,821
Proceeds from sales of real estate property and equipment	16,317	15,480
Purchases of real estate property and equipment	(18,106)	(9,458)
Reimbursements from the FDIC	4,967	2,138
Net cash used in investing activities	(620,032)	(648,199)
Cash flows from financing activities:		
Net change in deposits	542,225	(143,907)
Net change in short-term borrowings	16,264	3,960
Advances of long-term borrowings	—	125,000
Repayments of long-term borrowings	—	(1,000)

Redemption of junior subordinated debentures	—	(15,000)
Cash dividends paid to common shareholders	(66,047)	(96,870)
Common stock issued, net	2,721	5,494
Net cash provided by (used in) financing activities	495,163	(122,323)
Net change in cash and cash equivalents	44,286	(502,699)
Cash and cash equivalents at beginning of year	369,168	853,100
Cash and cash equivalents at end of period	$413,454	$350,401

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

	Nine Months Ended September 30,	
	2014	2013
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$120,086	$129,502
Federal and state income taxes	28,669	15,267
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$9,053	$16,589
Transfer of loans to loans held for sale	27,329	—

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 September 30, 2014 and for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2014 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, 2013.
Note 2. Business Combinations

On November 1, 2014, Valley acquired 1st United Bancorp, Inc. ("1st United") (Nasdaq: FUBC) and its wholly-owned subsidiary, 1st United Bank, a commercial bank with approximately $1.7 billion in assets, $1.2 billion in loans, and $1.4 billion in deposits, before purchase accounting adjustments. The 1st United acquisition brings to Valley a 20 branch network covering some of the most attractive urban banking markets in Florida, including locations throughout southeast Florida, the Treasure Coast, central Florida and central Gulf Coast regions. The common shareholders of 1st United received 0.89 of a share of Valley common stock for each 1st United share they owned prior to the merger. The total consideration for the acquisition was approximately $300 million, consisting of 30.7 million shares of Valley common stock and $8.9 million of cash consideration paid to 1st United stock option holders.

In conjunction with the merger, Valley shareholders approved an amendment of its certificate of incorporation to increase its authorized common shares by 100 million shares during the third quarter of 2014.

Merger expenses totaled $480 thousand and $1.1 million for the three and nine months ended September 30, 2014, respectively, which largely related to professional and legal fees included in non-interest expense on the consolidated statements of income.

Note 3. Earnings Per Common Share

Common stock equivalents represent the effect of outstanding common stock options and warrants to purchase Valley’s common shares, excluding those with exercise prices that exceed the average market price of Valley’s common stock during the periods presented and therefore would have an anti-dilutive effect on the diluted earnings per common share calculation. All of Valley's common stock equivalents were anti-dilutive as of September 30, 2014 and 2013, and therefore excluded from the diluted weighted-average number of shares outstanding presented on the consolidated statements of income. Anti-dilutive common stock options and warrants totaled approximately 6.6 million shares for both the three and nine months ended September 30, 2014 and 7.2 million shares for both the three and nine months ended September 30, 2013.

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 and nine months ended September 30, 2014.

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and (Losses) on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at June 30, 2014	$(6,515)	$(679)	$(12,857)	$(10,246)	$(30,297)
Other comprehensive income before reclassifications	(488)	313	1,251	—	1,076
Amounts reclassified from other comprehensive income	(60)	(115)	973	36	834
Other comprehensive income, net	(548)	198	2,224	36	1,910
Balance at September 30, 2014	$(7,063)	$(481)	$(10,633)	$(10,210)	$(28,387)
Balance at December 31, 2013	$(20,855)	$(806)	$(6,271)	$(10,320)	$(38,252)
Other comprehensive income before reclassifications	13,851	619	(7,273)	—	7,197
Amounts reclassified from other comprehensive income	(59)	(294)	2,911	110	2,668
Other comprehensive income, net	13,792	325	(4,362)	110	9,865
Balance at September 30, 2014	$(7,063)	$(481)	$(10,633)	$(10,210)	$(28,387)

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 and nine months ended September 30, 2014 and 2013.

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Components of Accumulated Other Comprehensive Loss	2014	2013	2014	2013	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$103	$9	$102	$4,008	Gains (losses) on securities transactions, net
Tax effect	(43)	(3)	(43)	(1,678)	
Total net of tax	60	6	59	2,330	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	198	190	506	378	Interest and dividends on investment securities (taxable)
Tax effect	(83)	(80)	(212)	(159)	
Total net of tax	115	110	294	219	
Unrealized losses on derivatives (cash flow hedges) before tax	(1,674)	(1,637)	(4,986)	(5,231)	Interest expense
Tax effect	701	687	2,075	2,195	
Total net of tax	(973)	(950)	(2,911)	(3,036)	
Defined benefit pension plan:					
Amortization of prior service cost	—	(229)	—	(672)	*
Amortization of net loss	(63)	(357)	(187)	(1,962)	*
Recognition of loss due to curtailment	—	—	—	(750)	*
Total before tax	(63)	(586)	(187)	(3,384)	
Tax effect	27	243	77	1,376	
Total net of tax	(36)	(343)	(110)	(2,008)	
Total reclassifications, net of tax	$(834)	$(1,177)	$(2,668)	$(2,495)	

* These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. It requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." ASU No. 2014-15 will be effective for annual periods ending after December 15, 2016, and interim periods thereafter with early adoption permitted. Valley's adoption of ASU No. 2014-15 is not expected to have a significant impact on its consolidated financial statements.

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

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

ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward repurchase agreements and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The accounting-related changes are effective for the first interim or annual period beginning after December 15, 2014. The disclosures for certain transactions accounted for as sales are required for interim and annual periods beginning after December 15, 2014. The disclosures for repos, securities lending transactions, and repos-to-maturity accounted for as secured borrowings are required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption of the ASU No. 2014-11 is prohibited. As of June 30, 2014, all of Valley's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, Valley's adoption of ASU No. 2014-11 is not expected to have a significant impact on its consolidated financial statements.

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

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

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

Note 6. Fair Value Measurement of Assets and Liabilities

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

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

Assets and Liabilities Measured at Fair Value on a Recurring 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 September 30, 2014 and December 31, 2013. The assets presented under “nonrecurring fair value measurements” in the table below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

	September 30, 2014	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	$92,996	$92,996	$—	$—
U.S. government agency securities	45,014	—	45,014	—
Obligations of states and political subdivisions	37,615	—	37,615	—
Residential mortgage-backed securities	459,577	—	438,601	20,976
Trust preferred securities	21,244	—	16,519	4,725
Corporate and other debt securities	77,915	21,620	56,295	—
Equity securities	24,060	2,247	21,813	—
Total available for sale	758,421	116,863	615,857	25,701
Trading securities	14,186	—	14,186	
Loans held for sale (1)	3,351	—	3,351	—
Other assets (2)	14,931	—	14,931	—
Total assets	$790,889	$116,863	$648,325	$25,701
Liabilities				
Other liabilities (2)	$23,639	$—	$23,639	$—
Total liabilities	$23,639	$—	$23,639	$—
Non-recurring fair value measurements:				
Non-performing loans held for sale	$7,350	$—	$7,350	$—
Collateral dependent impaired loans (3)	11,931	—	—	11,931
Loan servicing rights	2,130	—	—	2,130
Foreclosed assets (4)	12,433	—	—	12,433
Total	$33,844	$—	$7,350	$26,494

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

(1) Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal balances totaling approximately $3.3 million and $10.4 million at September 30, 2014 and December 31, 2013, respectively.

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

(3) Excludes PCI loans.

(4) Includes covered real estate owned totaling $1.3 million and $7.6 million at September 30, 2014 and December 31, 2013, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2014 and 2013 are summarized below:

	Available for Sale Securities			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of the period	$26,029	$79,112	$28,523	$71,674
Total net gains included in other comprehensive income for the period	341	218	563	11,657
Settlements	(669)	(1,119)	(3,385)	(5,120)
Balance, end of the period	$25,701	$78,211	$25,701	$78,211

No changes in unrealized losses on Level 3 securities held at September 30, 2014 and 2013 were included in earnings during the three and nine months ended September 30, 2014 and 2013. There were also no transfers of assets between Level 1 and Level 2 during the three and nine months ended September 30, 2014 and 2013.

There have been no material changes in the valuation methodologies used at September 30, 2014 from December 31, 2013.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All 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-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 September 30, 2014:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average	
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	0.2 - 42.3	11.2	%
		Default rate	2.9 - 23.1	8.1	
		Loss severity	41.6 - 61.1	51.1	

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

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

For two pooled securities in the Level 3 available for sale trust preferred securities category, the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculations for both securities are received from an independent valuation 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 September 30, 2014 and December 31, 2013 based on the short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at September 30, 2014), is determined based on the current market prices for similar instruments provided by Freddie Mac and Fannie Mae. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at September 30, 2014 and December 31, 2013.

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, as well as 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.

Non-performing loans held for sale. At September 30, 2014, non-performing loans held for sale consisted of one commercial real estate loan that was transferred to the loans held for sale account during the first quarter of 2014. The fair value of the loan was determined using Level 2 inputs, and a third party broker was engaged to solicit interest from potential purchasers. The broker coordinated loan level due diligence with interested parties and established a formal bidding process in which each participant was required to provide an indicative non-binding bid. At September 30, 2014, Valley established the fair market value based on a non-binding sale agreement selected by Valley during the bidding process that is expected to close during the fourth quarter of 2014. As a result, the loan was re-measured and reported at fair value of $7.4 million at September 30, 2014 resulting in a write-down of $500 thousand charged to non-interest income during the third quarter of 2014. During the nine months ended September 30, 2014, valuation write-downs charged to non-interest income related to this non-performing loan held for sale totaled $2.8 million.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on certain discounting criteria. At September 30, 2014, appraisals were discounted up to 38.2 percent based on specific market data by location and property type. During the quarter ended September 30, 2014, 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 $495 thousand and $3.7 million for the three and nine months ended September 30, 2014, respectively. At September 30, 2014, collateral dependent impaired loans with a total recorded investment of $13.4 million were reduced by specific valuation allowance allocations totaling $1.5 million to a reported total net carrying amount of $11.9 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 September 30, 2014, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 25 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. Largely due to a curtailment of actual and projected prepayment speeds, Valley recognized net recoveries of impairment charges totaling $131 thousand and $273 thousand for the three and nine months ended September 30, 2014, 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 discounted up to 4.8 percent at September 30, 2014. At September 30, 2014, foreclosed assets included $12.4 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended September 30, 2014. The foreclosed assets charge-offs to the allowance for loan losses totaled $1.7 million and $3.7 million for the three and nine months ended September 30, 2014, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in a net loss of $799 thousand and $2.7 million within non-interest expense for the three and nine months ended September 30, 2014, respectively.

Other Fair Value Disclosures

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and nine months ended September 30, 2014 and 2013:

Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	Gains (Losses) on Change in Fair Value			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
		(in thousands)			
Assets:					
Trading securities	Trading (losses) gains, net	$(35)	$100	$(78)	$34
Loans held for sale	(Losses) gains on sales of loans, net	(95)	2,729	1,497	32,155
Liabilities:					
Junior subordinated debentures issued to capital trusts	Trading (losses) gains, net	—	2,131	—	(275)
		$(130)	$4,960	$1,419	$31,914

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 September 30, 2014 and December 31, 2013 were as follows:

	Fair Value Hierarchy	September 30, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$352,799	$352,799	$234,253	$234,253
Interest bearing deposits with banks	Level 1	60,655	60,655	134,915	134,915
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	139,156	148,485	139,255	144,307
U.S. government agency securities	Level 2	13,881	14,207	4,427	4,365
Obligations of states and political subdivisions	Level 2	501,312	519,755	545,886	543,151
Residential mortgage-backed securities	Level 2	1,020,852	1,024,402	886,043	871,021
Trust preferred securities	Level 2	98,454	86,474	103,458	91,489
Corporate and other debt securities	Level 2	39,657	45,309	52,668	57,094
Total investment securities held to maturity		1,813,312	1,838,632	1,731,737	1,711,427
Net loans	Level 3	12,062,939	11,826,631	11,453,995	11,294,348
Accrued interest receivable	Level 1	53,545	53,545	53,964	53,964
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	133,586	133,586	137,234	137,234
Financial liabilities					
Deposits without stated maturities	Level 1	9,678,159	9,678,159	9,139,993	9,139,993
Deposits with stated maturities	Level 2	2,183,328	2,245,962	2,179,269	2,206,427
Short-term borrowings	Level 1	297,719	297,719	281,455	281,455
Long-term borrowings	Level 2	2,797,828	3,019,564	2,792,306	3,036,953
Junior subordinated debentures issued to capital trusts	Level 2	41,211	46,064	41,089	45,261
Accrued interest payable (2)	Level 1	13,959	13,959	16,442	16,442

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

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

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

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

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 and FHLB stock are non-marketable equity securities and are reported at their redeemable carrying amounts, which approximate the fair value.

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

Short-term and long-term borrowings. The carrying amounts of certain short-term borrowings, including securities sold under 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 not carried at fair value is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley's credit spread over the current yield on a similar maturity of U.S. Treasury security or the three-month LIBOR for the variable rate indexed debentures (Level 2 inputs). The credit spread used to discount the expected cash flows was calculated based on the median current spreads for all fixed and variable publicly traded trust preferred securities issued by banks.

Note 7. Investment Securities

As of September 30, 2014, Valley had approximately $1.8 billion, $758.4 million, and $14.2 million in held to maturity, available for sale, and trading investment securities, respectively. Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; prolonged decline in value of equity investments; or unanticipated changes in the competitive environment could have a negative effect on Valley's investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley's investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled trust preferred securities), corporate bonds primarily issued by banks, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the unpredictable nature of the U.S. economy and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security. See the “Other-Than-Temporary Impairment Analysis” section below for further discussion.

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2014				
U.S. Treasury securities	$139,156	$9,329	$—	$148,485
U.S. government agency securities	13,881	326	—	14,207
Obligations of states and political subdivisions:				
Obligations of states and state agencies	198,027	8,494	(419)	206,102
Municipal bonds	303,285	10,965	(597)	313,653
Total obligations of states and political subdivisions	501,312	19,459	(1,016)	519,755
Residential mortgage-backed securities	1,020,852	15,988	(12,438)	1,024,402
Trust preferred securities	98,454	185	(12,165)	86,474
Corporate and other debt securities	39,657	5,655	(3)	45,309
Total investment securities held to maturity	$1,813,312	$50,942	$(25,622)	$1,838,632
December 31, 2013				
U.S. Treasury securities	$139,255	$5,567	$(515)	$144,307
U.S. government agency securities	4,427	—	(62)	4,365
Obligations of states and political subdivisions:				
Obligations of states and state agencies	192,653	1,944	(5,473)	189,124
Municipal bonds	353,233	6,053	(5,259)	354,027
Total obligations of states and political subdivisions	545,886	7,997	(10,732)	543,151
Residential mortgage-backed securities	886,043	12,609	(27,631)	871,021
Trust preferred securities	103,458	363	(12,332)	91,489
Corporate and other debt securities	52,668	4,426	—	57,094
Total investment securities held to maturity	$1,731,737	$30,962	$(51,272)	$1,711,427

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2014 and December 31, 2013 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2014						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$16,384	$(30)	$24,744	$(389)	$41,128	$(419)
Municipal bonds	—	—	51,368	(597)	51,368	(597)
Total obligations of states and political subdivisions	16,384	(30)	76,112	(986)	92,496	(1,016)
Residential mortgage-backed securities	135,266	(851)	327,191	(11,587)	462,457	(12,438)
Trust preferred securities	—	—	66,406	(12,165)	66,406	(12,165)
Corporate and other debt securities	247	(3)	—	—	247	(3)
Total	$151,897	$(884)	$469,709	$(24,738)	$621,606	$(25,622)
December 31, 2013						
U.S. Treasury securities	$64,537	$(515)	$—	$—	$64,537	$(515)
U.S. government agency securities	4,365	(62)	—	—	4,365	(62)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	80,612	(5,473)	—	—	80,612	(5,473)
Municipal bonds	85,988	(5,154)	1,326	(105)	87,314	(5,259)
Total obligations of states and political subdivisions	166,600	(10,627)	1,326	(105)	167,926	(10,732)
Residential mortgage-backed securities	465,400	(27,631)	—	—	465,400	(27,631)
Trust preferred securities	9,750	(250)	56,480	(12,082)	66,230	(12,332)
Total	$710,652	$(39,085)	$57,806	$(12,187)	$768,458	$(51,272)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at September 30, 2014 was 86 as compared to 133 at December 31, 2013.

The unrealized losses for the residential mortgage-backed securities category of the held to maturity portfolio at September 30, 2014 relate to investment grade mortgage-backed securities issued or guaranteed by Ginnie Mae and government sponsored enterprises.

The unrealized losses for trust preferred securities at September 30, 2014 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 September 30, 2014.

Management does not believe that any individual unrealized loss as of September 30, 2014 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates, widening credit spreads, and lack of liquidity in the market place, credit losses or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of September 30, 2014, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $910.0 million.

The contractual maturities of investments in debt securities held to maturity at September 30, 2014 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2014	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$67,436	$67,471
Due after one year through five years	51,163	56,054
Due after five years through ten years	338,008	355,791
Due after ten years	335,853	334,914
Residential mortgage-backed securities	1,020,852	1,024,402
Total investment securities held to maturity	$1,813,312	$1,838,632

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

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 7.3 years at September 30, 2014.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at September 30, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2014				
U.S. Treasury securities	$99,829	$—	$(6,833)	$92,996
U.S. government agency securities	44,504	756	(246)	45,014
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,220	—	(108)	11,112
Municipal bonds	27,018	92	(607)	26,503
Total obligations of states and political subdivisions	38,238	92	(715)	37,615
Residential mortgage-backed securities	465,092	3,852	(9,367)	459,577
Trust preferred securities*	23,228	430	(2,414)	21,244
Corporate and other debt securities	77,413	1,506	(1,004)	77,915
Equity securities	23,071	1,576	(587)	24,060
Total investment securities available for sale	$771,375	$8,212	$(21,166)	$758,421
December 31, 2013				
U.S. Treasury securities	$99,835	$—	$(15,170)	$84,665
U.S. government agency securities	48,407	923	(703)	48,627
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,441	—	(798)	10,643
Municipal bonds	27,671	751	(1,365)	27,057
Total obligations of states and political subdivisions	39,112	751	(2,163)	37,700
Residential mortgage-backed securities	524,781	3,967	(20,719)	508,029
Trust preferred securities*	23,333	113	(4,231)	19,215
Corporate and other debt securities	83,819	1,682	(2,103)	83,398
Equity securities	47,617	1,614	(1,173)	48,058
Total investment securities available for sale	$866,904	$9,050	$(46,262)	$829,692

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

The age of unrealized losses and fair value of related securities available for sale at September 30, 2014 and December 31, 2013 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2014						
U.S. Treasury securities	$—	$—	$92,996	$(6,833)	$92,996	$(6,833)
U.S. government agency securities	—	—	20,574	(246)	20,574	(246)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	—	—	11,111	(108)	11,111	(108)
Municipal bonds	10,939	(323)	14,495	(284)	25,434	(607)
Total obligations of states and political subdivisions	10,939	(323)	25,606	(392)	36,545	(715)
Residential mortgage-backed securities	59,755	(422)	300,773	(8,945)	360,528	(9,367)
Trust preferred securities	—	—	12,557	(2,414)	12,557	(2,414)
Corporate and other debt securities	25,297	(145)	28,499	(859)	53,796	(1,004)
Equity securities	46	(2)	15,059	(585)	15,105	(587)
Total	$96,037	$(892)	$496,064	$(20,274)	$592,101	$(21,166)
December 31, 2013						
U.S. Treasury securities	$84,665	$(15,170)	$—	$—	$84,665	$(15,170)
U.S. government agency securities	26,402	(703)	—	—	26,402	(703)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	10,598	(798)	—	—	10,598	(798)
Municipal bonds	13,461	(1,365)	—	—	13,461	(1,365)
Total obligations of states and political subdivisions	24,059	(2,163)	—	—	24,059	(2,163)
Residential mortgage-backed securities	368,306	(18,434)	24,734	(2,285)	393,040	(20,719)
Trust preferred securities	2,024	(25)	15,022	(4,206)	17,046	(4,231)
Corporate and other debt securities	53,654	(2,073)	2,471	(30)	56,125	(2,103)
Equity securities	223	(6)	14,248	(1,167)	14,471	(1,173)
Total	$559,333	$(38,574)	$56,475	$(7,688)	$615,808	$(46,262)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at September 30, 2014 was 90 as compared to 99 at December 31, 2013.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at September 30, 2014 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae. The unrealized losses for more than twelve months also include $1.3 million related to four non-investment grade private label mortgage-backed securities (including three of the five private label mortgage-backed securities that were previously other-than-temporarily impaired prior to December 31, 2012).

The unrealized losses for trust preferred securities at September 30, 2014 for more than twelve months in the table above largely relate to 2 pooled trust preferred securities with an amortized cost of $10.9 million and a fair value of $8.9 million. One of the two pooled trust preferred securities had a unrealized loss of $1.3 million and an investment grade rating at September 30, 2014. The second pooled trust preferred security had a non-investment grade rating and was

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initially other-than-temporarily impaired in 2008 with additional estimated credit losses recognized during the period 2009 through 2011. All of the single-issuer trust preferred securities are paying in accordance with their terms and have no deferrals of interest or defaults and, if applicable, meet the regulatory capital requirements to be considered "well-capitalized institutions" at September 30, 2014.

Management does not believe that any individual unrealized loss as of September 30, 2014 represents an other-than-temporary impairment, as management mainly attributes the declines in value to changes in interest rates and recent market volatility and wider credit spreads, credit losses or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

As of September 30, 2014, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $508.0 million.

The contractual maturities of investment securities available for sale at September 30, 2014 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2014	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$115	$115
Due after one year through five years	69,007	70,015
Due after five years through ten years	84,257	80,698
Due after ten years	129,833	123,956
Residential mortgage-backed securities	465,092	459,577
Equity securities	23,071	24,060
Total investment securities available for sale	$771,375	$758,421

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 September 30, 2014 was 5.3 years.

Other-Than-Temporary Impairment Analysis

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

- The severity and duration of the decline, including the causes of the decline in fair value, such as an issuer's credit problems, interest rate fluctuations, or market volatility;
- Adverse conditions specifically related to the issuer of the security, an industry, or geographic area;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency or, if applicable, any regulatory actions impacting the security issuer;
- Recoveries or additional declines in fair value after the balance sheet date;
- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and

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

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

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

At September 30, 2014, approximately 52 percent of the $538.9 million carrying value of obligations of states and political subdivisions were issued by the states of (or municipalities within) New Jersey, New York and Pennsylvania. The obligations of states and political subdivisions mainly consist of general obligation bonds and, to a much lesser extent, special revenue bonds which had an aggregated amortized cost and fair value of $18.4 million and $19.2 million, respectively, at September 30, 2014. The special revenue bonds were mainly issued by the Port Authorities of New York and New Jersey, as well as various school districts. The gross unrealized losses associated with the obligations of states and political subdivisions totaled $1.7 million at September 30, 2014 as compared to $12.9 million at December 31, 2013. The decrease in gross losses was primarily driven by changes in interest rates. Substantially all of these investments are investment grade. The securities were generally underwritten in accordance with Valley's investment standards prior to the decision to purchase. As part of Valley's pre-purchase analysis and on-going quarterly assessment of impairment of the obligations of states and political subdivisions, our Credit Risk Management (CRM) Department conducts an independent financial analysis and risk rating assessment of each security issuer based on the issuer's most recently issued financial statements and other publicly available information. As part of this analysis, Valley does not solely rely on external credit ratings in determining its final internal risk rating. For many securities, Valley believes the external credit ratings may not accurately reflect the actual credit quality of the security and therefore should not be viewed in isolation as a measure of the quality of our investments. Additionally, CRM does not consider potential credit support offered by insurance guarantees on certain bond securities in determining the internal risk rating, either at the date of the pre-purchase investment analysis or in subsequent assessments of impairment. Obligations of states and political subdivisions will continue to be monitored as part of our ongoing impairment analysis, and as of September 30, 2014 are expected to perform in accordance with their contractual terms. As a result, Valley expects to recover the entire amortized cost basis of these securities.

For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the cash flows from the individual loans collateralizing the security using expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows is identified to determine whether other-than-temporary impairment exists. No other-than-temporary impairment losses were recognized as a result of our impairment analysis of these securities at September 30, 2014.

For the single-issuer trust preferred securities and corporate and other debt securities, Valley reviews each portfolio to determine if all the securities are paying in accordance with their terms and have no deferrals of interest or defaults. Over the past several years, an increasing number of banking institutions have been required to defer trust preferred payments and various banking institutions have been put in receivership by the FDIC. A deferral event by a bank holding company for which Valley holds trust preferred securities may require the recognition of an other-than-temporary impairment charge if Valley determines that it is more likely than not that all contractual interest and principal cash flows may not be collected. Among other factors, the probability of the collection of all interest and principal determined by Valley in its impairment analysis declines if there is an increase in the estimated deferral period of the issuer. Additionally, a FDIC receivership for any single-issuer would result in an impairment and significant loss.

Including the other factors outlined above, Valley analyzes the performance of the issuers on a quarterly basis, including a review of performance data from the issuers' most recent bank regulatory report, if applicable, to assess their credit risk and the probability of impairment of the contractual cash flows of the applicable security. All of the issuers had capital ratios at September 30, 2014 that were at or above the minimum amounts required to be considered a "well-capitalized" financial institution, if applicable, and/or have maintained performance levels adequate to support the contractual cash flows of the trust preferred securities.

For the two pooled trust preferred securities, Valley evaluates the projected cash flows from each of its tranches in the three securities to determine if they are adequate to support their future contractual principal and interest payments. Valley assesses the credit risk and probability of impairment of the contractual cash flows by projecting the default rates over the life of the security. Higher projected default rates will decrease the expected future cash flows from each security. If the projected decrease in cash flows affects the cash flows projected for the tranche held by Valley, the security would be considered to be other-than-temporarily impaired. Two of the pooled trust preferred securities were initially impaired in 2008 with additional estimated credit losses recognized during 2009 and 2011, and are not accruing interest.

The perpetual preferred securities, reported in equity securities, are hybrid investments that are assessed for impairment by Valley as if they were debt securities. Therefore, Valley assessed the creditworthiness of each security issuer, as well as any potential change in the anticipated cash flows of the securities as of September 30, 2014. Based on this analysis, management believes the declines in fair value of these securities are attributable to a lack of liquidity in the marketplace and are not reflective of any deterioration in the creditworthiness of the issuers.

Other-Than-Temporarily Impaired Securities

There were no other-than-temporary impairment losses on securities recognized in earnings for the three and nine months ended September 30, 2014 and 2013. At September 30, 2014, five previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of $21.2 million and $21.0 million, respectively, while two previously impaired pooled trust preferred securities had a combined amortized cost and fair value of $5.4 million and $4.7 million, respectively. The pooled trust preferred securities were not accruing interest as of September 30, 2014.

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Sales transactions:				
Gross gains	$103	$1	$103	$3,382
Maturities and other securities transactions:				
Gross gains	$—	$8	$8	$657
Gross losses	—	—	(9)	(31)
	$—	$8	$(1)	$626
Total gains on securities transactions, net	$103	$9	$102	$4,008

Valley recognized gross gains from sales transactions totaling $3.4 million (as shown in the table above) for the nine months ended September 30, 2013 primarily due to the sales of zero percent yielding Freddie Mac and Fannie Mae perpetual preferred stock with amortized cost totaling $941 thousand.

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 and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	$9,682	$33,102	$9,990	$33,290
Accretion of credit loss impairment due to an increase in expected cash flows	(198)	(190)	(506)	(378)
Balance, end of period	$9,484	$32,912	$9,484	$32,912

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

Trading Securities

The fair value of trading securities (consisting of 2 single-issuer bank trust preferred securities) was $14.2 million and $14.3 million at September 30, 2014 and December 31, 2013, respectively. Interest income on trading securities totaled $290 thousand for both the three months ended September 30, 2014 and 2013 and $871 thousand and $1.1 million for the nine months ended September 30, 2014 and 2013, respectively.

Note 8. Loans

The detail of the loan portfolio as of September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014			December 31, 2013		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Non-covered loans:						
Commercial and industrial	$1,941,470	$135,042	$2,076,512	$1,820,136	$174,948	$1,995,084
Commercial real estate:						
Commercial real estate	4,961,990	384,828	5,346,818	4,521,920	459,755	4,981,675
Construction	441,141	16,022	457,163	406,877	22,354	429,231
Total commercial real estate loans	5,403,131	400,850	5,803,981	4,928,797	482,109	5,410,906
Residential mortgage	2,423,044	12,978	2,436,022	2,485,239	14,726	2,499,965
Consumer:						
Home equity	401,072	34,378	435,450	410,875	38,134	449,009
Automobile	1,091,287	—	1,091,287	901,399	—	901,399
Other consumer	275,685	149	275,834	214,898	186	215,084
Total consumer loans	1,768,044	34,527	1,802,571	1,527,172	38,320	1,565,492
Total non-covered loans	11,535,689	583,397	12,119,086	10,761,344	710,103	11,471,447
Covered loans:						
Commercial and industrial	—	9,673	9,673	—	26,249	26,249
Commercial real estate	—	28,937	28,937	—	61,494	61,494
Residential mortgage	—	7,345	7,345	—	7,623	7,623
Consumer	—	336	336	—	799	799
Total covered loans	—	46,291	46,291	—	96,165	96,165
Total loans	$11,535,689	$629,688	$12,165,377	$10,761,344	$806,268	$11,567,612

Total non-covered loans are net of unearned discount and deferred loan fees totaling $8.0 million and $5.6 million at September 30, 2014 and December 31, 2013, respectively. The outstanding balances (representing contractual balances owed to Valley) for non-covered PCI loans and covered loans totaled $637.4 million and $72.0 million at September 30, 2014, respectively, and $796.1 million and $227.2 million at December 31, 2013, respectively.

During the first quarter of 2014, we elected to transfer certain non-performing loans totaling $35.6 million from the non-covered loan portfolio (primarily within the commercial real estate loan and commercial and industrial loan categories) to loans held for sale. With the exception of one loan held for sale at September 30, 2014, all of the transferred loans were sold during the second quarter of 2014. There were no other sales of loans from the held for investment portfolio during the three and nine months ended September 30, 2014 and 2013.

Purchased Credit-Impaired Loans (Including Covered Loans)

Purchased credit-impaired (PCI) loans, which include loans acquired in FDIC-assisted transactions (“covered loans”) subject to loss-sharing agreements, are acquired at a discount that is due, in part, to credit quality. 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.

The following table presents changes in the accretable yield for PCI loans during the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	$122,342	$256,383	$223,799	$169,309
Accretion	(15,538)	(16,990)	(46,981)	(50,864)
Net (decrease) increase in expected cash flows	—	—	(70,014)	120,948
Balance, end of period	$106,804	$239,393	$106,804	$239,393

The net (decrease) increase in expected cash flows for certain pools of loans (included in the table above) is recognized prospectively as an adjustment to the yield over the estimated remaining life of the individual pools. The net decrease during the nine months ended September 30, 2014 was mainly due to an increase in the expected repayment speeds for certain pools of non-covered PCI loans during the second quarter of 2014. Conversely, the net increase during the three and nine months ended September 30, 2013 was largely due to additional cash flows caused by longer than originally expected durations for other pools of non-covered PCI loans. Based upon the re-forecasted cash flows during the second quarter of 2014, the average expected life of the non-covered PCI loans (which represented almost 93 percent of total PCI loans at September 30, 2014) decreased to 2.2 years from approximately 4 years last forecasted during the second quarter of 2013.

FDIC Loss-Share Receivable

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

Changes in the FDIC loss-share receivable for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of the period	$20,687	$40,686	$32,757	$44,996
Discount accretion of the present value at the acquisition dates	12	33	35	98
Effect of additional cash flows on covered loans (prospective recognition)	(4,500)	(3,075)	(8,460)	(8,024)
Decrease in the provision for losses on covered loans	—	—	(4,417)	(2,783)
Other reimbursable expenses	745	1,037	2,248	3,529
Reimbursements from the FDIC	(684)	(3,003)	(4,967)	(2,138)
Other	(80)	—	(1,016)	—
Balance, end of the period	$16,180	$35,678	$16,180	$35,678

The aggregate effect of changes in the FDIC loss-share receivable was a reduction in non-interest income of $3.8 million and $2.0 million for the three months ended September 30, 2014 and 2013, respectively, and a reduction of

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$11.6 million and $7.2 million to non-interest income for the nine months ended September 30, 2014 and 2013, respectively.

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 proved 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 $339.7 million and $314.6 million at September 30, 2014 and December 31, 2013, respectively.

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

Construction loans. With respect to loans to developers and builders, Valley originates and manages construction loans structured on either a revolving or non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single-family residential construction) are controlled with loan advances dependent upon the 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, and eastern Pennsylvania. Valley’s ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property.

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

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

Other consumer loans. Valley’s other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit was not significant at September 30, 2014. Unsecured consumer loans totaled approximately $28.2 million and $21.4 million, including $7.3 million and $8.3 million of credit card loans, at September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013:

	Past Due and Non-Accrual Loans						
	30-59 Days Past Due Loans	60-89 Days Past Due Loans	Accruing Loans 90 Days or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	(in thousands)						
September 30, 2014							
Commercial and industrial	$476	$629	$ 256	$ 7,251	$8,612	$1,932,858	$1,941,470
Commercial real estate:							
Commercial real estate	1,194	788	52	26,379	28,413	4,933,577	4,961,990
Construction	—	154	9,833	6,578	16,565	424,576	441,141
Total commercial real estate loans	1,194	942	9,885	32,957	44,978	5,358,153	5,403,131
Residential mortgage	8,871	2,304	2,057	17,305	30,537	2,392,507	2,423,044
Consumer loans:							
Home equity	1,817	198	—	2,285	4,300	396,772	401,072
Automobile	1,800	524	246	95	2,665	1,088,622	1,091,287
Other consumer	124	191	32	—	347	275,338	275,685
Total consumer loans	3,741	913	278	2,380	7,312	1,760,732	1,768,044
Total	$14,282	$4,788	$ 12,476	$ 59,893	$91,439	$11,444,250	$11,535,689
December 31, 2013							
Commercial and industrial	$6,398	$571	$ 233	$ 21,029	$28,231	$1,791,905	$1,820,136
Commercial real estate:							
Commercial real estate	9,142	2,442	7,591	43,934	63,109	4,458,811	4,521,920
Construction	1,186	4,577	—	8,116	13,879	392,998	406,877
Total commercial real estate loans	10,328	7,019	7,591	52,050	76,988	4,851,809	4,928,797
Residential mortgage	6,595	1,939	1,549	19,949	30,032	2,455,207	2,485,239
Consumer loans:							
Home equity	495	241	—	1,866	2,602	408,273	410,875
Automobile	2,957	489	85	169	3,700	897,699	901,399
Other consumer	340	54	33	—	427	214,471	214,898
Total consumer loans	3,792	784	118	2,035	6,729	1,520,443	1,527,172
Total	$27,113	$10,313	$ 9,491	$ 95,063	$141,980	$10,619,364	$10,761,344

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.

The following table presents the information about impaired loans by loan portfolio class at September 30, 2014 and December 31, 2013:

	Recorded Investment With No Related Allowance (in thousands)	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
September 30, 2014					
Commercial and industrial	$5,809	$23,974	$29,783	$35,236	$5,045
Commercial real estate:					
Commercial real estate	44,591	39,210	83,801	86,565	5,347
Construction	7,933	8,362	16,295	17,465	786
Total commercial real estate loans	52,524	47,572	100,096	104,030	6,133
Residential mortgage	5,753	19,587	25,340	27,305	3,216
Consumer loans:					
Home equity	263	2,763	3,026	3,127	446
Total consumer loans	263	2,763	3,026	3,127	446
Total	$64,349	$93,896	$158,245	$169,698	$14,840
December 31, 2013					
Commercial and industrial	$3,806	$43,497	$47,303	$59,891	$11,032
Commercial real estate:					
Commercial real estate	46,872	47,973	94,845	110,227	7,874
Construction	11,771	8,022	19,793	21,478	802
Total commercial real estate loans	58,643	55,995	114,638	131,705	8,676
Residential mortgage	10,082	18,231	28,313	32,664	3,735
Consumer loans:					
Home equity	1,010	84	1,094	1,211	82
Total consumer loans	1,010	84	1,094	1,211	82
Total	$73,541	$117,807	$191,348	$225,471	$23,525

The following tables present by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,			
	2014		2013	
	Average Recorded Investment (in thousands)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$30,387	$172	$59,874	$415
Commercial real estate:				
Commercial real estate	83,045	604	109,226	612
Construction	16,954	147	22,457	23
Total commercial real estate loans	99,999	751	131,683	635
Residential mortgage	25,382	227	27,356	245
Consumer loans:				
Home equity	3,039	18	1,158	29
Total consumer loans	3,039	18	1,158	29
Total	$158,807	$1,168	$220,071	$1,324

	Nine Months Ended September 30,			
	2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$37,229	$831	$57,069	$1,203
Commercial real estate:				
Commercial real estate	91,184	2,173	112,216	2,229
Construction	18,541	445	20,528	162
Total commercial real estate loans	109,725	2,618	132,744	2,391
Residential mortgage	26,447	709	28,357	777
Consumer loans:				
Home equity	1,855	47	1,182	55
Total consumer loans	1,855	47	1,182	55
Total	$175,256	$4,205	$219,352	$4,426

Interest income recognized on a cash basis (included in the tables above) was immaterial for the three and nine months ended September 30, 2014 and 2013.

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 $107.1 million and $107.0 million as of September 30, 2014 and December 31, 2013, respectively. Non-performing TDRs totaled $22.0 million and $48.4 million as of September 30, 2014 and December 31, 2013, respectively.

The following table presents loans by loan portfolio class modified as TDRs during the three and nine months ended September 30, 2014 and 2013. The pre-modification and post-modification outstanding recorded investments disclosed in the table below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at September 30, 2014 and 2013, respectively.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	1	$ 3,159	$ 3,159	4	$ 9,685	$ 8,799
Commercial real estate:						
Commercial real estate	4	6,111	2,865	—	—	—
Construction	1	403	500	2	6,402	7,836
Total commercial real estate	5	6,514	3,365	2	6,402	7,836
Residential mortgage	3	568	557	6	2,307	2,001
Consumer	2	1,803	1,803	1	48	48
Total	11	$ 12,044	$ 8,884	13	$ 18,442	$ 18,684

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	9	$ 11,340	$ 10,361	11	$ 20,140	$ 17,455
Commercial real estate:						
Commercial real estate	12	22,282	18,011	9	10,304	10,219
Construction	3	5,731	4,232	6	10,882	12,826
Total commercial real estate	15	28,013	22,243	15	21,186	23,045
Residential mortgage	7	2,893	2,640	28	6,887	5,997
Consumer	3	1,935	1,935	7	500	454
Total	34	$ 44,181	$ 37,179	61	$ 48,713	$ 46,951

The majority of the TDR concessions made during the three and nine months ended September 30, 2014 and 2013 involved an extension of the loan term and/or an interest rate reduction. The total TDRs presented in the above table had allocated specific reserves for loan losses totaling $3.8 million and $5.3 million at September 30, 2014 and 2013, respectively. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in Note 9. Partial loan charge-offs related to loans modified as TDRs in the table above totaled $861 thousand and $1.1 million during the nine months ended September 30, 2014 and 2013, respectively. There were no charge-offs related to TDR modifications during the three months ended September 30, 3014. During the three months ended September 30, 2013, two commercial loans totaling $6.1 million with one borrower that were modified as TDRs were fully charged-off.

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 nine months ended September 30, 2014:

Troubled Debt Restructurings Subsequently Defaulted	Nine Months Ended September 30, 2014 Number of Contracts	Recorded Investment
	($ in thousands)	
Commercial and industrial	1	$1,669
Commercial real estate	1	4,630
Total	2	$6,299

There were no payment defaults related to non-PCI loans modified as TDRs (within the previous 12 months) during the three months ended September 30, 2014.

Credit quality indicators. Valley utilizes an internal loan classification system as a means of reporting problem loans within commercial and industrial, commercial real estate, and construction loan portfolio classes. Under Valley's internal risk rating system, loan relationships could be classified as "Pass," "Special Mention," "Substandard," "Doubtful," and "Loss." Substandard loans include loans that exhibit well-defined weakness and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged-off immediately to the allowance for loan losses. Loans that do not currently pose a sufficient risk to warrant classification in one of the aforementioned categories, but pose weaknesses that deserve management's close attention are deemed 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 based on the most recent analysis performed at September 30, 2014 and December 31, 2013.

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
September 30, 2014					
Commercial and industrial	$1,840,602	$52,850	$48,018	$—	$1,941,470
Commercial real estate	4,803,172	48,623	110,195	—	4,961,990
Construction	416,948	3,323	15,723	5,147	441,141
Total	$7,060,722	$104,796	$173,936	$5,147	$7,344,601
December 31, 2013					
Commercial and industrial	$1,689,613	$56,007	$74,501	$15	$1,820,136
Commercial real estate	4,348,642	48,159	125,119	—	4,521,920
Construction	373,480	11,697	15,720	5,980	406,877
Total	$6,411,735	$115,863	$215,340	$5,995	$6,748,933

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 September 30, 2014 and December 31, 2013:

Credit exposure - by payment activity	Performing Loans (in thousands)	Non-Performing Loans	Total Non-PCI Loans
September 30, 2014			
Residential mortgage	$2,405,739	$17,305	$2,423,044
Home equity	398,787	2,285	401,072
Automobile	1,091,192	95	1,091,287
Other consumer	275,685	—	275,685
Total	$4,171,403	$19,685	$4,191,088
December 31, 2013			
Residential mortgage	$2,465,290	$19,949	$2,485,239
Home equity	409,009	1,866	410,875
Automobile	901,230	169	901,399
Other consumer	214,898	—	214,898
Total	$3,990,427	$21,984	$4,012,411

Valley evaluates the credit quality of its PCI loan pools based on the expectation of the underlying cash flows of each pool, derived from the aging status and by payment activity of individual loans within the pool. The following table presents the recorded investment in PCI loans by class based on individual loan payment activity as of September 30, 2014 and December 31, 2013.

Credit exposure - by payment activity	Performing Loans (in thousands)	Non-Performing Loans	Total PCI Loans
September 30, 2014			
Commercial and industrial	$133,842	$10,873	$144,715
Commercial real estate	404,226	9,539	413,765
Construction	16,022	—	16,022
Residential mortgage	19,783	540	20,323
Consumer	34,470	393	34,863
Total	$608,343	$21,345	$629,688
December 31, 2013			
Commercial and industrial	$185,185	$16,012	$201,197
Commercial real estate	498,184	23,065	521,249
Construction	16,791	5,563	22,354
Residential mortgage	21,381	968	22,349
Consumer	37,980	1,139	39,119
Total	$759,521	$46,747	$806,268

Note 9. Allowance for Credit Losses

The allowance for credit losses consists of the allowance for losses on non-covered loans and allowance for losses on covered loans related to credit impairment of certain covered loan pools subsequent to acquisition, as well as the allowance for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for losses on non-covered loans is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio, including unexpected credit impairment or reduction in the provision of non-covered PCI loan pools subsequent to the acquisition date.

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The following table summarizes the allowance for credit losses at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(in thousands)	
Components of allowance for credit losses:		
Allowance for non-covered loans	$101,760	$106,547
Allowance for covered loans	678	7,070
Total allowance for loan losses	102,438	113,617
Allowance for unfunded letters of credit	2,121	3,495
Total allowance for credit losses	$104,559	$117,112

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Components of provision for credit losses:				
Provision for non-covered loans	$—	$4,280	$4,949	$10,736
Provision for covered loans	—	—	(5,671)	(2,276)
Total provision for loan losses	—	4,280	(722)	8,460
Provision for unfunded letters of credit	(423)	1,054	(1,374)	1,195
Total provision for credit losses	$(423)	$5,334	$(2,096)	$9,655

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014 and 2013:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
Three Months Ended September 30, 2014:						
Allowance for loan losses:						
Beginning balance	$48,421	$35,267	$7,018	$5,368	$6,979	$103,053
Loans charged-off [(1)]	(1,852)	(181)	(240)	(72)	—	(2,345)
Charged-off loans recovered	1,190	26	8	506	—	1,730
Net recoveries (charge-offs)	(662)	(155)	(232)	434	—	(615)
Provision for loan losses	(1,388)	1,954	(610)	(22)	66	—
Ending balance	$46,371	$37,066	$6,176	$5,780	$7,045	$102,438
Three Months Ended September 30, 2013:						
Allowance for loan losses:						
Beginning balance	$53,732	$43,179	$8,521	$5,084	$6,928	$117,444
Loans charged-off [(1)]	(8,556)	(947)	(780)	(1,723)	—	(12,006)
Charged-off loans recovered	1,103	896	230	638	—	2,867
Net charge-offs	(7,453)	(51)	(550)	(1,085)	—	(9,139)
Provision for loan losses	3,453	184	56	80	507	4,280
Ending balance	$49,732	$43,312	$8,027	$4,079	$7,435	$112,585

	Commercial and Industrial (in thousands)	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
Nine Months Ended September 30, 2014:						
Allowance for loan losses:						
Beginning balance	$51,551	$42,343	$7,786	$4,359	$7,578	$113,617
Loans charged-off (1) (3)	(11,806)	(6,703)	(515)	(2,311)	—	(21,335)
Charged-off loans recovered (2)	6,154	2,831	244	1,649	—	10,878
Net charge-offs	(5,652)	(3,872)	(271)	(662)	—	(10,457)
Provision for loan losses	472	(1,405)	(1,339)	2,083	(533)	(722)
Ending balance	$46,371	$37,066	$6,176	$5,780	$7,045	$102,438
Nine Months Ended September 30, 2013:						
Allowance for loan losses:						
Beginning balance	$64,370	$44,069	$9,423	$5,542	$6,796	$130,200
Loans charged-off (1)	(17,322)	(7,329)	(3,338)	(4,092)	—	(32,081)
Charged-off loans recovered	3,043	961	368	1,634	—	6,006
Net charge-offs	(14,279)	(6,368)	(2,970)	(2,458)	—	(26,075)
Provision for loan losses	(359)	5,611	1,574	995	639	8,460
Ending balance	$49,732	$43,312	$8,027	$4,079	$7,435	$112,585

(1) Includes covered loan charge-offs totaling $433 thousand and $1.2 million for the three and nine months ended September 30, 2014, respectively, and $146 thousand for the nine months ended September 30, 2013. There were no covered loan charge-offs during the third quarter of 2013.

(2) Includes covered loan recoveries totaling $462 thousand for the nine months ended September 30, 2014. There were no covered loan recoveries for the third quarters of 2014 and 2013, or the nine months ended September 30, 2013.

(3) The commercial and industrial loan and commercial real estate loan categories included $4.8 million and $4.0 million of charge-offs, respectively, related to the valuation of non-performing loans transferred to loans held for sale during the first quarter of 2014.

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 September 30, 2014 and December 31, 2013.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
September 30, 2014						
Allowance for loan losses:						
Individually evaluated for impairment	$5,045	$6,133	$3,216	$446	$—	$14,840
Collectively evaluated for impairment	40,677	30,933	2,931	5,334	7,045	86,920
Loans acquired with discounts related to credit quality	649	—	29	—	—	678
Total	$46,371	$37,066	$6,176	$5,780	$7,045	$102,438
Loans:						
Individually evaluated for impairment	$29,783	$100,096	$25,340	$3,026	$—	$158,245
Collectively evaluated for impairment	1,911,687	5,303,035	2,397,704	1,765,018	—	11,377,444
Loans acquired with discounts related to credit quality	144,715	429,787	20,323	34,863	—	629,688
Total	$2,086,185	$5,832,918	$2,443,367	$1,802,907	$—	$12,165,377
December 31, 2013						
Allowance for loan losses:						
Individually evaluated for impairment	$11,032	$8,676	$3,735	$82	$—	$23,525
Collectively evaluated for impairment	40,007	27,235	3,928	4,274	7,578	83,022
Loans acquired with discounts related to credit quality	512	6,432	123	3	—	7,070
Total	$51,551	$42,343	$7,786	$4,359	$7,578	$113,617
Loans:						
Individually evaluated for impairment	$47,303	$114,638	$28,313	$1,094	$—	$191,348
Collectively evaluated for impairment	1,772,833	4,814,159	2,456,926	1,526,078	—	10,569,996
Loans acquired with discounts related to credit quality	201,197	543,603	22,349	39,119	—	806,268
Total	$2,021,333	$5,472,400	$2,507,588	$1,566,291	$—	$11,567,612

Note 10. Goodwill and Other Intangible Assets

Goodwill totaled $428.2 million at both September 30, 2014 and December 31, 2013. There were no changes to the carrying amounts of goodwill allocated to Valley’s business segments, or reporting units thereof, for goodwill impairment analysis (as reported in Valley’s Annual Report on Form 10-K for the year ended December 31, 2013). There was no impairment of goodwill during the three and nine months ended September 30, 2014 and 2013.

The following table summarizes other intangible assets as of September 30, 2014 and December 31, 2013:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
	(in thousands)			
September 30, 2014				
Loan servicing rights	$72,024	$(50,017)	$(231)	$21,776
Core deposits	35,194	(29,060)	—	6,134
Other	4,592	(2,334)	—	2,258
Total other intangible assets	$111,810	$(81,411)	$(231)	$30,168
December 31, 2013				
Loan servicing rights	$71,100	$(45,032)	$(504)	$25,564
Core deposits	35,194	(27,238)	—	7,956
Other	5,878	(3,268)	—	2,610
Total other intangible assets	$112,172	$(75,538)	$(504)	$36,130

Loan servicing rights are accounted for using the amortization method. Under this method, Valley amortizes the loan servicing assets in proportion to, and over the period of estimated net servicing revenues. On a quarterly basis, Valley stratifies its loan servicing assets into groupings based on risk characteristics and assesses each group for impairment based on fair value. Impairment charges on loan servicing rights are recognized in earnings when the book value of a stratified group of loan servicing rights exceeds its estimated fair value. Valley recorded net recoveries of impairment charges on its loan servicing rights totaling $131 thousand and $357 thousand for the three months ended September 30, 2014 and 2013, respectively, and $273 thousand and $2.4 million for the nine months ended September 30, 2014 and 2013, respectively.

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 18 years. Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three and nine months ended September 30, 2014 and 2013.

The following presents the estimated future amortization expense of other intangible assets for the remainder of 2014 through 2018:

	Loan Servicing Rights	Core Deposits	Other
	(in thousands)		
2014	$1,660	$536	$114
2015	5,321	1,758	434
2016	4,126	1,195	233
2017	3,216	815	220
2018	2,443	610	193

Valley recognized amortization expense on other intangible assets, including net recoveries of impairment charges on loan servicing rights, totaling approximately $2.2 million and $2.3 million for the three months ended September

30, 2014 and 2013, respectively, and $6.9 million and $5.8 million for the nine months ended September 30, 2014 and 2013, respectively.

Note 11. Benefit Plans

Pension and Director Plans

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

Effective December 31, 2013, the benefits earned under the qualified and non-qualified plans were frozen. As a result, participants are not accruing further benefits and their total pension benefits will be determined based on the compensation and service as of December 31, 2013. Plan benefits will not increase for any pay or service earned after such date. However, participants' benefits will continue to vest as long as they work for Valley.

The fair value of qualified plan assets increased approximately $6.3 million, or 3.4 percent, to $191.2 million at September 30, 2014 from $184.9 million at December 31, 2013. There were no contributions to the qualified plan during the nine months ended September 30, 2014. Based upon actuarial estimates, Valley does not expect to make any contributions during the fourth quarter of 2014.

The following table sets forth the components of net periodic pension expense related to the qualified and non-qualified plans for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Service cost	$—	$1,530	$—	$5,573
Interest cost	1,731	1,640	5,194	5,005
Expected return on plan assets	(3,242)	(3,334)	(9,727)	(9,076)
Amortization of prior service cost	—	229	—	672
Amortization of net loss	63	357	187	1,962
Curtailment loss	—	—	—	750
Total net periodic pension (income) expense	$(1,448)	$422	$(4,346)	$4,886

Largely due to the freeze in the plans' benefits effective December 31, 2013, Valley recorded net periodic pension income of $1.4 million and $4.3 million for the three and nine months ended September 30, 2014, respectively.

Savings and Investment Plan

Effective January 1, 2014, Valley increased the benefits under the Bank's 401(k) plan in an effort to offset a portion of the employee benefits no longer accruing under the qualified pension plan after December 31, 2013. At such date, Valley's contributions increased to a dollar-for-dollar matching contribution of up to six percent of eligible compensation contributed by an employee each pay period. The Bank recorded $1.4 million and $715 thousand in expense for contributions to the plan for the three months ended September 30, 2014 and 2013, respectively, and $4.5 million and $2.0 million for the nine months ended September 30, 2014 and 2013, respectively.

Note 12. Stock–Based Compensation

Valley currently has one active employee equity plan, the 2009 Long-Term Stock Incentive Plan (the “Employee Stock Incentive Plan”), administered by the Compensation and Human Resources Committee (the “Committee”) appointed by Valley's Board of Directors. The Committee can grant awards to officers and key employees of Valley. The purpose of the Employee Stock Incentive Plan is to provide additional incentive to officers and key employees of Valley and its subsidiaries, whose substantial contributions are essential to the continued growth and success of Valley, and to attract and retain competent and dedicated officers and other key employees whose efforts will result in the continued and long-term growth of Valley's business. As of September 30, 2014, 4.2 million shares of common stock were available for issuance under the Employee Stock Incentive Plan.

Under the Employee Stock Incentive Plan, as amended by Valley's Board of Directors on October 28, 2014, Valley may award shares to its employees in the form of stock appreciation rights, incentive stock options, non-qualified stock options, restricted stock awards and restricted stock units. The essential features of each award are described in the award agreement relating to that award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley's common stock on the last sale price reported for Valley's common stock on such date or the last sale price reported preceding such date, except for performance-based restricted stock awards with a market condition. The grant date fair value of performance-based restricted stock that vests based on a market condition is determined by a third party specialist using a Monte Carlo valuation model.

Valley awarded restricted stock totaling 779 thousand shares and 476 thousand shares during the nine months ended September 30, 2014 and 2013, respectively (including an immaterial amount of awards granted during both the three months ended September 30, 2014 and 2013, respectively). Of the 779 thousand shares awarded during the nine months ended September 30, 2014, 240 thousand shares were performance-based awards made to certain executive officers and 539 thousand shares were time-based awards to both executive officers and key employees of Valley. The performance-based awards vest based on (i) growth in tangible book value per share plus dividends (75 percent of performance shares) and (ii) total shareholder return as compared to our peer group (25 percent of performance shares). The majority of the performance-based awards "cliff" vest after three years based on the cumulative performance of Valley during that time period with an opportunity for earlier vesting of a portion of the shares based on growth in tangible book value performance as specified in the agreement. The restrictions on non-performance based awards will continue to lapse at the rate of one-third of the total award per year commencing with the first anniversary of the date of grant. The average grant date fair value of non-performance and performance-based restricted stock awarded during the nine months ended September 30, 2014 was $9.94 and $9.10 per share, respectively.

Valley recorded stock-based compensation expense for restricted stock awards as well as incentive stock options of $1.8 million and $1.4 million for the three months ended September 30, 2014 and 2013, respectively, and $5.6 million and $4.7 million for the nine months ended September 30, 2014 and 2013, respectively. The fair values of stock awards are expensed over the shorter of the vesting or required service period. As of September 30, 2014, the unrecognized amortization expense for all stock-based employee compensation totaled approximately $10.8 million and will be recognized over an average remaining vesting period of approximately 3 years.

Note 13. Guarantees

Guarantees that have been entered into by Valley include standby letters of credit of $195.7 million as of September 30, 2014. 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, $131.1 million, or 67.0 percent, are secured and, in the event of non-performance by the customer, Valley has rights to the underlying collateral, which includes commercial real estate, business assets (physical plant or property, inventory or receivables), marketable securities and cash in the form of bank savings accounts and certificates of deposit. As of September 30, 2014, Valley had a $720 thousand liability related to the standby letters of credit.

Note 14. 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.

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.

During the second quarter of 2014, Valley issued $25 million of market linked certificates of deposit through a broker dealer. The rate paid on these hybrid instruments is based on a formula derived from the spread between the long and short ends of the constant maturity swap (CMS) rate curve. This type of instrument is referred to as a "steepener" since it derives its value from the slope of the CMS curve. Valley has determined that these hybrid instruments contain an embedded swap contract which has been bifurcated from the host contract. Valley entered into a swap (with a total notional amount of $25 million) almost simultaneously with the deposit issuance where the receive rate on the swap mirrors the pay rate on the brokered deposits. The bifurcated derivative and the stand alone swap are both marked to market through other non-interest expense. Although these instruments do not meet the hedge accounting requirements, the change in fair value of both the bifurcated derivative and the stand alone swap tend to move in opposite directions with changes in 90 day LIBOR rate and therefore provide an effective economic hedge.

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

	September 30, 2014			December 31, 2013		
	Fair Value			Fair Value		
	Other Assets	Other Liabilities	Notional Amount	Other Assets	Other Liabilities	Notional Amount
	(in thousands)					
Derivatives designated as hedging instruments:						
Cash flow hedge interest rate caps and swaps	$3,141	$13,045	$1,007,000	$9,883	$10,925	$1,007,000
Fair value hedge interest rate swaps	2,625	1,427	133,454	99	4,691	184,591
Total derivatives designated as hedging instruments	$5,766	$14,472	$1,140,454	$9,982	$15,616	$1,191,591
Derivatives not designated as hedging instruments:						
Interest rate swaps and embedded derivatives	$9,158	$9,150	$382,021	$4,823	$4,823	$259,832
Mortgage banking derivatives	7	17	9,229	317	147	46,784
Total derivatives not designated as hedging instruments	$9,165	$9,167	$391,250	$5,140	$4,970	$306,616

The gains (losses) included in the consolidated statements of income and in other comprehensive income, on a pre-tax basis, related to interest rate derivatives designated as hedges of cash flows were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Amount of loss reclassified from accumulated other comprehensive loss to interest expense	$(1,674)	$(1,637)	$(4,986)	$(5,231)
Amount of gain (loss) recognized in other comprehensive income	2,155	(4,818)	(12,511)	(1,443)

There were no net gains or losses related to cash flow hedge ineffectiveness recognized during the three and nine months ended September 30, 2014 and 2013. The accumulated net after-tax losses related to effective cash flow hedges included in accumulated other comprehensive loss were $10.6 million and $6.3 million at September 30, 2014 and December 31, 2013, respectively.

Amounts reported in accumulated other comprehensive loss related to cash flow interest rate derivatives are reclassified to interest expense as interest payments are made on the hedged variable interest rate liabilities. Valley estimates that $7.5 million will be reclassified as an increase to interest expense over the next twelve months.

The gains (losses) included in the consolidated statements of income related to interest rate derivatives designated as hedges of fair value were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Derivative - interest rate swaps:				
Interest income	$116	$22	$43	$544
Interest expense	(84)	(108)	5,748	(382)
Hedged item - loans, deposits and long-term borrowings:				
Interest income	$(116)	$(22)	$(43)	$(544)
Interest expense	45	101	(5,755)	380

During the three and nine months ended September 30, 2014 and 2013, the amounts recognized in non-interest expense related to ineffectiveness of fair value hedges were immaterial. Valley recognized a net reduction to interest expense of $183 thousand for the three months ended September 30, 2013, and $100 thousand and $470 thousand for the nine months ended September 30, 2014 and 2013, respectively, related to Valley's fair value hedges on brokered time deposits, which include net settlements on the derivatives. The fair value hedges on brokered time deposits expired in March 2014.

The net gains (losses) included in the consolidated statements of income related to derivative instruments not designated as hedging instruments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Non-designated hedge interest rate derivatives				
Other non-interest expense	$44	$(1,216)	$(172)	$(126)

Credit Risk Related Contingent Features. By using derivatives, Valley is exposed to credit risk if counterparties to the derivative contracts do not perform as expected. Management attempts to minimize counterparty credit risk through credit approvals, limits, monitoring procedures and obtaining collateral where appropriate. Credit risk exposure associated with derivative contracts is managed at Valley in conjunction with Valley's consolidated counterparty risk management process. Valley's counterparties and the risk limits monitored by management are periodically reviewed and approved by the Board of Directors.

Valley has agreements with its derivative counterparties providing that if Valley defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Valley could also be declared in default on its derivative counterparty agreements. Additionally, Valley has an agreement with several of its derivative counterparties that contains provisions that require Valley's debt to maintain an investment grade credit rating from each of the major credit rating agencies, from which it receives a credit rating. If Valley's credit rating is reduced below investment grade or such rating is withdrawn or suspended, then the counterparty could terminate the derivative positions, and Valley would be required to settle its obligations under the agreements. As of September 30, 2014, Valley was in compliance with all of the provisions of its derivative counterparty agreements. As of September 30, 2014, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements was $11.9 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties. At September 30, 2014, Valley had $31.1 million in collateral posted with its counterparties.

Note 15. Balance Sheet Offsetting

Certain financial instruments, including derivatives (consisting of interest rate caps and swaps) and repurchase agreements (accounted for as secured long-term borrowings), may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. Valley is party to master netting arrangements with its financial institution counterparties; however, Valley does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of cash or marketable investment securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. Master repurchase agreements which include “right of set-off” provisions generally have a legally enforceable right to offset recognized amounts. In such cases, the collateral would be used to settle the fair value of the repurchase agreement should Valley be in default. The table below presents information about Valley’s financial instruments that are eligible for offset in the consolidated statements of financial condition as of September 30, 2014 and December 31, 2013.

				Gross Amounts Not Offset		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Financial Instruments	Cash Collateral	Net Amount
	(in thousands)					
September 30, 2014						
Assets:						
Interest rate caps and swaps	$14,924	$—	$14,924	$(6,047)	$—	$8,877
Liabilities:						
Interest rate caps and swaps	$23,622	$—	$23,622	$(6,047)	$(17,575)	$—
Repurchase agreements	520,000	—	520,000	—	(520,000)*	—
Total	$543,622	$—	$543,622	$(6,047)	$(537,575)	$—
December 31, 2013						
Assets:						
Interest rate caps and swaps	$14,805	$—	$14,805	$(8,284)	$—	$6,521
Liabilities:						
Interest rate caps and swaps	$20,439	$—	$20,439	$(8,284)	$(12,155)	$—
Repurchase agreements	520,000	—	520,000	—	(520,000)*	—
Total	$540,439	$—	$540,439	$(8,284)	$(532,155)	$—

* Represents fair value of non-cash pledged investment securities.

Note 16. Income Taxes

During the nine months ended September 30, 2014, Valley recorded a $8.3 million tax benefit (as a component of its total income tax expense) related to the reduction in its reserve for unrecognized tax benefits. The reduction was primarily due to an income tax audit resolution related to the valuation of certain depreciable property. Pursuant to ASC Topic 740, “Income Taxes,” a change in the measurement of a tax position taken in a prior annual period is recognized as a discrete event in the period in which it occurs.

Note 17. Business Segments

The information under the caption “Business Segments” in Management’s Discussion and Analysis of the Financial Condition and Results of Operations is incorporated herein by reference.

Item 2. Management’s Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

The following MD&A should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. The words "Valley," the "Company," "we," "our" and "us" refer to Valley National Bancorp and its wholly owned subsidiaries, unless we indicate otherwise. Additionally, Valley’s principal subsidiary, Valley National Bank, is commonly referred to as the “Bank” in this MD&A.

The MD&A contains supplemental financial information, described in the sections that follow, which has been determined by methods other than U.S. generally accepted accounting principles (U.S. GAAP) that management uses in its analysis of our performance. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance, our business and performance trends and facilitates comparisons with the performance of others in the financial services industry. These non-GAAP financial measures should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP. These non-GAAP financial measures may also be calculated differently from similar measures disclosed by other companies.

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management’s confidence and strategies and management’s expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as “should,” “expect,” “believe,” “view,” “opportunity,” “allow,” “continues,” “reflects,” “typically,” “usually,” “anticipate,” or similar statements or of such terms. Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements in addition to those risk factors disclosed in Valley’s Annual Report on Form 10-K for the year ended December 31, 2013, include, but are not limited to:

- a severe decline in the general economic conditions of New Jersey, the New York Metropolitan area and Florida;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- less than expected cost savings from long-term borrowings that mature from 2015 to 2017;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;
- claims and litigation pertaining to fiduciary responsibility, contractual issues, environmental laws and other matters;
- our inability to pay dividends at current levels, or at all, because of inadequate future earnings, regulatory restrictions or limitations, and changes in the composition of qualifying regulatory capital and minimum capital requirements (including those resulting from the U.S. implementation of Basel III requirements);
- higher than expected loan losses within one or more segments of our loan portfolio;
- declines in value in our investment portfolio, including additional other-than-temporary impairment charges on our investment securities;
- unexpected significant declines in the loan portfolio due to the lack of economic expansion, increased competition, large prepayments or other factors;
- unanticipated credit deterioration in our loan portfolio;

- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- higher than expected tax rates, including increases resulting from changes in tax laws, regulations and case law;
- an unexpected decline in real estate values within our market areas;
- higher than expected FDIC insurance assessments;
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships;
- lack of liquidity to fund our various cash obligations;
- unanticipated reduction in our deposit base;
- potential acquisitions that may disrupt our business;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations) subject us to additional regulatory oversight which may result in higher compliance costs and/or require us to change our business model;
- changes in accounting policies or accounting standards;
- our inability to promptly adapt to technological changes;
- our internal controls and procedures may not be adequate to prevent losses;
- the inability to realize expected revenue synergies from the 1st United Bancorp, Inc. merger in the amounts or in the timeframe anticipated;
- costs or difficulties relating to the 1st United Bancorp, Inc. integration matters might be greater than expected;
- inability to retain customers and employees, including those of 1st United Bancorp, Inc.;
- lower than expected cash flows from purchased credit-impaired loans;
- cyber attacks, computer viruses or other malware that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage our systems; and
- other unexpected material adverse changes in our operations or earnings.

Critical Accounting Policies and Estimates

Valley’s accounting policies are fundamental to understanding management’s discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2013. We identified our policies on the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Management has reviewed the application of these policies with the Audit Committee of Valley’s Board of Directors. Our critical accounting policies are described in detail in Part II, Item 7 in Valley’s Annual Report on Form 10-K for the year ended December 31, 2013.

New Authoritative Accounting Guidance

See Note 5 to the consolidated financial statements for a description of new authoritative accounting guidance including the respective dates of adoption and effects on results of operations and financial condition.

Executive Summary

Company Overview. At September 30, 2014, Valley had consolidated total assets of approximately $16.7 billion, total net loans of $12.1 billion, total deposits of $11.9 billion and total shareholders' equity of $1.6 billion. We have grown both in asset size and locations significantly over the past several years primarily through bank acquisitions, and, to a much lesser extent, de novo branch expansion. After our recent bank acquisition in November 2014, our commercial bank operations include branch office locations in northern and central New Jersey and the New York City Boroughs of Manhattan, Brooklyn, Queens, and Long Island and southeast and central Florida. Of our current 224 branch network, 72 percent, 19 percent and 9 percent of the branches are located in New Jersey, New York and Florida, respectively.

Acquisition of 1st United Bancorp, Inc. (1st United). On November 1, 2014, Valley acquired 1st United and its wholly-owned subsidiary, 1st United Bank, a commercial bank with approximately $1.7 billion in assets, $1.2 billion in loans, and $1.4 billion in deposits, before purchase accounting adjustments. The 1st United acquisition brings to Valley a 20 branch network covering some of the most attractive urban banking markets in Florida. The branch network includes locations throughout southeast Florida, the Treasure Coast, central Florida and central Gulf Coast regions. We are very excited about this opportunity to expand for the first time into one of the premiere growth markets of the United States, and to add 1st United's experienced banking team, competitive positioning, and attractive client base as Valley's foundation for future growth opportunities in the Florida region.

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

See Item 1 of Valley's Annual Report on Form 10-K for the year ended December 31, 2013 for more details regarding our past merger activity.

Quarterly Results. Net income for the third quarter of 2014 was $27.7 million, or $0.14 per diluted common share, compared to $27.1 million, or $0.14 per diluted common share, for the third quarter of 2013. The $561 thousand increase in quarterly net income as compared to the same quarter one year ago was largely due to: (i) a $5.8 million decrease in the provision for credit losses largely caused by positive trends in our credit quality metrics and the economy over the last 12-month period, (ii) a $3.0 million increase in our net interest income mostly due to higher average loan balances and a 17 basis point decline in the cost of average long-term borrowings, (iii) a $3.7 million decrease in non-interest expense due to lower salary and employee benefit expense and net occupancy and equipment expense, partially offset by (iv) a $8.3 million decrease in total non-interest income mainly due to declines of $2.8 million and $2.3 million in gains on sales of residential mortgage loans originated for sale and trading gains, respectively, as well as a $1.8 million increase in the reduction to our non-interest income due to changes in the FDIC loss-share receivable and (v) a $3.5 million increase in income tax expense. See the "Net Interest Income," "Non-Interest Income," "Non-Interest Expense," and "Income Tax Expense" sections below for more details on the items above impacting our third quarter 2014 results, as well as other items discussed elsewhere in this MD&A.

Economic Overview and Indicators. During the third quarter of 2014, real gross domestic product (GDP) grew at a 3.5 percent annual rate after advancing 4.6 percent in the second quarter of 2014. The slowdown in growth from the prior quarter is not a signal of deterioration in underlying growth momentum. Rather, growth appears to be leveling off after the moderate contraction seen in the first quarter of the year, primarily impacted by adverse weather conditions and weak business fixed investment.

At the Federal Reserve's Open Market Committee (FOMC) meeting in late October 2014, the members maintained a target range of zero to 0.25 percent for its federal funds rate and ended its monthly program to purchase U.S. Treasury and mortgage-backed securities. The program ended as expected as the asset purchases were reduced to zero from $15 billion. The Committee has also maintained its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities and will continue rolling over maturing Treasury securities at auction. This policy should help preserve the accommodative financial conditions.

The pace of U.S. existing home sales essentially stalled during the first half of the year, but rebounded in the third quarter of 2014. Home sales are expected to moderately rise in the fourth quarter of 2014 given the favorable market conditions of low interest rates and consistent job growth.

Job growth remains moderate as measured by total nonfarm payrolls which continue to maintain a 3-month moving average above 200 thousand jobs. Additionally, the civilian unemployment continued its trend lower. However, there are a range of indicators that suggest a significant underutilization of labor resources in particular, average hourly earnings which remain subdued.

Consumer spending is forecasted to have advanced in the third quarter of 2014, albeit at a more modest pace than the previous quarter. Spending activity should find momentum in the coming months, as higher equity and home prices boost household wealth, along with the moderate growth in the labor market.

The 10-year U.S. Treasury note yield ended the third quarter of 2014 at 2.52 percent, 52 basis points lower compared with December 31, 2013. The spread between the 2- and 10-year U.S. Treasury note yields ended the third quarter of 2014 at 1.94 percentage points, 12 basis points lower sequentially and 72 basis points lower compared with the end of 2013.

During the third quarter of 2014, interest rates for residential mortgages declined as compared to the first half of 2014. The decline from the first half of the year did not lead to a significant increase in mortgage refinance activity during the third quarter of 2014. However, we do expect to see some pickup in activity through the end of this year and into the first quarter of 2015 based upon the current level of interest rates. We continued to see increased demand for commercial real estate and construction loans in the third quarter of 2014, especially within the New York markets. Despite the pace of economic activity and tepid wage growth, some commercial customers are expanding their operations. However, we still believe the current low interest rate environment and the underutilization of the labor market may continue to challenge our business operations and results, as highlighted throughout the remaining MD&A discussion below.

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

Selected Economic Indicators:	For the Month Ended September 30, 2014		June 30, 2014		March 30, 2014		December 31, 2013		September 30, 2013	
Unemployment rate:										
U.S.	5.90	%	6.10	%	6.70	%	6.70	%	7.60	%
New York Metro Region*	6.30	%	6.70	%	7.40	%	6.60	%	8.20	%
New Jersey	6.50	%	6.60	%	7.20	%	7.20	%	8.70	%
New York	6.10	%	6.60	%	6.90	%	7.00	%	7.50	%
Florida	6.10	%	6.20	%	6.30	%	6.30	%	6.90	%
Miami-Fort Lauderdale Metro Region	6.60	%	6.40	%	6.50	%	6.00	%	7.20	%

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	Three Months Ended September 30, 2014	June 30, 2014	March 30, 2014	December 31, 2013	September 30, 2013
	($ in millions)				
Personal income:					
New Jersey	NA	$507,339	$500,870	$497,484	$494,258
New York	NA	$1,109,298	$1,097,279	$1,082,685	$1,076,111
Florida	NA	847,539	833,230	821,681	816,902
New consumer bankruptcies:					
New Jersey	NA	0.13 %	0.10 %	0.12 %	0.14 %
New York	NA	0.08 %	0.06 %	0.08 %	0.08 %
Florida	NA	0.13 %	0.11 %	0.13 %	0.16 %
Change in home prices:					
U.S.	NA	0.90 %	0.20 %	(3.00)%	3.10 %
New York Metro Region*	NA	(0.01)%	1.51 %	2.04 %	1.15 %
Miami-Fort Lauderdale Metro Region	NA	2.24 %	3.30 %	4.43 %	2.44 %
New consumer foreclosures:					
New Jersey	NA	0.07 %	0.09 %	0.09 %	0.10 %
New York	NA	0.04 %	0.06 %	0.04 %	0.05 %
Florida	NA	0.07 %	0.09 %	0.08 %	0.10 %
Homeowner vacancy rates:					
New Jersey	1.40 %	1.70 %	1.70 %	1.90 %	2.10 %
New York	1.70 %	1.40 %	1.50 %	2.30 %	1.20 %
Florida	2.30 %	2.40 %	2.50 %	2.40 %	2.40 %

NA - not available

* As reported by the Bureau of Labor Statistics for the NY-NJ-PA Metropolitan Statistical Area.

Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of New York, S&P Indices, and the U.S. Census Bureau.

Loans. Total non-covered loans (i.e., loans which are not subject to our loss-sharing agreements with the FDIC) increased by $368.2 million, or 12.5 percent on an annualized basis, to $12.1 billion at September 30, 2014 from June 30, 2014 largely due to solid growth in both commercial real estate (including construction) loans and automobile loans of $290.3 million and $69.5 million, or 21.1 percent and 27.2 percent on an annualized basis, respectively. The continued organic growth within the commercial real estate portfolio was supplemented by a bulk purchase of third party originated multi-family loans totaling $101.9 million during September 2014. Many of the purchased loans are also beneficial in meeting our Community Reinvestment Act requirements. Other consumer loans (primarily collateralized personal lines of credit) and commercial and industrial loans also increased $23.1 million and $11.8 million, or 36.5 percent and 2.3 percent on an annualized basis, respectively, during the third quarter of 2014. The increases were partially offset by declines within the residential mortgage loan and home equity loan portfolios largely due to normal repayments and the continued slowdown in the consumer refinance market. Total covered loans (i.e., loans subject to our loss-sharing agreements with the FDIC) also decreased to $46.3 million, or 0.4 percent of our total loans, at September 30, 2014 as compared to $62.6 million at June 30, 2014 mainly due to normal collection and prepayment activity.

Our residential mortgage loan origination activity remained at moderate levels during the third quarter of 2014 largely due to the higher level of long-term market interest rates since June 2013, which has significantly reduced the level of consumer refinance activity. Total residential mortgage loan originations totaled approximately $76.4 million for the third quarter of 2014 as compared to $54.3 million and $247.9 million for the second quarter of 2014 and the third quarter of 2013, respectively. During the third quarter of 2014, Valley sold approximately $18.6

million of residential mortgages originated for sale (including $8.2 million of residential mortgage loans held for sale at June 30, 2014), which was down approximately 21 percent and 81 percent as compared to the second quarter of 2014 and third quarter of 2013, respectively. Due to the decline in sales volume (and to a lesser extent lower gain on sale margins), gains on sales of residential mortgage loans declined to $405 thousand for the third quarter of 2014 as compared to $811 thousand for the second quarter of 2014 and $2.7 million for the third quarter of 2013. Despite a recent incremental decrease in market interest rates and the expectation that there may be some renewed increase in consumer demand for new and refinanced mortgage loans, we do not anticipate a significant increase in our refinanced mortgage loan pipeline during the fourth quarter of 2014. Additionally, if market interest rates were to remain at or increase from current levels, we may elect to decrease the amount of our loans originated for sale, as the yield on such loans would be attractive to hold in our loan portfolio. See further details on our loan activities, including the covered loan portfolio, under the “Loan Portfolio” section below.

Asset Quality. Given the current state of the national and local economy, labor markets, and the average level of delinquency rates reported by the banking industry, we believe our loan portfolio’s credit performance remained at an acceptable level at September 30, 2014. Our past due loans and non-accrual loans, discussed further below, exclude PCI loans. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are accounted for on a pool basis and are not subject to delinquency classification in the same manner as loans originated by Valley.

Total non-PCI loan portfolio delinquencies (including loans past due 30 days or more and non-accrual loans) as a percentage of total loans declined to 0.75 percent at September 30, 2014 compared to 0.88 percent at June 30, 2014. Of the 0.75 percent in delinquencies at September 30, 2014, 0.11 percent, or 13.0 million, represented performing matured loans in the normal process of renewal. Non-accrual loans (excluding non-performing loans held for sale) decreased to $59.9 million, or 0.49 percent of our entire loan portfolio of $12.2 billion, at September 30, 2014 as compared to $68.4 million, or 0.58 percent of total loans, at June 30, 2014. Overall, our non-performing assets (which include non-performing loans held for sale) decreased by 8.4 percent to $88.8 million at September 30, 2014 as compared to $96.9 million at June 30, 2014 largely due to the decline in non-accrual loans. At September 30, 2014, our loans held for sale included one non-performing commercial real estate loan totaling approximately $7.4 million, after a valuation write-down of $500 million recorded during the third quarter of 2014. See the "Non-Performing Assets" section below for additional information regard our asset quality and the changes in our non-performing loans held for sale during the third quarter of 2014.

Our lending strategy is based on underwriting standards designed to maintain high credit quality and we remain optimistic regarding the overall future performance of our loan portfolio. However, due to the potential for future credit deterioration caused by the unpredictable future strength of the U.S. economic and housing recoveries and the labor markets, management cannot provide assurance that our non-performing assets will remain at, or decline from, the levels reported as of September 30, 2014.

Deposits and Other Borrowings. The mix of the deposit categories of total average deposits for the third quarter of 2014 remained relatively unchanged as compared to the second quarter of 2014. Non-interest bearing deposits represented approximately 31 percent of total average deposits for the three months ended September 30, 2014, while savings, NOW and money market accounts were 50 percent and time deposits were 19 percent. Overall, average deposits totaling $11.6 billion for the third quarter of 2014 increased by $258.5 million, or 2.2 percent, as compared to the second quarter of 2014. The increase was largely due to a $182.3 million increase in average savings, NOW and money market account balances caused, in part, by an increase in brokered money market account balances (with agreed upon terms of up to five years) used as a larger part of our loan growth funding strategy and other liquidity needs during the both the second and third quarters of 2014. Valley may continue to use varying levels of these low cost brokered funds as core deposits for future funding purposes based upon their attractive terms and conditions relative to alternative short and long-term borrowings. Average non-interest bearing deposits and time deposits also increased by $52.8 million and $23.4 million, or 1.5 percent and 1.1 percent, respectively, as compared to the second quarter of 2014 mostly caused by normal fluctuations in certain large non-retail customer demand deposits and slightly higher interest rates offered on most of our certificate of deposit products, respectively.

Average short-term borrowings decreased $92.9 million, or 26.2 percent to $261.8 million for the three months ended September 30, 2014 as compared to the second quarter of 2014 largely due to a decline in both short-term FHLB borrowings and overnight federal fund purchased caused, in part, by the aforementioned increase in brokered money market accounts used for loan funding and other liquidity needs.

Average long-term borrowings (which include junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of condition) totaled $2.8 billion for both the third and second quarters of 2014. At September 30, 2014, our long-term borrowings included approximately $1.5 billion of high cost borrowings (primarily from the Federal Home Loan Bank of New York) which mature beginning in 2015 through 2017. These maturities with an average cost of 4.13 percent are likely to substantially decrease the level of our funding costs over such periods and beyond, dependent on the level of market interest rates and our ability to obtain similar types and amounts of debt instruments. During 2013, we entered into several forward starting interest rate swap derivative transactions to hedge the risk of an increase in current market interest rates before the maturity of $482 million of these borrowings.

Selected Performance Indicators. The following table presents our annualized performance ratios for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Return on average assets	0.67 %	0.68 %	0.74 %	0.77 %
Return on average shareholders' equity	7.00	7.11	7.76	8.12
Return on average tangible shareholders' equity (ROATE)	9.86	10.24	11.00	11.71

ROATE, which is a non-GAAP measure, is computed by dividing net income by average shareholders' equity less average goodwill and average other intangible assets, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	($ in thousands)			
Net income	$27,682	$27,121	$91,037	$92,353
Average shareholders' equity	1,581,877	1,525,939	1,564,585	1,515,687
Less: Average goodwill and other intangible assets	(459,210)	(466,495)	(461,249)	(463,798)
Average tangible shareholders' equity	$1,122,667	$1,059,444	$1,103,336	$1,051,889
Annualized ROATE	9.86 %	10.24 %	11.00 %	11.71 %

Management believes the ROATE measure provides information useful to management and investors in understanding our underlying operational performance, our business and performance trends and the measure facilitates comparisons with the performance of others in the financial services industry. This non-GAAP financial measure should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP. These non-GAAP financial measures may also be calculated differently from similar measures disclosed by other companies.

All of the above ratios are, from time to time, impacted by net trading gains and losses, net gains and losses on securities transactions, net gains on sales of loans and net impairment losses on securities recognized in non-interest income. These amounts can vary widely from period to period due to, among other factors, the level of sales of our investment securities classified as available for sale and residential mortgage loan originations, the results of our quarterly impairment analysis of the held to maturity and available for sale investment portfolios, and the recognition of non-cash gains or losses on the change in the fair value of our trading securities portfolio. See the “Non-Interest Income” section below for more details.

Net Interest Income

Net interest income on a tax equivalent basis totaling $116.6 million for the third quarter of 2014 decreased $2.8 million as compared to the second quarter of 2014 and increased $3.0 million as compared to the third quarter of 2013. Interest income on a tax equivalent basis decreased to $157.4 million for the third quarter of 2014 as compared to $159.2 million for the second quarter of 2014. The $1.8 million decrease from the second quarter of 2014 was mainly due to decreases of 10 basis points and 6 basis points in the yield on average loans and taxable investment securities, respectively, partially offset by a $161.5 million increase in average loans. Interest expense increased $1.0 million to $40.8 million for the three months ended September 30, 2014. The increase in interest expense from the second quarter of 2014 was primarily driven by one additional day during the third quarter, slightly higher interest rates offered on most of our deposit products, as well as a $205.7 million increase in average interest bearing deposits for the third quarter of 2014. The increase in average interest bearing deposits was largely due to higher brokered money market account balances, which are used as part of our low cost funding strategies for loan growth, as well as other liquidity needs.

Average interest earning assets increased to $14.8 billion for the third quarter of 2014 as compared to approximately $14.2 billion for the third quarter of 2013 largely due to an increase of $697.3 million in average loans, partially offset by declines of $88.3 million and $48.3 million in average investment securities and average federal funds sold and other interest bearing deposits (mostly held in overnight interest bearing deposits at the Federal Reserve Bank of New York), respectively. Average loans increased mainly due to strong commercial real estate loan growth, as well as solid automobile volumes over the twelve-month period since September 30, 2013. The declines in both average investment securities and average federal funds sold and other interest bearing deposits was mostly caused by lower excess liquidity due to the aforementioned growth within our loan portfolio. Compared to the second quarter of 2014, average interest earning assets increased by $162.5 million from $14.6 billion largely due to increases of $161.5 million and $36.5 million in average loans and average federal funds sold and other interest bearing deposits, respectively, partially offset by lower average investment securities. Our organic loan growth was supplemented by a bulk purchase of third party originated multi-family loans totaling $101.9 million during September 2014.

Average interest bearing liabilities increased $405.6 million to $11.1 billion for the third quarter of 2014 as compared to the third quarter of 2013 mainly due to increases in average balances for savings, NOW and money market accounts (resulting mostly from brokered money market accounts) and short-term funding through the use of overnight federal funds purchased and short-term FHLB borrowings, partially offset by the normal run-off of maturing high cost certificate of deposit balances over the past twelve month period and a decline in average long-term borrowings due to our partial and full redemptions of the 7.75 percent junior subordinated debentures during July and October 2013, respectively. Compared to the second quarter of 2014, average interest bearing liabilities increased $114.4 million in the third quarter of 2014 mostly due to an increase in average savings, NOW and money market accounts due to our use of low cost brokered money market accounts, partially offset by the resulting decline in the use of short-term FHLB borrowings and overnight federal fund purchased.

The net interest margin on a tax equivalent basis was 3.16 percent for the third quarter of 2014, a decrease of 11 basis points and 4 basis points from 3.27 percent and 3.20 percent in the linked second quarter of 2014 and the three months ended September 30, 2013, respectively. The yield on average interest earning assets decreased by 9 basis points on a linked quarter basis. The lower yield was mainly a result of the aforementioned decrease in the yield on average loans largely caused by new and refinanced loan volumes at current interest rates that remain relatively low compared to the overall yield of our loan portfolio, combined with a total decrease of $1.7 million in interest income related to both loan recovery income and prepayment penalty fees. The level of yields on new loans has been negatively impacted by the low market interest rates caused not only from the Fed's current monetary policy, but also from intense competition in our markets for quality commercial customers. Additionally, our higher yielding PCI loan portfolio declined $45.9 million, or 6.8 percent from June 30, 2014 to $629.7 million at September 30, 2014 due to normal repayment and prepayment activity. During the third quarter, our yield on average taxable investment securities also declined largely due to a higher level of premium amortization on residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises. The overall cost of average interest bearing liabilities increased by

2 basis points from 1.45 percent in the linked second quarter of 2014 primarily due to one additional day during the third quarter, as

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well as slightly higher rates offered on the majority of our deposit products. Our cost of total deposits was 0.41 percent for the third quarter of 2014 compared to 0.39 percent for the three months ended June 30, 2014.

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

The following table reflects the components of net interest income for the three months ended September 30, 2014, June 30, 2014 and September 30, 2013:

Quarterly Analysis of Average Assets, Liabilities and Shareholders' Equity and
Net Interest Income on a Tax Equivalent Basis

	Three Months Ended September 30, 2014			June 30, 2014			September 30, 2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)								
Assets									
Interest earning assets:									
Loans (1)(2)	$11,907,275	$135,115	4.54 %	$11,745,817	$136,344	4.64 %	$11,209,929	$134,168	4.79 %
Taxable investments (3)	2,203,431	16,656	3.02	2,223,374	17,099	3.08	2,271,825	15,957	2.81
Tax-exempt investments (1)(3)	548,548	5,611	4.09	564,123	5,692	4.04	568,420	5,486	3.86
Federal funds sold and other interest bearing deposits	104,580	48	0.18	68,066	27	0.16	152,929	96	0.25
Total interest earning assets	14,763,834	157,430	4.27	14,601,380	159,162	4.36	14,203,103	155,707	4.39
Allowance for loan losses	(105,714)			(109,585)			(121,198)		
Cash and due from banks	283,859			261,433			339,836		
Other assets	1,555,032			1,561,967			1,571,289		
Unrealized losses on securities available for sale, net	(13,675)			(26,827)			(27,430)		
Total assets	$16,483,336			$16,288,368			$15,965,600		
Liabilities and shareholders' equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$5,830,967	$4,860	0.33 %	$5,648,655	$4,530	0.32 %	$5,393,914	$4,359	0.32 %
Time deposits	2,169,590	6,981	1.29	2,146,171	6,683	1.25	2,274,061	7,279	1.28
Total interest bearing deposits	8,000,557	11,841	0.59	7,794,826	11,213	0.58	7,667,975	11,638	0.61
	261,801	218	0.33	354,653	304	0.34	147,658	94	0.25

Short-term borrowings									
Long-term borrowings (4)	2,839,365	28,732	4.05	2,837,849	28,228	3.98	2,880,514	30,378	4.22
Total interest bearing liabilities	11,101,723	40,791	1.47	10,987,328	39,745	1.45	10,696,147	42,110	1.57
Non-interest bearing deposits	3,640,054			3,587,292			3,552,583		
Other liabilities	159,682			146,919			190,931		
Shareholders' equity	1,581,877			1,566,829			1,525,939		
Total liabilities and shareholders' equity	$16,483,336			$16,288,368			$15,965,600		
Net interest income/interest rate spread (5)		$116,639	2.80%		$119,417	2.91%		$113,597	2.82%
Tax equivalent adjustment		(1,971)			(1,998)			(1,928)	
Net interest income, as reported		$114,668			$117,419			$111,669	
Net interest margin (6)			3.11%			3.22%			3.14%
Tax equivalent effect			0.05%			0.05%			0.06%
Net interest margin on a fully tax equivalent basis (6)			3.16%			3.27%			3.20%

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The following table reflects the components of net interest income for the nine months ended September 30, 2014 and 2013:

Analysis of Average Assets, Liabilities and Shareholders' Equity and
Net Interest Income on a Tax Equivalent Basis

	Nine months ended September 30,					
	2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)					
Assets						
Interest earning assets:						
Loans (1)(2)	$11,757,957	$402,545	4.56 %	$11,082,306	$401,239	4.83 %
Taxable investments (3)	2,215,162	52,001	3.13	2,192,292	46,555	2.83
Tax-exempt investments (1)(3)	560,469	16,974	4.04	574,519	16,751	3.89
Federal funds sold and other interest bearing deposits	77,783	102	0.17	326,066	614	0.25
Total interest earning assets	14,611,371	471,622	4.30	14,175,183	465,159	4.38
Allowance for loan losses	(110,126)			(125,161)		
Cash and due from banks	273,348			386,364		
Other assets	1,577,516			1,479,286		
Unrealized losses on securities available for sale, net	(26,458)			(12,173)		
Total assets	$16,325,651			$15,903,499		
Liabilities and shareholders' equity						
Interest bearing liabilities:						
Savings, NOW and money market deposits	$5,647,871	$13,671	0.32 %	$5,329,405	$13,430	0.34 %
Time deposits	2,159,402	20,196	1.25	2,394,488	23,184	1.29
Total interest bearing deposits	7,807,273	33,867	0.58	7,723,893	36,614	0.63
Short-term borrowings	331,737	840	0.34	142,415	378	0.35
Long-term borrowings (4)	2,837,837	84,843	3.99	2,884,544	90,598	4.19
Total interest bearing liabilities	10,976,847	119,550	1.45	10,750,852	127,590	1.58
Non-interest bearing deposits	3,616,587			3,527,829		
Other liabilities	167,632			109,131		
Shareholders' equity	1,564,585			1,515,687		
Total liabilities and shareholders' equity	$16,325,651			$15,903,499		
Net interest income/interest rate spread (5)		$352,072	2.85 %		$337,569	2.80 %
Tax equivalent adjustment		(5,961)			(5,977)	
Net interest income, as reported		$346,111			$331,592	
Net interest margin (6)			3.16 %			3.12 %
Tax equivalent effect			0.05 %			0.06 %
Net interest margin on a fully tax equivalent basis (6)			3.21 %			3.18 %

(1) Interest income is presented on a tax equivalent basis using a 35 percent federal tax rate.
(2) Loans are stated net of unearned income and include non-accrual loans.

(3) The yield for securities that are classified as available for sale is based on the average historical amortized cost.

(4) Includes junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of financial condition.

(5) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities and is presented on a fully tax equivalent basis.

(6) Net interest income as a percentage of total average interest earning assets.

The following table demonstrates the relative impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in rates earned and paid by us on such assets and liabilities. Variances resulting from a combination of changes in volume and rates are allocated to the categories in proportion to the absolute dollar amounts of the change in each category.

Change in Net Interest Income on a Tax Equivalent Basis

	Three Months Ended September 30, 2014 Compared with September 30, 2013			Nine Months Ended September 30, 2014 Compared with September 30, 2013		
	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate	Total Change
	(in thousands)					
Interest Income:						
Loans*	$8,110	$(7,163)	$947	$23,759	$(22,453)	$1,306
Taxable investments	(491)	1,190	699	490	4,956	5,446
Tax-exempt investments*	(196)	321	125	(416)	639	223
Federal funds sold and other interest bearing deposits	(26)	(22)	(48)	(366)	(146)	(512)
Total increase (decrease) in interest income	7,397	(5,674)	1,723	23,467	(17,004)	6,463
Interest Expense:						
Savings, NOW and money market deposits	361	140	501	783	(542)	241
Time deposits	(336)	38	(298)	(2,219)	(769)	(2,988)
Short-term borrowings	89	35	124	480	(18)	462
Long-term borrowings and junior subordinated debentures	(429)	(1,217)	(1,646)	(1,449)	(4,306)	(5,755)
Total decrease in interest expense	(315)	(1,004)	(1,319)	(2,405)	(5,635)	(8,040)
Total increase (decrease) in net interest income	$7,712	$(4,670)	$3,042	$25,872	$(11,369)	$14,503

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

Non-Interest Income

The following table presents the components of non-interest income for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Trust and investment services	$2,411	$2,138	$7,097	$6,372
Insurance commissions	3,632	4,224	12,621	12,276
Service charges on deposit accounts	5,722	6,362	17,109	17,874
Gains on securities transactions, net	103	9	102	4,008
Trading (losses) gains, net				
Trading securities	(35)	100	(78)	34
Junior subordinated debentures carried at fair value	—	2,131	—	(275)
Total trading (losses) gains, net	(35)	2,231	(78)	(241)
Fees from loan servicing	1,806	1,851	5,262	5,089
(Losses) gains on sales of loans, net	(95)	2,729	1,497	32,155
Gains (losses) on sales of assets, net	83	(1,010)	211	(600)
Bank owned life insurance	1,571	1,553	4,593	4,318
Change in FDIC loss-share receivable	(3,823)	(2,005)	(11,610)	(7,180)
Other	2,680	4,308	9,183	12,509
Total non-interest income	$14,055	$22,390	$45,987	$86,580

Net gains on securities transactions decreased $3.9 million for the nine months ended September 30, 2014 as compared with the same period in 2013 mostly due to net gains totaling approximately $4.0 million during the nine months ended September 30, 2013 caused, in part, by the sale of zero percent yielding Freddie Mac and Fannie Mae perpetual preferred stock classified as available for sale with amortized cost totaling $941 thousand. See Note 7 to the consolidated financial statements for more details on our gross gains and losses on securities transactions for each period.

Net trading gains decreased $2.3 million to a net loss of $35 thousand for the three months ended September 30, 2014 as compared to a net gain of approximately $2.2 million for the three months ended September 30, 2013. The decrease was primarily due to positive mark to market valuation adjustments of our 7.75 percent junior subordinated debentures carried at fair value recognized during the third quarter of 2013. These debentures were fully redeemed in October 2013.

Net gains on sales of loans decreased $2.8 million and $30.7 million for the three and and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013 mostly due to a large decline in loans originated for sale, as residential mortgage loan originations were significantly slowed by the increase in the level of market interest rates since the second half of 2013, and, to a much lesser extent, our decision to hold a higher percentage of the new originations in our loan portfolio. As a result, we sold only $75 million of residential mortgages during the nine months ended September 30, 2014 as compared to approximately $1.0 billion of residential mortgage loans sold during the same period in 2013. In addition, residential mortgage loan originations (including both new and refinanced loans) declined $1.1 billion to $195 million for the nine months ended September 30, 2014 as compared to $1.3 billion of residential mortgage loans during the same period in 2013. Our net gains on sales of loans for each period are comprised of both gains on sales of residential mortgages and the net change in the mark to market gains and losses on our loans held for sale carried at fair value at each period end. The net change in the fair value of loans held for sale resulted in $316 thousand of net gains and $4.6 million of net losses for the three and nine months ended September 30, 2013, respectively. The net change in the fair value of

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loans held for sale for the three and nine months ended September 30, 2014 did not have a material impact on the net losses and gains on sale of loans during these periods. Loan sales and the valuation write-downs related to non-performing commercial loans held for sale also resulted in an aggregate net loss of $500 thousand and $632 thousand recognized during the three and nine months ended September 30, 2014, respectively. See further discussion of non-performing loans held for sale under the "Non-Performing Assets" section below. Due to the current level of market interest rates and level of consumer demand, we do not expect a material change in our gains on the sales of residential mortgage loans originated for sale during the fourth quarter of 2014 as compared to the third quarter of 2014. Our decision to either sell or retain our mortgage loan production is dependent upon, amongst other factors, the levels of interest rates, consumer demand, the economy and our ability to maintain the appropriate level of interest rate risk on our balance sheet. See further discussions of our residential mortgage loan origination activity under “Loans” in the executive summary section of this MD&A above and the fair valuation of our loans held for sale at Note 6 of the consolidated financial statements.

Net gains on sale of assets increased $1.1 million and $811 thousand for the three and nine months ended September 30, 2014, respectively, as compared to net losses for the same periods in 2013 mainly due to valuation write downs totaling $1.1 million on our other repossessed assets (primarily related to one aircraft) at September 30, 2013.

The Bank and the FDIC share in the losses on loans and real estate owned as part of the loss-sharing agreements entered into on both of our previous FDIC-assisted transactions. The asset arising from the loss-sharing agreements is referred to as the “FDIC loss-share receivable” in our consolidated statements of financial condition. Within the non-interest income category, we may recognize income or expense related to the change in the FDIC loss-share receivable resulting from (i) a change in the estimated credit losses on the pools of covered loans, (ii) income from reimbursable expenses incurred during the period, (iii) accretion of the discount resulting from the present value of the receivable recorded at the acquisition dates, and (iv) prospective recognition of decreases in the receivable attributable to better than originally estimated cash flows on certain covered loan pools. The aggregate effect of changes in the FDIC loss-share receivable amounted to a $3.8 million and $11.6 million net reduction in non-interest income for the three and nine months ended September 30, 2014, respectively, as compared to $2.0 million and $7.2 million for the same periods in 2013, respectively. The larger reduction for the nine months ended September 30, 2014 was largely due to the negative (credit) provision for losses on covered loans during the second quarter of 2014 resulting in a $4.4 million decrease in the estimated losses covered by the loss-sharing agreements with the FDIC. See the “FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets” section below in this MD&A and Note 8 to the consolidated financial statements for further details.

Other non-interest income decreased $1.6 million and $3.3 million for three and nine months ended September 30, 2014, respectively, as compared to the same periods of 2013. The decline during the third quarter of 2014 as compared to the third quarter of 2013 was largely due to an increase in the net losses on sales and valuation write-downs of both covered and non-covered other real estate owned properties. For the comparative nine-month periods of 2014 and 2013, the decrease was also partly due to a $930 thousand decline in other income from insurance related claims by the Bank.

Non-Interest Expense

The following table presents the components of non-interest expense for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Salary and employee benefits expense	$45,501	$47,434	$140,683	$145,739
Net occupancy and equipment expense	17,011	18,430	55,708	55,498
FDIC insurance assessment	3,534	3,909	10,214	12,836
Amortization of other intangible assets	2,201	2,264	6,898	5,794
Professional and legal fees	3,609	4,112	11,671	12,289
Advertising	1,664	1,203	2,814	4,855
Other	17,290	17,109	51,934	48,235
Total non-interest expense	$90,810	$94,461	$279,922	$285,246

Salary and employee benefits expense decreased $1.9 million and $5.1 million for the three and nine months ended September 30, 2014 as compared to the same periods in 2013 largely due to a decrease in our pension expense related to the freeze of our qualified and non-qualified plans (see Note 11 to the consolidated financial statements for additional information) and lower medical health insurance expense. Our health care expenses are at times volatile due to self-funding of a large portion of our insurance plan and these medical expenses are expected to fluctuate based on our plan experience into the foreseeable future. These decreases were partially offset by increases in 401(k) expense (caused by the increase in the employer matching contribution effective January 1, 2014) and cash incentive compensation accruals.

Net occupancy and equipment expenses decreased $1.4 million for the three months ended September 30, 2014 as compared to the same period in 2013 due to several incremental declines, including depreciation, rental, cleaning, repairs and maintenance expenses.

FDIC insurance assessments decreased $2.6 million for the nine months ended September 30, 2014 as compared to the same periods in 2013 mostly due to adjustments to our assessment made by the FDIC that increased the expense for the second quarter of 2013.

Amortization of other intangible assets increased $1.1 million for the nine months ended September 30, 2014 as compared to the same period in 2013 mainly due to a decrease in the net recoveries of impairment charges on certain loan servicing rights during the nine months ended September 30, 2014, partially offset by a moderate increases in amortization expense of both core deposit intangibles and loan servicing rights. Valley recognized net recoveries of impairment charges on its loan servicing rights totaling $273 thousand and $2.4 million for the nine months ended September 30, 2014 and 2013, respectively.

Advertising expense increased $461 thousand and decreased $2.0 million during the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase from the third quarter of 2013 was mostly due to an increase residential mortgage loans marketing campaigns and to a lesser extent new promotional campaigns related to certificates of deposit. The decrease for the nine month period of 2014 was mainly caused by a lower volume of promotional activity for our residential mortgage refinance programs during the nine months ended September 30, 2014 partly due to the maturation of the refinance programs in our markets and the slowdown in consumer refinance activity caused by the higher level of interest rates since June 2013.

Other non-interest expense increased $3.7 million for the nine months ended September 30, 2014 as compared to the same period in 2013 largely due to an increase in the amortization of tax credit investments totaling $7.7 million for the nine months ended September 30, 2014, partially offset by lower OREO expense. Amortization of tax credit investments increased mostly due to valuation write-downs related to such investments during the second quarter of 2014 which are infrequent in nature, as well as an increase in tax-advantaged investments over the last 12 months. These investments, while negatively impacting the level of our operating expenses and efficiency ratio, directly reduce our income tax expense and effective tax rate. Other significant components of other non-interest expense include data processing, telephone, service fees, debit card expenses, postage, stationery, insurance, and title search fees which all fluctuated by immaterial amounts as compared to the nine months ended September 30, 2013.

We also incurred non-interest expenses totaling $480 thousand and $1.1 million during the three and nine months ended September 30, 2014, respectively, (primarily within professional and legal fees) related to the acquisition of 1st United on November 1, 2014. See Note 2 to the consolidated financial statements for further details regarding the acquisition.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus total non-interest income. Our efficiency ratio was 70.55 percent and 71.39 percent for the three and nine months ended September 30, 2014, respectively, as compared to 70.46 percent and 68.21 percent for the same periods in 2013. The increase in our efficiency ratio over the last twelve month period is largely due to a significant decline in net gains on the sales of residential mortgage loans. Additionally, our efficiency ratio is negatively impacted by the aforementioned amortization of tax-advantaged investments within our non-interest expense that result in tax credits that reduce our income tax expense, as well as reductions in our non-interest income related to the changes in our FDIC loss-share receivable caused by, from time to time, credits to our provision for losses on covered loans. Exclusive of such items, we strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet, including our continuous review of branch costs and opportunities to "right size" the number and size of our branch locations, and leverage new lower cost delivery channels.

We believe the efficiency ratio, which is a non-GAAP financial measure, provides a meaningful comparison of our operational performance and facilitates investors’ assessments of business performance and trends in comparison to our peers in the banking industry.

Income Taxes

Income tax expense was $10.7 million for the three months ended September 30, 2014 reflecting an effective tax rate of 27.8 percent, as compared to $7.1 million for the third quarter of 2013 reflecting an effective tax rate of 20.8 percent. The increase in effective tax rate and tax expense was primarily due to higher pre-tax income during the third quarter of 2014, as well as the release of a reserve for tax uncertainties which reduced income tax expense for the three months ended September 30, 2013.

Income tax expense was $23.2 million and $30.9 million the nine months ended September 30, 2014 and 2013, respectively. The effective rate decreased 4.8 percent to 20.3 percent for the nine months ended September 30, 2014 as compared to 25.1 percent for the same period in 2013 largely due to a $8.3 million tax benefit recorded as a component of total income tax expense during the first quarter of 2014 related to the completion of a recent income tax examination and lower pre-tax income, partially offset by the aforementioned release of a reserve for tax uncertainties during the third quarter of 2013.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management’s judgment include changes in income, tax laws and regulations, and tax planning strategies. For the fourth quarter of 2014, we anticipate that our effective tax rate will range between 27 and 29 percent.

Business Segments

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

The following tables present the financial data for each business segment for the three months ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
	($ in thousands)				
Average interest earning assets	$4,118,304	$7,763,979	$2,856,559	$—	$14,738,842
Income (loss) before income taxes	8,558	30,220	5,589	(6,031)	38,336
Annualized return on average interest earning assets (before tax)	0.83 %	1.56 %	0.78 %	N/A	1.04 %

	Three Months Ended September 30, 2013				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
	($ in thousands)				
Average interest earning assets	$3,924,651	$7,285,278	$2,993,174	$—	$14,203,103
Income (loss) before income taxes	9,325	25,416	2,868	(3,345)	34,264
Annualized return on average interest earning assets (before tax)	0.95 %	1.40 %	0.38 %	N/A	0.96 %

Consumer Lending

This segment, representing 35 percent of our loan portfolio at September 30, 2014, is mainly comprised of residential mortgage loans, home equity loans and automobile loans. The duration of the residential mortgage loan portfolio including covered loans (which represented 20.1 percent of our loan portfolio at September 30, 2014) is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans (representing 9.0 percent of total loans at September 30, 2014) is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles. The consumer lending segment also includes the Wealth Management Division, comprised of trust, asset management, insurance services, and asset-based lending support services.

Average assets for the three months ended September 30, 2014 increased $193.7 million as compared to the third quarter of 2013 largely due to solid organic automobile loan and secured personal lines of credit growth over the last 12-month period, partially offset by lower residential mortgage loan originations and outstanding balances since the third quarter of 2013 largely due to a decrease in consumer refinance activity. The growth in secured personal lines of credit was due to both new commitments and a high level of customer usage since the third quarter of 2013.

Income before income taxes decreased $767 thousand to $8.6 million for the third quarter of 2014 as compared to $9.3 million for the same quarter of 2013. The decrease was mainly caused by a decline of $949 thousand in net interest income for the third quarter of 2014 as compared to the same quarter in 2013 largely due to lower yields on new and renewed loans. Non-interest income decreased $3.3 million to $9.7 million for the third quarter of 2014 as compared to the same quarter in 2013. The decrease was primarily due to a decline in net gains on sales of residential mortgage loans (see further details in the "Non-Interest Income" section above). The negative impact of these items was partially offset by a $3.5 million decrease in non-interest expense to $13.6 million for the three months ended September 30, 2014 as compared to the same period in 2013.

The net interest margin decreased 23 basis points to 2.63 percent for the third quarter of 2014 as compared to the same quarter one year ago mainly as a result of a 25 basis point decrease in yield on average loans caused by the prolonged low level of market interest rates on new loans, partially offset by a 2 basis point decrease in costs associated with our funding sources. The decrease in our cost of funds was mainly due to a decline in average long-term borrowings caused mostly by our partial and full redemptions of the 7.75 percent junior subordinated debentures during July and October 2013, respectively, as well as the normal run-off of maturing high cost certificates of deposit balances over the past twelve months.

Commercial Lending

The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio’s interest rate characteristics, commercial lending is Valley’s business segment that is most sensitive to movements in market interest rates. Commercial and industrial loans, including $9.7 million of covered loans, totaled approximately $2.1 billion and represented 17.1 percent of the total loan portfolio at September 30, 2014. Commercial real estate loans and construction loans, including $28.9 million of covered loans, totaled 5.8 billion and represented 47.9 percent of the total loan portfolio at September 30, 2014.

Average assets for the three months ended September 30, 2014 increased $478.7 million as compared to the same quarter of 2013. This increase was primarily attributable to continued strong origination volumes in the non-PCI commercial real estate loan portfolio over the last twelve months, as well as some commercial and industrial loan growth during the second and third quarters of 2014 largely driven mostly by new loan demand in our New York markets, partially offset by a relatively high amount of repayments within our PCI loan portfolio.

For the three months ended September 30, 2014, income before income taxes increased $4.8 million to $30.2 million as compared to the same quarter in 2013 mostly due to a decrease in the provision for credit losses coupled with an increase in net interest income, partially offset by a decrease in non-interest income. The provision for credit losses related to the commercial portfolios decreased $5.7 million to $79 thousand for the third quarter of 2014 as compared to the same quarter of 2013 mainly due to better credit metrics and outlook for the loan portfolio. Net interest income increased $968 thousand to $77.5 million for the third quarter of 2014 as compared to the same quarter of 2013 largely due to the increase in average loans. Non-interest income decreased $2.1 million as compared to the third quarter of 2013 largely due to the aggregate effect of changes in the FDIC loss-share receivable.

The net interest margin decreased 22 basis points to 3.98 percent for the third quarter of 2014 as compared to the same quarter one year ago mainly as a result of a 24 basis point decrease in yield on average loans to 5.02 percent. The decrease in the yield on loans was primarily due to the new and refinanced loan volumes at current interest rates that are relatively low compared to the overall yield of our loan portfolio, as well as a large volume of higher yielding loan repayments, including PCI loans. Partially offsetting the decline in loan yields, the costs of our funding sources decreased by the 2 basis points.

Investment Management

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

Average investments decreased $136.6 million during the third quarter of 2014 as compared to the same quarter in 2013 primarily due to normal repayments on investment securities and a $48.3 million decrease in average federal funds sold. We reinvested lower amounts in investment securities and federal funds sold and other interest bearing deposits (mostly held in overnight interest bearing deposits at the Federal Reserve Bank of New York) largely due to the funding of loan growth over the last 12-month period.

For the quarter ended September 30, 2014, income before income taxes increased approximately$2.7 million to $5.6 million compared to $2.9 million for the same quarter in 2013 mostly due to a $1.3 million increase in net interest income and a $1.3 million decrease in the internal transfer expense as compared to the same period in 2013. The increase in net interest income was mainly driven higher yields on average investment securities which continued to be somewhat enhanced by reductions in both prepayments and premium amortization on certain mortgage-backed securities as compared to the third quarter of 2013, and, to a much lesser extent, our redeployment of $52.5 million in net proceeds from our sale of non-accrual debt securities in October 2013.

The net interest margin increased 26 basis points to 2.08 percent for the third quarter of 2014 as compared to the same quarter one year ago largely due to a 24 basis point increase in the yield on investments, as well as slightly lower costs associated with our funding sources.

Corporate and other adjustments

The amounts disclosed as “corporate and other adjustments” represent income and expense items not directly attributable to a specific segment, including net trading and securities gains and losses, and net impairment losses on securities not reported in the investment management segment above, interest expense related to the junior subordinated debentures issued to capital trusts, the change in fair value of Valley’s junior subordinated debentures carried at fair value (prior to their full redemption in October 2013), interest expense related to subordinated notes, as well as income and expense from derivative financial instruments.

The loss before income taxes for the corporate segment increased $2.7 million to $6.0 million for the three months ended September 30, 2014 as compared to $3.3 million for the three months ended September 30, 2013 mainly due to a $3.0 million decrease in non-interest income as compared to the third quarter of 2013. The decrease in non-interest income for the quarter ended September 30, 2014 was largely due to a decrease in net trading gains related to the change in the carrying value of our 7.75 percent junior subordinated debentures carried at fair value prior to their partial and full redemptions in July of 2013 and October 2013, respectively.

The following tables present the financial data for each business segment for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30, 2014				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
	($ in thousands)				
Average interest earning assets	$4,059,691	$7,689,844	$2,853,414	$—	$14,602,949
Income (loss) before income taxes	22,525	88,923	16,716	(13,892)	114,272
Annualized return on average interest earning assets (before tax)	0.74%	1.54%	0.78%	N/A	1.04%

	Nine Months Ended September 30, 2013				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
	($ in thousands)				
Average interest earning assets	$3,897,431	$7,184,875	$3,092,877	$—	$14,175,183
Income (loss) before income taxes	50,457	82,514	4,744	(14,444)	123,271
Annualized return on average interest earning assets (before tax)	1.73%	1.53%	0.20%	N/A	1.16%

Consumer Lending

Average assets for the nine months ended September 30, 2014 increased $162.3 million as compared to the same period in 2013 largely due to continued organic growth in automobile loan and secured personal lines of credit over the last 12-month period, partially offset by a decline in our residential mortgage and home equity loan portfolios mostly due to normal repayments and continued slowdown in the consumer refinance market.

Income before income taxes decreased $27.9 million to $22.5 million for the nine months ended September 30, 2014 as compared to the same period of 2013. The decrease was mainly caused by a decline of $31.5 million in non-interest income, which totaled $31.8 million for the nine months ended September 30,2014 as compared to $63.3 million for the same period in 2013. The decrease was primarily due to a decline in net gains on sales of residential mortgage loans (see further details in the "Non-Interest Income" section above).

The net interest margin decreased 24 basis points to 2.71 percent for the nine months ended September 30, 2014 as compared to the same period one year ago mainly as a result of a 29 basis point decrease in yield on average loans caused by the prolonged low level of market interest rates on new loans, partially offset by a 5 basis point decrease in costs associated with our funding sources.

Commercial Lending

Average assets for the nine months ended September 30, 2014 increased $505.0 million as compared to the same period of 2013. This increase was primarily attributable to continued strong broad-based organic growth in the non-PCI commercial real estate loan portfolio over the 12-month period, partially offset by continued repayments within our PCI loan portfolio. Commercial and industrial loan activity also showed positive growth during the nine months ended September 30, 2014 due to new loan demand in our New York markets, increased line usage and higher outstanding balances largely in our New Jersey based portfolio, despite some large repayments in both the non-PCI and PCI loan portfolios since September 30, 2013, as well as strong competition for quality new and existing loan relationships throughout all of our primary markets.

For the nine months ended September 30, 2014, income before income taxes increased $6.4 million to $88.9 million as compared to the same period in 2013 due to a decrease in the provision for credit losses coupled with an increase in net interest income, partially offset by a decrease in non-interest income and an increase in the internal transfer expense. The provision for credit losses decreased $11.5 million to a negative provision of $2.8 million the nine months ended September 30, 2014 as compared to the same period of 2013 partly due to a $5.7 million credit to our provision for losses on covered loans during the nine months ended September 30, 2014. The negative provision was as a result of lower additional estimated credit losses on certain loan pools, as well as improved loss experience in the portfolios. Net interest income increased $4.2 million to $230.6 million for the nine months ended September 30, 2014 as compared to the same period of 2013 due, in part, to higher average loans. Non-interest income decreased $4.1 million for the nine months ended September 30, 2014 as compared to the same period in 2013 largely due to the aggregate effect of changes in the FDIC loss-share receivable. Internal transfer expense increased $5.3 million for the nine months ended September 30, 2014 as compared to the same period of 2013.

The net interest margin decreased 21 basis points to 3.99 percent for the nine months ended September 30, 2014 as compared to the same period one year ago mainly as a result of a 26 basis point decrease in yield on average loans to 5.01 percent, partially offset by the 5 basis point decrease in the costs of our funding sources.

Investment Management

Average investments decreased $239.5 million during the nine months ended September 30, 2014 as compared to the same period in 2013 mostly due to normal repayments and lower excess liquidity available for investment as we funded new loan growth over the last 12-month period.

For the nine months ended September 30, 2014, income before income taxes increased approximately $12.0 million to $16.7 million as compared to $4.7 million for the same period in 2013 mostly due to a $8.2 million increase in net interest income and a $3.5 million decrease in internal transfer expense. The increase in net interest income was mainly driven higher yields on average investment securities which continued to be somewhat enhanced by a reduction in prepayments and premium amortization on certain mortgage-backed securities over the last 12-month period as a result of the relatively higher level of long-term market interest rates since June 2013, and, to a much lesser extent, our redeployment of and $52.5 million in net proceeds from our sale of non-accrual debt securities in October 2013.

The net interest margin increased 52 basis points to 2.21 percent for the nine months ended September 30, 2014 as compared to the same period one year ago largely due to a 47 basis point increase in the yield on investments and lower costs associated with our funding sources.

Corporate and other adjustments

The loss before income taxes for the corporate segment decreased $552 thousand to $13.9 million for the nine months ended September 30, 2014 as compared to $14.4 million for the same period in 2013 caused by a $3.0 million increase in internal transfer income and a $5.5 million decrease in interest expense, partially offset by a $5.3 million decrease in non-interest income and an increase of $2.7 million in non-interest expense as compared to the nine months ended September 30, 2013. The decrease in interest expense was mostly related to the redemption of the 7.75 percent junior subordinated debentures in July and October of 2013. The decrease in non-interest income was mainly due to a $4.0 million decrease in net gains on securities transactions for the nine months ended September 30, 2014 as compared with the same period in 2013 due to an immaterial amount of investment securities sales during the nine months of 2014.

ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

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

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a 12-month and 24-month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of September 30, 2014. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of September 30, 2014. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of September 30, 2014. Although the size of Valley’s balance sheet is forecasted to remain static as of September 30, 2014 in our model, the composition is adjusted to reflect new interest earning assets and funding originations coupled with rate spreads utilizing our actual originations during the third quarter of 2014. The model also utilizes an immediate parallel shift in the market interest rates at September 30, 2014.

The following table reflects management’s expectations of the change in our net interest income over the next 12-month period in light of the aforementioned assumptions:

Changes in Interest Rates	Estimated Change in Future Net Interest Income	
	Dollar Change	Percentage Change
(in basis points)	($ in thousands)	
+200	$(4,644)	(1.05)%
+100	(8,276)	(1.87)
–100	(16,778)	(3.78)

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

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

As noted in the table above, a 100 basis point immediate increase in interest rates is projected to decrease net interest income over the next 12 months by 1.87 percent. Our balance sheet sensitivity to such a move in interest rates at September 30, 2014 moderately increased as compared to June 30, 2014 (which was a decrease of 1.34% percent in net interest income over a 12 month period) mostly due to a $438.4 million, or 7.8 percent, increase in our savings, NOW and money market account balances since June 30, 2014 caused by our use of brokered money market accounts which are immediately sensitive to a change in interest rates, partially offset by a $56.5 million decrease in short-term borrowings. Additionally, our current asset sensitivity to a 100 basis point increase in interest rates is somewhat limited by the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management), which currently exceeds the U.S. prime rate by 125 basis points. Due to its current level above the U.S. prime rate, the Valley prime rate is not projected to increase under the 100 basis point immediate increase scenario in our simulation, but would increase and positively impact our net interest income in a 200 basis point immediate increase in interest rates scenario. Our projections for such prime rate based loans could vary from the actual movements in the Valley prime rate, which is set by management and may change prior to the U.S. prime rate reaching its current level of 4.50 percent. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows, will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

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

Our interest rate swaps and caps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits based on the prime rate (as reported by The Wall Street Journal). We have 4 cash flow hedge interest rate swaps with a total notional value of $300 million at September 30, 2014 that currently pay fixed and receive floating rates, as well as 3 interest rate caps with a total notional value of $225 million. Additionally, we also currently utilize fair value and non-designated hedge interest rate swaps to effectively convert fixed rate loans, brokered certificates of deposit and long-term borrowings to floating rate instruments. The cash flow hedges are expected to benefit our net interest income in a rising interest rate environment. However, due to the prolonged low level of market interest rates and the strike rate of these instruments, the cash flow hedge interest rate swaps, as well as a large portion of our interest rate caps, negatively impacted our net interest income during both the nine months ended September 30, 2014 and 2013. We expect this negative trend to continue into 2015 due to the Federal Reserve’s current monetary policies impacting the level of market interest rates. See Note 14 to the consolidated financial statements for further details on our derivative transactions.

Liquidity

Bank Liquidity

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

The Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposit $100 thousand and over, federal funds purchased, repurchase agreements and FHLB advances) greater than 50 percent of total assets. The Bank was in compliance with the foregoing policies at September 30, 2014.

On the asset side of the balance sheet, the Bank has numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity that are maturing within ninety days or would otherwise qualify as maturities if sold (i.e., 85 percent of original cost basis has been repaid), investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold and receivables related to unsettled securities transactions. These liquid assets totaled approximately $1.3 billion, representing 8.8 percent of earning assets, at September 30, 2014 and $1.3 billion, representing 9.3 percent of earning assets, at December 31, 2013. Of the $1.3 billion of liquid assets at September 30, 2014, approximately $508 million of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately $348.4 million in principal from securities in the total investment portfolio over the next 12 months due to normally scheduled principal repayments and expected prepayments of certain securities, primarily residential mortgage-backed securities.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments (including loans held for sale at September 30, 2014) are projected to be approximately $3.7 billion over the next 12 months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs, including retail and commercial deposits, brokered and municipal funds, and short-term and long-term borrowings. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $10.6 billion and $10.1 billion for the third quarter of 2014 and for the year ended December 31, 2013, respectively, representing 71.8 percent and 71.0 percent of average earning assets for the same periods of 2014 and 2013, respectively. The level of interest bearing deposits is affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities.

Additional funding may be provided from short-term liquidity borrowings through deposit gathering networks and in the form of federal funds purchased through our well established relationships with several correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $750 million for a short time from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. In addition to the FHLB advances, the Bank has pledged such assets to collateralize a $350 million letter of credit issued by the FHLB on Valley's behalf to secure certain public deposits at September 30, 2014. Furthermore, we are able to obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At September 30, 2014, our borrowing capacity under the Federal Reserve's discount window was approximately $1.1 billion.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as securities sold under agreements to repurchase (repos). Our short-term borrowings increased $16.2 million to $297.7 million at September 30, 2014 as compared to $281.5 million at December 31, 2013 due to a $125 million increase in overnight federal funds purchased, mostly offset by lower repo balances. At September 30, 2014 and December 31, 2013, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

Corporation Liquidity

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

Investment Securities Portfolio

As of September 30, 2014, we had approximately $1.8 billion, $783.2 million, and $14.2 million in held to maturity, available for sale and trading securities, respectively. At September 30, 2014, our investment portfolio was comprised of U.S. Treasury securities, U.S. government agencies, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 15 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (including 3 pooled securities), high quality corporate bonds and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders' equity, except for residential mortgage-backed securities issued by Ginnie Mae and Fannie Mae.

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

Other-Than-Temporary Impairment Analysis

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

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

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

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

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

The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at September 30, 2014.

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity investment grades:*				
AAA Rated	$1,321,142	$33,217	$(12,738)	$1,341,621
AA Rated	268,909	10,386	(680)	278,615
A Rated	28,500	1,480	(36)	29,944
BBB Rated	43,879	3,310	(96)	47,093
Non-investment grade	30,041	2,494	(462)	32,073
Not rated	120,841	55	(11,610)	109,286
Total investment securities held to maturity	$1,813,312	$50,942	$(25,622)	$1,838,632
Available for sale investment grades:*				
AAA Rated	$604,833	$3,871	$(15,548)	$593,156
AA Rated	21,231	637	(1,561)	20,307
A Rated	39,217	942	(556)	39,603
BBB Rated	41,810	395	(511)	41,694
Non-investment grade	37,875	1,711	(2,354)	37,232
Not rated	26,409	656	(636)	26,429
Total investment securities available for sale	$771,375	$8,212	$(21,166)	$758,421

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

The held to maturity portfolio includes $120.8 million in investments not rated by the rating agencies with aggregate unrealized losses of $11.6 million at September 30, 2014. The unrealized losses for this category primarily relate to 4 single-issuer bank trust preferred issuances with a combined amortized cost of $35.9 million. All single-issuer bank trust preferred securities classified as held to maturity, including the aforementioned four securities, are paying in accordance with their terms and have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer's most recent bank regulatory report to assess the company's credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review at September 30, 2014, all of the issuers appear to meet the regulatory capital minimum requirements to be considered a "well-capitalized" financial institution and/or have maintained performance levels adequate to support the contractual cash flows of the security.

The available for sale portfolio includes non-investment grade rated investments with amortized costs and fair values totaling $37.9 million and $37.2 million respectively, at September 30, 2014. The $2.4 million in gross unrealized losses for this category almost entirely relate to 3 trust preferred securities (including 1 pooled trust preferred security) and 5 private label mortgage-backed securities. Of the eight securities, four were found to be other-than-temporarily impaired prior to the year ended December 31, 2013.

See "Other-Than-Temporary Impairment Analysis" section of Note 7 to the consolidated financial statements for additional information regarding our quarterly impairment analysis by security type.

Loan Portfolio

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

	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
	($ in thousands)				
Non-covered loans					
Commercial and industrial	$2,076,512	$2,064,751	$2,019,099	$1,995,084	$1,997,353
Commercial real estate:					
Commercial real estate	5,346,818	5,100,442	5,083,744	4,981,675	4,814,670
Construction	457,163	413,262	413,795	429,231	423,789
Total commercial real estate	5,803,981	5,513,704	5,497,539	5,410,906	5,238,459
Residential mortgage	2,436,022	2,461,516	2,472,180	2,499,965	2,532,370
Consumer:					
Home equity	435,450	436,360	440,006	449,009	449,309
Automobile	1,091,287	1,021,782	957,036	901,399	862,843
Other consumer	275,834	252,762	227,804	215,084	195,327
Total consumer loans	1,802,571	1,710,904	1,624,846	1,565,492	1,507,479
Total non-covered loans	12,119,086	11,750,875	11,613,664	11,471,447	11,275,661
Covered loans (1)	46,291	62,553	80,930	96,165	121,520
Total loans (2)	$12,165,377	$11,813,428	$11,694,594	$11,567,612	$11,397,181
As a percent of total loans:					
Commercial and industrial	17.1 %	17.5 %	17.3 %	17.3 %	17.5 %
Commercial real estate	47.7 %	46.7 %	47.0 %	46.8 %	46.0 %
Residential mortgage	20.0 %	20.8 %	21.1 %	21.6 %	22.2 %
Consumer loans	14.8 %	14.5 %	13.9 %	13.5 %	13.2 %
Covered loans	0.4 %	0.5 %	0.7 %	0.8 %	1.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

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

(2) Total loans are net of unearned discount and deferred loan fees totaling $8.0 million, $7.3 million, $6.1 million, $5.6 million, and $6.3 million at September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013 and September 30, 2013, respectively.

Non-covered Loans

Non-covered loans (loans not subject to loss-sharing agreements with the FDIC) increased $368.2 million, or 12.5 percent on an annualized basis, to approximately $12.1 billion at September 30, 2014 from June 30, 2014, despite a $29.7 million decline in our non-covered PCI loan portion of this portfolio. The increase in total non-covered loans was mainly due to solid growth across several loan portfolios, except for residential mortgage and home equity loans (as discussed further below).

Total commercial and industrial loans moderately increased $11.8 million from June 30, 2014 to approximately $2.1 billion at September 30, 2014 due, in part, to new loan demand generally in our New York markets, as well as continued growth in new lending relationships moving to Valley from other financial institutions. While these new loan volumes more than offset our normal repayment and refinance activity, including a $18.7 million decline in our PCI loan portfolio, we did experience some normal seasonal softening of loan demand from existing customers over the summer months. At September 30, 2014, total commitments and usage (i.e., outstanding balances) of commercial lines of credit remained relatively unchanged as compared to June 30, 2014. Additionally, we continued to experience strong market competition for quality new and existing loan relationships during the third quarter.

Total commercial real estate loans (excluding construction loans) increased $246.4 million from June 30, 2014 to $5.3 billion at September 30, 2014. Loan origination volumes and demand were seen across many segments of commercial real estate borrowers. Although a component of our overall growth during the third quarter of 2014, new co-op building loans within our New York City markets remained a smaller percentage of the overall growth as compared to prior quarters. The continued organic growth within the commercial real estate portfolio was supplemented by a bulk purchase of third party originated loans totaling $101.9 million during late September 2014. Construction loans totaling $457.2 million at September 30, 2014 increased $43.9 million from June 30, 2014 largely due to a higher level of building activity during the summer months. Additionally, new loan demand for multi-family, apartment rental, and condominium property developments within New York City, Brooklyn and Queens was brisk during the third quarter of 2014.

Total residential mortgage loans decreased $25.5 million to approximately $2.4 billion at September 30, 2014 from June 30, 2014 mostly due to normal loan repayments that outpaced our new and refinanced loans originated for investment during the third quarter of 2014. Despite some decline in mortgage interest rates, consumer demand for new and refinanced mortgage loans remained modest during the third quarter of 2014. Total residential mortgage loan originations totaled approximately $76.4 million for the third quarter of 2014 as compared to $54.3 million and $247.9 million for the second quarter of 2014 and the third quarter of 2013, respectively. Valley sold approximately $18.6 million of residential mortgages (including $8.2 million of residential mortgage loans held for sale at June 30, 2014) during the third quarter, as compared to $23.6 million for the second quarter of 2014 and $97.0 million for the third quarter of 2013. There were no purchases of residential mortgage loans from third party originators during the third quarter of 2014 and a total of $26.7 million for the nine months ended September 30, 2014.
Total consumer loans increased $91.7 million to $1.8 billion at September 30, 2014 from June 30, 2014 largely due to increases in both the automobile and other consumer loan portfolios during the third quarter of 2014. Automobile loans increased by $69.5 million to $1.1 billion at September 30, 2014 as compared to June 30, 2014 as our new organic loan volumes continued to be solid due to the overall strength of the U.S. auto markets. Valley has not deviated from its conservative underwriting standards, nor participated in the subprime auto lending markets to achieve its growth in auto lending. We made no auto loan purchases from third party originators during the three and nine months ended September 30, 2014. Other consumer loans increased $23.1 million to $275.8 million at September 30, 2014 as compared to $252.8 million at June 30, 2014 mainly due to continued growth and customer usage of collateralized personal lines of credit. Home equity loans totaling $435.5 million at September 30, 2014 moderately decreased by $910 thousand as compared to June 30, 2014 largely due to normal repayments and the continued slowdown in the consumer refinance market.

We are cautiously optimistic that we will continue to experience solid overall loan growth in the fourth quarter of 2014 and beyond, despite the strong market competition for high quality commercial credits within the New York metropolitan area and the relatively low levels of residential mortgage loan activity. However, we can make no assurances that our total loans will increase, or remain at current levels in the future.

Much of our lending is in northern and central New Jersey, New York City and Long Island, with the exception of smaller auto and residential mortgage loan portfolios derived from the other neighboring states, which could present a geographic and credit risk if there was another significant broad based economic downturn or a prolonged economic recovery within the region. We are witnessing some increased activity across Valley’s entire geographic footprint, however the New York and Long Island markets continue to account for a disproportionate percentage of our lending activity. To mitigate these risks, we make efforts to maintain a diversified portfolio as to type of borrower and loan to guard against a potential downward turn in any one economic sector. Additionally, the aforementioned acquisition of 1st United, including $1.7 billion in loans (prior to purchase accounting adjustments), on November 1, 2014 will significantly increase the amount of our lending activities in southeast and central Florida.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans are comprised of loans acquired and purchased in the first quarter of 2012 and covered loans acquired in 2010 for which the Bank will share losses with the FDIC which totaled $583.4 million and $46.3 million, respectively, at September 30, 2014. As required by U.S. GAAP, all of our PCI loans are accounted for under ASC Subtopic 310-30. This accounting guidance requires the PCI loans to be aggregated and accounted for as pools of loans based on common risk characteristics. A pool is accounted for as one asset with a single composite interest rate, an aggregate fair value and expected cash flows.

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

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

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

On a quarterly basis, Valley analyzes the actual cash flow versus the forecasts at the loan pool level and variances are reviewed to determine their cause. In re-forecasting future estimated cash flow, Valley will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which Valley does not reforecast estimated cash flows, the prior reporting period’s estimated cash flows are adjusted to reflect the actual cash received and credit events which transpired during the current reporting period.

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The following tables summarize the changes in the carrying amounts of non-covered PCI loans and covered loans (net of the allowance for losses on covered loans), and the accretable yield on these loans for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,			
	2014		2013	
	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield
	(in thousands)			
Non-covered PCI loans:				
Balance, beginning of the period	$613,052	$98,910	$809,588	$222,374
Accretion	12,182	(12,182)	12,376	(12,376)
Payments received	(41,837)	—	(50,804)	—
Balance, end of the period	$583,397	$86,728	$771,160	$209,998
Covered loans:				
Balance, beginning of the period	$61,442	$23,432	$134,747	$34,009
Accretion	3,356	(3,356)	4,614	(4,614)
Payments received	(19,185)	—	(24,120)	—
Transfers to other real estate owned	—	—	(791)	—
Balance, end of the period	$45,613	$20,076	$114,450	$29,395

	Nine Months Ended September 30,			
	2014		2013	
	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield
	(in thousands)			
Non-covered PCI loans:				
Balance, beginning of the period	$710,103	$198,198	$986,990	$126,749
Accretion	34,389	(34,389)	37,635	(37,635)
Payments received	(160,800)	—	(253,465)	—
Net (decrease) increase in expected cash flows	—	(77,081)	—	120,884
Transfers to other real estate owned	(295)	—	—	—
Balance, end of the period	$583,397	$86,728	$771,160	$209,998
Covered loans:				
Balance, beginning of the period	$89,095	$25,601	$171,182	$42,560
Accretion	12,592	(12,592)	13,229	(13,229)
Payments received	(58,950)	—	(66,027)	—
Net increase in expected cash flows	—	7,067	—	64
Transfers to other real estate owned	(2,795)	—	(6,210)	—
Provision for losses on covered loans	5,671	—	2,276	—
Balance, end of the period	$45,613	$20,076	$114,450	$29,395

The net (decrease) increase in expected cash flows for certain pools of loans (included in the table above) is recognized prospectively as an adjustment to the yield over the estimated remaining life of the individual pools. The net decrease during the nine months ended September 30, 2014 was mainly due to an increase in the expected repayment speeds for certain pools of non-covered PCI loans during the second quarter of 2014. Conversely, the net increase during the nine months ended September 30, 2013 was largely due to additional cash flows caused by longer than originally expected durations for other pools of non-covered PCI loans. Based upon the most recent reforecasted cash flows during the second quarter of 2014, the average expected life of the non-covered PCI loans

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(which represented almost 93 percent of total PCI loans at September 30, 2014) decreased to 2.2 years from approximately 4 years last forecasted during the second quarter of 2013.

Covered loans in the table above are presented net of the allowance for losses on covered loans, which totaled $678 thousand at September 30, 2014 as compared to $7.1 million at September 30, 2013. This allowance was established due to a decrease in the expected cash flows for certain pools of covered loans based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. We did not record any provision for losses on covered loans for the three months ended September 30, 2014 and 2013. We recognized a negative (credit) provision for losses on covered loans totaling $5.7 million and $2.3 million for the nine months ended September 30, 2014 and 2013, respectively. The negative provisions during both 2014 and 2013 related to decreases in the additional estimated credit impairment of certain loan pools subsequent to acquisition.

Although we recognized additional credit impairment for certain covered pools in 2011 and the lower levels of accretion shown in the table above due to the normal contraction in the PCI loan portfolios year over year, on an aggregate basis the acquired pools of covered and non-covered loans continue to perform better than originally expected at the acquisition dates. Based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on these loan pools over future periods. The decrease in the FDIC loss-share receivable due to the increase in expected cash flows for covered loan pools is recognized on a prospective basis over the shorter period of the lives of the loan pools and the loss-share agreements accordingly. During the three and nine months ended September 30, 2014, we reduced our FDIC loss-share receivable by $4.5 million and $8.5 million, respectively, due to the prospective recognition of the effect of additional cash flows from covered loan pools with a corresponding reduction in non-interest income for the period (see table in the next section below).

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

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

The commercial and single-family (residential) loan loss-sharing agreements with the FDIC expire in March of 2015 and 2020, respectively. The vast majority of the FDIC loss-share receivable reported in the table below relates to covered commercial real estate and commercial and industrial loans.

The following table presents changes in the FDIC loss-share receivable for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of the period	$20,687	$40,686	$32,757	$44,996
Discount accretion of the present value at the acquisition dates	12	33	35	98
Effect of additional cash flows on covered loans (prospective recognition)	(4,500)	(3,075)	(8,460)	(8,024)
Decrease in the provision for losses on covered loans	—	—	(4,417)	(2,783)
Other reimbursable expenses	745	1,037	2,248	3,529
Reimbursements from the FDIC	(684)	(3,003)	(4,967)	(2,138)
Other	(80)	—	(1,016)	—
Balance, end of the period	$16,180	$35,678	$16,180	$35,678

The aggregate effect of changes in the FDIC loss-share receivable was a reduction in non-interest income of $3.8 million and $2.0 million for the three months ended September 30, 2014 and 2013, respectively, and a reduction of $11.6 million and $7.2 million to non-interest income for the nine months ended September 30, 2014 and 2013, respectively. The higher level of the reduction to non-interest income for the nine months ended September 30, 2014 was largely due to the negative (credit) provision for losses on covered loans during the second quarter of 2014 resulting in a $4.4 million decrease in the estimated losses covered by the loss-sharing agreements with the FDIC.

Non-performing Assets

Non-performing assets (excluding PCI loans) include non-accrual loans, non-performing loans held for sale, other real estate owned (OREO), other repossessed assets (which consist of two aircraft and several automobiles) and non-accrual debt securities at September 30, 2014. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is sufficiently collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value, less cost to sell at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. Given the state of the current economy, and comparable to many of our peers, the level of non-performing assets remained relatively low as a percentage of the total loan portfolio at September 30, 2014. Additionally, our total non-performing assets have decreased by more than 54 percent over the past five quarters (as shown in the table below). Past due loans and non-accrual loans in the table below exclude non-covered and covered PCI loans. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are accounted for on a pool basis and are not subject to delinquency classification in the same manner as loans originated by Valley.

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

	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
	($ in thousands)				
Accruing past due loans: (1)					
30 to 59 days past due:					
Commercial and industrial	$476	$4,918	$5,689	$6,398	$3,065
Commercial real estate	1,194	3,493	16,169	9,142	6,276
Construction	—	3,988	5,616	1,186	—
Residential mortgage	8,871	7,865	6,238	6,595	8,221
Consumer	3,741	3,350	2,685	3,792	3,773
Total 30 to 59 days past due	14,282	23,614	36,397	27,113	21,335
60 to 89 days past due:					
Commercial and industrial	629	783	599	571	957
Commercial real estate	788	57	2,377	2,442	23,828
Construction	154	5,332	—	4,577	—
Residential mortgage	2,304	1,989	1,721	1,939	1,857
Consumer	913	788	613	784	864
Total 60 to 89 days past due	4,788	8,949	5,310	10,313	27,506
90 or more days past due:					
Commercial and industrial	256	450	199	233	342
Commercial real estate	52	2,212	137	7,591	232
Construction	9,833	—	—	—	—
Residential mortgage	2,057	546	1,033	1,549	1,980
Consumer	278	161	205	118	235
Total 90 or more days past due	12,476	3,369	1,574	9,491	2,789
Total accruing past due loans	$31,546	$35,932	$43,281	$46,917	$51,630
Non-accrual loans: (1)					
Commercial and industrial	$7,251	$8,096	$8,293	$21,029	$23,941
Commercial real estate	26,379	32,507	26,909	43,934	53,752
Construction	6,578	6,534	6,569	8,116	13,070
Residential mortgage	17,305	19,190	20,720	19,949	23,414
Consumer	2,380	2,106	2,149	2,035	1,906
Total non-accrual loans	59,893	68,433	64,640	95,063	116,083
Non-performing loans held for sale	7,350	7,850	27,329	—	—
Other real estate owned (OREO) (2)	15,534	14,984	16,674	19,580	19,372
Other repossessed assets	1,260	1,104	1,995	6,447	6,378
Non-accrual debt securities (3)	4,725	4,527	3,963	3,771	52,334
Total non-performing assets (NPAs)	$88,762	$96,898	$114,601	$124,861	$194,167
Performing troubled debt restructured loans	$107,134	$108,538	$114,668	$107,037	$116,852
Total non-accrual loans as a % of loans	0.49 %	0.58 %	0.55 %	0.82 %	1.02 %
Total NPAs as a % of loans and NPAs	0.72	0.81	0.97	1.07	1.68
Total accruing past due and non-accrual loans as a % of loans	0.75	0.88	0.92	1.23	1.47
Allowance for losses on non-covered loans as a % of non-accrual loans	169.90	148.97	154.14	112.08	90.90

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

(2) This table excludes covered OREO properties (i.e., subject to loss-sharing agreements with the FDIC) totaling $6.2 million, $11.2 million, $11.6 million, $12.3 million, and $9.3 million at September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013 and September 30, 2013, respectively.

(3) Includes other-than-temporarily impaired trust preferred securities classified as available for sale, which are presented at carrying value net of net unrealized losses totaling $625 thousand, $823 thousand, $1.4 million and $1.6 million at September 30, 2014, June 30, 2014, March 31, 2014 and December 31, 2013, respectively, and net unrealized gains totaling $5.2 million at September 30, 2013.

Total NPAs decreased $8.1 million to $88.8 million at September 30, 2014 from June 30, 2014 largely due to decreases in both non-accrual commercial real estate and residential mortgage loans.

Loans past due 30 to 59 days decreased $9.3 million to $14.3 million at September 30, 2014 compared to June 30, 2014 mostly due to decreases of $4.4 million, $4.0 million and $2.3 million in the commercial and industrial loans, construction loans and commercial real estate loans, respectively, partially offset by a $1.0 million increase in residential mortgage loans. The decrease within the commercial and industrial loan category was mostly related to a troubled debt restructured loan modification totaling $3.2 million that was performing at September 30, 2014.

Loans past due 60 to 89 days decreased $4.2 million to $4.8 million at September 30, 2014 compared to June 30, 2014 mainly due to a $5.2 million decrease in construction loan delinquencies, partially offset by a $731 thousand increase in the commercial real estate loans delinquencies. The $5.2 million decrease was entirely due to two new performing matured loans in the normal process of renewal to the loans past due 90 days or more and still accruing category at September 30, 2014.

Loans past due 90 days or more and still accruing increased $9.1 million to $12.5 million at September 30, 2014 compared to $3.4 million at June 30, 2014. Within this past due category, construction loans and residential mortgage loans increased $9.8 million and $1.5 million, respectively. Construction loans totaling $9.8 million at September 30, 2014 was comprised of 4 performing matured loans in the normal process of renewal, of which 2 loans totaling $5.3 million migrated from loans reported as past due 60 to 89 days at June 30, 2014. Also within this past due category, commercial real estate loans declined $2.2 million to $52 thousand at September 30, 2014 as compared to June 30, 2014 almost entirely due to the completion of the renewal underwriting process for a $2.1 million performing matured loan during the third quarter of 2014.

Non-accrual loans decreased $8.5 million to $59.9 million at September 30, 2014 as compared to $68.4 million at June 30, 2014 mainly due to a $6.1 million decrease within the commercial real estate loan category primarily caused by a $3.9 million loan payoff and a $1.4 million loan transferred to OREO during the third quarter of 2014. Non-accrual residential mortgage loans also declined $1.9 million to $17.3 million at September 30, 2014 due, in part, to $1.3 million of loan foreclosures transferred to OREO during the third quarter of 2014.

Non-performing loans held for sale decreased $500 thousand to $7.4 million at September 30, 2014 from $7.9 million at June 30, 2014. The decrease was entirely due to the valuation write-down of the loan at September 30, 2014. Valuation write-downs of non-performing loans held for sale totaled $500 thousand and $2.3 million for the three months ended September 30, 2014 and June 30, 2014, respectively, and were recognized as a component of the net losses on sales of loans category of our non-interest income.

OREO properties increased $(550) thousand to $15.5 million at September 30, 2014 from $15.0 million at June 30, 2014 primarily due to 7 new foreclosed properties totaling $2.7 million, partially offset by the sale of 11 properties with net carrying values of approximately $1.9 million and net valuation write-downs of approximately $289 thousand during the third quarter of 2014. Our residential mortgage loan foreclosure activity remains low due to the nominal amount of individual loan delinquencies within the residential mortgage and home equity portfolios and the average time to complete a foreclosure in the State of New Jersey, which currently exceeds two and a half years. Although we have experienced an increase in the amount of foreclosures working through the courts, we believe this lengthy legal process negatively impacts the level of our non-accrual loans, NPAs, and the ability to compare our NPA levels to similar banks located outside of our primary markets.

Troubled debt restructured loans (TDRs) represent loan modifications for customers experiencing financial difficulties where a concession has been granted. Performing TDRs (i.e., TDRs not reported as loans 90 days or more past due and still accruing or as non-accrual loans) totaled $107.1 million at September 30, 2014 and consisted of 101 loans (primarily in the commercial and industrial loan and commercial real estate portfolios). On an aggregate basis, the $107.1 million in performing TDRs at September 30, 2014 had a modified weighted average interest rate of approximately 4.70 percent as compared to a pre-modification weighted average interest rate of 5.18 percent.

Allowance for Credit Losses

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

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

Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration when evaluating the adequacy of the allowance for credit losses. Allowance for credit losses methodology and accounting policy are fully described in Part II, Item 7 and Note 1 to the consolidated financial statements in Valley’s Annual Report on Form 10-K for the year ended December 31, 2013.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses is dependent upon a variety of factors largely beyond our control, including the view of the OCC toward loan classifications, performance of the loan portfolio, and the economy. The OCC may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management.

The table below summarizes the relationship among loans, loans charged-off, loan recoveries, the provision for credit losses and the allowance for credit losses for the periods indicated.

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	Three Months Ended			Nine Months Ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	($ in thousands)				
Average loans outstanding	$11,907,275	$11,745,817	$11,209,929	$11,757,957	$11,082,306
Beginning balance - Allowance for credit losses	$105,597	$109,253	$119,880	$117,112	$132,495
Loans charged-off [1]:					
Commercial and industrial	(1,852)	(1,340)	(8,556)	(11,806)	(17,322)
Commercial real estate	(181)	(862)	(564)	(4,894)	(5,176)
Construction	—	(1,170)	(383)	(1,809)	(2,153)
Residential mortgage	(240)	(212)	(780)	(515)	(3,338)
Consumer	(72)	(1,167)	(1,723)	(2,311)	(4,092)
	(2,345)	(4,751)	(12,006)	(21,335)	(32,081)
Charged-off loans recovered [2]:					
Commercial and industrial	1,190	4,420	1,103	6,154	3,043
Commercial real estate	26	556	21	1,919	86
Construction	—	912	875	912	875
Residential mortgage	8	157	230	244	368
Consumer	506	721	638	1,649	1,634
	1,730	6,766	2,867	10,878	6,006
Net charge-offs	(615)	2,015	(9,139)	(10,457)	(26,075)
Provision charged for credit losses	(423)	(5,671)	5,334	(2,096)	9,655
Ending balance - Allowance for credit losses	$104,559	$105,597	$116,075	$104,559	$116,075
Components of allowance for credit losses:					
Allowance for non-covered loans	$101,760	$101,942	$105,515	$101,760	$105,515
Allowance for covered loans	678	1,111	7,070	678	7,070
Allowance for loan losses	102,438	103,053	112,585	102,438	112,585
Allowance for unfunded letters of credit	2,121	2,544	3,490	2,121	3,490
Allowance for credit losses	$104,559	$105,597	$116,075	$104,559	$116,075
Components of provision for credit losses:					
Provision for losses on non-covered loans	$—	$—	$4,280	$4,949	$10,736
Provision for losses on covered loans	—	(5,671)	—	(5,671)	(2,276)
Provision for loan losses	—	(5,671)	4,280	(722)	8,460
Provision for unfunded letters of credit	(423)	—	1,054	(1,374)	1,195
Provision for credit losses	$(423)	$(5,671)	$5,334	$(2,096)	$9,655
Ratio of net charge-offs of non-covered loans to average loans outstanding	0.01%	(0.08)%	0.33%	0.11%	0.31%

Ratio of total net charge-offs to average loans outstanding	0.02	(0.07)	0.33	0.12	0.31
Allowance for non-covered loan losses as a % of non-covered loans	0.84	0.87	0.94	0.84	0.94
Allowance for credit losses as a % of total loans	0.86	0.89	1.02	0.86	1.02

(1) Includes covered loan charge-offs of $433 thousand and $749 thousand for the three months ended September 30, 2014 and June 30, 2014, respectively, and $1.2 million and $146 thousand for the nine months ended September 30, 2014 and 2013, respectively. Covered loan charge-offs are substantially offset by reimbursements under the FDIC loss-sharing agreements.

(2) Includes charged-off covered loan recoveries of $462 thousand for the three months ended June 30, 2014 and the nine months ended September 30, 2014, respectively.

For the third quarter of 2014, we recognized net loan charge-offs on non-covered loans totaling $182 thousand as compared to net loan recoveries of $2.3 million and net loan charge-offs of $9.1 million for the second quarter of 2014 and third quarter of 2013, respectively. The change from the linked quarter was primarily related to the aggregate loan charge-off recoveries totaling $4.3 million related to two commercial and industrial loans during the second quarter of 2014. For the covered loan pools, net charge-offs totaled $433 thousand during the third quarter of 2014 as compared to $287 thousand in the second quarter of 2014 and no net charge-offs recognized in the third quarter of 2013. Charge-offs on covered loan pools, when incurred, are substantially covered by loss-sharing agreements with the FDIC.

We recorded a negative (credit) provision totaling $423 thousand for losses on non-covered loans and unfunded letters of credit for the third quarter of 2014 as compared to no provision for the second quarter of 2014 and $5.3 million provision for the third quarter of 2013. The provision as compared to the third quarter of 2013 has decreased due to several positive trends in our loan portfolio's credit quality during the last 12-month period, including lower levels of delinquencies, internally classified loans and net loan charge-offs.

During the third quarters of 2014 and 2013, we recorded no provision for losses on covered loans as compared to a negative provision totaling $5.7 million during the second quarter of 2014 related to decreases in the estimated additional credit impairment of certain loan pools subsequent to acquisition. As a result of the aforementioned net charge-offs of $433 thousand during the third quarter of 2014, our allowance for losses on covered loans was reduced to $678 thousand at September 30, 2014 as compared to $1.1 million at June 30, 2014 and $7.1 million at September 30, 2013 (as shown in the table below).

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

	September 30, 2014		June 30, 2014		September 30, 2013	
	Allowance Allocation	Allocation as a % of Loan Category	Allowance Allocation	Allocation as a % of Loan Category	Allowance Allocation	Allocation as a % of Loan Category
	($ in thousands)					
Loan Category:						
Commercial and Industrial loans*	$47,843	2.30 %	$49,883	2.42 %	$52,710	2.64 %
Commercial real estate loans:						
Commercial real estate	26,204	0.49 %	25,882	0.51 %	26,015	0.54 %
Construction	10,862	2.38 %	9,385	2.27 %	10,865	2.56 %
Total commercial real estate loans	37,066	0.64 %	35,267	0.64 %	36,880	0.70 %
Residential mortgage loans	6,147	0.25 %	6,989	0.28 %	7,904	0.31 %
Consumer loans:						
Home equity	1,365	0.31 %	1,188	0.27 %	1,253	0.28 %
Auto and other consumer	4,415	0.32 %	4,180	0.33 %	2,823	0.27 %
Total consumer loans	5,780	0.32 %	5,368	0.31 %	4,076	0.27 %
Unallocated	7,045	—	6,979	—	7,435	—
Allowance for non-covered loans and unfunded letters of credit	103,881	0.86 %	104,486	0.89 %	109,005	0.97 %
Allowance for covered loans	678	1.46 %	1,111	1.78 %	7,070	5.82 %
Total allowance for credit losses	$104,559	0.86 %	$105,597	0.89 %	$116,075	1.02 %

* Includes the reserve for unfunded letters of credit.

The allowance for non-covered loans and unfunded letters of credit as a percentage of total non-covered loans was 0.86 percent at September 30, 2014 as compared to 0.89 percent and 0.97 percent at June 30, 2014 and September 30, 2013, respectively. At September 30, 2014, our allowance allocations for losses as a percentage of total loans in most loan categories declined or did not significantly change as compared to June 30, 2014 due to several favorable trends in our credit quality during the third quarter of 2014. Overall, levels of loan delinquencies and internally classified loans continued to trend downward during the third quarter, while net loan charge-offs also remained at a low level. These items as well as several other factors, including our cautiously optimistic outlook for the economy, positively impacted our estimate of the allowance for credit losses at September 30, 2014.

Our allowance for non-covered loans and unfunded letters of credit as a percentage of total non-covered loans (excluding non-covered PCI loans with carrying values totaling approximately $583.4 million) was 0.90 percent at September 30, 2014 as compared to 0.94 percent at June 30, 2014. PCI loans are accounted for on a pool basis and initially recorded net of fair valuation discounts related to credit which may be used to absorb future losses on such loans before any allowance for loan losses is recognized subsequent to acquisition. There were no allocated reserves for non-covered PCI loans at September 30, 2014, June 30, 2014 and September 30, 2013.

Management believes that the unallocated allowance is appropriate given the uncertain strength of the economic and housing market recoveries, the size of the loan portfolio and level of loan delinquencies at September 30, 2014.

Loan Repurchase Contingencies

We engage in the origination of residential mortgages for sale into the secondary market. Such loan sales were a significant portion of our mortgage loan production from the third quarter of 2012 until late in the second quarter of

2013 when market interest rates were at historical lows and consumer demand was robust. In connection with loan

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sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred due to such loans. However, the performance of our loans sold has been historically strong due to our strict underwriting standards and procedures. Over the past several years, we have experienced a nominal amount of repurchase requests, only a few of which have actually resulted in repurchases by Valley (only four loan repurchases for all of 2013 and two loan repurchases during the nine months ended September 30, 2014). None of the loan repurchases resulted in losses. Accordingly, no reserves pertaining to loans sold were established on our consolidated financial statements at September 30, 2014 and December 31, 2013. See Part I, Item 1A. Risk Factors - "We may incur future losses in connection with repurchases and indemnification payments related to mortgages that we have sold into the secondary market" of Valley's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders' equity. Our shareholders' equity totaled approximately $1.6 billion and $1.5 billion at September 30, 2014 and December 31, 2013, and represented 9.5 percent of total assets at each of the respective dates. During the nine months ended September 30, 2014, total shareholders' equity increased $43.2 million, which was comprised of (i) net income of $91.0 million, (ii) an $9.9 million decrease in our accumulated other comprehensive loss, (iii) a $3.7 million increase in net proceeds from the re-issuance of 366 thousand shares of treasury stock or authorized common shares issued under our dividend reinvestment plan, and (iv) a $4.6 million increase attributable to the effect of our stock incentive plan, partially offset by cash dividends declared on common stock totaling $66.0 million. See Note 4 to the consolidated financial statements for additional information regarding changes in our accumulated other comprehensive loss during the three and nine months ended September 30, 2014.

Risk-based capital guidelines define a two-tier capital framework. Tier 1 capital consists of common shareholders' equity and trust preferred securities issued by our capital trusts less disallowed intangibles and adjusted to exclude unrealized gains and losses, net of deferred tax. Total risk-based capital consists of Tier 1 capital, qualifying subordinated borrowings of both Valley and Valley National Bank and the allowance for credit losses up to 1.25 percent of risk-adjusted assets. Risk-adjusted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet activities.

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

Based upon the new final regulatory guidance, our Tier 1 capital treatment of the trust preferred securities issued by our capital trusts will be 75 percent disallowed starting on January 1, 2015 and fully phased out of Tier 1 capital on January 1, 2016. Valley's Tier 1 capital position included $44.0 million of its outstanding trust preferred securities issued by capital trusts at September 30, 2014 and December 31, 2013.

The following table presents Valley's and Valley National Bank's actual capital positions and ratios under risk-based capital guidelines at September 30, 2014 and December 31, 2013.

	Actual			Minimum Capital Requirements			To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
	($ in thousands)							
As of September 30, 2014								
Total Risk-based Capital								
Valley	$1,413,434	11.4	%	$988,677	8.0	%	$ N/A	N/A%
Valley National Bank	1,368,266	11.1		987,471	8.0		1,234,338	10.0
Tier 1 Risk-based Capital								
Valley	1,183,612	9.6		494,339	4.0		N/A	N/A
Valley National Bank	1,263,573	10.2		493,735	4.0		740,603	6.0
Tier 1 Leverage Capital								
Valley	1,183,612	7.4		640,415	4.0		N/A	N/A
Valley National Bank	1,263,753	7.9		639,538	4.0		799,422	5.0
As of December 31, 2013								
Total Risk-based Capital								
Valley	$1,403,836	11.9	%	$946,448	8.0	%	$ N/A	N/A%
Valley National Bank	1,376,695	11.6		945,854	8.0		1,182,317	10.0
Tier 1 Risk-based Capital								
Valley	1,141,526	9.7		473,224	4.0		N/A	N/A
Valley National Bank	1,239,510	10.5		472,927	4.0		709,390	6.0
Tier 1 Leverage Capital								
Valley	1,141,526	7.3		628,256	4.0		N/A	N/A
Valley National Bank	1,239,510	7.9		627,333	4.0		784,167	5.0

Management believes the tangible book value per common share ratio provides information useful to management and investors in understanding our underlying operational performance, our business and performance trends and facilitates comparisons with the performance of others in the financial services industry. This non-GAAP financial measure should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP. These non-GAAP financial measures may also be calculated differently from similar measures disclosed by other companies.

Tangible book value is computed by dividing shareholders' equity less goodwill and other intangible assets by common shares outstanding as follows:

	September 30, 2014	December 31, 2013
	($ in thousands, except for share data)	
Common shares outstanding	200,674,966	199,593,109
Shareholders' equity	$1,584,198	$1,541,040
Less: Goodwill and other intangible assets	458,402	464,364
Tangible shareholders' equity	$1,125,796	$1,076,676
Tangible book value per common share	$5.61	$5.39
Book value per common share	$7.89	$7.72

Typically, our primary source of capital growth is through retention of earnings. Our rate of earnings retention is derived by dividing undistributed earnings per common share by earnings (or net income) per common share. Our retention ratio was 26.7 percent for the nine months ended September 30, 2014. Our rate of earnings retention

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

Cash dividends declared amounted to $0.33 and $0.49 per common share for the nine months ended September 30, 2014 and 2013, respectively. In November 2013, the Board reduced the quarterly dividend amount per share by $0.0525. While our performance and capital are strong, the quarterly retention of a higher amount of capital should provide us more flexibility to expand our banking franchise. The dividend reduction was not the result of any regulatory actions. The Board is committed to examine and weigh relevant facts and considerations, including its commitment to shareholder value, each time it makes a cash dividend decision in this economic environment. The Federal Reserve has cautioned all bank holding companies about distributing dividends which may reduce the level of capital or not allow capital to grow in anticipation of new higher capital levels as required under the new Basel Rules.

Off-Balance Sheet Arrangements, Contractual Obligations and Other Matters

For a discussion of Valley's off-balance sheet arrangements and contractual obligations see information included in Valley's Annual Report on Form 10-K for the year ended December 31, 2013 in the MD&A section -"Off-Balance Sheet Arrangements" and Notes 13, 14 and 15 to the consolidated financial statements included in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, and commodity prices. Valley's market risk is composed primarily of interest rate risk. See page 70 for a discussion of interest rate sensitivity.

Item 4. Controls and Procedures

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

Valley's CEO and CFO have also concluded that there have not been any changes in Valley's internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, Valley's internal control over financial reporting.

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

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions. Over time, controls

may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, we may be a party to various outstanding legal proceedings and claims. There have been no material changes in the legal proceedings previously disclosed under Part I, Item 3 of Valley's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under Part I, Item 1A of Valley's Annual Report on Form 10-K for the year ended December 31, 2013.

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

During the quarter, we did not sell any equity securities not registered under the Securities Act of 1933, as amended. Purchases of equity securities by the issuer and affiliated purchasers during the three months ended September 30, 2014 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (1)
July 1, 2014 to July 31, 2014	455	$9.95	—	4,112,465
August 1, 2014 to August 31, 2014	412	9.66	—	4,112,465
September 1, 2014 to September 30, 2014	—	—	—	4,112,465
Total	867	$9.81	—	

(1) On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.7 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended September 30, 2014.

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

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Item 6. Exhibits

(3) Articles of Incorporation and By-laws:

A. Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant, incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on September 22, 2014.

B. Restated Certificate of Incorporation of the Registrant, incorporated herein by reference to the Registrant's Annual Report on Form 10-K filed on March 3, 2014.

C. By-laws of the Registrant, as amended, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 5, 2013.

(10) Material Contracts

Valley National Bancorp 2009 Long-Term Stock Incentive Plan (amended to provide for awards of a number of restricted stock units and a reduction by the same number of restricted stock awards).*

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

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

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

(101) Interactive Data File *

* Filed herewith.

SIGNATURES

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

	VALLEY NATIONAL BANCORP (Registrant)
Date: November 7, 2014	/s/ Gerald H. Lipkin Gerald H. Lipkin Chairman of the Board, President and Chief Executive Officer
Date: November 7, 2014	/s/ Alan D. Eskow Alan D. Eskow Senior Executive Vice President and Chief Financial Officer