VALLEY NATIONAL BANCORP
Form 10-K
March 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

¨ **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)

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer þ	Accelerated filer ¨
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 þ

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1.8 billion on June 30, 2013.

There were 200,238,692 shares of Common Stock outstanding at February 26, 2014.

Documents incorporated by reference:

Certain portions of the registrant s Definitive Proxy Statement (the 2014 Proxy Statement) for the 2014 Annual Meeting of Shareholders to be held April 9, 2014 will be incorporated by reference in Part III. The 2014 proxy statement will be filed within 120 days of December 31, 2013.

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PART I

Item 1. Business

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

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended (Holding Company Act). The words Valley, the Company, we, our and us refer to Valley National Bancorp and its wholly owned subsidi unless we indicate otherwise. At December 31, 2013, Valley had consolidated total assets of $16.2 billion, total net loans of $11.5 billion, total deposits of $11.3 billion and total shareholders equity of $1.5 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the Bank in this report), Valley owns all of the voting and common shares of GCB Capital Trust III and State Bancorp Capital Trusts I and II through which trust preferred securities were issued. These trusts are not consolidated subsidiaries. See Note 11 to the consolidated financial statements.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 204 branches in 144 communities serving 16 counties throughout northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. The Bank provides a full range of commercial, retail and wealth management financial services products. The Bank provides a variety of banking services including automated teller machines, telephone and internet banking, remote deposit capture, overdraft facilities, drive-in and night deposit services, and safe deposit facilities. The Bank also provides certain international banking services to customers including standby letters of credit, documentary letters of credit and related products, and certain ancillary services such as foreign exchange, documentary collections, foreign wire transfers and the maintenance of foreign bank accounts.

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

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

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

Recent Acquisitions

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

On January 1, 2012, Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank with approximately $1.7 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. Of the acquired branch offices, 14 remain within our 43 branch network in New York and are located in Long Island and Queens. The new locations complement Valley s other New York City locations, including five branches in Queens, and may provide a foundation for future expansion efforts into these attractive markets. The common shareholders of State Bancorp received a fixed one-for- one exchange ratio for Valley National Bancorp common stock. The total consideration for the acquisition totaled $208 million. As a condition to the closing of the merger, State Bancorp redeemed $36.8 million of its outstanding Fixed Rate Cumulative Series A Preferred Stock from the U.S. Treasury on December 14, 2011. The stock redemption was funded by a $37.0 million short-term loan at market terms from Valley to State Bancorp prior to the acquisition date. The outstanding loan and debt, included in Valley s and State Bancorp s consolidated financial statements at December 31, 2011, respectively, were both subsequently eliminated as of the acquisition date.

Additionally, a warrant issued by State Bancorp (in connection with its preferred stock issuance) to the U.S. Treasury in December 2008 was assumed by Valley as of the acquisition date. The ten-year warrant to purchase up to 489 thousand of Valley common shares has an exercise price of $11.30 per share, and is exercisable on a net exercise basis. Valley has not negotiated the possible redemption of the warrant with the U.S. Treasury. However, the Treasury may request that we make an offer to redeem the warrant in the future, or request that warrant shares be individually sold at public auction. The entire warrant remained outstanding at December 31, 2013. See further details regarding the acquisition of State Bancorp in Note 2 to the consolidated financial statements.

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

In connection with both of the FDIC-assisted transactions, the Bank entered into loss-share agreements with the FDIC. Under the terms of the loss-sharing agreements, the Bank will share in the losses on assets and other real estate owned (referred to as covered loans and covered OREO , together covered assets). The Bank may sell the acquired loans (with or without recourse) but in such case, the FDIC loss-sharing agreements will cease to be effective for any losses incurred on such loans. Additionally, any related FDIC loss-share receivable would be uncollectable and written-off upon settlement of the sale. The commercial and single-family (residential) loan loss-sharing agreements with the FDIC expire in March of 2015 and 2020, respectively. The Company expects the vast majority of the covered loans to mature, substantially paydown under contractual loan terms or work through our collection process on or before the expiration of the related loss-sharing agreements. As of December 31, 2013, the Company had approximately $96.2 million in covered loans, which comprised 0.8 percent of its total loan portfolio.

Business Segments

Valley National Bank reports the results of its operations and manages its business through four business segments: commercial lending, consumer lending, investment management, and corporate and other adjustments.

Valley s Wealth Management Division comprised of trust, asset management and insurance services, is included in the consumer lending segment. See Note 21 to the consolidated financial statements for details of the financial performance of our business segments. We offer a variety of products and services within the commercial and consumer lending segments as described below.

Commercial Lending Segment

Commercial and Industrial Loans. Commercial and industrial loans, including $26.2 million of covered loans, totaled approximately $2.0 billion and represented 17.5 percent of the total loan portfolio at December 31, 2013. We make commercial loans to small and middle market businesses most often located in the New Jersey and New York area. A significant proportion of Valley s commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower s ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Our loan decisions will include consideration of a borrower s standing in the community, willingness to repay debts, collateral coverage and other forms of support. Strong consideration is given to long-term existing customers that have maintained a favorable relationship. Commercial loan products offered consist of term loans for equipment purchases, working capital lines of credit that assist our customers financing of accounts receivable and inventory, and commercial mortgages for owner occupied properties. Working capital advances are generally used to finance seasonal requirements and are repaid at the end of the cycle by the conversion of short-term assets into cash. Short-term commercial business loans may be collateralized by a lien on accounts receivable, inventory, equipment and/or partly collateralized by real estate. Short-term loans may also be made on an unsecured basis based on a borrower s financial strength and past performance. We, 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 creditworthy borrowers. Unsecured commercial and industrial loans totaled approximately $314.6 million at December 31, 2013. In addition, through our subsidiaries we own and service general aviation aircraft loans, provide financing to the diamond and jewelry industry, the medical equipment leasing market, and engage in asset-based accounts receivable and inventory financing.

Commercial Real Estate Loans. Commercial real estate loans and construction loans, including $61.5 million of covered loans, totaled $5.5 billion and represented 47.3 percent of the total loan portfolio at December 31, 2013. We originate commercial real estate loans that are secured by multi-unit residential property and non-owner occupied commercial, industrial, and retail property within New Jersey, New York and Pennsylvania. Loans are generally written on an adjustable basis with rates tied to a specifically identified market rate index. Adjustment periods generally range between five to ten years and repayment is structured on a fully amortizing basis for terms up to thirty years. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans but generally they involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley s primary markets. With respect to loans to developers and builders, we originate and manage construction loans structured on either a revolving or a non-revolving basis, depending on the nature of the underlying development project. Our construction loans totaling $429.2 million at December 31, 2013 are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate

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

Consumer Lending Segment

Residential Mortgage Loans. Residential mortgage loans, including $7.6 million of covered loans, totaled $2.5 billion and represented 21.7 percent of the total loan portfolio at December 31, 2013. We offer a full range of residential mortgage loans for the purpose of purchasing or refinancing one-to-four family residential properties. Our residential mortgage loans include fixed and variable interest rate loans generally located in counties where we have a branch presence in New Jersey and New York and contiguous counties (including 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. We occasionally make mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Mortgage loan originations are based on underwriting standards that generally comply with Fannie Mae and/or Freddie Mac requirements. Appraisals and valuations of real estate collateral are contracted directly with independent appraisers or from valuation services and not through appraisal management companies. The Bank s appraisal management policy and procedure is in accordance with regulatory requirements and guidance issued by the Bank s primary regulator. Credit scoring, using FICO® and other proprietary, credit scoring models is employed in the ultimate, judgmental credit decision by Valley s underwriting staff. Valley does not use third party contract underwriting services. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property. Terms of first mortgages range from 10 years for interest only loans (which totaled approximately $10.7 million at December 31, 2013) to 30 years for fully amortizing loans. The small 10-year interest only loan portfolio is declining year over year, as Valley generally has not originated this type of loan product (including no new originations in 2013). In deciding whether to make a residential real estate loan, we consider the qualifications of the borrower, the value and condition of the underlying property and other factors that we believe are predictive of future loan performance.

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

Other Consumer Loans. Other consumer loans totaled $1.6 billion and represented 13.5 percent of the total loan portfolio at December 31, 2013. Our other consumer loan portfolio is primarily comprised of direct and indirect automobile loans, home equity loans and lines of credit, loans secured by the cash surrender value of life insurance, and to a lesser extent, secured and unsecured other consumer loans (including credit card loans). Valley is an auto lender in New Jersey, New York, Pennsylvania, Connecticut, and Delaware offering indirect auto loans secured by either new or used automobiles. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Home equity lending consists of both fixed and variable interest rate products. We mainly provide home equity loans to our residential mortgage customers or take a secondary position to another lender s first lien position within the footprint of our primary lending territory. We generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75 percent when originating a home equity loan. Other consumer loans include direct consumer term loans, both secured and unsecured. From time to time, the Bank will also purchase prime consumer loans originated by and

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serviced by other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. Unsecured consumer loans totaled approximately $21.4 million, including $8.3 million of credit card loans, at December 31, 2013.

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

Investment Management Segment

Although we are primarily focused on our lending and wealth management services, a large portion of our income is generated through investments in various types of securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York), as part of our asset/liability management strategies. As of December 31, 2013, our total investment securities and interest bearing deposits with banks were $2.6 billion and $134.9 million, respectively. See the Investment Securities Portfolio section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 4 to the consolidated financial statements for additional information concerning our investment securities.

Changes in Loan Portfolio Composition

Approximately 72 percent of Valley s $11.6 billion total loan portfolio consists of non-covered (i.e., loans which are not subject to loss-sharing agreements with the FDIC) commercial real estate (including construction loans), residential mortgage, and home equity loans at December 31, 2013. Of the remaining 28 percent, approximately 27.2 percent consists of non-covered loans not collateralized by real estate and approximately 0.8 percent consists of loans covered by the FDIC loss-sharing agreements. Valley has no internally planned changes that will significantly impact the current composition of our loan portfolio by loan type. However, many external factors outlined in Item 1A. Risk Factors , the Executive Summary section of our MD&A, and elsewhere in this report may impact our ability to maintain the current composition of our loan portfolio. See the Loan Portfolio section of our MD&A in this report for further discussion of our loan composition and concentration risks.

The following table presents the loan portfolio segments by state as an approximate percentage of each applicable segment and our percentage of total loans by state at December 31, 2013.

	Percentage of Loan Portfilo Segment:				
	Commercial and Industrial	**Commercial Real Estate**	**Residential**	**Consumer**	**% of Total Loans**
New Jersey	44%	51%	78%	55%	56%
New York	41	45	10	25	34
Pennsylvania	1	1	3	16	3
California	2	*	4	*	1
Florida	1	1	1	1	1
Ohio	*	*	3	*	1
Other	11	2	1	3	4
Total	100%	100%	100%	100%	100%

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

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Credit Risk Management and Underwriting Approach

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

Our historical and current loan underwriting practice prohibits the origination of payment option ARMs which allow for negative interest amortization and subprime loans. Our residential loan portfolio included approximately $13.3 million and $17.5 million of loans that could be identified by us as non-conforming loans commonly referred to as either alt-A, stated income, or no doc loans at December 31, 2013 and 2012, respectively. These loans were mostly originated prior to 2008 and had a weighted average loan-to-value ratio of 70 percent at the date of origination. Virtually all of our loan originations in recent years have conformed to rules requiring documentation of income, assets sufficient to close the transactions and debt to income ratios that support the borrower s ability to repay under the loan s proposed terms and conditions. These rules are applied to all loans originated for retention in our portfolio or for sale in the secondary market.

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

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

Many times, we will underwrite loans to legal entities formed for the limited purpose of the business which is being financed. Credit granted to these entities and the ultimate repayment of such loans is primarily based on the cash flow generated from the property securing the loan or the business that occupies the property. The underlying real property securing the loans is considered a secondary source of repayment, and normally such loans are also supported by guarantees of the legal entity members. Absent such guarantees or approval by our credit committee, our policy requires that the loan to value ratio (at origination) be 50 percent or less of the estimated market value of the property as established by an independent licensed appraiser.

Reevaluation of collateral values. Commercial loan renewals, refinancing and other subsequent transactions that include the advancement of new funds or result in the extension of the amortization period beyond the original term, require a new or updated appraisal. Renewals, refinancing and other subsequent transactions that

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

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

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

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

Loan Renewals and Modifications

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

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

Extension of Credit to Past Due Borrowers

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

Loans Originated by Third Parties

From time to time, the Bank purchases residential mortgage and automobile loans, and to a lesser extent other loan types (including commercial real estate loans totaling $64.3 million at December 31, 2013 that were acquired from another financial institution during the first quarter of 2012), originated by, and sometimes serviced by, other financial institutions. The purchase decision is usually based on several factors, including current loan origination volumes, market interest rates, excess liquidity and other asset/liability management strategies. All of the purchased loans are selected using Valley s normal underwriting criteria at the time of purchase, or in some cases guaranteed by third parties. Purchased residential mortgage loans and automobile loans (excluding purchased credit-impaired loans acquired in business combinations or FDIC-assisted transactions) totaled approximately $309.6 million and $43.9 million, respectively, at December 31, 2013 representing 12.4 percent and 4.9 percent of our total residential mortgage and automobile loan portfolios, respectively. At December 31, 2013, the residential mortgage loans originated by third parties had loans past due 30 days or more totaling 3.0 percent of these loans as compared to 1.2 percent for our total residential mortgage portfolio, including all delinquencies. The purchased automobile portfolio had loans past due 30 days or more totaling 0.5 percent of these loans at December 31, 2013 as compared to 0.4 percent for our total automobile loan portfolio.

Competition

Valley National Bank is one of the largest commercial banks headquartered in New Jersey, with its primary markets located in northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. Valley ranked 16th in competitive ranking and market share based on the deposits reported by 236 FDIC-insured financial institutions in the New York, Northern New Jersey and Long Island deposit market as of June 30, 2013. The FDIC also ranked Valley 8th and 37th in the states of New Jersey and New York, respectively, based on deposits as of June 30, 2013. Despite our favorable FDIC rankings, the market for banking and bank-related services is highly competitive and we face substantial competition in all phases of our operations. In addition to the FDIC-insured commercial banks in our principal metropolitan markets, we also compete with other providers of financial services such as savings institutions, credit unions, mutual funds, captive finance companies, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national companies which offer various financial services. Many of these competitors may have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures.

In addition, competition has further intensified as a result of recent changes in regulation, and advances in technology and product delivery systems. Web-based and other internet companies are providing non-traditional, but increasingly strong, competition for our borrowers, depositors, and other customers. Within our New Jersey and New York metropolitan markets, we compete with some of the largest financial institutions in the world that are able to offer a large range of products and services at competitive rates and prices. Nevertheless, we believe we can compete effectively as a result of utilizing various strategies including our long history of local customer service and convenience as part of a relationship management culture, in conjunction with the pricing of loans and deposits. Our customers are influenced by the convenience, quality of service from our knowledgeable staff, personal contacts and attention to customer needs, as well as availability of products and services and related pricing. We provide such convenience through our banking network of 204 branches in 144 communities, an extensive ATM network, and our 24-hour telephone and on-line banking systems.

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

Personnel

At December 31, 2013, Valley National Bank and its subsidiaries employed 2,908 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

Executive Officers

Names	Age at December 31, 2013	Executive Officer Since	Office
Gerald H. Lipkin	72	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	56	1991	Director, Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	65	1993	Director, Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	65	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	67	1990	Executive Vice President of Valley and Valley National Bank
Dianne M. Grenz	51	2014	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	70	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	67	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	55	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	66	1991	Executive Vice President of Valley and Valley National Bank
Andrea T. Onorato	56	2014	Executive Vice President of Valley and Valley National Bank
Ira D. Robbins	39	2009	Executive Vice President of Valley and Valley National Bank
Elizabeth E. De Laney	49	2007	First Senior Vice President of Valley National Bank
Eric W. Gould	45	2001	First Senior Vice President of Valley National Bank
John H. Noonan	67	2006	First Senior Vice President of Valley National Bank
Stephen P. Davey	58	2002	Senior Vice President of Valley National Bank

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

Available Information

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

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

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SUPERVISION AND REGULATION

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

Bank Holding Company Regulation

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

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

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

Regulation of Bank Subsidiary

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

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Capital Requirements

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be well capitalized. The financial holding company of a national bank will be put under directives to raise its capital levels or divest its activities if the depository institution falls from that level.

The OCC s regulations implementing these provisions of FDICIA provide that an institution will be classified as well capitalized if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. An institution will be classified as adequately capitalized if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent or (b) at least 3.0 percent if the institution was rated 1 in its most recent examination, and (iv) does not meet the definition of well capitalized. An institution will be classified as undercapitalized if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent or (b) less than 3.0 percent if the institution was rated 1 in its most recent examination. An institution will be classified as significantly undercapitalized if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. Valley National Bank s capital ratios were all above the minimum levels required for it to be considered a well capitalized financial institution at December 31, 2013.

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

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

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

- 4.5 percent CET1 to risk-weighted assets.

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6.0 percent Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets.

8.0 percent Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets.

4.0 percent Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the leverage ratio).

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

The Basel Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1. The deductions and other adjustments to CET1 will be phased in incrementally between January 1, 2015 and January 1, 2018.

Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including Valley and Valley National Bank, may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015.

The Basel Rules with respect to us require that trust preferred securities be phased out from Tier 1 capital between January 1, 2015 (when only 25 percent of the amount may be included) and January 1, 2016 (when 0 percent may be included).

With respect to Valley National Bank, the Basel Rules also revise the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized), with the required CET1 ratio being 6.5 percent for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8 percent (as compared to the current 6 percent); and (iii) requiring a leverage ratio of 5 percent to be well-capitalized (as compared to the current required leverage ratio of 3 or 4 percent). The Basel Rules do not change the total risk-based capital requirement for any prompt corrective action category. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the Basel Rules will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

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

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We believe that, as of December 31, 2013, Valley and Valley National Bank would meet all capital adequacy requirements under the Basel Rules on a fully phased-in basis if such requirements were currently effective including after giving effect to the deductions described above.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) was signed into law on July 21, 2010. The Dodd-Frank Act significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Generally, the Act became effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Act, among other things:

- Gave the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as Valley National Bank. In June 2011, the FRB adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements certain fraud-prevention standards;

- Removed trust preferred securities as a permitted component of Tier 1 capital for bank holding companies with assets of $15 billion or more, however, bank holding companies with assets of less than $15 billion at the enactment date will generally be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital. However, the Basel Rules required us to phase out trust preferred securities from Tier 1 capital between January 1, 2015 (when only 25 percent of the amount may be included) and January 1, 2016 (when 0 percent may be included);

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

- Created a new Consumer Financial Protection Bureau that has rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws (See Consumer Financial Protection Bureau Supervision section below);

- Required public companies to give shareholders a non-binding vote on executive compensation and on golden parachute payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders;

- Directed federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion;

- Provided mortgage reform provisions regarding a customer s ability to repay, requiring the ability to repay for variable-rate loans to be determined by using the maximum rate that will apply during the first five years of the loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;

- Created a Financial Stability Oversight Council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity; and

- Made permanent the $250 thousand limit for federal deposit insurance.

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

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

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

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

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

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is likely to continue to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, remains very unpredictable at this time.

Volcker Rule

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

Dividend Limitations

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

Loans to Related Parties

Valley National Bank s authority to extend credit to its directors, executive officers and 10 percent shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of the National Bank Act, Sarbanes-Oxley Act and Regulation O of the FRB thereunder. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank s capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank s Board of Directors. Under the Sarbanes-Oxley Act, Valley and its subsidiaries, other than the Bank, may not extend or arrange for any personal loans to its directors and executive officers.

Community Reinvestment

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

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Sarbanes-Oxley Act of 2002

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

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

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

USA PATRIOT Act

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the Anti Money Laundering Act). The Anti Money Laundering Act authorizes the Secretary of the U.S. Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country.

Regulations implementing the due diligence requirements require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of concentration accounts, and requires all covered financial institutions to have in place an anti-money laundering compliance program.

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

Consumer Financial Protection Bureau Supervision

As a financial institution with more than $10 billion in assets, Valley National Bank is supervised by the CFPB for consumer protection purposes. The CFPB s regulation of Valley National Bank is focused on risks to consumers and compliance with the federal consumer financial laws and includes regular examinations of the Bank.

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The CFPB, along with the Department of Justice and bank regulatory authorities also seek to enforce discriminatory lending laws. In such actions, the CFPB and others have used a disparate impact analysis, which measures discriminatory results without regard to intent. Consequently, unintentional actions by Valley could have a material adverse impact on our lending and results of operations if the actions are found to be discriminatory by our regulators.

Gramm-Leach-Bliley Act

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

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was previously permissible, including insurance underwriting;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies;
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations; and
- modifies other financial laws, including laws related to financial privacy and community reinvestment.

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

Insurance of Deposit Accounts

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

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

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

Item 1A. Risk Factors

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

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

While the United States continues to experience modest economic growth and improvements in the level of unemployment, the rate of growth has been slow and the low level of the labor force participation rate (which has contributed to the modest decline in the unemployment rate) is not expected to significantly improve in the near future. Much of Valley s lending is in northern and central New Jersey, and Manhattan, Brooklyn, Queens, and Long Island, New York. As a result of this geographic concentration, a significant broad-based deterioration in economic conditions in New Jersey and the New York City metropolitan area could have a material adverse impact on the quality of Valley s loan portfolio, results of operations and future growth potential. Prolonged weakened economic conditions and unemployment in our market area could restrict borrowers ability to pay outstanding principal and interest on loans when due, and, consequently, adversely affect the cash flows and results of operation of Valley s business. Additionally, such weak conditions may also continue to adversely affect our ability to originate loans.

Lawmakers failure to resolve the so called Debt Ceiling or U.S. budgetary crisis in a timely manner, further downgrades of the U.S. credit rating and uncertain credit and financial market conditions may affect the stability of our $1.7 billion in securities issued or guaranteed by the federal government, which may affect the valuation or liquidity of our investment securities portfolio and may increase our future borrowing costs.

As a result of the uncertain domestic political, credit and financial market conditions, including the potential consequences of the federal government defaulting on its obligations for a period of time due to an unresolved debt ceiling limitation or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose credit default and liquidity risks. Given that future deterioration in the United States credit and financial markets is a possibility, no assurance can be given that losses or significant deterioration in the fair value of our U.S. government issued or guaranteed investments will not occur. At December 31, 2013, we had approximately $223.9 million, $53.1 million and $1.4 billion invested in U.S. Treasury securities, U.S. government agency securities, and residential mortgage-backed securities issued or guaranteed by Ginnie Mae and government-sponsored enterprises, respectively. During 2011, Standard and Poor s downgraded the United States credit rating from its AAA rating to AA+. Further downgrades in the future could also affect the stability of securities issued or guaranteed by the federal government. These factors could affect the valuation or liquidity of our portfolio of such investment securities, and could result in our counterparties requiring additional collateral for our borrowings. Further, unless and until the current United States political, credit and financial market conditions have been sufficiently resolved, it may increase our future borrowing costs.

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

Valley s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond Valley s control, including general economic conditions, competition, and policies of various governmental and regulatory agencies and, in particular, the policies of the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest Valley receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Valley s ability to originate loans and obtain deposits, (ii) the fair value of Valley s financial assets and liabilities, including the held to maturity, available for sale, and trading securities portfolios, and (iii) the average duration of Valley s interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk). Any substantial or unexpected change in market interest rates or a prolonged period of low interest rates, such as those experienced in 2013 and projected by the FRB to continue beyond 2014, could have a material adverse effect on Valley s financial condition and results of operations. Due, in part, to the low level of market interest rates on loans and investments and a large portion of our long-term borrowing costs that are fixed at interest rates above current market rates of similar new borrowings, our net interest margin on a tax equivalent basis declined 32 basis points to 3.20 percent for the year ended December 31, 2013 as compared to 2012. See additional information at the Net Interest Income and Interest Rate Sensitivity sections of our MD&A.

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

As of December 31, 2013, we had approximately $1.7 billion and $829.7 million in held to maturity and available for sale securities, respectively. We may be required to record impairment charges in earnings related to credit losses on these investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, (a) if we intend to sell a security or (b) it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we will be required to recognize an other-than-temporary impairment charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

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

Among other securities, our investment portfolio includes private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled securities), perpetual preferred securities issued by banks, and bank issued corporate bonds. These investments pose a risk of future impairment charges by us as a result of the slow recovery in the U.S. economy and its negative effect on the performance of these issuers and/or the underlying mortgage loan collateral. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon requirements or recommendations by bank regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley s investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. We recognized no other-than-temporary impairment charges on securities attributable to credit in 2013 as compared to $5.2 million and $20.0 million in 2012 and 2011, respectively. The 2012 and 2011 charges were mainly due to impaired trust preferred and private label mortgage-backed securities. See the Investment Securities section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment of investment securities.

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

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

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

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2013, over 73 percent of our total loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and could deteriorate in value during the time the credit is extended. A downturn in the real estate market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and shareholders equity could be adversely affected. The declines in home prices in the New Jersey and New York metropolitan markets we serve, along with the reduced availability of mortgage credit, also may result in increases in delinquencies and losses in our loan portfolios. Unexpected decreases in home prices coupled with a prolonged economic recovery and elevated levels of unemployment could drive losses beyond that which is provided for in our allowance for loan losses. In that event, our earnings could be adversely affected.

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

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

We maintain an allowance for credit losses based on our assessment of credit losses inherent in our loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance is critical to our financial results and conditions. It requires difficult, subjective and complex judgments about the future, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Additionally, bank regulators review the classification of our loans in their examination of us and we may be required in the future to change the classification on certain of our loans, which may require us to increase our provision for loan losses or loan charge-offs. If actual net charge-offs were to exceed Valley s allowance, its earnings would be negatively impacted by additional provisions for loan losses. Any increase in our allowance for loan losses or loan charge-offs as required by the OCC or otherwise could have an adverse effect on our results of operations or financial condition.

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

In connection with the acquisitions of certain assets and liabilities of LibertyPointe Bank and The Park Avenue Bank, the Bank entered into loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreement with the FDIC in the LibertyPointe Bank transaction, the FDIC is obligated to reimburse us for: (i) 80 percent of any future losses on loans covered by the loss-sharing agreement up to $55.0 million, after we absorb such losses up to the first loss tranche of $11.7 million; and (ii) 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement with the FDIC in The Park Avenue Bank transaction, the FDIC is obligated to reimburse us for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. At December 31, 2013, our FDIC loss-share receivable totaled $32.8 million. Although the FDIC has agreed to reimburse us for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if the loss-sharing agreements are not managed in accordance with their terms. In addition, reimbursable losses are based on the book value of the relevant loans as determined by the FDIC as of the effective dates of the transactions. The amount that we realize on these loans could differ materially from the carrying value that will be reflected in our financial statements, based upon the timing and amount of collections on the covered loans in future periods.

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

As a result of the weak economic recovery, we continue to face elevated levels of delinquencies on our loans. Our non-accrual loans increased from 0.33 percent at December 31, 2008 to 1.20 percent and 0.82 percent of total loans at December 31, 2012 and 2013, respectively. Although the economy continued to gradually improve during 2013, a slowing or further downturn in economic or real estate market conditions could result in increased charge-offs to our allowance for loan losses and lost interest income relating to a higher level of non-performing loans. Non-performing assets (including non-accrual loans, other real estate owned, other repossessed assets, and non-accrual debt securities) totaled $124.9 million at December 31, 2013. These non-performing assets can adversely affect our net income mainly through decreased interest income and increased operating expenses incurred to maintain such assets or loss charges related to subsequent declines in the estimated fair value of foreclosed assets. Adverse changes in the value of our non-performing assets, or the underlying collateral, or in the borrowers performance or financial conditions could adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience further increases in non-performing loans in the future, or that our non-performing assets will not result in lower financial returns in the future.

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by the President of the United States. The Dodd-Frank Act requires significant changes in financial regulation that have impacted all financial institutions, including Valley and the Bank, and will continue to do so as new regulations are promulgated. Among the Dodd-Frank Act s significant regulatory changes, it created the CFPB that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The CFPB has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of certain federal consumer protection laws. The CFPB also has exclusive supervision over examinations of our compliance with those specific laws, and implementing rules and regulations, supplementing the compliance examinations that will be made by the Comptroller of the Currency. Moreover, the Dodd-Frank Act authorizes states attorneys general to enforce consumer protection rules issued by the CFPB. The Dodd-Frank Act also restricts the authority of the Comptroller of the Currency to preempt state consumer protection laws applicable to national banks, such as the Bank, impacts the preemption of state laws as they affect subsidiaries and agents of national banks, changes the scope of federal deposit insurance coverage, and increases the FDIC assessment payable by the Bank. The CFPB s rulemaking, including the QM Rule for qualified mortgage borrowers (outlined under the Supervision and Regulation section of Item 1 to this Annual Report), and certain other provisions in the Dodd-Frank Act, have significantly increased our regulatory compliance burden and costs and may continue to increase in the future through additional restrictions on the financial products and services we offer to our customers.

The Dodd-Frank Act imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new issuances of trust preferred securities from counting as Tier 1 capital. These restrictions have placed greater limitations on our capital strategies. Under the Dodd-Frank Act, our outstanding trust preferred securities will continue to count as Tier 1 capital (but will be 75 percent disallowed starting on January 1, 2015 and fully phased out of Tier 1capital on January 1, 2016 under the final Basel III guidance issued in July 2013). The Dodd-Frank Act also increases regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

The Dodd-Frank Act also amended the Electronic Fund Transfer Act to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as Valley National Bank. In June 2011, the FRB issued a final rule that establishes standards for determining whether an interchange fee received or charged by an issuer with respect to an electronic debit transaction is reasonable and proportionate to the cost incurred by the issuer with respect to the transaction. Effective October 1, 2011, these new standards imposed debit card interchange fee limits which were largely responsible for a $880 thousand reduction in our debit card interchange fees recognized in other non-interest income for the fourth quarter of 2011 as compared to the third quarter of 2011. Debit card interchange fees totaled $2.5 million, $2.4 million and $4.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. We can make no assurances that these rules and any new limitations imposed upon us will not reduce such fee income in the future.

On December 10, 2013, the FRB, the OCC, the FDIC, the CFTC and the SEC issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act, generally to become effective on July 21, 2015. The Volcker Rule prohibits an insured depository institution and its affiliates from: (i) engaging in proprietary trading and (ii) investing in or sponsoring certain types of funds (defined as Covered Funds) subject to certain limited exceptions. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading and prohibits the use of some hedging strategies. We are currently analyzing the entire Volcker Rule to determine what effect, if any, it will have on our business and results of operations. We identified no investments held as of December 31, 2013 that meet the definition of Covered Funds. See additional information regarding our review the investment securities portfolio at Note 4 to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

Additional bank failures could increase our FDIC assessments and adversely affect our results of operations and financial condition.

The economic recession and the prolonged economic recovery in the U.S. since 2008 has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs dramatically since 2008 and negatively impacted our earnings (See the annual impact in Item 6. Selected Financial Data below). In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $6.5 million. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012 in December 2009. We prepaid estimated assessment fees totaling $45.5 million in December 2009. The FDIC could impose additional special assessments for future quarters or increase the FDIC standard assessments. Furthermore, the Dodd-Frank Act, among other things, gave the FDIC greater discretion to manage the Deposit Insurance Fund and raised the minimum Designated Reserve Ratio to 1.35 percent with no upper limit. Due to these changes and the uncertain future economic and regulatory environment impacting insured banks, we cannot provide you with any assurances that we will not be required to pay additional FDIC insurance assessments, which could have an adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

Valley faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than Valley to deal with the potential negative changes in the financial markets and regulatory landscape. Valley competes with other providers of financial services such as commercial and savings banks, savings and loan associations, credit unions, money market and mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a large list of other local, regional and national institutions which offer financial services. Additional mergers and acquisitions of financial institutions within New Jersey and the New York Metro area may also occur given the current difficult banking environment and add more competitive pressure to Valley. If Valley is unable to compete effectively, it may lose market share and its income generated from loans, deposits, and other financial products may decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. The substantial decline in residential real estate values and the standards used by some originators has resulted in more repurchase requests to many secondary market participants from secondary market purchasers. Since January 1, 2006, we have originated and sold over 16,800 individual residential mortgages totaling approximately $3.5 billion. Of the $3.5 billion in originations, approximately $20 million in unpaid principal balances remain outstanding from the origination years 2006 through 2008. These particular years are considered to be high risk years in the mortgage industry due to the escalation in housing prices, and subsequent decline during the financial crisis. However, these potentially higher risk loans in our retained mortgage loan servicing portfolio continued to outperform Fannie Mae s overall portfolio performance (for each applicable origination year) at December 31, 2013. Over the past several years, we have experienced a nominal amount of repurchase requests, and only a few of which have actually resulted in repurchases by Valley (only four loan repurchases in 2013). None of the loan repurchases resulted in loss. As of December 31, 2013, no reserves pertaining to loans sold were established on our financial statements. While we currently believe our repurchase risk remains low based upon our careful loan underwriting and documentation standards, it is possible that requests to repurchase loans could occur in the future and such requests may have a negative financial impact on us.

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

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

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Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

We conduct our business at 204 retail banking centers locations, with 161 in northern and central New Jersey and 43 in the New York City metropolitan area. We own 96 of our banking center facilities. The other facilities are leased for various terms.

The following table summarizes our retail banking centers in New Jersey and the New York City metropolitan area:

	Number of banking centers	% of Total
New Jersey:		
Central	90	44%
Northern	71	35
New York:		
Manhattan	15	7
Long Island	13	6
Brooklyn	9	5
Queens	6	3
Total	204	100%

Our principal business office is located at 1455 Valley Road, Wayne, New Jersey. Including our principal business office, we own four office buildings in Wayne, New Jersey and one building in Chestnut Ridge, New York, which are used for various operations of Valley National Bank and its subsidiaries. During 2012, we opened our New York City corporate headquarters located at One Penn Plaza in Manhattan which is primarily used as a central hub for New York based lending activities of senior executives and other commercial lenders. We also lease a residential mortgage loan production office in Bethlehem, Pennsylvania.

The total net book value of our premises and equipment (including land, buildings, leasehold improvements and furniture and equipment) was $270.1 million at December 31, 2013.

Item 3. ***Legal Proceedings***

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

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PART II

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

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

	Year 2013			Year 2012		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 10.50	$ 9.50	$ 0.16	$ 12.69	$ 11.30	$ 0.16
Second Quarter	10.28	8.75	0.16	12.50	10.17	0.16
Third Quarter	10.73	9.41	0.16	11.07	9.10	0.16
Fourth Quarter	10.53	9.67	0.11	10.27	8.65	0.16

There were 8,274 shareholders of record as of December 31, 2013.

Restrictions on Dividends

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

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Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2008 in: (a) Valley s common stock; (b) the Standard and Poor s (S&P) 500 Stock Index; and (c) the Keefe, Bruyette & Woods KBW50 Bank Index. The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time based on dividends (stock or cash) and increases or decreases in the market price of the stock.

	12/08	12/09	12/10	12/11	12/12	12/13
Valley	$ 100.00	$ 77.93	$ 87.22	$ 83.73	$ 70.32	$ 81.23
KBW 50	100.00	77.93	93.84	88.98	100.77	147.93
S&P 500	100.00	126.45	145.52	148.55	172.29	228.04

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Issuer Repurchase of Equity Securities

The following table presents the purchases of equity securities by the issuer and affiliated purchasers during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans [1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans [1]
October 1, 2013 to October 31, 2013		$		4,112,465
November 1, 2013 to November 30, 2013	27,306[2]	9.95		4,112,465
December 1, 2013 to December 31, 2013	299[2]	9.76		4,112,465
Total	27,605			

(1) On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.7 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended December 31, 2013.

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

Equity Compensation Plan Information

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

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Item 6. *Selected Financial Data*

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

	As of or for the Years Ended December 31, (in thousands, except for share data)				
	2013	2012	2011 [1]	2010 [1]	2009 [1]
Summary of Operations:					
Interest income tax equivalent basis [2]	$ 623,986	$ 678,410	$ 679,901	$ 682,402	$ 717,411
Interest expense	168,377	181,312	199,013	214,060	262,870
Net interest income tax equivalent basis [2]	455,609	497,098	480,888	468,342	454,541
Less: tax equivalent adjustment	7,889	7,217	6,077	5,590	5,227
Net interest income	447,720	489,881	474,811	462,752	449,314
Provision for credit losses	16,095	25,552	53,335	49,456	47,992
Net interest income after provisions for credit losses	431,625	464,329	421,476	413,296	401,322
Non-interest income:					
Gains on securities transactions, net	14,678	2,587	32,068	11,598	8,005
Net impairment losses on securities recognized in earnings		(5,247)	(19,968)	(4,642)	(6,352)
Trading gains (losses), net	909	2,793	2,271	(6,897)	(10,434)
Gains on sales of loans, net	33,695	46,998	10,699	12,591	8,937
Gains (losses) on sales of assets, net	10,947	(329)	426	619	605
Other non-interest income	68,424	74,144	86,801	78,058	71,490
Total non-interest income	128,653	120,946	112,297	91,327	72,251
Non-interest expense:					
FDIC insurance assessment	16,767	14,292	12,759	13,719	20,128
Other non-interest expense	364,571	360,608	325,797	305,969	288,039
Total non-interest expense	381,338	374,900	338,556	319,688	308,167
Income before income taxes	178,940	210,375	195,217	184,935	165,406
Income tax expense	46,979	66,748	62,706	54,929	50,587
Net income	131,961	143,627	132,511	130,006	114,819
Dividends on preferred stock and accretion					19,524
Net income available to common stockholders	$ 131,961	$ 143,627	$ 132,511	$ 130,006	$ 95,295
Per Common Share [3] :					
Earnings per share:					
Basic	$ 0.66	$ 0.73	$ 0.74	$ 0.73	$ 0.57
Diluted	0.66	0.73	0.74	0.73	0.57
Dividends declared	0.60	0.65	0.66	0.66	0.66
Book value	7.72	7.57	7.02	7.22	7.02
Tangible book value [4]	5.39	5.26	5.13	5.29	5.21
Weighted average shares outstanding:					
Basic	199,309,425	197,354,159	178,424,883	177,568,546	167,222,450
Diluted	199,309,425	197,354,372	178,426,070	177,577,663	167,223,242
Ratios:					
Return on average assets	0.83%	0.91%	0.93%	0.92%	0.80%
Return on average shareholders equity	8.69	9.57	10.11	10.23	8.55
Return on average tangible shareholders equity [5]	12.51	13.65	13.68	13.84	11.22
Average shareholders equity to average assets	9.51	9.48	9.19	9.00	9.40
Tangible common equity to tangible assets [6]	6.86	6.71	6.58	6.82	6.61

Efficiency ratio [7]	66.16	61.38	57.67	57.70	59.09
Dividend payout	90.90	89.04	88.46	88.89	115.15
Risk-based capital:					
Tier 1 capital	9.65%	10.87%	10.81%	10.83%	10.54%
Total capital	11.87	12.38	12.64	12.81	12.45
Leverage capital	7.27	8.09	7.99	8.23	8.07
Financial Condition:					
Assets	$ 16,156,541	$ 16,012,646	$ 14,252,755	$ 14,151,249	$ 14,290,734
Net loans	11,453,995	10,892,599	9,665,839	9,241,091	9,268,081
Deposits	11,319,262	11,264,018	9,673,102	9,363,614	9,547,285
Shareholders equity	1,541,040	1,502,377	1,254,836	1,284,935	1,243,748

See Notes to the Selected Financial Data that follow.

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Notes to Selected Financial Data

(1) Previously reported results for the years ended December 31, 2011, 2010 and 2009 have been revised to reflect an increase in non-interest expense, which after taxes, reduced net income by $1.1 million, $1.2 million and $1.2 million, respectively, and reduced basic and diluted earnings per common share by $0.01 for each of these years. Certain statistical and other per common data presented in the table have been revised accordingly.

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

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

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

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

	Years Ended December 31,				
	2013	2012	2011 ($in thousands)	2010	2009
Common shares outstanding	$ 199,593,109	$ 198,438,271	$ 178,683,030	$ 178,010,307	$ 177,102,621
Shareholders equity	1,541,040	1,502,377	1,254,836	1,284,935	1,243,748
Less: Goodwill and other intangible assets	464,364	459,357	338,780	343,541	320,729
Tangible common shareholders equity	$ 1,076,676	$ 1,043,020	$ 916,056	$ 941,394	$ 923,019
Tangible book value per common share	$ 5.39	$ 5.26	$ 5.13	$ 5.29	$ 5.21

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

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	($ in thousands)				
Net income	$ 131,961	$ 143,627	$ 132,511	$ 130,006	$ 114,819
Average shareholders equity	1,519,299	1,500,997	1,310,939	1,270,778	1,342,790
Less: Average goodwill and other intangible assets	464,085	449,078	342,122	331,667	319,756
Average tangible shareholders equity	$ 1,055,214	$ 1,051,919	$ 968,817	$ 939,111	$ 1,023,034
Return on average tangible shareholders equity	12.51%	13.65%	13.68%	13.84%	11.22%

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

	At December 31,				
	2013	2012	2011	2010	2009
	($ in thousands)				
Tangible common shareholders equity	$ 1,076,676	$ 1,043,020	$ 916,056	$ 941,394	$ 923,019
Total assets	16,156,541	16,012,646	14,252,755	14,151,249	14,290,734
Less: Goodwill and other intangible assets	464,364	459,357	338,780	343,541	320,729
Tangible assets	$ 15,692,177	$ 15,553,289	$ 13,913,975	$ 13,807,708	$ 13,970,005
Tangible common shareholders equity to tangible assets	6.86%	6.71%	6.58%	6.82%	6.61%

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

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

- a severe decline in the general economic conditions of New Jersey and the New York Metropolitan area;
- larger than expected reductions in our loans originated for sale or a slowdown in new and refinanced residential mortgage loan activity;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- 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 increases in our allowance for loan losses;
- 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 acquisitions in the amounts or in the timeframe anticipated;

inability to retain customers and employees;

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.

Correction of an Immaterial Error

Our financial condition and results of operations at and for the year ended December 31, 2011 (disclosed in this MD&A and elsewhere in this Annual Report) were initially revised in Valley s Form 10-K for the year ended December 31, 2012 to reflect an adjustment for the straight-line recognition of rental expense and income on operating leases with scheduled rental increases in which Valley is the lessor or lessee. The adjustment resulted in increases in accrued rent liability, deferred tax assets and net occupancy and equipment expense, as well as decreases in retained earnings, net income and earnings per common share. The effect of these revisions was immaterial to each of the interim and annual periods, including a one cent reduction in basic and diluted earnings per common share in 2011.

Critical Accounting Policies and Estimates

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

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

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

Allowance for Loan Losses. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commercial letters of credit and represents management s estimate of credit losses inherent in the loan portfolio at the balance sheet date. The determination of the appropriate level of the allowance is based on periodic evaluations of the loan portfolios. There are numerous components that enter into the evaluation of the allowance for loan losses, which includes a quantitative analysis, as well as a qualitative review of its results. The qualitative review is subjective and requires a significant amount of judgment. Various banking regulators, as an integral part of their examination process, also review the allowance for loan losses. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. Additionally, our allowance for credit losses methodology includes loan portfolio evaluations at the portfolio segment level, which consist of a commercial and industrial, commercial real estate, residential mortgage, and a consumer loan portfolio segments.

Allowance for Loan Losses on Non-Covered Loans

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

- specific reserves for individually impaired loans;
- reserves for adversely classified loans, and higher risk rated loans that are not impaired loans;
- reserves for other loans that are not impaired; and, if applicable,
- reserves for impairment of purchased credit-impaired (PCI) loans subsequent to their acquisition date.

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

Valley has no allowance reserves established at December 31, 2013 related to the non-covered PCI loans; however, the information below regarding our policies to determine the allowance for covered loans is identical to the procedures performed by Valley to determine the carrying amounts and reserves for impairment of non-covered PCI loans subsequent to their acquisition date.

Allowance for Loan Losses on Covered Loans

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

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

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

Changes in Our Allowance for Loan Losses

Valley considers it difficult to quantify the impact of changes in forecast on its allowance for loan losses. However, management believes the following discussion may enable investors to better understand the variables that drive the allowance for loan losses, which amounted to $113.6 million at December 31, 2013.

For impaired credits, if the present value of expected cash flows were 10 percent higher or lower, the allowance would have decreased $5.8 million or increased $6.9 million, respectively, at December 31, 2013. If the fair value of the collateral (for collateral dependent loans) was 10 percent higher or lower, the allowance would have decreased $1.9 million or increased $4.5 million, respectively, at December 31, 2013.

If classified loan balances were 10 percent higher or lower, the allowance would have increased or decreased by approximately $1.5 million, respectively, at December 31, 2013.

The credit rating assigned to each non-classified credit is an important variable in determining the allowance. If each non-classified credit were rated one grade worse, the allowance would have increased by approximately $761 thousand, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2013. Additionally, if the historical loss factors used to calculate the allowance for non-classified loans were 10 percent higher or lower, the allowance would have increased or decreased by approximately $6.4 million, respectively, at December 31, 2013.

A key variable in determining the allowance is management s judgment in determining the size of the allowances attributable to general economic conditions and other qualitative risk factors. At December 31, 2013, such allowances were 6.7 percent of the total allowance. If such allowances were 10 percent higher or lower, the total allowance would have increased or decreased by $758 thousand, respectively, at December 31, 2013.

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

Management must periodically evaluate if unrealized losses (as determined based on the securities valuation methodologies discussed above) on individual securities classified as held to maturity or available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment s book value is greater than fair value, the severity of the investment s decline, any credit deterioration of the investment, whether management intends to sell the security, and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Debt investment securities deemed to be other-than-temporarily impaired are written down by the impairment related to the estimated credit loss and the non-credit related impairment is recognized in other comprehensive income or loss. Other-than-temporarily impaired equity securities are written down to fair value and a non-cash impairment charge is recognized in the period of such evaluation. See the Investment Securities section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.

Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, Business Combinations. Goodwill totaling $428.2 million at December 31, 2013 is not amortized but is subject to annual tests for impairment or more often, if events or circumstances indicate it may be impaired. Other intangible assets totaling $36.1 million at December 31, 2013 are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Such evaluation of other intangible assets is based on undiscounted cash flow projections. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities.

The goodwill impairment analysis is generally a two-step test. During 2013 and 2012, Valley elected to perform step one of the two-step goodwill impairment test for all of its reporting units but may choose to perform an optional qualitative assessment allowable under Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment for one or more units in the future periods to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Step one compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses is not permitted.

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

To assist in assessing the impact of potential goodwill or other intangible asset impairment charges at December 31, 2013, the impact of a five percent impairment charge would result in a reduction in net income of approximately $23.2 million. See Note 8 to consolidated financial statements for additional information regarding goodwill and other intangible assets.

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

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

The provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management s judgment, their realizability is determined to be more likely than not. We perform regular reviews to ascertain the realizability of our deferred tax assets. These reviews include management s estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies. In connection with these reviews, if we determine that a portion of the deferred tax asset is not realizable, a valuation allowance is established. As of December 31, 2013, management has determined it is more likely than not that Valley will realize its net deferred tax assets and therefore a valuation allowance was not established.

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

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

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

Executive Summary

Company Overview. At December 31, 2013, Valley had consolidated total assets of $16.2 billion, total net loans of $11.5 billion, total deposits of $11.3 billion and total shareholders equity of $1.5 billion. Our commercial bank operations include branch office locations in northern and central New Jersey and the New York City Boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. Of our current 204 branch network, 79 percent and 21 percent of the branches are located in New Jersey and New York, respectively. We have grown both in asset size and locations significantly over the past several years primarily through both bank acquisitions.

Valley s most recent acquisition was completed on January 1, 2012 when Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank with approximately $1.7 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. Of the acquired branch offices, 14 remain within our 43 branch network in New York and are located in Long Island and Queens. The new locations complement Valley s other New York City locations, including five branches in Queens, and may provide a foundation for potential future expansion efforts into these attractive markets. See Item 1 of this Annual Report for more details regarding our past merger activity, as well as Note 2 to the consolidated financial statements.

Annual Results. Net income totaled $132.0 million, or $0.66 per diluted common share, for the year ended December 31, 2013 compared to $143.6 million in 2012, or $0.73 per diluted common share. The decrease in net income was largely due to: (i) a $42.2 million, or 8.6 percent, decline in our net interest income largely caused by a 43 basis point decline in the yield on average interest earning assets driven by the low level of long-term market interest rates in 2013, (ii) a 1.7 percent increase in non-interest expense due, in part, to a 17.3 percent increase in our FDIC insurance assessments and amortization of tax credit investments, partially offset by (iii) a 5.5 percent decrease in the effective tax rate largely due to the decline in pre-tax income and increased tax credit investments, (iv) a 37 percent decline in our provision for credit losses caused by the positive effect of the gradual improvement in credit conditions and the U.S. economy on our non-covered loan portfolio during 2013 and a $2.3 million recovery of additional impairment recognized on certain covered loan pools acquired in FDIC-assisted transactions, and (v) a $7.7 million, or 6.4 percent, increase in non-interest income resulting primarily from higher net gains on securities transactions and net gains on sales of assets, largely offset by a decrease in gains on sales of residential mortgage loans originated for sale due to a significant decrease in consumer refinance activity in the second half of 2013. See the Net Interest Income, Non-Interest Income, Non-Interest Expense, and Income Taxes sections below for more details on the items above impacting our 2013 annual results.

Economic Overview and Indicators. Improvements in business spending, consumer confidence, the housing market and exports, all added up to an increasingly stronger economy in 2013. An upward revision to the official 2013 employment numbers meant that in eight months of the year the U.S. economy topped 200 thousand jobs in net hiring gains. While January 2014 employment numbers were disappointing, much of the decline is being attributed to special factors such as decreases in government hiring, adverse weather conditions and uncertainty surrounding the impact of the Affordable Care Act (commonly referred to as Obamacare). Additionally, January s down-tick in unemployment rate to 6.6 percent from 6.7 percent in December 2013 is encouraging considering the modest growth in labor force.

During the fourth quarter of 2013, the Federal Reserve remained consistent with its previously announced intentions to keep short-term interest rates low, in the zero to 0.25 percent range, as long as the unemployment rate remains above 6.5 percent and projected inflation remains below 2.5 percent. However, the Federal Reserve has been careful to distinguish the difference between the Federal Open Market Committee s future decision to raise the federal funds rate and a move to continue the phase out its current $65 billion-per-month bond purchase program. Long-term interest rates have already rallied during the second half of 2013 in anticipation of a future reduction in quantitative easing, leading to a significant reduction in mortgage refinance activity.

Although the rise in long-term interest rates should positively impact our ability to generate positive growth in our net interest income, our net interest margin continues to face the compressive nature of market interest rates that remain at relatively low levels (on a historical basis). Additionally, we believe the current low interest rate, high unemployment environment will continue to challenge our business operations and results in many other ways during 2014, as highlighted throughout the remaining MD&A discussion below.

The following economic indicators are just a few of many factors that may be used to assess the market conditions in our primary markets of northern and central New Jersey and the New York City metropolitan area. Generally, market conditions have improved from one year ago, however as outlined above, economic uncertainty and persistent unemployment may continue to apply pressure on the performance of some borrowers and the level of new loan demand within our area.

	For the Month Ended				
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Selected Economic Indicators:					
Unemployment rate:					
U.S.	6.70%	7.60%	7.60%	7.80%	7.80%
New York Metro Region*	6.60%	8.20%	8.10%	8.50%	8.50%
New Jersey	7.20%	8.70%	9.00%	9.60%	9.80%
New York	7.00%	7.50%	8.20%	8.20%	8.90%

	Three Months Ended				
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
			($ in millions)		
Personal income:					
New Jersey	NA	$ 501,742	$ 497,813	$ 491,539	$ 498,228
New York	NA	$ 1,070,537	$ 1,055,055	$ 1,044,261	$ 1,070,875
New consumer bankruptcies:					
New Jersey	NA	0.14%	0.14%	0.12%	0.12%
New York	NA	0.08%	0.09%	0.07%	0.08%
Change in home prices:					
U.S.	-0.30%	3.10%	7.10%	1.20%	-0.30%
New York Metro Region*	2.18%	1.15%	1.60%	-1.07%	0.97%
New consumer foreclosures:					
New Jersey	NA	0.10%	0.13%	0.07%	0.08%
New York	NA	0.05%	0.09%	0.04%	0.04%
Homeowner vacancy rates:					
New Jersey	1.90%	2.10%	3.20%	1.80%	2.60%
New York	2.30%	1.20%	1.30%	1.90%	1.90%

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 $629.3 million, or 5.8 percent, to $11.5 billion at December 31, 2013 from December 31, 2012 largely due to solid organic commercial real estate (excluding construction) loan growth throughout the second half of 2013, which equaled 12.8 percent on an annual basis, partially offset by a $185.9 million decline in non-covered PCI loans within the same loan category. Automobile loans increased $114.9 million, or 14.6 percent, from December 31, 2012, mostly due to organic loan growth driven by a strong U.S. auto market, supplemented by our purchase of $21.5 million in auto loans from third party originators during 2013. Residential mortgage loans and other consumer loans also increased $37.5 million and $35.4 million at December 31, 2013 as compared to one year ago. Residential mortgage loan growth was limited by our loan originations for sale in the secondary market which totaled almost 68 percent of our new and refinanced loan originations during the year ended December 31, 2013; while other consumer loans continued to experience growth in collateralized personal lines of credit. However, commercial and industrial loans declined $89.7 million, or 4.3 percent, as compared to December 31, 2012 due to a $77.1 million decrease in non-covered PCI loans within the category, strong competition for quality commercial borrowers and soft demand from existing borrowers during much of 2013. Total covered loans (i.e., loans subject to our loss-sharing agreements with the

FDIC) decreased to $96.2 million, or only 0.8 percent of our total loans, at December 31, 2013 as compared to $180.7 million, or 1.6 percent of total loans, at December 31, 2012 mainly due to normal collection and prepayment activity.

Our new and refinanced residential mortgage loan originations of $1.4 billion during the year ended December 31, 2013 decreased 29 percent as compared to $2.0 billion in 2012. During both 2013 and 2012, a large portion of these loans were originated for sale resulting in gains on sales of loans totaling $33.7 million and $47.0 million, respectively, within our non-interest income. During the second half of 2013, we experienced a sharp decline in residential mortgage loan origination activity largely due to the higher level of long-term market interest rates since June 2013. In June, the Federal Reserve Chairman Ben Bernanke acknowledged that the Fed could gradually reduce the net amount of mortgage-backed securities and U.S. Treasury securities being purchased each month as the outlook for the labor market or inflation changes. These comments, among other factors, led to a rally in long-term interest rates which resulted in an average 10-year Treasury Rate of 2.70 percent and 2.75 for the third and fourth quarters of 2013, respectively, as compared to 1.97 percent during the second quarter of 2013. Consequently, residential mortgage originations (including both new and refinanced loans) declined from $482 million in the second quarter of 2013 to $248 million for the third quarter of 2013 and $96 million for the fourth quarter of 2013. During the fourth quarter of 2013, Valley sold approximately $50 million of residential mortgages (including $9.6 million of loans held for sale at September 30, 2013), down 48 percent from the third quarter of 2013. As a result of the decline in volume (as well as lower gain on sale margins), gains on sales of residential mortgage loans declined to $1.5 million for the fourth quarter of 2013 as compared to $2.7 million for the third quarter of 2013 and $15.6 million for the fourth quarter of 2012. Given the current rate environment and level of consumer demand, we anticipate a continued slowdown in our refinanced mortgage loan pipeline during the first quarter of 2014 and in the amount of our residential mortgage loans originated for sale, as the higher yielding loans may become more attractive to hold in our loan portfolio. As a result, our gains on sales of loans may continue to decline from the $1.5 million recorded in the fourth quarter of 2013 and are expected to materially decline on an annual basis from the $33.7 million recognized during the year ended December 31, 2013. Despite the expected negative impact of the increase in market interest rates on consumer refinance activity and our level of net gains on sales of mortgage loans, we expect that such higher rates will have a positive impact on our net interest income if we continue to shift to an originate and hold model. However, our outlook for the housing market recovery remains somewhat guarded as the QM Rule and other lending regulations imposed by the Dodd-Frank Act (see Item 1. Business Supervision and Regulation of this Annual Report for additional information) may slow the recovery s progress in 2014. See further details on our loan activities, including the covered loan portfolio, under the Loan Portfolio section below.

Asset Quality. Given the slow moving economic recovery, elevated unemployment and low labor market participation levels, the high level of personal bankruptcies, and high delinquency rates reported throughout the banking industry, we believe our loan portfolio s credit performance remained at an acceptable level at December 31, 2013. 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 loans (excluding PCI loans) past due in excess of 30 days decreased 0.50 percent to 1.23 percent of our total loan portfolio of $11.6 billion as of December 31, 2013 compared to 1.73 percent of total loans at December 31, 2012. Of the 1.23 percent in delinquencies at December 31, 2013, 0.14 percent, or $16.2 million, represented performing matured loans in the normal process of renewal. Non-accrual loans decreased to $95.1 million, or 0.82 percent of total loans, at December 31, 2013 as compared to $131.8 million, or 1.20 percent of total loans, at December 31, 2012. The $36.7 million decrease in non-accrual loans was largely due to declines in commercial real estate loans and residential mortgage loans driven by a few large impaired loan repayments, an increase in foreclosures as compared to 2012 and loan charge-offs. Although the timing of collection is uncertain, we believe most of our non-accrual loans are well secured and, ultimately, collectible. Our lending strategy is based on underwriting standards designed to maintain high credit quality and we remain optimistic regarding the

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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 relatively high levels of unemployment, management cannot provide assurance that our non-performing assets will remain at, or decline from, the levels reported as of December 31, 2013. See the Non-performing Assets section below for further analysis of our credit quality.

Investments. During the year ended December 31, 2013, we recognized net gains on securities transactions of $14.7 million as compared to $2.6 million in 2012. Of the $14.7 million in net gains in 2013, $10.7 million related to Valley s decision to sell previously impaired trust preferred securities issued by one deferring bank holding company during the fourth quarter of 2013. Valley sold these impaired, non-accrual debt securities classified as available for sale (with a combined unamortized cost of $41.8 million) for net proceeds of $52.5 million in October 2013. The sale combined with the aforementioned decline in non-accrual loans contributed to a 36.1 percent decrease in our non-performing assets at December 31, 2013 as compared to one year ago. There were no other-than-temporary impairment charges attributable to credit during the year ended December 31, 2013 as compared to $5.2 million in 2012. Of the $5.2 million in impairment charges in 2012, $4.5 million was recognized in earnings during the third quarter of 2012 mostly due to the additional estimated credit losses on impaired trust preferred securities sold during the fourth quarter of 2013 (which were initially impaired in 2011). See further details in the Investment Securities Portfolio section below and Note 4 to the consolidated financial statements.

Deposits and Other Borrowings. The mix of total deposits continued to shift away from time deposits to the other deposit categories during 2013 due to the low level of rates that we offered on certificates of deposit during most of the year and the maturity of higher cost time deposits. Average non-interest bearing deposits increased $337.5 million to $3.6 billion for the year ended December 31, 2013 as compared to 2012 due to increases in both retail and commercial deposits caused by the low level of fixed interest rate investment alternatives, such as time deposits, and the uncertain economic environment. Average savings, NOW and money market account balances also increased $265.4 million to $5.4 billion in 2013 largely due to the aforementioned items. And lastly, average time deposits declined $366.6 million to $2.3 billion for 2013 as compared to 2012 mainly due to our excess liquidity position held for most of 2013 and the low level of rates offered on our new certificates of deposit. See further discussion of our average interest bearing liabilities under the Net Interest Income section below.

During 2013, we continued to closely monitor our cost of funds to optimize our net interest margin in the prolonged low interest rate environment, as discussed further in the Net Interest Income section below. On July 26, 2013, Valley redeemed $15.5 million of the principal face amount of its 7.75 percent junior subordinated debentures issued to VNB Capital Trust I and $15.0 million of the face value of the related trust preferred securities. On September 27, 2013, Valley issued $125 million of its 5.125 percent subordinated debentures (notes) due September 27, 2023 pursuant to an effective shelf registration statement previously filed with the SEC. In conjunction with the issuance, Valley entered into an interest rate swap transaction used to hedge the change in the fair value of the subordinated notes (see Note 14 to the consolidated financial statements for further details on our derivative transactions). The net proceeds from the subordinated notes together with other available funds were used to redeem all of the remaining $131.3 million outstanding 7.75 percent junior subordinated debentures issued to VNB Capital Trust I on October 25, 2013. The Capital Trust simultaneously redeemed all of its trust preferred securities, as well as all of the outstanding common securities of the Capital Trust. Based upon new final regulatory guidance issued during the second quarter of 2013, Valley s remaining trust preferred securities issued by its capital trust subsidiaries (which total $44.0 million at December 31, 2013 after the aforementioned redemptions in third and fourth quarters of 2013) will be fully phased out of Tier 1 capital by January 1, 2016. See the Capital Adequacy section below for more details.

Operating Environment. The financial markets continue to work through a period marked by unprecedented change due to current and future regulatory and market reform, including new regulations under the Dodd-Frank Act and the Basel Rules highlighted in the Supervision and Regulation section of Item 1 of this Annual Report, and a slow economic recovery unseen in past U.S. recessions. These changes will impact us and our competitors, and will challenge the way we both do business in the future. We believe our current capital position, ability to evaluate credit and other investment opportunities, conservative balance sheet, and commitment to excellent customer service will afford us a competitive advantage in the future. Additionally, we believe we are well positioned to move quickly on market expansion opportunities as they may arise, including through possible acquisitions of other institutions within New Jersey and the New York City Metropolitan area.

Net Interest Income

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

Annual Period 2013. Net interest income on a tax equivalent basis decreased $41.5 million to $455.6 million for 2013 compared with $497.1 million for 2012. The decrease was mainly driven by lower interest rates on new loans and investments and the prepayment of higher yielding assets in both of these earning asset categories, partially offset by lower costs on interest bearing liabilities resulting from lower interest rates offered on most deposit products, maturing high cost time deposits and the early redemption of our 7.75 percent junior subordinated debentures during the second half of 2013.

The net interest margin on a tax equivalent basis was 3.20 percent for the year ended December 31, 2013, a decrease of 32 basis points as compared to 3.52 percent for 2012. The overall level of interest rates remained near historically low levels during 2013, despite an increase in long-term market rates since June 2013. The overall level of interest rates has remained low due, in part, to the FRB s continued efforts to support the U.S. economic recovery and maintain the target federal funds rate at a historical low rate range of between zero to 0.25 percent since the fourth quarter of 2008. The prolonged low level of market interest rates continued to negatively impact the yield on interest earning assets during 2013, resulting in a 43 basis point decline to 4.38 percent as compared to 2012, while the average interest rates paid on interest bearing liabilities only decreased 7 basis points in 2013. The decline in yield on interest earning assets was mainly attributable to the low market interest rates on (new and refinanced) loans and investments throughout 2013 as compared to our overall yields of each portfolio, large prepayments of high yielding loans, including PCI loans, which also contributed to lower average loans for 2013 as compared to 2012. Offsetting some of the negative impact of lower interest rates on new loans and investments, our 2013 efforts to control our funding costs coupled with a low interest rate environment allowed us to decrease the interest rates paid on savings, NOW, and money market accounts, while maturing high cost certificates of deposit, if renewed, also re-priced at lower interest rates. Additionally, lower rates on customer repo balances mostly contributed to a five basis point decline in the cost of short-term borrowings during 2013; while our redemptions of junior subordinated debentures in the second half of 2013 helped reduce the cost of long-term borrowings by seven basis points as compared to the year ended December 31, 2012.

Our earning asset portfolio is comprised of both fixed-rate and adjustable-rate loans and investments. Many of our earning assets are priced based upon the prevailing treasury rates, the Valley prime rate (set by Valley management based on various internal and external factors) or on the U.S. prime interest rate as published in The Wall Street Journal. On average, the 10 year treasury rate increased from 1.79 percent in 2012 to 2.34 percent in 2013 (see discussion under the Loans section above for more details), positively impacting our yield on average loans as new and renewed fixed-rate loans were originated at slightly higher interest rates in 2013 (but still well below the overall yield of 4.80 percent on average loans in 2012). However, Valley s prime rate and the U.S. prime rate have remained at 4.50 percent and 3.25 percent, respectively, since the fourth quarter of 2008. Our U.S. prime rate based loan portfolio should have an immediate positive impact on the yield of our average earning assets in the unlikely event that the prime rate begins to move upward in 2014, while an increase in treasury rates above current levels should also have a positive, but more gradual, effect on our interest income based on our ability to originate new and renewed fixed rate loans. We do not expect our Valley prime rate portfolio to have an immediate benefit to our interest income in a rising interest rate environment due to its current level above the U.S. prime rate. However, the Valley prime rate is set by management and will likely increase before the U.S. prime rate reaches its current level of 4.50 percent. Additionally, interest income on approximately $1.3 billion of our residential mortgage-backed securities with unamortized purchase premiums totaling $57.1 million at December 31, 2013 could improve if and when interest rates were to continue upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. Conversely, increases in the prepayment speeds due to declining interest rates will increase the amount of premium amortization expense recognized against interest income related to these securities.

Average interest earning assets totaling $14.2 billion for the year ended December 31, 2013 increased only $132.5 million, or 0.94 percent, as compared to 2012 mainly due to slow loan growth in the first half of 2013, partly due to our decision to sell the majority of our $1.4 billion in new and refinanced residential mortgage loan originations to mitigate the interest rate risk associated with these low rate long-term financial instruments. Average loan balances decreased $50.3 million to $11.2 billion in 2013 and only accounted for a small portion of the $44.4 million decline in the interest income on a tax equivalent basis for loans as compared to 2012, which was mostly driven by the low interest rates on new and renewed loans. The decrease in average loans was primarily due to declines in higher yielding PCI loans (mostly within the commercial loan categories) and the lack of commercial and industrial loan growth, mostly offset by solid organic commercial real estate loan growth in the second half of 2013 and steady quarterly growth in the automobile loan portfolio throughout 2013. Average investment securities increased $109.9 million to approximately $2.8 billion in 2013 primarily due to higher levels of excess liquidity reinvested into non-taxable municipal bond investments, as well as Ginnie Mae issued residential mortgage-backed securities within the taxable investment portfolio. However, the higher average investment balances only partly negated the negative impact of the 2013 reinvestments at low market rates which primarily led to a $10.2 million decrease in interest income on a tax equivalent basis for investment securities as compared to 2012. Average federal funds sold and other interest bearing deposits increased $72.8 million to $296.4 million for the year ended December 31, 2013 as compared to 2012 due to higher levels of overnight liquidity held primarily in the first half of 2013. However, these positions only contributed an additional $203 thousand in interest income due to the historically low target federal funds rate.

Average interest bearing liabilities decreased $283.8 million to $10.8 billion for the year ended December 31, 2013 from the same period in 2012 mainly due to a $366.6 million decline in average time deposits caused by the continued run-off of high cost certificates of deposit. Average short-term borrowings also decreased $171.7 million from 2012 mostly due to lower levels of short-term FHLB advances utilized as a loan funding source in 2013 as residential mortgage loan originations declined due to an increase in long-term market rates in June 2013 which significantly slowed the consumer loan refinance market. Average long-term borrowings only declined $10.9 million in 2013 as compared to 2012 but the mix of borrowings did shift slightly to lower rate borrowings as we redeemed our 7.75 percent junior subordinated debentures with contractual principal balances totaling $146.8 million in the second half of 2013 and partially replaced them with the issuance of $125 million of 5.125 percent subordinated notes. However, average savings, NOW, and money market account balances increased $265.4 million primarily due to general increases in both retail and commercial deposits caused by the lack of better yielding cash investment alternatives in 2013 and higher levels of customer liquidity caused, in part, by the continued economic uncertainty. The cost of average time deposits, long-term borrowings, savings, NOW and money market accounts, and short-term borrowings decreased 11, 7, 6, and 5 basis points, respectively, during 2013 due to the continued low level of market interest rates throughout the year and, as applicable, the aforementioned maturity of higher cost funds and early redemption of the 7.75 percent junior subordinated debentures. Additionally, we expect that maturing higher cost time deposits will continue to have some positive benefit to our net interest income in the first quarter of 2014 and the foreseeable future, as well as a full quarter s cost savings from the redemption of the debentures on October 25, 2013.

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Fourth Quarter of 2013. Net interest income on a tax equivalent basis of $118.0 million for the fourth quarter of 2013 increased $4.4 million as compared to the third quarter of 2013, and declined $2.4 million as compared to the fourth quarter of 2012. Interest income on a tax equivalent basis increased $3.1 million from the third quarter of 2013 mainly due to a $291.6 million increase in total average loans and higher yields on investments, partially offset by continued run-off in our higher yielding PCI loan portfolios. Interest expense also contributed to the increase in net interest income as it decreased $1.3 million to $40.8 million for the three months ended December 31, 2013. The decrease from the third quarter of 2013 was primarily driven by the October 2013 redemption of our 7.75 percent junior subordinated debentures and an $86.7 million decline in average time deposits during the fourth quarter caused by continued run-off of maturing higher yield time deposits.

The net interest margin on a tax equivalent basis was 3.27 percent for the fourth quarter of 2013, an increase of 7 basis points from 3.20 percent in the linked third quarter of 2013, and a 14 basis point decline from 3.41 percent for the three months ended December 31, 2012. The yield on average interest earning assets increased by one basis point on a linked quarter basis. The increased yield was mainly a result of the higher yields on average investment securities partly caused by a reduction in prepayments and premium amortization due to the higher level of long-term market interest rates and, to a much lesser extent, our redeployment of the net proceeds from our sale of non-accrual debt securities in the fourth quarter of 2013. The increased yield on average investment securities was mostly offset by a five basis point decline in the yield on average loans caused by new loan volumes at current interest rates that remain relatively low compared to the overall yield of our loan portfolio. Additionally, continued repayment of higher yielding interest earning assets, including PCI loans which declined by over 9 percent from September 30, 2013, partially offset the positive impact of the higher investment yields. The yield on average loans decreased 5 basis points to 4.74 percent for the three months ended December 31, 2013 from the third quarter of 2013 largely due to the decline in PCI loans, normal non-PCI loan refinance and repayment activity and new loan originations at lower rates. The overall cost of average interest bearing liabilities decreased by 5 basis points from 1.57 percent in the linked third quarter of 2013 primarily due to a decline of 20 basis points for total long-term borrowings and a 5 basis point decrease for time deposits during the fourth quarter of 2013. Our cost of total deposits was 0.40 percent for the fourth quarter of 2013 compared to 0.41 percent for the three months ended September 30, 2013.

We continue to tightly manage our balance sheet and our cost of funds to optimize our returns. The higher level of long-term market interest rates since June 2013, potential future loan growth from solid commercial real estate loan demand that has continued into the early stages of the first quarter of 2014 and a full quarter s cost savings from our redemption of the 7.75 percent junior subordinated debentures issued to capital trusts completed on October 25, 2013 are all anticipated to positively impact our ability to maintain or increase the current level of our net interest income. However, our margin continues to face the risk of compression in the future due to 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 (see further discussion under the Interest Rate Sensitivity section below). Additionally, most 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 have entered into several forward starting interest rate swap derivative transactions (highlighted in Note 14 to the consolidated financial statements) during 2013 to hedge the risk of an increase in current market interest rates before the maturity of such borrowings. See Note 10 to the consolidated financial statements for additional information on maturities and average rates of our borrowed funds.

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The following table reflects the components of net interest income for each of the three years ended December 31, 2013, 2012 and 2011:

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY AND

NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	2013			2012			2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest ($ in thousands)	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Loans [1][2]	$ 11,187,968	$ 537,422	4.80%	$ 11,238,269	$ 581,828	5.18%	$ 9,608,480	$ 547,371	5.70%
Taxable investments [3]	2,186,670	63,632	2.91	2,169,106	75,805	3.49	2,615,140	114,784	4.39
Tax-exempt investments [1][3]	571,205	22,194	3.89	478,838	20,242	4.23	429,004	17,344	4.04
Federal funds sold and other interest bearing deposits	296,359	738	0.25	223,515	535	0.24	161,612	402	0.25
Total interest earning assets	14,242,202	623,986	4.38	14,109,728	678,410	4.81	12,814,236	679,901	5.31
Allowance for loan losses	(123,103)			(133,322)			(136,432)		
Cash and due from banks	364,174			434,038			366,159		
Other assets	1,506,963			1,436,408			1,209,732		
Unrealized gains (losses) on securities available for sale, net	(14,983)			(12,854)			16,594		
Total assets	$ 15,975,253			$ 15,833,998			$ 14,270,289		
Liabilities and Shareholders Equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$ 5,360,367	$ 17,863	0.33%	$ 5,094,919	$ 20,090	0.39%	$ 4,399,031	$ 19,876	0.45%
Time deposits	2,342,283	29,928	1.28	2,708,919	37,466	1.38	2,728,354	48,291	1.77
Total interest bearing deposits	7,702,650	47,791	0.62	7,803,838	57,556	0.74	7,127,385	68,167	0.96
Short-term borrowings	156,733	590	0.38	328,438	1,387	0.42	192,392	1,154	0.60
Long-term borrowings [4]	2,893,951	119,996	4.15	2,904,893	122,369	4.21	2,964,555	129,692	4.37
Total interest bearing liabilities	10,753,334	168,377	1.57	11,037,169	181,312	1.64	10,284,332	199,013	1.94
Non-interest bearing deposits	3,565,672			3,228,183			2,611,207		
Other liabilities	136,948			67,649			63,811		
Shareholders equity	1,519,299			1,500,997			1,310,939		
Total liabilities and shareholders equity	$ 15,975,253			$ 15,833,998			$ 14,270,289		
Net interest income/interest rate spread [5]		455,609	2.81%		497,098	3.17%		480,888	3.37%
Tax equivalent adjustment		(7,889)			(7,217)			(6,077)	
Net interest income, as reported		$ 447,720			$ 489,881			$ 474,811	
Net interest margin [6]			3.14%			3.47%			3.71%
Tax equivalent effect			0.06			0.05			0.04

Net interest margin on a fully tax equivalent basis [6]	3.20%	3.52%	3.75%

(1) Interest income is presented on a tax equivalent basis using a 35 percent federal tax rate.
(2) Loans are stated net of unearned income and include non-accrual loans.
(3) The yield for securities that are classified as available for sale is based on the average historical amortized cost.
(4) Includes junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of condition.
(5) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities and is presented on a fully tax equivalent basis.
(6) Net interest income as a percentage of total average interest earning assets.

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

CHANGE IN NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	Years Ended December 31,					
	2013 Compared to 2012			2012 Compared to 2011		
	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*	$ (2,593)	$ (41,813)	$ (44,406)	$ 87,338	$ (52,881)	$ 34,457
Taxable investments	609	(12,782)	(12,173)	(17,760)	(21,219)	(38,979)
Tax-exempt investments*	3,682	(1,730)	1,952	2,081	817	2,898
Federal funds sold and other interest bearing deposits	181	22	203	149	(16)	133
Total increase (decrease) in interest income	1,879	(56,303)	(54,424)	71,808	(73,299)	(1,491)
Interest expense:						
Savings, NOW and money market deposits	1,006	(3,233)	(2,227)	2,922	(2,708)	214
Time deposits	(4,824)	(2,714)	(7,538)	(342)	(10,483)	(10,825)
Short-term borrowings	(660)	(137)	(797)	646	(413)	233
Long-term borrowings and junior subordinated debentures	(460)	(1,913)	(2,373)	(2,576)	(4,747)	(7,323)
Total (decrease) increase in interest expense	(4,938)	(7,997)	(12,935)	650	(18,351)	(17,701)
Increase (decrease) in net interest income	$ 6,817	$ (48,306)	$ (41,489)	$ 71,158	$ (54,948)	$ 16,210

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

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Non-Interest Income

Non-interest income represented 17 percent and 15 percent of total interest income plus non-interest income for 2013 and 2012, respectively. For the year ended December 31, 2013, non-interest income increased $7.7 million compared with 2012 mainly due to increases in net gains on securities transactions, gains on sales of assets and a decrease in other-than-temporary impairment charges on securities recognized in earnings, partially offset by decreases in net gains on sales of loans and other non-interest income. The following table presents the components of non-interest income for the years ended December 31, 2013, 2012, and 2011:

	Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Trust and investment services	$ 8,610	$ 7,690	$ 7,523
Insurance commissions	15,907	15,494	15,627
Service charges on deposit accounts	24,115	24,752	22,610
Gains on securities transactions, net	14,678	2,587	32,068
Net impairment losses on securities recognized in earnings		(5,247)	(19,968)
Trading gains, net:			
Trading securities	28	219	1,015
Junior subordinated debentures carried at fair value	881	2,574	1,256
Total trading gains, net	909	2,793	2,271
Fees from loan servicing	7,020	4,843	4,337
Gains on sales of loans, net	33,695	46,998	10,699
Gains (losses) on sales of assets, net	10,947	(329)	426
Bank owned life insurance	5,962	6,855	7,380
Change in FDIC loss-share receivable	(8,427)	(7,459)	13,403
Other	15,237	21,969	15,921
Total non-interest income	$ 128,653	$ 120,946	$ 112,297

Net gains on securities transactions increased $12.1 million to $14.7 million for the year ended December 31, 2013 as compared to $2.6 million in 2012 largely due to a $10.7 million gain on sale of previously impaired trust preferred securities classified as available for sale that were issued by one deferring bank holding company. Valley sold these non-accrual debt securities for net proceeds of $52.5 million in for the fourth quarter of 2013. In addition, Valley recognized gains totaling $3.4 million during the first quarter of 2013 due to the sales of zero percent yielding Freddie Mac and Fannie Mae perpetual preferred stock with amortized cost totaling $941 thousand. See Note 4 to the consolidated financial statements for more details on our gross gains and losses on securities transactions for each period.

Net impairment losses on securities decreased $5.2 million for the year ended December 31, 2013 as compared to 2012 as no credit impairment losses on securities were recognized during 2013. The net impairment losses for year ended December 31, 2012 were largely related to additional estimated credit losses on previously impaired trust preferred securities issued by one bank holding company. These interest deferring securities were sold during the fourth quarter of 2013. See the Investment Securities Portfolio section of this MD&A and Note 4 to the consolidated financial statements for further details on our investment securities impairment analysis and the other-than-temporarily impaired securities.

Net trading gains represent the non-cash mark to market valuation of our junior subordinated debentures (issued by VNB Capital Trust I) carried at fair value and mark to market valuations of a small number of single-issuer trust preferred securities held in our trading securities portfolio. Net trading gains totaled $909 thousand for the year ended December 31, 2013 and primarily related to the change in the carrying value of the junior subordinated debentures during 2013. The debentures carried at fair value were fully redeemed during the second half of 2013. See Note 11 to the consolidated financial statements for further details regarding our redemption of the junior subordinated debentures.

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Fees from loan servicing increased $2.2 million to $7.0 million for the year ended December 31, 2013 as compared to $4.8 million in 2012 mainly due to the high volume of loans originated for sale during the first half of 2013. Valley retains loan servicing on all loans originated and sold in the secondary market and includes its loan servicing rights asset in net other intangible assets within the consolidated statements of condition. During the second half of 2013, our amount of loans sold declined significantly (as discussed further below) and, as a result, we cannot guarantee that the positive trend in fees from loan servicing noted in the year ended December 31, 2013 will continue into 2014.

Net gains on sales of loans decreased $13.3 million for the year ended December 31, 2013 as compared to the same period in 2012 primarily due to a significant decline in loans originated for sale as our new and refinanced loan origination volumes were slowed by the negative impact of the increase in the level of market interest rates since June 2013. 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 (or losses) on our loans held for sale carried at fair value each period end. Actual sales of mortgages contributed approximately $38.4 million in gains for the year ended December 31, 2013 as compared to $43.1 million in 2012. The net change in the fair value of loans held for sale amounted to a $4.7 million loss as compared to a $3.9 million gain for the years ended December 31, 2013 and 2012, respectively, mainly due to a decrease in such loans originated and held at December 31, 2013. During the fourth quarter of 2013, we recognized only $1.5 million in gains as compared to $15.6 million for the same quarter in 2012. Due to the current level of market interest rates and level of consumer demand, we anticipate a continued slowdown in our refinanced mortgage loan pipeline during the first quarter of 2014. As a result, our gain on sales of loan may further decline during 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 3 of the consolidated financial statements.

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

The Bank and the FDIC share in the losses on loans and real estate owned as part of the loss-sharing agreements entered into on both of our FDIC-assisted transactions completed in March 2010. The asset arising from the loss-sharing agreements is referred to as the FDIC loss-share receivable on our consolidated statements of financial condition. Within the non-interest income category, we may recognize income or expense related to the change in the FDIC loss-share receivable resulting from (i) a change in the estimated credit losses on the pools of covered loans, (ii) income from reimbursable expenses incurred during the period, (iii) accretion of the discount resulting from the present value of the receivable recorded at the acquisition dates, and (iv) prospective recognition of decreases in the receivable attributable to better than originally expected cash flows on certain covered loan pools. The aggregate effect of changes in the FDIC loss-share receivable amounted to an $8.4 million net reduction in non-interest income for the year ended December 31, 2013. This reduction was mainly due to the prospective recognition of decreases in the FDIC loss-share receivable caused by better than originally expected cash flows on certain pools and a reduction in the additional estimated credit impairment of certain loan pools (which also resulted in a $2.3 million credit to our provision for losses on covered loans for the year ended December 31, 2013). These decreases were partially offset by an increase in the receivable for the FDIC s portion of reimbursable expenses incurred during the year. See FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets section below in this MD&A and Note 7 to the consolidated financial statements for further details.

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Other non-interest income decreased $6.8 million to $15.2 million for the year ended December 31, 2013 as compared to $22.0 million for 2012. This decrease was largely the result of other non-interest income recognized during 2012 for the reversal of purchase accounting valuation liabilities totaling $7.4 million, which related to expired and unused lines of credit assumed in FDIC-assisted transactions. The reversal also resulted in a corresponding reduction in our FDIC loss-share receivable portion of such estimated losses as of the acquisition and was reflected in the change in FDIC loss-share receivable for the year ended December 31, 2012.

See the Results of Operations 2012 Compared to 2011 section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2011 to 2012.

Non-Interest Expense

Non-interest expense increased $6.4 million to $381.3 million for the year ended December 31, 2013 from $374.9 million for 2012. The increase from 2012 was mainly attributable to increases in other non-interest expense, the FDIC insurance assessment, and professional and legal fees, partially offset by decreases in salaries and employee benefits, amortization of other intangibles and advertising expense. The following table presents the components of non-interest expense for the years ended December 31, 2013, 2012, and 2011:

	Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Salary and employee benefits expense	$ 194,410	$ 199,968	$ 176,307
Net occupancy and equipment expense	71,634	71,245	66,332
FDIC insurance assessment	16,767	14,292	12,759
Amortization of other intangible assets	8,258	9,783	9,315
Professional and legal fees	16,491	15,005	15,312
Advertising	6,127	7,103	8,373
Other	67,651	57,504	50,158
Total non-interest expense	$ 381,338	$ 374,900	$ 338,556

Salary and employee benefits expense decreased $5.6 million for the year ended December 31, 2013 as compared to 2012 largely due to decreases in our cash incentive compensation accruals, pension expense, and medical health insurance expense, partially offset by normal annual salary increases. Pension expense declined due to Valley s decision in June 2013 to freeze the benefits earned under our qualified and non-qualified plans effective December 31, 2013. The freeze in the plans benefits is expected to reduce Valley s total 2014 net periodic expense by approximately $11 million as compared to 2013. The $11 million expected decline in pension expense will be partially offset by additional expenses (projected to be approximately $3.6 million) related to Valley s amendment to the Bank s 401(k) plan to increase its dollar-for-dollar matching contribution to a maximum of six percent of eligible compensation contributed by an employee each pay period effective January 1, 2014. See Note 12 to the consolidated financial statements for further details on our benefit plans. Our health insurance expenses decreased due to improved experience during 2013. These medical expenses are at times volatile due to self-funding of a large portion of our insurance plan and therefore are expected to fluctuate based on our plan experience into the foreseeable future.

The FDIC insurance assessment increased $2.5 million in 2013 as compared to 2012 mostly due to a specific adjustment to our individual assessment made by the FDIC during the second quarter of 2013. Based upon current estimates, we do not anticipate a material change in our FDIC insurance assessment for the first quarter of 2014 as compared to $3.9 million recognized during the fourth quarter of 2013.

Amortization of other intangible assets decreased $1.5 million for the year ended December 31, 2013 as compared to 2012 mainly due to an increase in the net recoveries of impairment charges on certain loan servicing rights during 2013, partially offset by higher amortization expense caused, in part, by additional loan servicing rights recorded over the last twelve-month period. Valley recognized recoveries of impairment charges on its loan servicing rights totaling $2.5 million for the year ended December 31, 2013 as compared to net impairment charges of $376 thousand for 2012.

Professional and legal fees increased $1.5 million for the year ended December 31, 2013 as compared to 2012 mainly due to an increase in legal expenses related to general corporate matters, as well as the partial redemption of our junior subordinated debentures and related trust preferred securities in 2013. See Note 11 to the consolidated financial statements for further details.

Advertising expense decreased $976 thousand to $6.1 million for the year ended December 31, 2013 as compared to $7.1 million in 2012. The decrease was mainly caused by a lower volume of promotional activity for our residential mortgage refinance programs during 2013 partly due to the maturation of the refinance programs in our markets and the slowdown in consumer refinance activity during the second half of 2013.

Other non-interest expense increased $10.1 million for the year ended December 31, 2013 as compared to 2012. The increase was mainly due to a $10.2 million increase in the amortization of tax credit investments during 2013 as we invested to a greater extent in tax advantaged investments. Tax credit investments result in credits that directly reduce our income tax expense and effective tax rate (see the Income Tax Expense section below). During the fourth quarter of 2013, amortization of tax credit investments increased $5.9 million to $7.9 million from $2.0 million in the third quarter of 2013. Of the $5.9 million increase in amortized losses, $4.5 million is not expected to be incurred in the first quarter of 2014 due to the nature and timing of the projected future tax credits. 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 2012.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus non-interest income. Our efficiency ratio for the year ended December 31, 2013 was 66.16 percent as compared to 61.38 percent in 2012. The higher efficiency ratio during 2013 as compared to 2012 was largely due to a $42.2 million decline in net interest income from one year ago attributable to the negative impact of the prolonged low level of interest rates on our interest earning assets. See the Net Interest Income section for further details. We believe this non-GAAP measure provides a meaningful comparison of our operational performance, and facilitates investors assessments of business performance and trends in comparison to our peers in the banking industry.

We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. As part of these efforts, we continue to evaluate the profitability of our entire 204 branch network, consisting of 108 leased and 96 owned locations. Where possible we will right size branches and their staff to better reflect the technological changes taking place in our delivery system (e.g., 24 hour on-line banking, remote deposit, etc.) which continue to be utilized by a higher percentage of our customer base each year, as well as the amount of lobby traffic at each branch. Additionally, we continuously monitor the profitability and customer traffic at each branch location and assess our ability to shrink the size of the office or close it when there is a negative long term outlook for the location and/or an opportunity to move existing customers to another branch location.

See the Results of Operations 2012 Compared to 2011 section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2011 to 2012.

Income Taxes

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

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U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management s judgment include changes in income, tax laws and regulations, and tax planning strategies. Based on the current information available, we anticipate that our effective tax rate will range from 26 percent to 29 percent for 2014.

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

Business Segments

We have four business segments that we monitor and report on to manage our business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Our reportable segments have been determined based upon Valley s internal structure of operations and lines of business. Each business segment is reviewed routinely for its asset growth, contribution to income before income taxes and return on average interest earning assets and impairment (if events or circumstances indicate a possible inability to realize the carrying amount). Expenses related to the branch network, all other components of retail banking, along with the back office departments of our subsidiary bank are allocated from the corporate and other adjustments segment to each of the other three business segments. Interest expense and internal transfer expense (for general corporate expenses) are allocated to each business segment utilizing a pool funding methodology, which involves the allocation of uniform funding cost based on each segments average earning assets outstanding for the period. The financial reporting for each segment contains allocations and reporting in line with our operations, which may not necessarily be comparable to any other financial institution. The accounting for each segment includes internal accounting policies designed to measure consistent and reasonable financial reporting, and may result in income and expense measurements that differ from amounts under U.S. GAAP. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. See Note 21 to the consolidated financial statements for the segments financial data.

Consumer lending. The consumer lending segment is mainly comprised of residential mortgage loans, home equity loans and automobile loans and represented in aggregate 35.2 percent of the total loan portfolio at December 31, 2013. The duration of the residential mortgage loan portfolio (which represented 21.7 percent of our total loan portfolio at December 31, 2013) is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans (representing 7.8 percent of total loans at December 31, 2013) is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles. The consumer lending segment also includes the Wealth Management Division, comprised of trust, asset management, insurance services, and asset-based lending support services.

Average interest earning assets in this segment decreased $26.0 million to approximately $3.9 billion for the year ended December 31, 2013 as compared to 2012. The modest decrease was mainly due to our originate and sell strategy for most of our new and refinanced residential mortgage loan originations during the first half of 2013. However, we have grown the consumer lending portfolio during the second half of 2013 through a higher percentage of mortgage loans originated for investment versus sale, purchased loans within both the residential and automobile loan portfolios, solid organic auto loan growth due to a strong U.S. auto market, and higher collateralized personal lines of credit usage.

Income before income taxes generated by the consumer lending segment decreased $25.9 million to $47.5 million for the year ended December 31, 2013 as compared to 2012 primarily due to decreases in both net interest income and non-interest income. Net interest income decreased $13.6 million for the year ended December 31, 2013 as compared to 2012 mainly due to lower yielding new and refinanced loans and a decrease in the mix of higher yielding residential mortgage loan balances within the segments composition. Non-interest income decreased $8.8 million to $75.0 million for 2013 as compared to $83.8 million one year ago. The decrease in non-interest income was mainly driven by a $13.3 million decline in gains on sales of loans as a result of the decrease in new and refinanced mortgage loan originations, partially offset by a $2.2 million increase in fees on loan servicing during 2013 as compared to 2012.

The net interest margin for the consumer lending segment decreased 33 basis points to 2.96 percent during 2013 as a result of a 42 basis point decrease in interest yield on average loans due to the low level of market interest rates during 2013, despite an increase in long-term interest rates during the second half of 2013. Offsetting some of this negative impact the segment s funding costs decreased 9 basis points from 2012. Over the last twelve month period, our cost of funds continued to be positively impacted by the run-off of maturing high cost certificates of deposit, lower interest rates offered on most of our deposit products, as well as lower interest rates on customer repo balances.

The return on average interest earning assets before income taxes was 1.21 percent for 2013 compared to 1.86 percent for the prior year period.

Commercial lending. The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio s interest rate characteristics, commercial lending is Valley s business segment that is most sensitive to movements in market interest rates. Commercial and industrial loans, including $26.2 million of covered loans, totaled approximately $2.0 billion and represented 17.5 percent of the total loan portfolio at December 31, 2013. Commercial real estate loans and construction loans, including $61.5 million of covered loans, totaled $5.5 billion and represented 47.3 percent of the total loan portfolio at December 31, 2013.

Average interest earning assets in this segment decreased $24.3 million to $7.3 billion for the year ended December 31, 2013 as compared to 2012. This decrease was primarily attributable to continued strong market competition for quality commercial and industrial loan borrowers, elevated loan repayments (largely within the PCI loan portfolios) for much of the twelve month period, partially offset by strong origination volumes in the non-PCI commercial real estate loan portfolio, and to a lesser extent an increase in outstanding balances within our commercial lines of credit during 2013.

For the year ended December 31, 2013, income before income taxes for the commercial lending segment decreased $18.5 million to $106.3 million compared to 2012 primarily due to lower net interest income coupled with a decrease in non-interest income, partially offset by a decline in the provision for loan losses. Net interest income decreased $19.9 million to $303.2 million during 2013 as compared to $323.1 million for 2012 mainly due to lower interest rates on new and refinanced loans, as well repayments of higher yielding PCI loans. Non-interest income decreased $5.5 million for 2013 as compared to 2012 partly due to valuation write-downs on commercial OREO properties and other repossessed assets during 2013, and $968 thousand resulting from a decrease in our FDIC loss-share receivable related to covered loan pools with additional impairment after the date of acquisition. The provision for loan losses decreased $6.6 million during 2013 as compared to the same period in 2012 due to gradually improving delinquencies and economic outlook for the portfolio coupled with a $2.3 million credit to the provision for covered loans recorded during 2013 as a result of decline in additional estimated credit losses on certain loan pools.

The net interest margin for this segment decreased 26 basis points to 4.17 percent during 2013 mainly as a result of a 35 basis point decrease in the yield on average loans, partially offset by a 9 basis point decrease in the cost of our funding sources as compared to 2012. The return on average interest earning assets before income taxes was 1.46 percent for 2013 compared to 1.71 percent for the prior year period.

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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 increased $182.8 million for the year ended December 31, 2013 as compared to 2012 primarily due to a high level of excess liquidity reinvested in investment securities, as well as maintained in overnight funds during most of the 2013 period mainly caused by large repayments within the loan portfolio and an increase in our average deposits over the last twelve months which both outpaced our average loan volumes.

For the year ended December 31, 2013, income before income taxes for the investment management segment decreased $12.5 million to $8.7 million compared to $21.3 million in 2012 primarily due to a $9.3 million decline in net interest income coupled with a $2.3 million increase in the internal transfer expense. The segment s net interest income was negatively impacted by a decline in the yield on investments mainly resulting from the reinvestment of principal and interest received from higher yielding securities into new securities yielding lower market interest rates as well as an increase in the amortization of premiums on certain mortgage-backed securities during the first half of 2013.

The net interest margin decreased 44 basis points to 1.77 percent during the year ended December 31, 2013 as compared to 2012 as a result of a 53 basis point decrease in yield on investments, partially offset by 9 basis point decrease in costs associated with our funding sources. The return on average interest earning assets before income taxes was 0.29 percent for 2013 compared to 0.74 percent for the prior year period.

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

The pre-tax net income for the corporate segment totaled $16.4 million for the year ended December 31, 2013 as compared to a net loss of $9.2 million for 2012. The $25.6 million increase was mainly due to an increase in non-interest income. Non-interest income increased $22.8 million to $54.9 million for the year ended December 31, 2013 and was attributable to increases in both net gains on securities transactions and net gains on sales of assets. The net gains on securities transactions increased $12.1 million to $14.7 million for the year ended December 31, 2013 as compared to $2.6 million in 2012 largely due to a $10.7 million gain on sale of certain previously impaired trust preferred securities classified as available. The net gains on sales of assets increased $11.3 million for the year ended December 31, 2013 as compared to $329 thousand loss for 2012 mostly as a result of the termination of a branch operating lease during the fourth quarter of 2013 related to a building sale-leaseback transaction entered into during 2007.

ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

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

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of December 31, 2013. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of December 31, 2013. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of December 31, 2013. Although the size of Valley s balance sheet is forecasted to remain static as of December 31, 2013 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 2013. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2013.

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

Changes in Interest Rates (in basis points)	Estimated Change in Future Net Interest Income: Dollar Change	Percentage Change
	($ in thousands)	
+200	$ 3,737	0.84%
+100	(3,859)	(0.87)
-100	(11,351)	(2.56)

The assumptions used in the net interest income simulation are inherently uncertain. Actual results may differ significantly from those presented in the table above, due to the frequency and timing of changes in interest rates, and changes in spreads between maturity and re-pricing categories. Overall, our net interest income is affected by changes in interest rates and cash flows from our loan and investment portfolios. We actively manage these cash flows in conjunction with our liability mix, duration and interest rates to optimize the net interest income, while structuring the balance sheet in response to actual or potential changes in interest rates.

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

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

As noted in the table above, a 100 basis point immediate increase in interest rates is projected to decrease net interest income over the next twelve months by 0.87 percent. Our balance sheet sensitivity to such a move in interest rates at December 31, 2013 decreased as compared to December 31, 2012 (which was an increase of 0.60 percent in net interest income over a 12 month period) due, in part, to a $328.1 million decrease in interest bearing deposits with banks, comprised mostly of overnight cash deposits that are immediately sensitive to a rise in interest rates. These cash deposits, largely held at the Federal Reserve Bank of New York, decreased due to the redeployment of such excess liquidity into less rate-sensitive new loans and investments during 2013. Additionally, our current interest rate sensitivity to a 100 basis point increase in interest rates is somewhat limited by the fact that many of our adjustable rate loans are tied to the Valley prime rate, which currently exceeds the U.S. prime rate by 125 basis points. Due to its current level above the U.S. prime rate, the Valley prime rate is not projected to increase under the 100 basis point immediate increase scenario in our simulation, but would increase and positively impact our net interest income in a 200 basis point immediate increase in interest rates scenario. Our projections for such prime rate based loans could vary from the actual movements in the Valley prime rate, which is set by management and may change prior to the U.S. prime rate reaching its current level of 4.50 percent. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows, will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

Although we do not expect our Valley prime rate loan portfolio to have an immediate benefit to our interest income in a rising interest rate environment, we attempt to manage the Bank s aggregate sensitivity in a manner to mitigate the potential lag in the portfolio s re-pricing. We expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. During the second half of 2013, the yield on our taxable investment did improve for two consecutive quarters largely due to a reduction in premium amortization on securities caused by the sharp increase in the level of long-term market interest rates starting in June 2013.

Our interest rate swaps and caps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits based on the prime rate (as reported by The Wall Street Journal). We have 4 cash flow hedge interest rate swaps with a total notional value of $300 million at December 31, 2013 that currently pay fixed and receive floating rates. Additionally, we utilize fair value and non-designated hedge interest rate swaps at times to effectively convert fixed rate loans, deposits and long-term borrowings to floating rate instruments. Most of these actions 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 and the majority of the interest rate caps negatively impacted our net interest income during the years ended December 31, 2013, 2012 and 2011. We expect this negative trend to continue into the foreseeable future (until the caps and swaps begin to expire in 2015) due to the Federal Reserve s pledge to keep market interest rates low in an effort to help the ailing economy. See Note 14 to the consolidated financial statements for further details on our derivative transactions.

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The following table sets forth the amounts of interest earning assets and interest bearing liabilities that were outstanding at December 31, 2013 and their associated fair values. The expected cash flows are categorized based on each financial instrument s anticipated maturity or interest rate reset date in each of the future periods presented.

INTEREST RATE SENSITIVITY ANALYSIS

	Rate	2014	2015	2016	2017	2018	Thereafter	Total Balance	Fair Value
					($ in thousands)				
Interest sensitive assets:									
Interest bearing deposits with banks	0.25%	$ 134,915	$	$	$	$	$	$ 134,915	$ 134,915
Investment securities held to maturity	3.53	333,458	107,666	86,300	91,814	84,699	1,027,800	1,731,737	1,711,427
Investment securities available for sale	2.55	170,451	65,339	53,287	59,023	54,930	426,662	829,692	829,692
Trading securities	8.14						14,264	14,264	14,264
Loans held for sale, at fair value	3.46	10,488						10,488	10,488
Loans	4.28	4,631,743	1,564,068	1,277,401	1,036,716	900,216	2,157,468	11,567,612	11,407,965
Total interest sensitive assets	4.06%	$ 5,281,055	$ 1,737,073	$ 1,416,988	$ 1,187,553	$ 1,039,845	$ 3,626,194	$ 14,288,708	$ 14,108,751
Interest sensitive liabilities:									
Deposits:									
Savings, NOW and money market	0.21%	$ 1,915,454	$ 743,209	$ 743,209	$ 1,019,654	$ 250,299	$ 750,897	$ 5,422,722	$ 5,422,722
Time	1.28	1,377,162	265,347	190,472	246,949	68,307	31,032	2,179,269	2,206,427
Short-term borrowings	0.28	281,455						281,455	281,455
Long-term borrowings	4.03		400,000	364,500	1,005,000	315,000	707,806	2,792,306	3,036,953
Junior subordinated debentures	5.72				24,982		16,107	41,089	45,261
Total interest sensitive liabilities	1.44%	$ 3,574,071	$ 1,408,556	$ 1,298,181	$ 2,296,585	$ 633,606	$ 1,505,842	$ 10,716,841	$ 10,992,818
Interest sensitivity gap		$ 1,706,984	$ 328,517	$ 118,807	$ (1,109,032)	$ 406,239	$ 2,120,352	$ 3,571,867	$ 3,115,933
Ratio of interest sensitive assets to interest sensitive liabilities		1.48:1	1.23:1	1.09:1	0.52:1	1.64:1	2.41:1	1.33:1	1.28:1

The above table provides an approximation of the projected re-pricing of assets and liabilities at December 31, 2013 on the basis of contractual maturities, adjusted for anticipated prepayments of principal (including anticipated call dates on long-term borrowings and junior subordinated debentures), and scheduled rate adjustments. The prepayment experience reflected herein is based on historical experience combined with market consensus expectations derived from independent external sources. The actual repayments of these instruments could vary substantially if future prepayments differ from historical experience or current market expectations. For non-maturity deposit liabilities, in accordance with standard industry practice and our historical experience, we used prepayment and decay rates to estimate deposit runoff.

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

The total gap re-pricing within one year as of December 31, 2013 was a positive $1.7 billion, representing a ratio of interest sensitive assets to interest sensitive liabilities of 1.48:1. Current market prepayment speeds and balance sheet management strategies implemented throughout 2013 have allowed us to maintain our asset sensitivity level reported in the table above comparable to December 31, 2012. The total gap re-pricing position, as reported in the table above, reflects the projected interest rate sensitivity of our principal cash flows based on market conditions as of December 31, 2013. As the market level of interest rates and associated prepayment speeds move, the total gap re-pricing position will change accordingly, but not likely in a linear relationship. Management does not view our one year gap position as of December 31, 2013 as presenting an unusually high risk potential, although no assurances can be given that we are not at risk from interest rate increases or decreases.

Liquidity

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

The Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposit $100 thousand and over, federal funds purchased, repurchase agreements and FHLB advances) greater than 50 percent of total assets. The Bank was in compliance with the foregoing policies at December 31, 2013.

On the asset side of the balance sheet, the Bank has numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity that are maturing within 90 days or would otherwise qualify as maturities if sold (i.e., 85 percent of original cost basis has been repaid), investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold and receivables related to unsettled securities transactions. These liquid assets totaled approximately $1.3 billion, representing 9.3 percent of earning assets, at December 31, 2013 and $1.9 billion, representing 13.4 percent of earning assets, at December 31, 2012. The decrease in liquid assets in 2013 is largely due to decreases in cash, interest bearing deposits with banks and loans held for sale during 2013 caused, in part, by growth in our loans held for investment. Of the $1.3 billion of liquid assets at December 31, 2013, approximately $499 million of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately $329.3 million in principal from securities in the total investment portfolio over the next twelve months due to normally scheduled principal repayments and expected prepayments of certain securities, primarily residential mortgage-backed securities.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments (including loans held for sale at December 31, 2013) are projected to be approximately $3.7 billion over the next twelve months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $10.1 billion and $9.9 billion for the years ended December 31, 2013 and 2012, respectively, representing 71.0 percent and 70.3 percent of average earning assets at December 31, 2013 and 2012, 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.

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The following table lists, by maturity, all certificates of deposit of $100 thousand and over at December 31, 2013:

	2013 (in thousands)
Less than three months	$ 282,169
Three to six months	63,727
Six to twelve months	306,157
More than twelve months	364,468
Total	$ 1,016,521

Additional funding may be provided from short-term liquidity borrowings through deposit gathering networks and in the form of federal funds purchased obtained through our well established relationships with several correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $970 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 resi