

VALLEY NATIONAL BANCORP
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

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)

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New Jersey
(State or other jurisdiction of

22-2477875
(I.R.S. Employer

Incorporation or Organization)
1455 Valley Road

Identification Number)

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
VNB Capital Trust I	New York Stock Exchange

7.75% Trust Preferred Securities

(and the Guarantee by Valley National Bancorp with

respect thereto)

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 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

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

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

Indicate by check mark 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

Accelerated filer

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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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$2.2 billion on June 30, 2011.

There were 187,587,473 shares of Common Stock outstanding at February 23, 2012.

Documents incorporated by reference:

Certain portions of the registrant's Definitive Proxy Statement (the 2012 Proxy Statement) for the 2012 Annual Meeting of Shareholders to be held April 18, 2012 will be incorporated by reference in Part III. The 2012 proxy statement will be filed within 120 days of December 31, 2011.

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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 subsidiaries unless we indicate otherwise. At December 31, 2011, Valley had consolidated total assets of \$14.2 billion, total loans of \$9.8 billion, total deposits of \$9.7 billion and total shareholders' equity of \$1.3 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 VNB Capital Trust I and GCB Capital Trust III, through which trust preferred securities were issued. VNB Capital Trust I and GCB Capital Trust III are not consolidated subsidiaries. See Note 12 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 211 branches in 147 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, 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 complete 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;

a title insurance agency;

subsidiaries which hold, maintain and manage investment assets for the Bank;

a subsidiary which owns and services auto loans;

a subsidiary which specializes in asset-based lending;

a subsidiary which offers financing for general aviation aircraft and servicing for 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.

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

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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 both de novo branch expansion and bank acquisitions, including the following recent bank transactions:

In July 2008, we acquired Greater Community Bancorp, the holding company of Greater Community Bank, a commercial bank with approximately \$1.0 billion in assets, \$812 million in loans (mostly commercial real estate loans), \$715 million in deposits and 16 branches in northern New Jersey. The purchase price of \$167.8 million was paid through a combination of Valley's common stock (10.1 million shares) and 918 thousand warrants. Each warrant is entitled to 1.1576 Valley common shares issuable upon exercise at \$16.42 per share. The warrants have an expiration date of June 30, 2015, and to date, all of the warrants issued remain outstanding.

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 approximately 75 percent of the covered loans to mature, substantially paydown under contractual loan terms or work through our collection process on or before the expiration of the related loss-sharing agreements. See Note 2 to the consolidated financial statements for further details regarding these transactions. As of December 31, 2011, the Company had approximately \$272 million in covered loans, which comprised 2.8 percent of its total loan portfolio.

Acquisition of State Bancorp, Inc.

On January 1, 2012, Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank with approximately \$1.6 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. The acquired branch offices located mostly in Long Island and Queens are expected to complement Valley's other New York City locations, including five branches in Queens, and lay a foundation for future expansion efforts into these attractive markets. The shareholders of State Bancorp received a fixed one-for-one exchange ratio for Valley National Bancorp common stock. The total consideration for the acquisition totaled \$208 million. 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. The stock redemption was funded by a \$37.0 million short-term loan from Valley to State Bancorp. The outstanding loan, included in Valley's consolidated financial statements at December 31, 2011, was subsequently eliminated as of the acquisition date.

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In connection with the acquisition, Valley acquired all of the voting and common shares of State Capital Trust I and State Capital Trust II, which are wholly-owned subsidiaries established for the sole purpose of issuing trust preferred securities and related trust common securities. These capital trusts, similar to our aforementioned capital trust subsidiaries, are not consolidated for financial statement purposes.

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 466 thousand of Valley common shares has an exercise price of \$11.87 per share, and is exercisable on a net exercise basis. Valley has calculated an internal value for the warrants, and may negotiate their redemption with the U.S. Treasury. However, if Valley elects not to negotiate or an agreement cannot be reached with the U.S. Treasury, the warrants will be sold at public auction and remain outstanding. See further details regarding the acquisition of State Bancorp in Note 2 to the consolidated financial statements.

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 \$83.7 million of covered loans, totaled approximately \$2.0 billion and represented 20.0 percent of the total loan portfolio at December 31, 2011. We make commercial loans to small and middle market businesses most often located in the New Jersey and New York area. Our borrowers tend to be companies and individuals with credit histories that demonstrate a historic ability to repay current and proposed future debts. 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 customer's 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. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. At December 31, 2011, unsecured commercial and industrial loans totaled approximately \$338 million. In addition, through our subsidiaries we make aviation 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 \$167.6 million of covered loans, totaled \$4.2 billion and represented 42.4 percent of the total loan portfolio at December 31, 2011. 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. When underwriting a commercial real estate loan, primary consideration is given to the financial strength and ability of the borrower to service the debt, and the experience and qualifications of the borrower's management and/or guarantors. The underlying collateral value of the mortgaged property and/or financial strength of the guarantors are considered secondary sources of repayment. With respect to construction loans to developers and builders, we originate and manage such loans structured on

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either a revolving or non-revolving basis, depending on the nature of the underlying development project. Our construction loans totaling \$411.0 million at December 31, 2011 are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us 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.

Consumer Lending Segment

Residential Mortgage Loans. Residential mortgage loans, including \$15.5 million of covered loans, totaled \$2.3 billion and represented 23.5 percent of the total loan portfolio at December 31, 2011. We offer a full range of residential mortgage loans for the purpose of purchasing or refinancing one-to-four family residential properties. Residential mortgage loans are secured by 1-4 family properties generally located in counties where we have a branch presence and contiguous counties (including the State of Pennsylvania). 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. Underwriting policies that are based on Fannie Mae and Freddie Mac guidelines are generally adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2011 was 54 percent while FICO® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 768. Terms of first mortgages range from 10 years for interest only loans (which totaled approximately \$24.5 million at December 31, 2011) to 30 years for fully amortizing loans. In deciding whether to make a residential real estate loan, we consider the qualifications of the borrower as well as the value of the underlying property. See **Credit Risk Management and Underwriting Approach** section below for further details.

Other Consumer Loans. Other consumer loans, including \$4.9 million of covered loans, totaled \$1.4 billion and represented 14.1 percent of the total loan portfolio at December 31, 2011. Our other consumer loan portfolio is primarily comprised of direct and indirect automobile loans, home equity loans and lines of credit, credit card loans, and to a lesser extent, secured and unsecured other consumer loans. Valley is an auto lender in New Jersey, New York, Pennsylvania, and Connecticut offering indirect auto loans secured by either new or used automobiles. Auto loans may be originated directly with the purchasers of the automobile and indirect auto loans are purchased from approved automobile dealers. Home equity lines of credit are secured by 1 to 4 family residential properties. Although we offer home equity loans to all qualified homeowners, these loans are generally provided as a convenience to our new and existing residential mortgage borrowers. Home equity loans and home equity lines of credit may have a variety of terms, interest rates and amortization features. Other consumer loans include direct consumer term loans, both secured and unsecured. From time to time, the Bank will also purchase prime consumer loans originated by and serviced by other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. At December 31, 2011, unsecured consumer loans totaled approximately \$66.5 million, including \$9.1 million of credit card loans.

Wealth Management. Our Wealth Management Division provides coordinated and integrated delivery of asset management advisory, trust, general insurance, title insurance, asset management advisory, 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.

Table of Contents**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, 2011, our total investment securities and interest bearing deposits with banks were \$2.5 billion and \$6.5 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 69 percent of Valley's \$9.8 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, 2011. Of the remaining 31 percent, approximately 28 percent consists of different categories of non-covered loans and approximately 3 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, 2011.

	December 31, 2011				% of Total Loans
	Percentage of Loan Portfolio Segment:				
	Commercial and Industrial	Real Estate	Residential	Consumer	
New Jersey	51%	64%	83%	61%	65%
New York	34	30	9	17	24
Pennsylvania	2	1	4	19	4
Florida	2	1	1	1	1
California	2				
Other*	9	4	3	2	6
Total	100%	100%	100%	100%	100%

* Includes states with less than 1 percent of loans in each loan portfolio segment.

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.

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Our historical and current loan underwriting practice prohibits the origination of payment option ARMs which allow for negative interest amortization and subprime loans. At December 31, 2011, our residential loan portfolio included approximately \$22 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. 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 is 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 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 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.

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Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as collateral dependent impaired loans. Collateral values for such loans are typically estimated using individual appraisals performed, on average, every 12 months. 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 based upon their estimated net realizable value.

See Note 5 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. While our traditional underwriting approach has always been conservative, the underwriting criteria for certain loan types are stricter in light of the current economic environment.

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. Substantially all of our loan modifications related to customers experiencing financial difficulties that are considered troubled debt restructured loans involve lowering the monthly payments on such 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. These modifications rarely result in the forgiveness of principal or accrued interest. In addition, we frequently obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our 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. For restructured or modified loans for profitable customers, we generally take these actions based on numerous factors, including the quality and longevity of the customer relationship, the creditworthiness of the customer and the nature of the loan.

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 other impaired loans (i.e., troubled debt restructured 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 originated by, and sometimes serviced by, other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. Purchased residential mortgage loans and automobile loans (excluding covered loans purchased from the FDIC in March 2010) totaled approximately

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\$233.7 million and \$72.1 million, respectively, at December 31, 2011 representing 10.2 percent and 9.3 percent of our total residential mortgage and automobile loan portfolios, respectively. Of the \$233.7 million in purchased residential mortgage loans, \$174.1 million were originated by board-approved independent mortgage bankers. The underwriting documentation for such loans is carefully reviewed on an individual loan-by-loan basis by Valley prior to purchase to ensure each loan meets Valley's normal credit underwriting standards. All of the purchased automobile loans are also selected using Valley's normal underwriting criteria at the time of purchase. At December 31, 2011, the independent mortgage banker originated mortgage loans had loans past due 30 days or more totaling 2.6 percent of these loans as compared to 1.8 percent for our total residential mortgage portfolio, including all delinquencies. Overall, the purchased residential mortgage and automobile portfolios had loans past due 30 days or more totaling 5.4 percent and 0.4 percent of the total loans within each respective portfolio at December 31, 2011.

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 239 FDIC-insured financial institutions in the New York, Northern New Jersey and Long Island deposit market as of June 30, 2011. The FDIC also ranked Valley eighth in the state of New Jersey based on deposits as of June 30, 2011. 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, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national institutions which offer financial services. Many of these competitors may have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures.

De novo branching by several national financial institutions and mergers between financial institutions within New Jersey and New York City, as well as other neighboring states has heightened the level of competitive pressure in our primary markets over the last several years. In addition, competition has further intensified as a result of recent changes in regulation, advances in technology and product delivery systems, and bank failures. 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 the 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 211 branches in 147 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, 2011, Valley National Bank and its subsidiaries employed 2,754 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

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Names	Age at December 31, 2011	Executive Officer Since	Office
Gerald H. Lipkin	70	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	54	1991	Director, Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	63	1993	Director, Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	63	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	65	1990	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	68	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	65	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	53	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	64	1991	Executive Vice President of Valley and Valley National Bank
Elizabeth E. De Laney	47	2007	First Senior Vice President of Valley National Bank
Kermit R. Dyke	64	2001	First Senior Vice President of Valley National Bank
Eric W. Gould	43	2001	First Senior Vice President of Valley National Bank
Russell C. Murawski	62	2007	First Senior Vice President of Valley National Bank
John H. Noonan	65	2006	First Senior Vice President of Valley National Bank
Ira D. Robbins	37	2009	First Senior Vice President of Valley National Bank
Stephen P. Davey	56	2002	Senior Vice President of Valley National Bank
Robert A. Ewing	57	2007	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 and Risk 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, merchant banking activities, 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.

New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks which meet certain conditions may branch de novo into a state, regardless of state law.

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. Generally, the Act is 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 Federal Reserve 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

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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;

After a three-year phase-in period which begins January 1, 2013, removes 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 (including Valley) at the enactment date will be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital;

Provides 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);

Creates a new Consumer Financial Protection Bureau that will have 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);

Requires public companies to give shareholders a non-binding vote on executive compensation at their first annual meeting following enactment and at least every three years thereafter and on golden parachute payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders;

Directs 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, regardless of whether the company is publicly traded or not;

Prohibits a depository institution from converting from a state to a federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days;

Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;

Provides 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;

Creates 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;

Makes permanent the \$250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions;

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Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts; and

Authorizes de novo interstate branching, subject to non-discriminatory state rules, such as home office protection. The Dodd-Frank Act also authorized the SEC to promulgate rules that would allow shareholders to nominate and solicit votes for their own candidates using a company's proxy materials. However, on July 21, 2011, the United States Court of Appeals for the District of Columbia Circuit struck down the SEC's proposed proxy access rules.

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The Dodd-Frank Act authorized the FRB to adopt enhanced supervision and prudential standards for, among others, bank holding companies with total consolidated assets of \$50 billion or more (often referred to as systemically important financial institutions or SIFI), and authorized the FRB to establish such standards either on its own or upon the recommendations of the Financial Stability Oversight Council (FSOC), a new systemic risk oversight body created by the Dodd-Frank Act. In December 2011, the FRB issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for (i) risk-based capital requirements and leverage limits, (ii) stress testing of capital, (iii) liquidity requirements (iv) overall risk management requirements (v) resolution plan and credit exposure reporting and (vi) concentration/credit exposure limits. Comments on these proposed rules (the Proposed SIFI Rules), are due by March 31, 2012. The Proposed SIFI Rules address a wide, diverse array of regulatory areas, each of which is highly complex. Most of the Proposed SIFI Rules will not apply to Valley for so long as its total consolidated assets remain below \$50 billion. However, two aspects of the Proposed SIFI Rules - requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each bank holding company establish a risk committee of its board of directors and that that committee include a risk expert - apply to bank holding companies with total consolidated assets of \$10 billion or more, including Valley.

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.

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 will focus on risks to consumers and compliance with the federal consumer financial laws and will include regular examinations of the bank.

Troubled Asset Relief Capital Purchase Program

The Emergency Economic Stabilization Act of 2008 (EESA) was signed into law on October 3, 2008 and authorized the U.S. Treasury to provide funds to be used to restore liquidity and stability to the U.S. financial system. Under the authority of EESA, Treasury instituted the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program) to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy.

In November 2008, we decided to enter into a Securities Purchase Agreement with the U.S. Treasury that provided for our participation in the TARP Capital Purchase Program. On November 14, 2008, Valley issued and sold to the U.S. Treasury 300,000 shares of Valley Fixed Rate Cumulative Perpetual Preferred Stock, with a liquidation preference of \$1 thousand per share, and a ten-year warrant to purchase up to approximately 2.5 million shares of Valley common shares.

During 2009, we incrementally repurchased all 300,000 preferred shares from the U.S. Treasury for an aggregate purchase price of \$300 million (excluding accrued and unpaid dividends paid at the date of redemption). After negotiation with the U.S. Treasury, we could not agree on a redemption price for the warrants with the U.S. Treasury. As a result, the U.S. Treasury sold the warrants through a public auction completed on May 24, 2010. The warrants are currently traded on the New York Stock Exchange under the ticker symbol VLY WS. Valley did not receive any of the proceeds of the warrant offering and is no longer a participant in the TARP program. See additional information regarding the warrants at Note 17 to the consolidated financial statements.

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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.

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.

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:

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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;

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removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and

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

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.

The Gramm-Leach-Bliley Act modified other financial laws, including laws related to financial privacy and community reinvestment.

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 2009, the FDIC imposed a special emergency assessment on all insured institutions in order to cover losses to the Deposit Insurance Fund resulting from bank failures. Valley National Bank recorded an expense of \$6.5 million during the quarter ended June 30, 2009, to reflect the special assessment. In addition, in lieu of further special assessments, the FDIC required all insured depository institutions to prepay on December 30, 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. Estimated assessments for the fourth quarter of 2009 and for all of 2010 were based upon the assessment rate in effect on September 30, 2009, with three basis points added for the 2011 and 2012 assessment rates. In addition, a 5 percent annual growth in the assessment base was assumed. Prepaid assessments are to be applied against the actual quarterly assessments until exhausted, and may not be applied to any special assessments that may occur in the future. Any unused prepayments will be returned to the institution on June 30, 2013. On December 30, 2009, Valley National Bank prepaid approximately \$45.5 million in estimated assessment fees. Because the prepaid assessments represent the prepayment of future expense, they do not affect Valley National Bank's capital (the prepaid asset will have a risk-weighting of zero percent) or tax obligations. The balance of prepaid FDIC assessment fees at December 31, 2011 was \$21.6 million.

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 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. The final rule became effective on April 1, 2011.

As previously noted above, the Dodd-Frank Act makes permanent the \$250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions. On January 18, 2011, the FDIC issued a final rule to include Interest on Lawyer Trust Accounts (IOLTAs) in the temporary unlimited deposit coverage for non-interest bearing demand transactions accounts.

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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.

Temporary Liquidity Guarantee Program

The FDIC's Transaction Account Guarantee (TAG) Program, one of two components of the Temporary Liquidity Guarantee Program, provides full federal deposit insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount. Valley National Bank opted to participate in this program, which was initially set to expire on December 31, 2009. On August 26, 2009, the FDIC extended the program until June 30, 2010, and revised the annualized assessment rate charged for the guarantee to between 15 and 25 basis points, depending on the institution's risk category, on balances in non-interest bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000. On April 13, 2010, the FDIC announced a second extension of the program until December 31, 2010. We opted out of the second extension and ended our participation in the TAG Program effective June 30, 2010.

The Dodd Frank-Wall Street Reform and Consumer Protection Act included a two-year extension of the TAG Program, though the extension does not apply to all accounts covered under the current program. The extension through December 31, 2012 applies only to non-interest bearing transaction accounts. Beginning January 1, 2011, low-interest consumer checking (NOW) accounts and IOLTAs are no longer eligible for the unlimited guarantee. Unlike the original TAG Program, which allowed banks to opt in, the extended program applies to all FDIC-insured institutions and is no longer funded by separate premiums. The FDIC accounts for the additional TAG insurance coverage in determining the amount of the general assessment it charges under the risk-based assessment system.

The second component of the Temporary Liquidity Guarantee Program, the Debt Guarantee Program, guarantees certain senior unsecured debt of participating organizations. Valley National Bank opted to participate in this component of the Temporary Liquidity Guarantee Program. However, we have not issued debt under the TLG Program.

FDICIA

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

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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, 2011.

In addition, significant provisions of FDICIA required federal banking regulators to impose standards in a number of other important areas to assure bank safety and soundness, including internal controls, information systems and internal audit systems, credit underwriting, asset growth, compensation, loan documentation and interest rate exposure.

Basel III

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

The Basel III final capital framework, among other things, (i) introduces as a new capital measure Common Equity Tier 1 (CET1), (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, Basel III requires banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%). The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios: 3.5% CET1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new 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 non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

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Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The U.S. banking agencies have yet to propose regulations implementing Basel III. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, Dodd-Frank requires or permits the Federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact our net income and return on equity.

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, the rate of growth has been slow and unemployment remains at very high levels and 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 further 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.

Further downgrades of the U.S. credit rating and uncertain political, credit and financial market conditions may affect the stability of our \$1.6 billion in securities issued or guaranteed by the federal government, which may affect the liquidity or valuation 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, investments in financial instruments issued or guaranteed by the federal government pose liquidity and credit risks. Given that future deterioration in the United States credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our investments will not occur. At December 31, 2011, we had approximately \$100.0 million, \$90.7 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. On August 5, 2011, Standard and Poor's downgraded the

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United States credit rating from its AAA rating to AA+. Further downgrades in the future could affect the stability of securities issued or guaranteed by the federal government. These factors could affect the liquidity or valuation 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.

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

As of December 31, 2011, we had approximately \$2.0 billion and \$566.5 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 other-than-temporary impairment charges on securities of \$20.0 million, \$4.6 million, and \$6.4 million in 2011, 2010, and 2009, respectively, attributable to credit as a reduction of non-interest income on the consolidated statements of income 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 charges.

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

Our common cash dividend payout per common share was approximately 87 percent of our earnings per share for the year ended December 31, 2011. Our low retention rate resulted from earnings being negatively impacted by several factors, including, but not limited to higher net impairment losses on certain investment securities, the sustained low level of market interest rates for interest earning assets, and higher operating costs and lower fee income caused by increased banking regulation. A prolonged economic recovery or a downturn in the economy, an increase in our costs to comply with current and future changes in banking laws and regulations, and other factors may negatively impact our future earnings and ability to maintain our dividend at current levels.

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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. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock cash dividend in the future. 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. The regulatory guidelines will also increase our minimum capital requirements in the future as outlined in the Basel III section of Item 1 above.

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, 2011, over 70 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 continued weakening of the real estate market in our primary market areas could continue to 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. Further declines 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, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further 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. Continued 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. 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. Valley's management could also decide that the allowance for loan losses should be increased. If actual net charge-offs were to exceed Valley's allowance, its

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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.

Further increases 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 prolonged economic downturn, we are facing historically high levels of delinquencies on our loans. Our non-accrual loans increased from 0.33 percent at December 31, 2008 to 0.98 percent, 1.12 percent, 1.27 percent of total loans at December 31, 2009, 2010 and 2011, respectively. Until economic and market conditions improve at a more rapid pace, we expect to incur charge-offs to our allowance for loan losses and lost interest income relating to an increase in non-performing loans. Non-performing assets (including non-accrual loans, other real estate owned, other repossessed assets, and non-accrual debt securities) totaled \$167.4 million at December 31, 2011. These non-performing assets can adversely affect our net income mainly through 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.

Changes in 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, unexpected, or prolonged change in market interest rates could have a material adverse effect on Valley's financial condition and results of operations.

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 implements significant changes in financial regulation and will impact all financial institutions, including Valley and the Bank. Among the Dodd-Frank Act's significant regulatory changes, it created a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the Bureau), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The Bureau has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of certain federal consumer protection laws. The Bureau also has exclusive supervision over examinations of our compliance with

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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 Bureau. 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, and may affect the preemption of state laws as they affect subsidiaries and agents of national banks, changes the scope of federal deposit insurance coverage, and potentially increases the FDIC assessment payable by the Bank. We expect that the Bureau and certain other provisions in the Dodd-Frank Act may significantly increase our regulatory compliance burden and costs and may introduce 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 will limit our future capital strategies. Under the Dodd-Frank Act, our outstanding trust preferred securities will continue to count as Tier 1 capital but we will be unable to issue replacement or additional trust preferred securities which would count as Tier 1 capital. 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 Federal Reserve 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 proportional 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. Although debit card interchange fees vary based on our customer activity levels, we have estimated the new regulation will reduce such fees by \$3.0 million to \$3.5 million on an annual basis before the impact of any potential mitigating actions by us in the future.

Because many of the Dodd-Frank Act's provisions 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.

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.

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

An increased valuation of our junior subordinated debentures issued to VNB Capital Trust I may adversely impact our net income and earnings per share.

Effective January 1, 2007, we elected to carry the junior subordinated debentures issued to VNB Capital Trust I at fair value. We measure the fair value of these junior subordinated debentures using exchange quoted prices in active markets for similar assets, specifically the trust preferred securities issued by VNB Capital Trust I, which contain identical terms as our junior subordinated debentures (see Note 12 to the consolidated financial statements). As a result, any increase in the market quoted price, or fair market value, of our trust preferred securities will result in a commensurate increase in the liability required to be recorded for the junior subordinated debentures with an offsetting non-cash charge against our earnings. Conversely, a decrease in the market quoted price of such securities will result in a decrease in the liability recorded for the debentures with an offsetting non-cash gain recognized in earnings. We recognized non-cash gains of \$1.3 million (\$816 thousand after taxes) during 2011 as compared to non-cash charges totaling \$5.8 million (\$3.8 million after taxes) and \$15.8 million (\$10.3 million after taxes) during 2010 and 2009, respectively, due to the change in the fair value of the junior subordinated debentures determined by the market price of the trust preferred securities. The non-cash gains and charges against our earnings do not impact our liquidity or our regulatory capital. We cannot predict whether or to what extent we would be required to take a non-cash charge against earnings related to the change in fair value of our junior subordinated debentures in future periods. Furthermore, changes in the law and regulations or other factors could require us to redeem the junior subordinated debentures at par value. If we are carrying the junior subordinated debentures at a fair value below par value when such redemption occurs, we will be required to record a charge against earnings in the period in which the redemption occurred.

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

The economic downturn 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.

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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 and negatively impacted our earnings. 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. Notwithstanding this prepayment, the FDIC may impose additional special assessments for future quarters or may increase the FDIC standard assessments. Furthermore, the Dodd-Frank Act changed the FDIC assessment standards which may cause our assessments to increase. 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

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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 comparatively lower 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. 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. Mergers between financial institutions within New Jersey and in neighboring states have added competitive pressure. 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.

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 the prevailing regulatory required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of common stock, preferred stock and 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.

Potential acquisitions may disrupt Valley's business and dilute shareholder value.

Valley regularly evaluates merger and acquisition opportunities, including FDIC-assisted transactions, and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Valley's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, mergers and acquisitions involve a number of additional risks and challenges, including:

Potential exposure to asset quality issues or unknown contingent liabilities of the banks, businesses, assets and liabilities we acquire;

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Our success in deploying any cash received in a transaction into assets bearing sufficiently high yields without incurring unacceptable credit or interest rate risk;

Our ability to earn acceptable levels of interest and non-interest income, including fee income, from the acquired banks, businesses, assets or branches;

Our ability to control the incremental non-interest expense from the acquired banks, businesses, assets or branches in a manner that enables us to maintain a favorable overall efficiency ratio; and

Our need to finance an acquisition by borrowing funds or raising additional capital, which could diminish our liquidity or dilute the interests of our existing stockholders.

The acquisition of assets and liabilities of financial institutions in FDIC-sponsored or assisted transactions involves risks similar to those faced when acquiring existing financial institutions, even though the FDIC might provide assistance to mitigate certain risks, e.g., entering into loss-sharing arrangements. However, because such transactions are structured in a manner that does not allow the time normally associated with evaluating and preparing for the integration of an acquired institution, we face the additional risk that the anticipated benefits of such an acquisition may not be realized fully or at all, or within the time period expected. Additionally, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on Valley's financial condition and results of operations.

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, we 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, 2011, our FDIC loss-share receivable totaled \$74.4 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.

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.

Although our de novo branching activities were insignificant in 2011, over the past several years we have implemented a conservative de novo branch strategy to expand our physical presence in Brooklyn and Queens, as well as add locations within our New Jersey and Manhattan markets. We may also expand our branch network into markets outside of these areas. Effective January 1, 2012, we acquired State Bancorp headquartered in Long Island, New York (See Note 2 to the consolidated financial statements). Valley has opened a combined total of 13 branch locations within Brooklyn and Queens since starting its initiative in these new markets during 2007. Additionally, the 2012 acquisition of State Bancorp added 16 branches in Nassau, Suffolk, Queens, and Manhattan. Valley's ability to successfully execute in these markets depends upon a variety of factors, including its ability to attract and retain experienced personnel, the continued availability of desirable business

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opportunities and locations, the competitive responses from other financial institutions in the new market areas, and the ability to manage growth. These initiatives, specifically non-acquisition related de novo branch activity, could cause Valley's expenses to increase faster than revenues. Valley can provide no assurances that it will successfully implement or continue these initiatives.

There are considerable initial and on-going costs related to de novo branches, growing loans in new markets, and attracting new deposit relationships. These expenses could negatively impact future earnings. For example, it takes time for new branches and relationships to achieve profitability. Expenses could be further increased if there are delays in the opening of new branches or if attraction strategies are more costly than expected. Delays in opening new branches can be caused by a number of factors such as the inability to find suitable locations, zoning and construction delays, and the inability to attract qualified personnel to staff the new branch. In addition, there is no assurance that a new branch will be successful even after it has been established.

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

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

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

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

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

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We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. Furthermore, many other financial institutions and companies engaged in data processing have reported significant breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber attacks and other means. Although to date we have not experienced any material losses relating to such cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Additionally, our risk exposure to security matters may remain elevated or increase in the future due to, among other things, the increasing size and prominence of Valley in the financial services industry, our expansion of Internet and mobile banking tools and products based on customer needs, and the system and customer account conversions associated with the integration of merger targets (including State Bancorp, Inc.). 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.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, we face increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Our business operations could be adversely affected if we are unable to attract new employees and retain and motivate our existing employees.

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. 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

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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 8,200 individual residential mortgages totaling approximately \$1.5 billion. During this same period, we have received only 11 loan repurchase requests. The majority of the repurchases occurred during 2011 with several loans being subsequently re-sold at a premium. As of December 31, 2011, 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 could result in losses and damage to our reputation.

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We conduct our business at 211 retail banking centers locations, with 167 in northern and central New Jersey and 44 in the New York City metropolitan area. We own 96 of our banking center facilities. The other facilities are leased for various terms. Additionally, we have two other properties located in New Jersey and New York City that were either owned or under contract to purchase or lease. We intend to develop these properties into new retail branch locations during 2012.

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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:		
Northern	74	35%
Central	93	44
New York:		
Manhattan	16	8
Brooklyn	8	4
Queens	7	3
Long Island	13	6
Total	211	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. 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 \$265.5 million at December 31, 2011. We believe that all of our properties and equipment are well maintained, in good condition and adequate for all of our present and anticipated needs.

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.

Table of Contents**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 2011			Year 2010		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$ 14.22	\$ 12.50	\$ 0.17	\$ 14.38	\$ 11.70	\$ 0.17
Second Quarter	13.96	12.79	0.17	15.42	12.88	0.17
Third Quarter	14.13	9.57	0.17	14.29	11.74	0.17
Fourth Quarter	12.83	10.00	0.17	13.86	11.87	0.17

There were 8,516 shareholders of record as of December 31, 2011.

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 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 our capital trusts, 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 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, 2006 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.

Table of Contents***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, 2011:

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, 2011 to October 31, 2011		\$		3,916,633
November 1, 2011 to November 30, 2011	36,963 ⁽²⁾	11.84		3,916,633
December 1, 2011 to December 31, 2011	549 ⁽²⁾	11.82		3,916,633
Total	37,512			

⁽¹⁾ On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.5 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, 2011.

⁽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.

Table of Contents**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.

	2011	As of or for the Years Ended December 31,			2007
		2010	2009	2008	
		(in thousands, except for share data)			
Summary of Operations:					
Interest income tax equivalent basis ⁽¹⁾	\$ 679,901	\$ 682,402	\$ 717,411	\$ 735,153	\$ 731,188
Interest expense	199,013	214,060	262,870	308,895	343,322
Net interest income tax equivalent basis ⁽¹⁾	480,888	468,342	454,541	426,258	387,866
Less: tax equivalent adjustment	6,077	5,590	5,227	5,459	6,181
Net interest income	474,811	462,752	449,314	420,799	381,685
Provision for credit losses	53,335	49,456	47,992	28,282	11,875
Net interest income after provisions for credit losses	421,476	413,296	401,322	392,517	369,810
Non-interest income:					
Net impairment losses on securities recognized in earnings	(19,968)	(4,642)	(6,352)	(84,835)	(17,949)
Trading gains (losses), net	2,271	(6,897)	(10,434)	3,166	7,399
Gains on sale of assets, net	426	619	605	518	16,051
Other non-interest income	129,568	102,247	88,432	84,407	83,527
Total non-interest income	112,297	91,327	72,251	3,256	89,028
Non-interest expense:					
FDIC insurance assessment	12,759	13,719	20,128	1,985	1,003
Goodwill impairment					2,310
Other non-interest expense	323,829	303,963	285,900	283,263	250,599
Total non-interest expense	336,588	317,682	306,028	285,248	253,912
Income before income taxes	197,185	186,941	167,545	110,525	204,926
Income tax expense	63,532	55,771	51,484	16,934	51,698
Net income	133,653	131,170	116,061	93,591	153,228
Dividends on preferred stock and accretion			19,524	2,090	
Net income available to common stockholders	\$ 133,653	\$ 131,170	\$ 96,537	\$ 91,501	\$ 153,228
Per Common Share ⁽²⁾:					
Earnings per share:					
Basic	\$ 0.79	\$ 0.78	\$ 0.61	\$ 0.61	\$ 1.05
Diluted	0.79	0.78	0.61	0.61	1.05
Dividends declared	0.69	0.69	0.72	0.70	0.68
Book value	7.44	7.64	7.43	6.86	6.51
Tangible book value ⁽³⁾	5.45	5.61	5.53	4.80	5.11
Weighted average shares outstanding:					
Basic	169,928,460	169,112,901	159,259,476	150,995,804	146,176,683
Diluted	169,929,590	169,121,584	159,260,230	151,078,917	146,609,570
Ratios:					
Return on average assets	0.94%	0.93%	0.81%	0.69%	1.25%
Return on average shareholders' equity	10.20	10.32	8.64	8.74	16.43
Return on average tangible shareholders' equity ⁽⁴⁾	13.80	13.97	11.34	11.57	21.17
Average shareholders' equity to average assets	9.19	9.00	9.40	7.94	7.58
Tangible common equity to tangible assets ⁽⁵⁾	6.67	6.90	6.68	5.22	5.94

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Efficiency ratio ⁽⁶⁾	57.33	57.34	58.67	67.27	53.94
Dividend payout	87.34	88.89	113.43	114.29	65.35
Risk-based capital:					
Tier 1 capital	10.92%	10.94%	10.64%	11.44%	9.55%
Total capital	12.75	12.91	12.54	13.18	11.35
Leverage capital	8.07	8.31	8.14	9.10	7.62
Financial Condition:					
Assets	\$ 14,244,507	\$ 14,143,826	\$ 14,284,153	\$ 14,718,129	\$ 12,748,959
Net loans	9,665,839	9,241,091	9,268,081	10,050,446	8,423,557
Deposits	9,673,102	9,363,614	9,547,285	9,232,923	8,091,004
Shareholders' equity	1,266,248	1,295,205	1,252,854	1,363,609	949,060

See Notes to the Selected Financial Data that follow.

Table of Contents**Notes to Selected Financial Data**

- (1) In this report a number of amounts related to net interest income and net interest margin are presented on a tax equivalent basis using a 35 percent federal tax rate. Valley believes that this presentation provides comparability of net interest income and net interest margin arising from both taxable and tax-exempt sources and is consistent with industry practice and SEC rules.
- (2) All per common share amounts reflect a five percent common stock dividend issued May 20, 2011, and all prior stock splits and dividends.
- (3) This Annual Report on Form 10-K contains supplemental financial information which has been determined by methods other than U.S. GAAP that management uses in its analysis of our performance. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance, our business and performance trends, and facilitates comparisons with the performance of others in the financial services industry. These non-GAAP financial measures should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP.

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

	2011	2010	At December 31, 2009		2008	2007
			(in thousands, except for share data)			
Common shares outstanding	170,174,314	169,533,626	168,669,163	156,307,194	145,680,247	
Shareholders' equity	\$ 1,266,248	\$ 1,295,205	\$ 1,252,854	\$ 1,363,609	\$ 949,060	
Less: Preferred stock				291,539		
Less: Goodwill and other intangible assets	338,780	343,541	320,729	321,100	204,547	
Tangible common shareholders' equity	\$ 927,468	\$ 951,664	\$ 932,125	\$ 750,970	\$ 744,513	
Tangible book value per common share	\$ 5.45	\$ 5.61	\$ 5.53	\$ 4.80	\$ 5.11	

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

	2011	2010	Years Ended December 31, 2009		2008	2007
			(\$ in thousands)			
Net income	\$ 133,653	\$ 131,170	\$ 116,061	\$ 93,591	\$ 153,228	
Average shareholders' equity	1,310,939	1,270,778	1,342,790	1,071,358	932,637	
Less: Average goodwill and other intangible assets	342,122	331,667	319,756	262,613	208,797	
Average tangible shareholders' equity	\$ 968,817	\$ 939,111	\$ 1,023,034	\$ 808,745	\$ 723,840	
Return on average tangible shareholders' equity	13.80%	13.97%	11.34%	11.57%	21.17%	

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

	2011	2010	At December 31, 2009	2008	2007
			(\$ in thousands)		
Tangible common shareholders' equity	\$ 927,468	\$ 951,664	\$ 932,125	\$ 750,970	\$ 744,513
Total assets	14,244,507	14,143,826	14,284,153	14,718,129	12,748,959
Less: Goodwill and other intangible assets	338,780	343,541	320,729	321,100	204,547
Tangible assets	\$ 13,905,727	\$ 13,800,285	\$ 13,963,424	\$ 14,397,029	\$ 12,544,412
Tangible common shareholders' equity to tangible assets	6.67%	6.90%	6.68%	5.22%	5.94%

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

This Annual Report on Form 10-K, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management's confidence and strategies and management's expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as should, expect, believe, view, opportunity, allow, continues, reflects, typically, usually, anticipate, or similar statements or 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;

declines in value in our investment portfolio, including additional other-than-temporary impairment charges on our investment securities;

higher than expected increases in our allowance for loan losses;

higher than expected increases in loan losses or in the level of nonperforming loans;

unexpected changes in interest rates;

higher than expected tax rates, including increases resulting from changes in tax laws, regulations and case law;

a continued or unexpected decline in real estate values within our market areas;

charges against earnings related to the change in fair value of our junior subordinated debentures;

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;

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unanticipated reduction in our deposit base;

potential acquisitions that may disrupt our business;

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;

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 increased compliance costs and/or require us to change our business model;

changes in accounting policies or accounting standards;

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our inability to promptly adapt to technological changes;

our internal controls and procedures may not be adequate to prevent losses;

claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters;

the inability to realize expected cost savings and revenue synergies from the merger of State Bancorp with Valley in the amounts or in the timeframe anticipated;

costs or difficulties relating to the integration of State Bancorp's systems might be greater than expected;

inability to retain State Bancorp's customers and employees;

lower than expected cash flows from covered loan pools acquired in FDIC-assisted transactions; and

other unexpected material adverse changes in our operations or earnings.

Critical Accounting Policies and Estimates

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

Valley's accounting policies are fundamental to understanding management's discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements. We identified our policies for the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and could be subject to revision as new information becomes available. Management has reviewed the application of these policies with the Audit and Risk Committee of Valley's Board of Directors.

The judgments used by management in applying the critical accounting policies discussed below may be affected by a further and prolonged deterioration 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 loan losses represents management's estimate of probable loan losses inherent in the loan portfolio and is the largest component of the allowance for credit losses which also includes management's estimated reserve for unfunded commercial letters of credit. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. 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, the allowance for loan losses is determined, in part, by the composition and size of the loan portfolio which represents the largest asset type on the consolidated statements of financial condition.

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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; and

reserves for other loans that are not impaired.

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.

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. 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 \$133.8 million at December 31, 2011.

For impaired credits, if the fair value of the collateral (for collateral dependent loans) or the present value of expected cash flows (for other impaired loans) were ten percent higher or lower, the allowance would have decreased \$9.4 million and increased \$10.6 million, respectively, at December 31, 2011.

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If classified loan balances were ten percent higher or lower, the allowance would have increased or decreased by approximately \$2.8 million, respectively, at December 31, 2011.

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 \$2.1 million, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2011. Additionally, if the historical loss factors used to calculate the allowance for non-classified loans were ten percent higher or lower, the allowance would have increased or decreased by approximately \$6.4 million, respectively, at December 31, 2011.

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, 2011, such allowances were 5.7 percent of the total allowance. If such allowances were ten percent higher or lower, the total allowance would have increased or decreased by \$772 thousand, respectively, at December 31, 2011.

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.

We recognized other-than-temporary impairment charges on securities of \$20.0 million, \$4.6 million, and \$6.4 million, in 2011, 2010, and 2009, respectively, as a reduction of non-interest income on the consolidated statements of income. 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 \$318.0 million at December 31, 2011 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 \$20.8 million at December 31, 2011 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

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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 test is performed in two steps. The first step 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, 2011, the impact of a five percent impairment charge would result in a reduction in net income of approximately \$16.9 million. See Note 9 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, 2011, management has determined it is more likely than not that Valley will realize its net deferred tax assets and therefore valuation allowance was not established.

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We maintain a reserve related to certain tax positions and strategies 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 14 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

Annual Results. Net income totaled \$133.7 million, or \$0.79 per diluted common share, for the year ended December 31, 2011 compared to \$131.2 million in 2010, or \$0.78 per diluted common share. (All common share data is adjusted to reflect a five percent common stock dividend issued on May 20, 2011). The increase in net income was largely due to: (i) higher net interest income, resulting from a widening of the net interest margin on an annual basis mainly caused by our interest bearing liabilities repricing quicker than our earning assets in a prolonged low interest rate environment, (ii) a 23 percent increase in non-interest income resulting primarily from increased gains on sales of investment securities, post-acquisition date increases in our FDIC loss-share receivable, and an increase in net trading gains mainly due to higher non-cash mark to market gains on our junior subordinated debentures carried at fair value, partially offset by (iii) an increase in other-than-temporary impairment charges mainly due to the impairment of securities related to one trust preferred security issuer, higher advertising expense related to the successful promotion of our low one-price residential mortgage refinance program, as well as increases in professional and legal fees and other non-interest expense due, in part, to additional expenses related to our acquisition of State Bancorp (completed on January 1, 2012) and OREO and other expenses related to assets acquired in the FDIC-assisted acquisitions. See the **Net Interest Income**, **Non-Interest Income**, and **Non-Interest Expense** sections below for more details on the items above impacting our 2011 annual results.

Recent Development. In January 2012, we completed our acquisition of State Bancorp, Inc. and its principal subsidiary, State Bank of Long Island, a commercial bank with approximately \$1.6 billion in assets and 16 branches located in Nassau, Suffolk, Queens and Manhattan. We believe our expansion into this attractive area of the Long Island market should provide many additional lending, retail, and wealth management service opportunities to further strengthen our New York Metropolitan operations and grow the Valley Brand in 2012. State Bank of Long Island was immediately merged into Valley National Bank with full integration of its systems completed during the first quarter of 2012. See additional details in Note 2 to the consolidated financial statements.

Economic Overview and Indicators. The 2011 economy reflected sluggish growth and low consumer confidence for most of the year due to several factors, including, but not limited to, persistently high U.S. unemployment, U.S. budget deficit and credit downgrading concerns (including Standard and Poor's downgrade of the U.S. credit rating in August 2011), the impact of Japan's tsunami and nuclear disaster on the automobile sector during the second quarter of 2011, the continual slide in existing home prices and the European Union's sovereign debt crisis threatening the future health of the global markets. Unemployment, one of the primary economic deterrents to our ability to sustain loan growth and asset quality, ranged from a high of 9.0 percent in January 2011 to a low of 8.1 percent in April 2011 for the majority of our primary markets (including northern New Jersey and the New York City Metropolitan area), and remained at an elevated level of 8.2 percent in December 2011. From a national perspective, U.S. unemployment fell to 8.3 percent in January 2012, the lowest level since early 2009.

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Despite the promising decrease reflected in U.S. unemployment figure released in January 2012, various other indicators make it more difficult to assess the overall state of the economic recovery and where it may be headed in 2012. It should be noted that the number of individuals who are underemployed (only work part-time, but would prefer full-time work) or have stopped looking for employment remains at a very high level. Many economists believe the economy is fundamentally weak, as personal incomes did not grow in most regions of the U.S. during 2011 and consumer spending was still restrained through year end. The percentage of consumers with new bankruptcies and foreclosures in New Jersey and New York also remained at historically high levels as last reported during the fourth quarter of 2011, but were moderately better compared to one year ago. Additionally, the Federal Reserve maintained, and continues to support, a target range of zero to 0.25 percent for the federal funds rates due to current economic conditions. In January 2012, the Federal Reserve indicated that the anticipated economic conditions will likely warrant these exceptionally low levels for the federal funds rate through late 2014. We believe a low-rate, high unemployment environment, which is reflective of our current operating environment, will continue to challenge our business operations and results in many ways during 2012 and the foreseeable future, 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, persistent unemployment, slumping home prices, as well as high vacancy rates may continue to put pressure on the performance of some borrowers and the level of new loan demand within our area.

	For the Month Ended				
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Key Economic Indicators:					
Unemployment rate:					
U.S.	8.50%	9.10%	9.20%	8.80%	9.40%
New York Metro Region*	8.20%	8.30%	8.60%	8.40%	8.10%
New Jersey	9.00%	9.20%	9.50%	9.30%	9.10%
New York	8.00%	8.00%	8.00%	8.00%	8.20%
	Three Months Ended				
	December 31, 2011	September 30, 2011	June 30, 2011 (\$ in millions)	March 31, 2011	December 31, 2010
Personal income:					
New Jersey	NA	\$ 468,039	\$ 467,394	\$ 463,495	\$ 453,049
New York	NA	\$ 975,882	\$ 974,882	\$ 972,127	\$ 946,566
New consumer bankruptcies:					
New Jersey	NA	0.10%	0.17%	0.17%	0.18%
New York	NA	0.09%	0.12%	0.10%	0.11%
Change in home prices:					
U.S.	NA	0.10%	3.60%	-4.20%	-3.60%
New York Metro Region*	NA	0.72%	0.01%	-2.10%	-2.80%
New consumer foreclosures:					
New Jersey	NA	0.07%	0.06%	0.12%	0.20%
New York	NA	0.06%	0.06%	0.07%	0.09%
Rental vacancy rates:					
New Jersey	10.80%	9.50%	7.90%	6.70%	8.10%
New York	6.30%	7.40%	6.40%	5.90%	7.00%

NA not available

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

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

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Loans. Non-covered loans (i.e., loans not subject to loss-sharing agreements with the FDIC) increased \$518.7 million, or 5.8 percent, to approximately \$9.5 billion at December 31, 2011 as compared December 31, 2010. The residential mortgage loan portfolio contributed \$360.2 million to the increase from 2010 mainly because of our mortgage refinance program fueled, in part, by the low level of market interest rates throughout 2011, and our reduction of the amount of mortgage loans originated for sale during the year. During 2011, we originated approximately \$1.2 billion in new and refinanced residential mortgage loans and retained 69 percent of these loans in our loan portfolio as compared to \$977 million and 62 percent, respectively, in 2010. A significant portion of the mortgage loans retained for investment in 2011 were used to offset a \$234.6 million decline in our holdings of certain residential mortgage-backed securities, mainly issued by Freddie Mac and Fannie Mae, as we sold many securities which we believed had an increase in prepayment risk during 2011. The commercial real estate loan portfolio, exclusive of construction loans, was another bright spot for Valley during 2011, as the portfolio grew by \$195.8 million, or 5.8 percent, to \$3.6 billion at December 31, 2011 compared to one year ago primarily due to our stronger business emphasis on co-op and multifamily loan lending in our primary markets. Commercial and industrial loans totaling \$1.9 billion at December 31, 2011 were relatively flat as compared to December 31, 2010, exclusive of a \$37.0 million short-term loan to State Bancorp (used to repurchase all of State's Series A Preferred Stock issued under the Treasury's Capital Purchase Program prior to being acquired by Valley in 2012). Soft loan demand caused by the slow economic recovery coupled with strong competition for quality credits continued to challenge our ability to achieve significant commercial loan growth during 2011. Automobile, home equity and construction loans declined throughout 2011 due to several factors, including the challenging economic environment and the level of our credit underwriting standards. These factors may continue to constrain the levels of our loan originations within these categories during the first quarter of 2012 and the foreseeable future.

Total covered loans (i.e., loans subject to our loss-sharing agreements with the FDIC) decreased to \$271.8 million, or 2.8 percent of our total loans, at December 31, 2011 as compared to \$356.7 million, or 3.8 percent of total loans, at December 31, 2010 mainly due to normal payment activity. See further details on our loan activities, including the covered loan portfolio, under the [Loan Portfolio](#) section below.

Asset Quality. Given the current weakened economy, unemployment and the higher delinquency rates reported throughout the banking industry, we believe our loan portfolio's credit performance remained at an acceptable level at December 31, 2011. Total loans past due in excess of 30 days decreased 0.08 percent to 1.69 percent of our total loan portfolio of \$9.8 billion as of December 31, 2011 compared to 1.77 percent of total loans at December 31, 2010 mainly due to loan growth during 2011 and a slight decline in past due loans as compared to 2010 caused by a decrease in the 30 to 89 days past due loan category for all loan types. However, non-accrual loans increased \$19.2 million to \$124.3 million, or 1.27 percent of total loans at December 31, 2011 as compared to \$105.1 million, or 1.12 percent of total loans at December 31, 2010. The increase was mostly due to a higher level of non-accrual commercial and industrial loans and commercial real estate loans caused, in part, by two loan relationships totaling \$15.4 million added to non-accrual status during the fourth quarter of 2011. 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 overall future performance of our loan portfolio. However, due to the potential for future credit deterioration caused by the unpredictable direction of the economy and high levels of unemployment, management cannot provide assurance that our non-performing assets will remain at the levels reported as of December 31, 2011. See the [Non-performing Assets](#) section below for further analysis of our credit quality.

Investments. During the year ended December 31, 2011, we recognized net gains on securities transactions of \$32.1 million as compared to \$11.6 million in 2010 mainly due to the sale of \$578.1 million in certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises classified as available for sale. As previously noted, we reduced our holdings of many residential mortgage-backed securities with increased prepayment risk, as well as reduced our credit risk related to these issuers. Other-than-temporary impairment charges attributable to credit totaled \$20.0 million in 2011. Of the \$20.0 million impairment charge,

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\$19.1 million was recognized in earnings during the fourth quarter of 2011 mostly due to the impairment of trust preferred securities issued by one bank holding company deferring interest on such securities. After the credit impairment charges, the trust preferred securities had a combined adjusted amortized cost of \$46.4 million and a fair value of \$23.5 million at December 31, 2011. Subsequent to the impairment analysis, we no longer had a positive intent to hold these securities to their maturity due to the significant deterioration in the securities' value caused by the credit of the issuer. However, we do plan on holding these securities until they recover in value above their present value. Accordingly, we transferred the securities from held to maturity to the available for sale portfolio at December 31, 2011. See further details regarding these impaired securities 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 2011 due to the low level of rates that we offered on certificates of deposit during the year and the maturity of higher cost time deposits. See further discussion of our average interest bearing liabilities under the *Net Interest Income* section below. In November and December 2011, we modified the terms of \$435 million in FHLB advances within our long-term borrowings at December 31, 2011. The modifications resulted in a reduction of the interest rate on these funds, an extension of their maturity dates to 10 years from the date of modification, and a conversion of the advances to non-callable for periods ranging from 3 to 4 years. We similarly modified the terms of an additional \$150 million in FHLB advances during January 2012. After the modifications, the weighted average interest rate on these borrowings declined by 0.86 percent to 3.99 percent. There were no gains, losses, penalties, or fees incurred in the modification transactions.

Operating Environment. The financial markets continue to work through a period marked by unprecedented change due to current and future regulatory and market reform, including new regulations outlined under the Dodd-Frank Act, 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 are well positioned to move quickly on market expansion opportunities as they may arise, through possible acquisitions of other institutions, or failed banks 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 paid 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 2011. The net interest margin was 3.75 percent, for the year ended December 31, 2011, an increase of 6 basis points compared to 2010. As a continuation of 2010, our 2011 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 repriced at lower interest rates. Additionally, lower rates on customer repos balances mostly contributed to a 9 basis point decline in the cost of short-term borrowings during 2011. A \$134.5 million increase in average earning assets, mainly caused by residential mortgage and commercial real estate loan growth, contributed to the increase in net interest income during 2011. Offsetting some of the positive impact of the lower costs of funds and higher loan averages, the yield on average earning assets decreased by 7 basis points to 5.31 percent for 2011 as compared to the prior year. The decline in yield continued during all of 2011 as new assets repriced at lower market interest rates. The level of interest rates remained low during 2011 due to, in part, the Federal Reserve'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. Additionally, our fourth quarter of 2011 net interest income and net interest margin declined from the third quarter of 2011 mainly driven by lower yields on

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average taxable investments and loans, as well as a decline in average taxable investment balances in the fourth quarter. See further discussion in the Fourth Quarter 2011 section below of our net interest margin and certain measures taken by Valley at year-end and the first quarter of 2012 to help counteract the negative impact of the prolonged low level of interest rates.

Net interest income on a tax equivalent basis increased \$12.5 million to \$480.9 million for 2011 compared with \$468.3 million for 2010. During 2011, a 13 basis point decline in interest rates paid on average interest bearing liabilities, lower average interest bearing liabilities, and higher average loan balances positively impacted our net interest income, but were partially offset by a 22 basis point decline in the yield on average total investments and a 3 basis point decline in the yield on average loans as compared to 2010. Market interest rates on interest bearing deposits continued to trend lower in 2011 as a result of the Federal Reserve's commitment to its monetary policy and the excess liquidity in the marketplace. Additionally, many of our higher cost time deposits continued to mature and, if renewed, repriced at lower interest rates in 2011. Additionally, average non-interest bearing deposit balances increased \$183.1 million to \$2.6 billion for 2011 as compared to 2010 as many borrowers shifted balances from interest bearing accounts or were less apt to move these deposits to other investment alternatives due to the low level of interest rates. Our cost of total deposits declined to 0.70 percent for 2011 as compared to 0.79 percent for 2010.

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 decreased from 3.20 percent in 2010 to 2.76 percent in 2011, negatively impacting our yield on average loans as new and renewed fixed-rate loans were originated at lower interest rates in 2011. 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 2012, while an increase in treasury rates 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. Additionally, interest income on approximately \$1.0 billion of our residential mortgage-backed securities with unamortized purchase premiums totaling \$42.9 million could improve if and when 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. 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 (as we experienced during the fourth quarter of 2011).

Average loans totaling \$9.6 billion for the year ended December 31, 2011 increased \$133.5 million as compared to 2010 mainly due to increases in our residential mortgage and commercial real estate loan portfolios. The increase in average loan balances during 2011, partially offset by a 3 basis point decline in yield on such loans, contributed to a \$4.4 million increase in interest income on a tax equivalent basis for loans for the year ended December 31, 2011 compared with 2010. Average investment securities decreased only \$3.5 million in 2011. However, principal repayments on higher yielding securities and securities sold totaled \$1.4 billion during 2011 and were mostly reinvested in residential mortgage-backed securities issued by Ginnie Mae and municipal securities classified as held to maturity. The 2011 reinvestments in the mortgage-backed securities and other taxable securities at low current market rates partially offset by higher yielding municipal security purchases, primarily lead to a \$6.8 million decrease in interest income on a tax equivalent basis for investment securities as compared to 2010.

Average interest bearing liabilities decreased \$79.6 million to \$10.3 billion for the year ended December 31, 2011 from the same period in 2010 mainly due to the maturity of higher cost time deposits and long-term FHLB advances. Partially offsetting these decreases was an increase in average savings, NOW, and money market

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account balances as compared to 2010 mainly due to additional retail deposits generated from our 21 de novo branches opened over the last four year period and other existing branches as household savings appeared to remain strong during 2011. The cost of time deposits, and short-term borrowings and long-term borrowings decreased 16, 9, and 7 basis points, respectively, during 2011 due to the low level of market interest rates throughout the year and, as applicable, the aforementioned maturity of higher cost funds. Additionally, we expect that maturing higher cost time deposits will continue to have some benefit to our interest margin in the first quarter of 2012.

The net interest margin on a tax equivalent basis was 3.75 percent for the year ended December 31, 2011 compared with 3.69 percent for the year ended December 31, 2010. The change was mainly attributable to a decrease in interest rates paid on all interest bearing liabilities, run-off of higher cost time deposits and higher average loan balances, partially offset by lower yields on average investments and loans. The yield on average interest earning assets decreased 7 basis points while average interest rates paid on interest bearing liabilities decreased 13 basis points causing a 6 basis point increase in our net interest margin as compared to the year ended December 31, 2010.

Fourth Quarter 2011. Net interest income on a tax equivalent basis was \$120.1 million for the fourth quarter of 2011, a \$3.6 million decrease from the third quarter of 2011. The linked quarter decrease was mainly driven by lower yields on average taxable investments and loans caused by the historically low interest rate environment, as well as a \$130.2 million decline in average taxable investment balances for the fourth quarter of 2011. Average taxable investment balances declined due to normal repayment activity on higher yielding securities (including accelerated premium amortization on certain mortgage-backed securities) and lower reinvestment in new securities. Alternatively, we used the security repayments to fund higher yielding loan growth and maintained additional excess balances in overnight interest bearing deposits with correspondent banks, primarily the Federal Reserve Bank of New York. Interest income on loans declined during the fourth quarter mainly due to lower rates on refinanced loans and a decrease in both loan prepayment fees and interest recoveries on non-accrual loans.

The net interest margin on a tax equivalent basis was 3.74 percent for the fourth quarter of 2011, a decrease of 12 basis points from 3.86 percent in the linked third quarter of 2011. The yield on average interest earning assets decreased by 17 basis points on a linked quarter basis mainly as a result of lower yields on both average taxable investments and loans caused by the activity described above. The cost of average interest bearing liabilities declined three basis points from the third quarter of 2011 mainly due to a \$197.3 million decline in average time deposits caused principally by maturing deposits that were not renewed by customers due to lower rates offered on most of our certificates of deposit products. The maturing deposits contributed to a seven basis point decrease in the cost of the average time deposits during the fourth quarter of 2011. During the fourth quarter of 2011, net interest income on a tax equivalent basis decreased \$3.6 million and the net interest margin declined 12 basis points when compared with the third quarter of 2011.

We believe our margin may continue to face the risk of compression into the foreseeable future due to the current low level of interest rates on most interest earning asset alternatives combined with the repricing risk related to large percentage of our interest earning assets with short durations (see the Interest Rate Sensitivity Analysis table below). Additionally, our interest income on loans may increase or decrease each period due to prospective yield adjustments resulting from unexpected changes in the actual cash flows from covered loans pools (see discussion under the Covered Loans section below). However, we continue to tightly manage our balance sheet and our cost of funds to optimize our returns. During the fourth quarter of 2011, we continued to reduce the interest rates on many of our deposit products, including time deposits, and we were able to lower the interest rates paid on certain modified long-term FHLB borrowings as previously discussed in the Executive Summary section above. We have yet to fully realize the benefits of these recent reductions. Although we cannot make any guarantees as to the potential future benefits to our net interest margin, we believe these actions and other asset/liability strategies will partially temper the negative impact of the current interest rate environment. The acquisition and assumption of financial assets and liabilities in connection with the acquisition of State Bancorp on January 1, 2012 is expected to have a positive, but immaterial impact on our net interest margin for the first quarter of 2012.

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The following table reflects the components of net interest income for each of the three years ended December 31, 2011, 2010 and 2009:

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

	2011			2010			2009		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
	(\$ in thousands)								
Assets									
Interest earning assets:									
Loans ⁽¹⁾⁽²⁾	\$ 9,608,480	\$ 547,371	5.70%	\$ 9,474,994	\$ 543,017	5.73%	\$ 9,705,909	\$ 561,265	5.78%
Taxable investments ⁽³⁾	2,615,140	114,784	4.39	2,641,869	123,021	4.66	2,700,744	140,305	5.20
Tax-exempt investments ⁽¹⁾⁽³⁾	429,004	17,344	4.04	405,730	15,948	3.93	272,520	14,896	5.47
Federal funds sold and other interest bearing deposits	161,612	402	0.25	157,163	416	0.26	352,473	945	0.27
Total interest earning assets	12,814,236	679,901	5.31	12,679,756	682,402	5.38	13,031,646	717,411	5.51
Allowance for loan losses	(136,432)			(110,776)			(99,716)		
Cash and due from banks	366,159			310,908			249,877		
Other assets	1,209,732			1,225,837			1,113,420		
Unrealized gains (losses) on securities available for sale, net	16,594			13,505			(17,270)		
Total assets	\$ 14,270,289			\$ 14,119,230			\$ 14,277,957		
Liabilities and Shareholders Equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	\$ 4,399,031	\$ 19,876	0.45%	\$ 4,171,782	\$ 19,126	0.46%	\$ 3,836,709	\$ 24,894	0.65%
Time deposits	2,728,354	48,291	1.77	2,897,793	55,798	1.93	3,325,800	93,403	2.81
Total interest bearing deposits	7,127,385	68,167	0.96	7,069,575	74,924	1.06	7,162,509	118,297	1.65
Short-term borrowings	192,392	1,154	0.60	194,587	1,345	0.69	270,776	4,026	1.49
Long-term borrowings ⁽⁴⁾	2,964,555	129,692	4.37	3,099,807	137,791	4.45	3,152,515	140,547	4.46
Total interest bearing liabilities	10,284,332	199,013	1.94	10,363,969	214,060	2.07	10,585,800	262,870	2.48
Non-interest bearing deposits	2,611,207			2,428,089			2,251,784		
Other liabilities	63,811			56,394			97,583		
Shareholders equity	1,310,939			1,270,778			1,342,790		
Total liabilities and shareholders equity	\$ 14,270,289			\$ 14,119,230			\$ 14,277,957		
Net interest income/interest rate spread ⁽⁵⁾		480,888	3.37%		468,342	3.31%		454,541	3.03%
Tax equivalent adjustment		(6,077)			(5,590)			(5,227)	
Net interest income, as reported		\$ 474,811			\$ 462,752			\$ 449,314	
Net interest margin ⁽⁶⁾			3.71%			3.65%			3.45%
Tax equivalent effect			0.04			0.04			0.04

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Net interest margin on a fully tax equivalent basis ⁽⁶⁾	3.75%	3.69%	3.49%
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- (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,					
	2011 Compared to 2010			2010 Compared to 2009		
	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*	\$ 7,618	\$ (3,264)	\$ 4,354	\$ (13,266)	\$ (4,982)	\$ (18,248)
Taxable investments	(1,234)	(7,003)	(8,237)	(3,003)	(14,281)	(17,284)
Tax-exempt investments*	932	464	1,396	5,982	(4,930)	1,052
Federal funds sold and other interest bearing deposits	12	(26)	(14)	(517)	(12)	(529)
Total increase (decrease) in interest income	7,328	(9,829)	(2,501)	(10,804)	(24,205)	(35,009)
Interest expense:						
Savings, NOW and money market deposits	1,030	(280)	750	2,028	(7,796)	(5,768)
Time deposits	(3,152)	(4,355)	(7,507)	(10,923)	(26,682)	(37,605)
Short-term borrowings	(15)	(176)	(191)	(924)	(1,757)	(2,681)
Long-term borrowings and junior subordinated debentures	(5,942)	(2,157)	(8,099)	(2,344)	(412)	(2,756)
Total decrease in interest expense	(8,079)	(6,968)	(15,047)	(12,163)	(36,647)	(48,810)
Increase (decrease) in net interest income	\$ 15,407	\$ (2,861)	\$ 12,546	\$ 1,359	\$ 12,442	\$ 13,801

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

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The following table presents the components of non-interest income for the years ended December 31, 2011, 2010, and 2009:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Trust and investment services	\$ 7,523	\$ 7,665	\$ 6,906
Insurance commissions	15,627	11,334	10,224
Service charges on deposit accounts	22,610	25,691	26,778
Gains on securities transactions, net	32,068	11,598	8,005
Net impairment losses on securities recognized in earnings	(19,968)	(4,642)	(6,352)
Trading gains (losses), net:			
Trading securities	1,015	(1,056)	5,394
Junior subordinated debentures carried at fair value	1,256	(5,841)	(15,828)
Total trading gains (losses), net	2,271	(6,897)	(10,434)
Fees from loan servicing	4,337	4,919	4,839
Gains on sales of loans, net	10,699	12,591	8,937
Gains on sales of assets, net	426	619	605
Bank owned life insurance	7,380	6,166	5,700
Change in FDIC loss-share receivable	13,403	6,268	
Other	15,921	16,015	17,043
Total non-interest income	\$ 112,297	\$ 91,327	\$ 72,251

Non-interest income represented 14 percent and 12 percent of total interest income plus non-interest income for 2011 and 2010, respectively. For the year ended December 31, 2011, non-interest income increased \$21.0 million compared with 2010 mainly due to increases in the net gains on securities transactions, net trading gains and other income recognized for the change in the FDIC loss-share receivable due to post-acquisition items, partially offset by an increase in other-than-temporary impairment charges recognized in earnings during 2011.

Insurance commissions increased \$4.3 million for the year ended December 31, 2011 as compared to 2010 mainly due to additional commissions generated from our subsidiary's insurance agency asset acquisition during December 2010. See Note 2 to the consolidated financial statements for more details on this business combination.

Service charges on deposit accounts decreased \$3.1 million to \$22.6 million for 2011 as compared to 2010 mainly due to a decrease in non-sufficient funds charges and overdraft protection fees. The decline in these fees reflects both better account management by our customers caused, in part, by economic uncertainty and higher savings rates, and new regulatory restrictions on overdraft charges enacted by the Federal Reserve in July 2010. The new regulations prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one time debit card transactions, unless a consumer consents to the overdraft service for those types of transactions. Many of our customers did opt in to our standard overdraft practice since the rule took effect, which helped partially mitigate the negative impact of this rule change on our service charge fees. However, we can provide no assurance that the change in regulation will not reduce our ability to generate these fees in future periods.

Net gains on securities transactions increased \$20.5 million to \$32.1 million for the year ended December 31, 2011 as compared to \$11.6 million for 2010. The increase was mainly due to gains on the sale of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises totaling \$320.7 million and \$257.4 million, respectively, classified as available for sale during 2011. We elected to sell these securities based on a total rate of return analysis for each security based on their increased risk of

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accelerated prepayment due to the low level of market interest rates and the U.S. Government's modification and extension of the Home Affordable Refinance Program (HARP) program designed to allow certain qualifying borrowers with low home values to refinance their mortgages. Additionally, the sales of the Freddie Mac and Fannie Mae residential mortgage-backed securities reduced our exposure to these government sponsored enterprises, and allowed us to reinvest the net proceeds mainly in Ginnie Mae mortgage-backed securities, which are fully guaranteed by the U.S. Government and do not require related regulatory capital to be held by our bank subsidiary.

Net impairment losses on securities increased \$15.3 million to \$20.0 million for the year ended December 31, 2011 as compared to \$4.6 million in 2010 primarily due to the impairment of trust preferred securities issued by one bank holding company during the fourth quarter of 2011. 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 impacting the net impairment losses on securities reflected in the table above.

Net trading gains and losses primarily represent the non-cash mark to market valuations of a small number of single-issuer trust preferred securities held in our trading securities portfolio and the non-cash mark to market valuation of our junior subordinated debentures (issued by VNB Capital Trust I) carried at fair value. Net trading gains increased \$9.2 million to a gain of \$2.3 million for the year ended December 31, 2011 as compared to a \$6.9 million loss for 2010 mainly due to the non-cash mark to market adjustments on our trust preferred debentures carried at fair value. See Note 3 to the consolidated financial statements for a full description of the valuation techniques that were used to mark to market our trading securities and debentures carried at fair value.

Net gains on sales of loans decreased \$1.9 million to \$10.7 million during the year ended December 31, 2011 as compared to \$12.6 million in gains recognized during 2010. The decrease was primarily due to a total gain of \$3.9 million recognized on the sale of approximately \$83 million of conforming residential mortgage loans transferred from our loan portfolio to loans held for sale during the third quarter of 2010. The decision to sell these loans was based on the likelihood that such loans would prepay in the short-term due to the low level of market interest rates. Additionally, we elected to hold a greater percentage of our mortgage loan originations for investment purposes rather than selling them in the secondary market during 2011, reducing our ability to generate gains on sales of loans during the period. See further discussion of our 2011 residential mortgage loan origination activity under Loans in the executive summary section of this MD&A above.

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. Valley recognized approximately \$13.4 million and \$6.3 million in non-interest income for the years ended December 31, 2011 and 2010, respectively, largely due to additional estimated credit losses on the covered loan pools during both periods. See FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets section below in this MD&A and Note 5 to the consolidated financial statements for further details.

In June 2011, the FRB approved a final debit card interchange rule that caps an issuer's base fee at 21 cents per transaction and allows an additional 5 basis point charge per transaction to help cover fraud losses. The FRB also approved an interim final rule that allows a fraud prevention adjustment of 1 cent per transaction conditioned upon an issuer adopting effective fraud prevention policies and procedures. The final and interim final rules on the pricing and routing restrictions, commonly referred to as the Durbin Amendment, became

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effective on October 1, 2011. Other non-interest income includes debit card interchange fees of approximately \$5.1 million for the year ended December 31, 2011 as compared to \$5.8 million for 2010. During the fourth quarter of 2011, our debit card interchange fees declined \$880 thousand as compared to the third quarter of 2011 mainly due to the implementation of the Durbin Amendment rules. Although debit card interchange fees vary based on our customer activity levels, we expect the new regulation to reduce such fees by \$3.0 million to \$3.5 million on an annual basis.

See the Results of Operations 2010 Compared to 2009 section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2009 to 2010.

Non-Interest Expense

The following table presents the components of non-interest expense for the years ended December 31, 2011, 2010, and 2009:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Salary and employee benefits expense	\$ 176,307	\$ 176,106	\$ 163,746
Net occupancy and equipment expense	64,364	61,765	58,974
FDIC insurance assessment	12,759	13,719	20,128
Amortization of other intangible assets	9,315	7,721	6,887
Professional and legal fees	15,312	10,137	7,907
Advertising	8,373	4,052	3,372
Other	50,158	44,182	45,014
Total non-interest expense	\$ 336,588	\$ 317,682	\$ 306,028

Non-interest expense increased \$18.9 million to \$336.6 million for the year ended December 31, 2011 from \$317.7 million for 2010. The increase in 2011 was mainly attributable to increases in professional and legal fees, other non-interest expense, advertising expense, and net occupancy and equipment expense.

Net occupancy and equipment expense increased \$2.6 million to \$64.4 million for the year ended December 31, 2011 as compared to \$61.8 million for 2010. The increase was mainly due to higher seasonal maintenance and building repairs mostly during the first quarter of 2011, higher depreciation expense and additional expenses related to one de novo branch opened in 2011, partially offset by the expense reductions related to the closure of five branch offices located in New Jersey during 2011 and the full year cost savings related to the closure of five of seven branches acquired in FDIC-assisted transactions in the second quarter of 2010. The customer service for the closed branches was transferred to existing Valley branches within very close proximity of each location.

Amortization of other intangible assets primarily consists of amortization related to loan servicing rights (largely generated from loan servicing that we retained on residential mortgage loan originations sold to Freddie Mac and Fannie Mae); amortization of core deposits, customer lists and covenants not to compete obtained through acquisitions; and net impairment charges or recoveries related to valuation allowances established for certain stratified groups of loan servicing rights (See Notes 1, 8 and 9 to the consolidated financial statements for more information). Amortization of other intangible assets increased by \$1.6 million in 2011 largely due to the recognition of \$1.5 million in impairment charges, net of recoveries, on certain loan servicing rights during 2011 as compared to \$551 thousand during 2010. Additionally, the 2011 period includes \$416 thousand of additional amortization mainly related to customer lists and covenants not to compete acquired by the Bank's insurance subsidiary in an agency asset acquisition during December 2010. See Note 2 to the consolidated financial statements for more details on this 2010 acquisition.

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Professional and legal fees increased \$5.2 million during 2011 as compared to 2010. This increase was mainly due to general increases in legal expenses related to assets acquired in the two FDIC-assisted transactions in March 2010, \$1.6 million in fees related to our acquisition of State Bancorp completed on January 1, 2012, as well as increases from other general corporate matters during 2011.

Advertising expense increased \$4.3 million to \$8.4 million for the year ended December 31, 2011 as compared to \$4.1 million in 2010 mainly due to our expanded use of television and radio ad campaigns to promote better name recognition throughout our primary markets, as well as our residential mortgage refinance programs by state. We expect advertising expense to remain elevated in the future periods as we continue to promote Valley and our lending operations, including our one price residential mortgage refinance programs in New Jersey, New York and Pennsylvania.

Other non-interest expense increased \$6.0 million for the year ended December 31, 2011 from \$44.2 million in 2010 partly due to general increases in several items within this category and a \$1.5 million increase in other real estate owned (OREO) expenses and other expenses related to assets acquired in the two FDIC-assisted transactions. The increase was also related to the valuation write downs of \$479 thousand and \$838 thousand relating to a repossessed aircraft and an OREO commercial property, respectively, in 2011.

Over the last several years, we have maintained a branch expansion plan which focuses on expanding our presence in the New Jersey counties and towns neighboring our current office locations, as well as in New York City boroughs of Manhattan, Brooklyn and Queens. We opened three de novo branches during the past two years, excluding the branches acquired in the FDIC-assisted transactions. Also in 2010, we opened our first residential mortgage loan production office in eastern Pennsylvania, in an effort to expand outside of our normal markets within New Jersey and New York City. Generally, new branches and loan production offices add future franchise value; however, for new branches the additional operating costs and capital requirements normally have a negative impact on non-interest expense and net income for several years until such operations become individually profitable.

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, 2011 was 57.33 percent and remained relatively unchanged as compared to 2010. We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. 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.

See the Results of Operations 2010 Compared to 2009 section below for the discussion and analysis of changes in our non-interest expense from 2009 to 2010.

Income Taxes

Income tax expense was \$63.5 million for the year ended December 31, 2011, reflecting an effective tax rate of 32.2 percent, compared with \$55.8 million for the year ended December 31, 2010, reflecting an effective tax rate of 29.8 percent. The effective tax rate increased by 2.4 percent as compared to 2010 largely due to a one-time tax provision of \$8.5 million related to a change in state tax law during the second quarter of 2011, partially offset by our increased investment in additional tax credits during 2011.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management's judgment include changes in income, tax laws and regulations, and tax planning strategies. For 2012, we anticipate that our effective tax rate will approximate 32 percent.

Table of Contents**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, whereas each segment is allocated a uniform funding cost based on each segment's 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 not necessarily conform to 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 segments' financial data.

Consumer lending. This segment is mainly comprised of residential mortgage loans, home equity loans and automobile loans. The duration of the residential mortgage loan portfolio, which including covered loans represented 23.5 percent of our loan portfolio at December 31, 2011, is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans (representing 7.9 percent of total loans at December 31, 2011) 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.

Average interest earning assets in this segment increased \$73.0 million to approximately \$3.4 billion for the year ended December 31, 2011 as compared to 2010. The increase was mainly due to the strong growth in our non-covered residential mortgage loans caused by the sustained low level of market interest rates during 2011, our aggressive promotion of our mortgage refinance programs, and our decision to hold for investment many of our new loan originations rather than sell them into the secondary market based on the current yields available on other investment alternatives and the composition of our balance sheet. The increase in residential mortgage loans was partially offset by lower automobile and home equity loan balances which have declined throughout most of the past two years for several reasons, including the weak economy, high unemployment, and strong competition for quality loan credits.

Income before income taxes generated by the consumer lending segment decreased \$13.1 million to \$51.2 million for the year ended December 31, 2011 as compared to 2010. The decrease was mainly a result of declines totaling \$6.7 million and \$5.1 million in non-interest income and net interest income, respectively, in 2011. Net interest income decreased due to the negative impact of the lower yields on new and renewed loans during 2011 despite being partially offset by the positive impact of higher average loan balances and a decrease in our cost of funds. Additionally, non-interest expense and internal transfer expense increased \$7.1 million and \$2.0 million, respectively, during 2011 as compared to 2010. The negative impact of these items was partially offset by a \$7.8 million decline in the provision for loan losses as compared to year ended December 31, 2010 due, in part, to lower levels of loan charge-offs caused by our high underwriting standards, as well as a strong used car market in 2011 supporting repossessed auto valuations coupled with the aforementioned declines in automobile and home equity loan portfolios.

The net interest margin for the segment decreased 23 basis points to 3.66 percent for 2011 as a result of a 36 basis point decrease in interest yield on average loans due to the sustained low level of market interest rates, partially offset by a 13 basis point decrease in cost associated with our funding sources. The decrease in our cost

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of funds was mainly due to the maturity of higher cost time deposits and long-term FHLB advances, and lower interest rates on all renewed time deposits and other interest bearing deposits outstanding during 2011.

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 \$83.7 million of covered loans, totaled approximately \$2.0 billion and represented 20.0 percent of the total loan portfolio at December 31, 2011. Commercial real estate loans and construction loans, including \$167.6 million of covered loans, totaled \$4.2 billion and represented 42.4 percent of the total loan portfolio at December 31, 2011.

Average interest earning assets in this segment increased \$60.5 million to \$6.2 billion for the year ended December 31, 2011 as compared to 2010. This increase mainly reflects higher commercial real estate loan volumes due to our increased emphasis on co-op and multifamily loan lending in our markets, as well as a moderate increase in loan demand from our existing commercial customers as compared to year ended December 31, 2010.

For the year ended December 31, 2011, income before income taxes for the commercial lending segment increased \$16.2 million to \$110.1 million compared to 2010 primarily due to increases in net interest income and non-interest income, partially offset by an increase in the provision for loan losses and non-interest expense. Higher average loan balances, increased yields on loans, and a lower cost of funds all contributed to a \$27.7 million increase in net interest income as compared to the 2010 period. The provision for loan losses increased \$11.7 million during 2011 largely due to a \$15.1 million increase in the provision for covered loans caused by additional estimated credit losses on certain covered loan pools acquired in the FDIC-assisted transactions during March 2010, as well as higher loan charge-offs primarily in the non-covered commercial real estate portfolio. Non-interest income increased approximately \$9.1 million to \$17.0 million for 2011 as compared to \$7.9 million for 2010 mainly due to an \$8.0 million increase in income related to post acquisition adjustments to our FDIC loss-share receivable based on the experience of our covered loan pools. See additional information in Note 5 to the consolidated financial statements.

The net interest margin for this segment increased 40 basis points to 4.64 percent during 2011 mainly as a result of a 27 basis point increase in the yield on average loans and a 13 basis point decrease in the cost of our funding sources as compared to 2010. The return on average interest earning assets before income taxes was 1.77 percent for 2011 compared to 1.53 percent for the prior year period.

Investment management. The investment management segment generates a large portion of our income through investments in various types of securities. These securities are mainly comprised of fixed rate investments, 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 assets that are least sensitive assets to changes in market interest rates. However, a sizeable 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 remained relatively unchanged during 2011 as compared with the same period one year ago. Principal repayments on higher yielding securities and securities sold during 2011 were mostly reinvested in residential mortgage-backed securities issued by Ginnie Mae and municipal securities classified as held to maturity.

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For the year ended December 31, 2011, income before income taxes for the investment management segment decreased \$9.2 million to \$42.1 million compared to \$51.3 million for the same period of 2010 primarily due to a \$10.1 million decline in net interest income, partially offset by a \$1.2 million increase in non-interest income. The segment's net interest income was negatively impacted by normal principal paydowns and sales of certain higher yielding securities mostly replaced with lower yielding residential mortgage-backed securities and other taxable securities which were only partially offset by higher yielding municipal security purchases.

The net interest margin for the segment decreased 32 basis points to 2.72 percent during the year ended December 31, 2011 as compared to the same period one year ago as a result of a 45 basis point decrease in the yield on investments, partially offset by a 13 basis point decrease in the cost associated with our funding sources. The return on average interest earning assets before income taxes was 1.31 percent for 2011 compared to 1.60 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 (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 certain subordinated notes, as well as income and expense from derivative financial instruments.

The pre-tax net loss for the corporate segment decreased \$16.5 million to \$6.1 million for the year ended December 31, 2011 from a \$22.6 million for the same period one year ago driven by a \$17.4 million increase in non-interest income. The increase in non-interest income was mainly due to an increase in net gains on securities transactions and net trading gains. Net gains on securities transactions increased \$20.5 million largely due to the sale of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises with increased prepayment risk during 2011. Net trading gains increased approximately \$9.2 million primarily due to the effect of the mark to market valuation of our junior subordinated debentures carried at fair value and our small portfolio of trading securities. The positive effect of these items was partially negated by a \$15.3 million increase in net impairment losses on securities primarily related to other-than-temporary impairment charges on trust preferred securities issued by one bank holding company. See the Investment Securities Portfolio section of this MD&A and Note 4 to the consolidated financial statements for further details.

Table of Contents**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 the level of lower yielding new residential mortgage originations retained in our mortgage portfolio through sales in the secondary market, change in product pricing levels, change in desired maturity levels for new originations, change in balance sheet composition levels 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, 2011. 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, 2011. 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, 2011. Although the size of Valley's balance sheet is forecasted to remain static as of December 31, 2011 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 2011. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2011.

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	\$ 11,463	2.65%
+100	3,758	0.87
-100	(774)	(0.18)

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.

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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, we are more susceptible to an increase in interest rates under a scenario with an immediate parallel change in the level of market interest rates than a decrease in interest rates under the same assumptions. A 100 basis point immediate increase in interest rates is projected to moderately increase net interest income over the next twelve months by 0.87 percent. Our lack of balance sheet sensitivity to such a move in interest rates, is slightly lower due, in part, to the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management), which currently exceeds the U.S. prime rate by 125 basis points. Due to its current level above the U.S. prime rate, the Valley prime rate is not projected to increase under the 100 basis points immediate increase scenario in our simulation. Additional information regarding our use of these prime rates is located under the Net Interest Income section above. 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 have positioned a large portion of our investment portfolio in short-duration securities and residential mortgage-backed securities that will allow us to benefit from a potential rise in interest rates. Specifically, we expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period.

Our interest rate caps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits and short-term borrowings based on the prime and effective federal funds rates. Our interest rate swaps 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. We have cash flow hedge interest rate caps with a \$300 million notional value, which protect us from upward increases in interest rates on certain deposits and short-term borrowings. During the third quarter of 2011, two of the cash flow hedge interest rate swaps with a notional amount of \$200 million began to pay fixed and receive floating rates. The other two swaps totaling \$100 million will begin to pay fixed and receive floating rates in July 2012. The floating rate leg of the transaction is indexed to the U.S. prime rate as reported by The Wall Street Journal. Additionally, we utilize interest rate swaps at times to effectively convert fixed rate loans and deposits 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 current low level of interest rates, the strike rate of these instruments, and the forward effective date applicable to the swaps, the cash flow hedge interest rate caps and swaps are expected to have little immediate impact over the next twelve month period on our net interest income. See Note 15 to the consolidated financial statements for further details on our derivative transactions.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities that were outstanding at December 31, 2011 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.

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	Rate	2012	2013	2014	2015	2016	Thereafter	Total Balance	Fair Value
		(\$ in thousands)							
Interest sensitive assets:									
Interest bearing deposits with banks	0.25%	\$ 6,483	\$	\$	\$	\$	\$	\$ 6,483	\$ 6,483
Investment securities held to maturity	3.89	705,072	285,720	171,346	99,661	53,644	643,473	1,958,916	2,027,197
Investment securities available for sale	4.34	242,103	75,291	50,222	29,071	14,202	155,631	566,520	566,520
Trading securities	8.23						21,938	21,938	21,938
Loans held for sale	3.83	25,169						25,169	25,169
Loans	5.21	4,178,972	1,573,448	1,097,059	801,697	644,984	1,503,481	9,799,641	9,779,319
Total interest sensitive assets	4.35%	\$ 5,157,799	\$ 1,934,459	\$ 1,318,627	\$ 930,429	\$ 712,830	\$ 2,324,523	\$ 12,378,667	\$ 12,426,626
Interest sensitive liabilities:									
Deposits:									
Savings, NOW and money market	0.29%	\$ 1,497,456	\$ 845,008	\$ 845,008	\$ 400,883	\$ 200,441	\$ 601,325	\$ 4,390,121	\$ 4,390,121
Time	1.68	1,470,791	256,536	261,530	154,307	166,276	191,944	2,501,384	2,557,119
Short-term borrowings	0.25	212,849						212,849	215,179
Long-term borrowings	4.00	28,000	26,000		400,000	414,500	1,857,599	2,726,099	3,154,150
Junior subordinated debentures	7.65						185,598	185,598	186,098
Total interest sensitive liabilities	1.78%	\$ 3,209,096	\$ 1,127,544	\$ 1,106,538	\$ 955,190	\$ 781,217	\$ 2,836,466	\$ 10,016,051	\$ 10,502,667
Interest sensitivity gap		\$ 1,948,703	\$ 806,915	\$ 212,089	\$ (24,761)	\$ (68,387)	\$ (511,943)	\$ 2,362,616	\$ 1,923,959
Ratio of interest sensitive assets to interest sensitive liabilities		1.61:1	1.72:1	1.19:1	0.97:1	0.91:1	0.82:1	1.24:1	1.18:1

The above table provides an approximation of the projected re-pricing of assets and liabilities at December 31, 2011 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 maturities 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 and short-term borrowings. 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, 2011 was a positive \$1.9 billion, representing a ratio of interest sensitive assets to interest sensitive liabilities of 1.61:1. Current market prepayment speeds and balance sheet management strategies implemented throughout 2011 have allowed us to maintain our asset sensitivity level reported in the table above comparable to December 31, 2010. 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, 2011. 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, 2011 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

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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 (the 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, 2011.

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 \$1.2 billion, representing 9.80 percent of earning assets, at December 31, 2011 and \$1.6 billion, representing 12.6 percent of earning assets, at December 31, 2010. The decrease in liquid assets in 2011 is largely due to the reduction in the investment securities available for sale portfolio during 2011. Of the \$1.2 billion of liquid assets at December 31, 2011, approximately \$389 million of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately \$687 million in principal from securities in the total investment portfolio during 2012 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, 2011) are projected to be approximately \$3.5 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 \$8.6 billion and \$8.3 billion for the years ended December 31, 2011 and 2010, respectively, representing 67.0 percent and 65.8 percent of average earning assets at December 31, 2011 and 2010, respectively. The level of interest bearing deposits is affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities.

The following table lists, by maturity, all certificates of deposit of \$100 thousand and over at December 31, 2011:

	2011
	(in thousands)
Less than three months	\$ 226,835
Three to six months	155,267
Six to twelve months	211,947
More than twelve months	479,674
Total	\$ 1,073,723

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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 \$1.0 billion for a short time from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. Furthermore, we are able to obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At December 31, 2011, our borrowing capacity under the Fed's discount window was approximately \$880 million.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as securities sold under agreements to repurchase (repos). Our short-term borrowings increased \$20.5 million to \$212.8 million at December 31, 2011 as compared to \$192.3 million at December 31, 2010 mainly as a result of an increase in repos. At December 31, 2011, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

The following table sets forth information regarding Valley's short-term repos at the dates and for the years ended December 31, 2011, 2010, and 2009:

	2011	2010 (\$ in thousands)	2009
Securities sold under agreements to repurchase:			
Average balance outstanding	\$ 177,232	\$ 184,021	\$ 203,585
Maximum outstanding at any month-end during the period	212,849	186,633	215,182
Balance outstanding at end of period	212,849	183,295	206,542
Weighted average interest rate during the period	0.45%	0.72%	0.91%
Weighted average interest rate at the end of the period	0.25	0.47	0.67

Corporation Liquidity. Valley's recurring cash requirements primarily consist of dividends to common shareholders and interest expense on junior subordinated debentures issued to capital trusts. These cash needs are routinely satisfied by dividends collected from the Bank, along with cash flows from investment securities held at the holding company. Projected cash flows from these sources are expected to be adequate to pay common dividends, if declared, and interest expense payable to capital trusts, given the current capital levels and current profitable operations of the bank subsidiary. In addition to dividends received from the Bank, Valley can satisfy its cash requirements by utilizing its own funds, cash and sale of investments, as well as potential borrowed funds from outside sources. In the event Valley would exercise the right to defer payments on the junior subordinated debentures, and therefore distributions on its trust preferred securities, Valley would be unable to pay dividends on its common stock until the deferred payments are made.

As part of our on-going asset/liability management strategies, Valley could use cash to repurchase shares of its outstanding common stock under its share repurchase program or redeem its callable junior subordinated debentures issued to VNB Capital Trust I, using Valley's own funds and/or dividends received from the Bank, as well as new borrowed funds or capital issuances.

Investment Securities Portfolio

Securities are classified as held to maturity and carried at amortized cost when Valley has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity, and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss, net of tax. Available for sale securities are not considered trading account securities, but rather

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are securities which may be sold on a non-routine basis. Securities classified as trading are held primarily for sale in the short term or as part of our balance sheet management strategies and are carried at fair value, with unrealized gains and losses included immediately in the net trading gains and losses category of non-interest income. Valley determines the appropriate classification of securities at the time of purchase. The decision to purchase or sell securities is based upon the current assessment of long and short-term economic and financial conditions, including the interest rate environment and other statement of financial condition components. Securities with limited marketability and/or restrictions, such as Federal Home Loan Bank and Federal Reserve Bank stocks, are carried at cost and are included in other assets.

At December 31, 2011, our investment portfolio was comprised of U.S Treasury securities, U.S. government agencies, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 17 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (including 3 pooled securities), corporate bonds (most of which were purchased prior to the financial crisis in 2008 and 2009) primarily issued by banks, and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders' equity, except for residential mortgage-backed securities issued by Ginnie Mae.

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

Investment securities at December 31, 2011, 2010, and 2009 were as follows:

	2011	2010 (in thousands)	2009
Held to maturity			
U.S. Treasury securities	\$ 100,018	\$ 100,161	\$
Obligations of states and political subdivisions	433,284	387,280	313,360
Residential mortgage-backed securities	1,180,104	1,114,469	936,385
Trust preferred securities	193,312	269,368	281,836
Corporate and other debt securities	52,198	52,715	52,807
Total investment securities held to maturity (amortized cost)	\$ 1,958,916	\$ 1,923,993	\$ 1,584,388
Available for sale			
U.S. Treasury securities	\$	\$ 163,810	\$ 276,285
U.S. government agency securities	90,748	88,800	
Obligations of states and political subdivisions	20,214	29,462	33,411
Residential mortgage-backed securities	310,137	610,358	940,505
Trust preferred securities	63,858	41,083	36,412
Corporate and other debt securities	39,610	53,961	19,042
Total debt securities	524,567	987,474	1,305,655
Equity securities	41,953	47,808	46,826
Total investment securities available for sale (fair value)	\$ 566,520	\$ 1,035,282	\$ 1,352,481
Trading			
Trust preferred securities	\$ 21,938	\$ 31,894	\$ 32,950
Total trading securities (fair value)	\$ 21,938	\$ 31,894	\$ 32,950
Total investment securities	\$ 2,547,374	\$ 2,991,169	\$ 2,969,819

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As of December 31, 2011, our investment securities classified as available for sale decreased \$468.8 million to \$566.5 million as compared to December 31, 2010. The decrease was mainly driven by sales of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises totaling \$320.7 million and \$257.4 million, respectively, as well as maturities and sales of all U.S Treasury securities classified as available for sale that were previously held at December 31, 2010. During 2011, many of the residential mortgage-backed securities were sold due to increased prepayment risk that may result from the low level of mortgage interest rates and the U.S. Government's modification and extension of the HARP program through December 31, 2013. The HARP program is designed to allow many homeowners to refinance into low mortgage interest rates even if their property has decreased in value, and to help bolster the economic recovery. The HARP program was also extended until December 31, 2013. Additionally, we continued to lower our exposure to Freddie Mac and Fannie Mae during 2011, as it is an asset class we are currently not interested in maintaining, and increased our holdings of residential mortgage-backed securities issued by Ginnie Mae, which are fully guaranteed by the U.S. Government.

At December 31, 2011, we had \$1.2 billion and \$310.1 million of residential mortgage-backed securities classified as held to maturity and available for sale securities, respectively. Approximately 97 percent and 57 percent of these residential mortgage-backed securities, respectively, were issued and guaranteed by Ginnie Mae. The residential mortgage-backed securities also include \$2.6 million and \$72.7 million of private label mortgage-backed securities classified as held to maturity and available for sale, respectively. The remainder of our outstanding residential mortgage-backed security balances at December 31, 2011 was issued by either Freddie Mac or Fannie Mae.

Our trading securities portfolio consisted of 3 and 4 single-issuer bank trust preferred securities at December 31, 2011 and 2010, respectively. During 2011, one trading security was called for early redemption.

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The following table presents the maturity distribution schedule with its corresponding weighted-average yields of held to maturity and available for sale debt securities at December 31, 2011:

	0-1 year		1-5 years		5-10 years		over 10 years		Total		
	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	
(\$ in thousands)											
Held to maturity ⁽¹⁾											
U.S. Treasury securities	\$		%	\$	%	\$ 66,597	3.25%	\$ 33,421	3.70%	\$ 100,018	3.40%
Obligations of states and political subdivisions ⁽³⁾	129,498	2.12	16,555	5.27	107,653	5.30	179,578	5.26	433,284	4.33	
Residential mortgage-backed securities ⁽⁴⁾			12	10.50	10,157	4.62	1,169,935	3.12	1,180,104	3.13	
Trust preferred securities							193,312	6.94	193,312	6.94	
Corporate and other debt securities	25	6.55	28,191	5.87	15,000	8.50	8,982	7.39	52,198	6.88	
Total	\$ 129,523	2.12%	\$ 44,758	5.65%	\$ 199,407	4.82%	\$ 1,585,228	3.86%	\$ 1,958,916	3.89%	
Available for sale											
U.S. government agency securities	\$		%	\$	%	\$ 55,681	1.43%	\$ 35,067	3.34%	\$ 90,748	2.17%
Obligations of states and political subdivisions ⁽³⁾	455	5.59	1,748	7.45	15,371	2.08	2,640	13.71	20,214	4.14	
Residential mortgage-backed securities ⁽⁴⁾	105	6.97	4,132	6.08	45,165	5.11	260,735	4.17	310,137	4.34	
Trust preferred securities							63,858	1.84	63,858	1.84	
Corporate and other debt securities			802	2.72	26,209	4.83	12,599	4.68	39,610	4.74	
Total ⁽⁵⁾	\$ 560	5.85%	\$ 6,682	6.03%	\$ 142,426	3.29%	\$ 374,899	3.78%	\$ 524,567	3.68%	

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

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

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

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

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

The residential mortgage-backed securities portfolio is a significant source of our liquidity through the monthly cash flow of principal and interest. Mortgage-backed securities, like all securities, are sensitive to change in the interest rate environment, increasing and decreasing in value as interest rates fall and rise. As interest rates fall, the potential increase in prepayments can reduce the yield on the mortgage-backed securities portfolio, and reinvestment of the proceeds will be at lower yields. Conversely, rising interest rates may reduce

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cash flows from prepayments and extend anticipated duration of these assets. We monitor the changes in interest rates, cash flows and duration, in accordance with our investment policies. Management seeks out investment securities with an attractive spread over our cost of funds.

Other-Than-Temporary Impairment Analysis

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

Other-than-temporary impairment means we believe the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. As a result of the current authoritative accounting guidance, when a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, we have to first consider (i) whether we intend to sell the security, and (ii) whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but we do not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (i) the amount related to credit loss, and (ii) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, we compare the present value of cash flows expected to be collected with the amortized cost basis of the security. As discussed above, the portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income or loss. The amount of an additional other-than-temporary impairment related to credit losses recognized during the period may be recorded as a reclassification adjustment from the accumulated other comprehensive loss. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss. To determine whether a security's impairment is other-than-temporary, Valley considers several factors that include, but are not limited to the following:

The severity and duration of the decline, including the causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility;

Adverse conditions specifically related to the security, an industry, or geographic area;

Failure of the issuer of the security to make scheduled interest or principal payments;

Any changes to the rating of the security by a rating agency or, if applicable, any regulatory actions impacting the security issuer;

Recoveries or additional declines in fair value after the balance sheet date;

Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and

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

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not we expect to collect all contractual cash flows. See "Other-Than-Temporary Impairment Analysis" section of Note 4 to the consolidated financial statements for

additional information regarding our quarterly impairment analysis by security type.

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

The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at December 31, 2011:

	Amortized Cost	December 31, 2011		Fair Value
		Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	
Held to maturity				
Investment grades*				
AAA Rated	\$ 1,406,207	\$ 71,324	\$ (161)	\$ 1,477,370
AA Rated	160,572	11,690	(1)	172,261
A Rated	49,212	1,226	(99)	50,339
BBB Rated	148,969	7,868	(3,144)	153,693
Non-investment grade	19,464		(6,362)	13,102
Not rated	174,492	812	(14,872)	160,432
Total investment securities held to maturity	\$ 1,958,916	\$ 92,920	\$ (24,639)	\$ 2,027,197
Available for sale				
Investment grades*				
AAA Rated	\$ 319,374	\$ 12,777	\$ (243)	\$ 331,908
AA Rated	12,303	1,183	(1)	13,485
A Rated	43,425	1,141	(9,770)	34,796
BBB Rated	74,103	666	(11,297)	63,472
Non-investment grade	80,823	1,185	(5,465)	76,543
Not rated	68,809	476	(22,969)	46,316
Total investment securities available for sale	\$ 598,837	\$ 17,428	\$ (49,745)	\$ 566,520

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

The held to maturity portfolio includes investments with non-investment grade ratings with amortized costs and unrealized losses totaling \$19.5 million and \$6.4 million, respectively, at December 31, 2011. The unrealized losses for this category mostly relate to one single-issuer trust preferred security and one corporate debt security. The held to maturity portfolio also includes \$174.5 million in investments not rated by the rating agencies with aggregate unrealized losses of \$14.9 million at December 31, 2011. The unrealized losses for this category relate mainly to 5 single-issuer bank trust preferred securities with a combined amortized cost of \$45.9 million. All single-issuer bank trust preferred and corporate debt securities classified as held to maturity, including the aforementioned seven securities, are paying in accordance with their terms, have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer's most recent bank regulatory report to assess the company's credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review at December 31, 2011, all of the issuers appear to meet the regulatory capital minimum requirements to be considered a well-capitalized financial institution and/or have maintained performance levels adequate to support the contractual cash flows of the security.

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The available for sale portfolio includes investments with non-investment grade ratings with amortized costs and fair values totaling \$80.8 million and \$76.5 million, respectively, at December 31, 2011. The \$5.5 million in unrealized losses for this category mainly relate to 5 private label mortgage-backed securities and 2 pooled trust preferred securities. Six of the seven securities were initially found to be other-than-temporarily impaired prior to 2011, while one of the private label mortgage-backed securities was impaired for the first time at December 31, 2011. The available for sale portfolio also includes investments not rated by the rating agencies totaling \$68.8 million with aggregate unrealized losses of \$23.0 million at December 31, 2011. The unrealized losses for this category almost entirely are attributable to trust preferred securities issued by one bank holding company that were other-than-temporarily impaired and transferred from the held to maturity portfolio to available for sale portfolio at December 31, 2011. See the *Other-than-Temporarily Impaired Securities* section below and Note 4 to the consolidated financial statements for further details.

Other-than-Temporarily Impaired Securities

Other-than-temporary impairment is a non-cash charge and not necessarily an indicator of a permanent decline in value. Security valuations require significant estimates, judgments and assumptions by management and are considered a critical accounting policy of Valley. See the *Critical Accounting Policies and Estimates* section of this MD&A and Note 1 to the consolidated financial statements for further discussion of this policy.

The following table provides information regarding our other-than-temporary impairment losses on securities recognized in earnings for the years ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
	(in thousands)		
Held to maturity			
Trust preferred securities	\$ 18,314	\$	\$
Available for sale			
Residential mortgage-backed securities	829	2,265	5,735
Trust preferred securities	825	2,377	183
Equity securities			434
Net impairment losses on securities recognized in earnings	\$ 19,968	\$ 4,642	\$ 6,352

Impaired Trust Preferred Securities. During the fourth quarter of 2011, Valley recognized credit impairment charges totaling \$18.3 million related to the trust preferred securities of two issuances by one bank holding company, which were classified as held to maturity. In August and October of 2009, the issuer was required to defer its scheduled interest payments on each respective security issuance based upon an operating agreement with its bank regulators. From the dates of deferral up to and including the bank holding company's most recent regulatory filing, the bank issuer continued to accrue and capitalize the interest owed, but not remitted to its trust preferred security holders, and at the holding company level it reported cash and cash equivalents in excess of the cumulative amount of accrued but unpaid interest owed on all of its junior subordinated debentures related to trust preferred securities. Additionally, the issuer reported that it raised new common capital and increased all its bank regulatory risk ratios, and that it has consistently met the minimum well-capitalized requirements (each quarter) since the date of the interest deferral on both issuances. However, in assessing whether a credit loss exists for the securities of the deferring issuer, Valley considers numerous other factors, including but not limited to, such factors highlighted in the *Other-Than-Temporary Impairment Analysis* section above. While the issuer has reported reasonably consistent financial performance in its recent regulatory filings, Valley lengthened its estimate of the timeframe over which it could reasonably anticipate receiving the expected cash flows and, as a result, concluded that the securities were other-than-temporarily impaired at December 31, 2011. The total impairment loss of \$41.2 million on these securities consisted of the aforementioned \$18.3 million attributable to credit and \$22.9 million attributable to factors other than credit.

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After recognition of the credit impairment charges, the trust preferred securities had a combined amortized cost of \$46.4 million and a fair value of \$23.5 million at December 31, 2011. In connection with its impairment analysis at year end 2011, Valley determined that it no longer had a positive intent to hold these securities to their maturity due to the significant decline in the securities' fair value caused by the deterioration in the creditworthiness of the issuer. As a result, these securities were transferred from the held to maturity portfolio to the available for sale portfolio at December 31, 2011. However, Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

The other-than-temporary impairment charges on trust preferred securities classified as available for sale reported in the table above all relate to two pooled trust preferred securities with a combined amortized cost and fair value of \$5.4 million and \$3.7 million, respectively, at December 31, 2011, after recognition of all credit impairments. These securities were initially found to be other-than-temporarily impaired in 2008, as each of Valley's tranches in the securities had projected cash flows below their future contractual principal and interest payments. Additional estimated credit losses were recognized on one or both of these securities during 2009 through 2011, as higher default rates decreased the expected cash flows from the securities.

All of the impaired trust preferred securities discussed above are not accruing interest as of December 31, 2011. As disclosed in Note 1, Valley discontinues the recognition of interest on debt securities if the securities meet both of the following criteria: (i) regularly scheduled interest payments have not been paid or have been deferred by the issuer, and (ii) full collection of all contractual principal and interest payments is not deemed to be the most likely outcome, resulting in the recognition of other-than-temporary impairment of the security.

Impaired Residential Mortgage-Backed Securities. During 2011, Valley recognized an initial impairment charge of \$829 thousand on one of the 17 individual private label mortgage-backed securities classified as available for sale at December 31, 2011. Five other private label mortgage-backed securities were impaired during 2010. Of the five securities impaired during 2010, four were also impaired during 2009 and responsible for the total other-than-temporary impairment losses on residential mortgage-backed securities for 2009 in the table above. At December 31, 2011, the six impaired private label mortgage-backed securities had a combined amortized cost of \$52.3 million and fair value of \$50.2 million, respectively. Although Valley recognized other-than-temporary impairment charges on the securities, each security is currently performing in accordance with its contractual obligations. See the Other-Than-Temporary Impairment Analysis section above for further details regarding the impairment analysis of residential mortgage-backed securities.

Impaired Equity Securities. During the year ended December 31, 2009, Valley recognized other-than-temporary impairment charges of \$434 thousand on equity securities classified as available for sale, which relates to one common equity security issued by a bank. The impairment was recognized based on the length of time and the severity of the difference between the security's book value and its observable market price and the security's near term prospects for recovery. At December 31, 2011, the security had a carrying value of \$940 thousand and an unrealized gain of \$217 thousand.

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

	2011	2010	At December 31, 2009 (\$ in thousands)	2008	2007
Non-covered loans					
Commercial and industrial	\$ 1,878,387	\$ 1,825,066	\$ 1,801,251	\$ 1,965,372	\$ 1,563,150
Commercial real estate:					
Commercial real estate	3,574,089	3,378,252	3,500,419	3,324,082	2,370,345
Construction	411,003	428,232	440,046	510,519	402,806
Total commercial real estate	3,985,092	3,806,484	3,940,465	3,834,601	2,773,151
Residential mortgage	2,285,590	1,925,430	1,943,249	2,269,935	2,063,242
Consumer:					
Home equity	469,604	512,745	566,303	607,700	554,830
Automobile	772,490	850,801	1,029,958	1,364,343	1,447,838
Other consumer	136,634	88,614	88,845	101,739	94,010
Total consumer loans	1,378,728	1,452,160	1,685,106	2,073,782	2,096,678
Total non-covered loans	9,527,797	9,009,140	9,370,071	10,143,690	8,496,221
Covered loans ⁽¹⁾	271,844	356,655			
Total loans ⁽²⁾	\$ 9,799,641	\$ 9,365,795	\$ 9,370,071	\$ 10,143,690	\$ 8,496,221
As a percent of total loans:					
Commercial and industrial	19.2%	19.5%	19.2%	19.4%	18.4%
Commercial real estate	40.6	40.6	42.1	37.8	32.6
Residential mortgage	23.3	20.6	20.7	22.4	24.3
Consumer loans	14.1	15.5	18.0	20.4	24.7
Covered loans	2.8	3.8			
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

⁽²⁾ Total loans are net of unearned discount and deferred loan fees totaling \$7.5 million, \$9.3 million, \$8.7 million, \$4.8 million, and \$3.5 million at December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

Non-covered Loans

Non-covered loans (loans not subject to loss-sharing agreements with the FDIC) increased \$518.7 million to \$9.5 billion at December 31, 2011 from December 31, 2010. The increase was mainly attributable to growth in residential mortgage, commercial real estate (including construction), commercial and industrial, and other consumer loans of \$360.2 million, \$178.6 million, \$53.3 million, and \$48.0 million respectively, partially offset by decreases of \$78.3 million and \$43.1 million in automobile and home equity loans, respectively.

Commercial and industrial loans increased from December 31, 2010 largely due to a \$37.0 million short-term loan to State Bancorp. The funds were used by State Bancorp to repurchase all of its Series A Preferred Stock issued under the Treasury's Capital Purchase Program prior to being acquired by Valley effective January 1, 2012. The loan was subsequently eliminated at the acquisition date. Exclusive of the merger related loan,

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soft loan demand for most of the year coupled with strong competition for quality credits challenged our ability to achieve significant loan growth in this category during 2011. Additionally, many of our stronger borrowers used their liquidity to prepay loans rather than earn nominal interest on their excess funds in the current low interest rate environment. Although, we have seen pockets of loan growth opportunities in our primary markets, the low level of interest rates and strong competition for quality credits may continue to challenge the level of our organic commercial loan growth into the foreseeable future.

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Total commercial real estate loans, including construction loans, increased from December 31, 2010 to \$4.0 billion at December 31, 2011. The increase was primarily caused by our stronger focus on co-op and multifamily loan lending in our primary markets during 2011, coupled with a slight increase in non-construction loan demand mainly from existing borrowers. However, our construction loans continued to paydown during the year, as loan demand has remained tepid due to the slow economic recovery and slumping new housing markets.

The increase in residential mortgage loans during 2011 was mainly due to the success of our affordable one low price refinance program in New Jersey, as well as New York and eastern Pennsylvania. The programs' success during the year was partly due to the low level of market interest rates and our television and radio ad campaigns. We originated approximately \$1.2 billion in new and refinanced residential mortgage loans and retained 69 percent of these loans in our loan portfolio. A significant portion of the mortgage loans retained for investment in 2011 were used, in part, to offset the decline in our holdings of residential mortgage-backed securities, as we sold many securities which we believed had an increase in prepayment risk during the year. Our decision to retain certain mortgage originations is based on credit criteria and loan to value levels, the overall composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments.

Our total consumer loan portfolio declined \$73.4 million from December 31, 2010 primarily due to the persistent decrease in automobile and home equity loans during each quarter of 2011. The decrease in auto loans is attributable to several factors, including our tight underwriting standards, and the high level of unemployment. Additionally, in an attempt to build market share, some large competitors have continued to offer rates and terms that we have elected not to match for most of 2011. The sustained decline in home equity loans was driven by continued refinancing of first mortgages at low rates and the borrowers' rollover of many home equity loan balances into the new first mortgages. Additionally, home equity line of credit usage remained low during 2011 mainly due to the low level of consumer confidence in the economic recovery. The factors listed above may continue to constrain the levels of our auto and home equity loan originations during the first quarter of 2012 and the foreseeable future.

Despite the overall loan growth in 2011, we may not experience significant organic loan growth in many of our loan categories during the first quarter of 2012 and beyond due to the slow economic recovery, elevated unemployment levels, increased competition for new and existing borrowers, or a change in asset/liability management strategy. Additionally, an unexpected increase in market interest rates (particularly on residential mortgage loans) could impact our ability to generate the same volume of new loans.

Much of our lending is in northern and central New Jersey, New York City and Long Island, with the exception of smaller auto and residential mortgage loan portfolios derived mainly from the neighboring state of Pennsylvania, which could present a geographic and credit risk if there was another significant broad based economic downturn or a prolonged economic recovery within the region. To mitigate these risks, we make efforts to maintain a diversified portfolio as to type of borrower and loan to guard against a potential downward turn in any one economic sector. The impact of the slow economic recovery, sustained elevated unemployment levels in our region during 2011, and low interest rate environment has limited the number of new quality loan opportunities in our primary markets and impacted the performance of our loan portfolio (see the Non-performing Assets section below). We can provide no assurance that our markets will not deteriorate beyond their current levels in the future and cause an increase in the credit risk of our loan portfolio.

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The following table reflects the contractual maturity distribution of the commercial and industrial, and construction loans within our non-covered loan portfolio as of December 31, 2011:

	One Year or Less	One to Five Years	Over Five Years	Total
	(in thousands)			
Commercial and industrial - fixed-rate	\$ 517,018	\$ 267,812	\$ 43,614	\$ 828,444
Commercial and industrial - adjustable-rate	655,251	339,416	55,276	1,049,943
Construction - fixed-rate	53,014	86,757		139,771
Construction - adjustable-rate	102,876	168,356		271,232
	\$ 1,328,159	\$ 862,341	\$ 98,890	\$ 2,289,390

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

Covered Loans

Loans for which the Bank will share losses with the FDIC are referred to as covered loans, and consist of loans acquired from LibertyPointe Bank and The Park Avenue Bank as a part of two FDIC-assisted transactions during the first quarter of 2010. Our covered loans consist primarily of commercial real estate loans and commercial and industrial loans and totaled \$271.8 million at December 31, 2011 as compared to \$356.7 million at December 31, 2010. Under ASC Subtopic 310-30, the covered loans were aggregated and accounted for as pools of loans based on common risk characteristics. A pool is accounted for as one asset with a single composite interest rate, an aggregate fair value and expected cash flows.

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

At both acquisition and subsequent quarterly reporting dates Valley uses a third party service provider to assist with determining the contractual and estimated cash flows. Valley provides the third party with updated loan-level information derived from Valley's main operating system, contractually required loan payments and expected cash flows for each loan pool individually reviewed by Valley. Using this information, the third party provider determines both the contractual cash flows and cash flows expected to be collected. The loan-level information used to reforecast the cash flows is subsequently aggregated on a pool basis. The expected payment

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data, discount rates, impairment data and changes to the accretable yield received back from the third party are reviewed by Valley to determine whether this information is accurate and the resulting financial statement effects are reasonable.

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

At the time of acquisition, the estimated cash flows on our covered loans were derived based on observable market information, as well as Valley's own specific assumptions regarding each loan. Valley performed credit due diligence on approximately 75 percent of the loans acquired in our FDIC-assisted transactions. In addition, Valley engaged a third party to perform credit valuations and expected cash flow forecasts on the acquired loans. The initial expected cash flows for loans accounted for under ASC Subtopic 310-30 were prepared on a loan-level basis utilizing the assumptions developed by Valley in conjunction with the third party. In accordance with ASC Subtopic 310-30, the individual loan-level cash flow assumptions were then aggregated on the basis of pools of loans with similar risk characteristics. Thereafter, on a quarterly basis, Valley analyzes the actual cash flow versus the forecasts at the loan pool level and variances are reviewed to determine their cause. In reforecasting future estimated cash flow, Valley will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which Valley does not reforecast estimated cash flows, the prior reporting period's estimated cash flows are adjusted to reflect the actual cash received and credit events which transpired during the current reporting period.

The following table summarizes the changes in the carrying amount of covered loans, net of the allowance for losses on covered loans, and accretable yield on those loans for the years ended December 31, 2011 and 2010.

	2011		2010	
	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield
	(in thousands)			
Balance beginning of year	\$ 350,277	\$ 101,052	\$	\$
Addition from FDIC-assisted transactions			412,331	69,659
Accretion	40,345	(40,345)	20,547	(20,547)
Payments received	(108,157)		(69,929)	
Net increase in expected cash flows		6,017		51,940
Transfers to other real estate owned	(2,639)		(6,294)	
Provision for losses on covered loans	(21,510)		(6,378)	
Balance end of year	\$ 258,316	\$ 66,724	\$ 350,277	\$ 101,052

During 2011 and 2010, certain pools of covered loans experienced decreases in their expected cash flows based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. Accordingly, we recorded provision for losses on covered loans totaling \$21.5 million and \$6.4 million for 2011 and 2010, respectively, as a component of our provision of credit losses in the consolidated statement of income. The provision for losses on covered loans was partially offset by increases in our FDIC loss-share receivable of \$19.5 million and \$5.1 million for 2011 and 2010, respectively, for the FDIC's portion of the additional estimated credit losses under the loss sharing agreements (see table in the next section below). This increase in FDIC loss-share receivable is recorded as a component of non-interest income on the consolidated financial statements.

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Although we recognized credit impairment for certain pools, on an aggregate basis the acquired pools of covered loans are performing better than originally expected. Based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on these loan pools over future periods. Decrease in the FDIC loss-share receivable due to the increase in expected cash flows for these loan pools is recognized on a prospective basis over the shorter period of the lives of the loan pools and the loss-share agreements accordingly. The prospective adjustments for FDIC loss-share receivable amounted to \$10.6 million during 2011.

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

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

The following table presents changes in the FDIC loss-share receivable for the years ended December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Balance, beginning of the period	\$ 89,359	\$ 108,000
Acquisitions		108,000
Discount accretion of the present value at the acquisition dates	582	1,166
Effect of additional cash flows on covered loans (prospective recognition)	(10,592)	
Increase due to impairment on covered loans	19,520	5,102
Other reimbursable expenses	3,893	2,561
Reimbursements from the FDIC	(28,372)	(27,470)
Balance, end of the period	\$ 74,390	\$ 89,359

Valley recognized approximately \$13.4 million and \$6.3 million in non-interest income for the years ended December 31, 2011 and 2010, respectively, related to discount accretion and the post-acquisition adjustments to the FDIC loss-share receivable included in the table above.

See Notes 2 and 5 to the consolidated financial statements for further details on our covered loans, FDIC loss-share receivable, and the FDIC-assisted transactions.

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Non-performing assets (not including covered loans) include non-accrual loans, OREO, non-accrual debt securities, and other repossessed assets, which consist of automobiles, as well as one aircraft at December 31, 2011. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is well collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value, less cost to sell at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. See Note 1 to the consolidated financial statements for details about our impaired and non-accrual loan, and non-accrual debt securities accounting policies. Given the state of the economic recovery, and relative to many of our peers, the level of non-performing assets remained relatively low at December 31, 2011 even though it has increased significantly since 2008 as shown in the table below.

The following tables set forth by loan category, accruing past due and non-performing assets on non-covered loans on the dates indicated in conjunction with our asset quality ratios:

	2011	2010	At December 31, 2009 (\$ in thousands)	2008	2007
Accruing past due loans ⁽¹⁾					
30 to 89 days past due					
Commercial and industrial	\$ 4,347	\$ 13,852	\$ 11,949	\$ 13,299	\$ 5,839
Commercial real estate	13,115	14,563	4,539	5,005	5,233
Construction	2,652	2,804	1,834	5,456	12,047
Residential mortgage	8,496	12,682	12,462	12,189	6,486
Consumer	8,975	14,638	22,835	23,275	16,210
Total 30 to 89 days past due	37,585	58,539	53,619	59,224	45,815
90 or more days past due					
Commercial and industrial	\$ 657	\$ 12	\$ 2,191	\$ 864	\$ 814
Commercial real estate	422		250	4,257	1,407
Construction	1,823	196		3,156	3,154
Residential mortgage	763	1,556	1,421	5,323	1,592
Consumer	351	723	1,263	1,957	1,495
Total 90 or more days past due	4,016	2,487	5,125	15,557	8,462
Total accruing past due loans	\$ 41,601	\$ 61,026	\$ 58,744	\$ 74,781	\$ 54,277
Non-accrual loans ⁽¹⁾					
Commercial and industrial	\$ 26,648	\$ 13,721	\$ 17,424	\$ 10,511	\$ 10,931
Commercial real estate	42,186	32,981	29,844	14,895	15,940
Construction	19,874	27,312	19,905	877	833
Residential mortgage	31,646	28,494	22,922	6,195	2,693
Consumer	3,910	2,547	1,869	595	226
Total non-accrual loans	124,264	105,055	91,964	33,073	30,623
Other real estate owned (OREO ⁽²⁾)	15,227	10,498	3,869	8,278	609
Other repossessed assets	796	1,707	2,565	4,317	1,466
Non-accrual debt securities ⁽³⁾	27,151				
Total non-performing assets (NPAs)	\$ 167,438	\$ 117,260	\$ 98,398	\$ 45,668	\$ 32,698

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Performing troubled debt restructured loans	\$ 100,992	\$ 89,696	\$ 19,072	\$ 7,628	\$ 8,363
Total non-accrual loans as a % of loans	1.27%	1.12%	0.98%	0.33%	0.36%
Total accruing past due and non-accrual loans as a % of loans	1.69	1.77	1.61	1.06	1.00
Allowance for losses on non-covered loans as a % of non-accrual loans	96.79	112.63	110.90	281.93	237.29

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- (1) Past due loans and non-accrual loans exclude loans that were acquired as part of the FDIC-assisted transactions. These loans are accounted for on a pool basis.
- (2) This table excludes OREO properties related to the FDIC-assisted transactions totaling \$6.4 million and \$7.8 million at December 31, 2011 and 2010, respectively, and is subject to the loss-sharing agreements with the FDIC.
- (3) Includes other-than-temporarily impaired trust preferred securities classified as available for sale, which are presented at carrying value (net of unrealized losses totaling \$24.6 million) at December 31, 2011.

Total NPAs increased \$50.2 million to \$167.4 million at December 31, 2011 compared to \$117.3 million at December 31, 2010. The increase is mainly due to an increase in non-accrual loans and \$27.2 million related to non-accrual debt securities (consisting of other than temporarily impaired trust preferred securities classified as available for sale see additional information at the Investment Securities Portfolio section of this MD&A). Approximately 75 percent of the total non-accrual loans are comprised of commercial real estate, construction and residential mortgage loans. Although loan charge-offs related to these loan categories increased in 2011, Valley continues to have very low loss rates on such loans due to its conservative underwriting standards, including conservative loan to value ratios.

Loans 90 days or more past due and still accruing, which were not included in the non-performing category, are presented in the above table. These loans increased \$1.5 million to \$4.0 million at December 31, 2011 compared to \$2.5 million one year ago primarily due to larger loan balances on a small number of loans in the commercial and industrial loan, commercial real estate, and construction loan categories for 2011. All of the loans past due 90 days or more and still accruing are considered to be well secured and in the process of collection.

Non-accrual loans increased \$19.2 million to \$124.3 million at December 31, 2011 as compared to \$105.1 million at December 31, 2010. Non-accrual commercial and industrial loans increased \$12.9 million from December 31, 2010 due, in part, to one additional loan collateralized by an aircraft totaling \$8.0 million in 2011 as well as several smaller borrowers impacted by the current economic conditions. Non-accrual commercial real estate and construction loans, consisting of 76 and 16 credit relationships, respectively, totaled a combined \$62.1 million at December 31, 2011 and relate to customers negatively impacted by the slow economic recovery and the slumping real estate markets. Non-accrual residential mortgage loans were 1.38 percent of the residential mortgage loan portfolio at December 31, 2011. Although this percentage declined 0.10 percent from 1.48 percent at December 31, 2010 and is relatively low compared to the delinquencies recently reported by many financial institutions, the loans in this category remain relatively high for us due to certain borrowers inability to sell homes quickly in the soft real estate markets, the high levels of unemployment, as well as the time necessary for us to foreclose on loans collateralized by properties primarily in the State of New Jersey.

Although the timing of collection is uncertain, management believes that most of the non-accrual loans are well secured and largely collectible based on, in part, our quarterly review of impaired loans. Our impaired loans (mainly consisting of non-accrual and troubled debt restructured commercial and industrial loans and commercial real estate loans) totaled \$184.1 million at December 31, 2011 and had \$23.2 million in related specific reserves included in our total allowance for loan losses.

If interest on non-accrual loans had been accrued in accordance with the original contractual terms, such interest income would have amounted to approximately \$6.9 million, \$7.9 million and \$6.5 million for the years ended December 31, 2011, 2010, and 2009, respectively; none of these amounts were included in interest income during these periods. Interest income recognized on a cash basis for loans classified as non-accrual totaled \$1.6 million (including \$1.1 million in interest income on impaired loans) for the year ended December 31, 2011. See Note 5 to the consolidated financial statements for further analysis of our impaired loans.

OREO (which consists of 17 commercial and residential properties) and other repossessed assets, excluding OREO subject to loss-sharing agreements with the FDIC, totaled a combined \$16.0 million at December 31, 2011 as compared to \$12.2 million at December 31, 2010. The increase during 2011 was largely due to one commercial property with a carrying value of \$3.5 million transferred to OREO during the third quarter of 2011.

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Our residential mortgage loan foreclosure activity remains low due to the nominal amount of individual loan delinquencies within the residential mortgage and home equity portfolios. These portfolios totaling over 23,000 individual loans had only 272 loans past due 30 days or more at December 31, 2011.

In the first quarter of 2011, we evaluated our foreclosure documentation procedures, given the announcements made by other financial institutions regarding their foreclosure activities. The results of our review, and our foreclosure experience subsequent to the review, indicate that our procedures for reviewing and validating the information in our documentation are sound and we believe our foreclosure affidavits are accurate.

Troubled debt restructured loans (TDRs) represent loan modifications for customers experiencing financial difficulties where a concession has been granted. Performing TDRs (i.e., TDRs not reported as non-accrual loans) totaled \$101.0 million at December 31, 2011 and consisted of 60 loans (primarily in the commercial and industrial loan and commercial real estate portfolios) as compared to 44 loans totaling \$89.7 million at December 31, 2010. On an aggregate basis, the \$101.0 million in performing TDRs at December 31, 2011 had a modified weighted average interest rate of approximately 4.93 percent as compared to a pre-modification weighted average interest rate of 6.11 percent. There were no loans past due 90 days or more and still accruing classified as TDRs as of December 31, 2011.

During the third quarter of 2011, we adopted the provisions of ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. As a result of this adoption, we reassessed all loan restructurings that occurred on or after January 1, 2011 for identification as TDRs. This reassessment and the adoption of ASU No. 2011-02 did not materially impact the number of TDRs identified by us, or the specific reserves for such loans included in our allowance for loan losses at December 31, 2011. See Note 5 to the consolidated financial statements for additional disclosures regarding our TDRs.

Although we believe that substantially all risk elements at December 31, 2011 have been disclosed in the categories presented above, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans. As part of the analysis of the loan portfolio, management determined that there were approximately \$105.6 million and \$47.9 million in potential problem loans at December 31, 2011 and 2010, respectively, which were not classified as non-accrual loans in the non-performing asset table above. Potential problem loans are defined as performing loans for which management has concerns about the ability of such borrowers to comply with the loan repayment terms and which may result in a non-performing loan. Our decision to include performing loans in potential problem loans does not necessarily mean that management expects losses to occur, but that management recognizes potential problem loans carry a higher probability of default. At December 31, 2011, the potential problem loans consist of various types of performing commercial credits internally risk rated substandard because the loans exhibit well-defined weaknesses and require additional attention by management. See further discussion regarding our internal loan classification system at Note 4 to the consolidated financial statements. There can be no assurance that Valley has identified all of its potential problem loans at December 31, 2011.

Asset Quality and Risk Elements

Lending is one of the most important functions performed by Valley and, by its very nature, lending is also the most complicated, risky and profitable part of our business. For our commercial loan portfolio, comprised of commercial and industrial loans, commercial real estate loans, and construction loans, a separate credit department is responsible for risk assessment and periodically evaluating overall creditworthiness of a borrower. Additionally, efforts are made to limit concentrations of credit so as to minimize the impact of a downturn in any one economic sector. Our loan portfolio is diversified as to type of borrower and loan. However, loans collateralized by real estate, including \$183.2 million of covered loans, represent over 70 percent of total loans at December 31, 2011. Most of the loans collateralized by real estate are in northern and central New Jersey and New York City, presenting a geographical and credit risk if there was a further significant broad-based deterioration in economic conditions within the region.

Consumer loans are comprised of residential mortgage loans, home equity loans, automobile loans and other consumer loans. Residential mortgage loans are secured by 1-4 family properties generally located in counties

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where we have branch presence and counties contiguous thereto (including Pennsylvania). We do provide mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Residential mortgage loan underwriting policies that are based on Fannie Mae and Freddie Mac guidelines are adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2011 was 54 percent while FICO® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 768. Home equity and automobile loans are secured loans and are made based on an evaluation of the collateral and the borrower's creditworthiness. In addition to New Jersey, automobile loans are primarily originated in several other states. Due to the level of our underwriting standards applied to all loans, management believes the out of state loans generally present no more risk than those made within New Jersey. However, each loan or group of loans made outside of our primary markets poses different geographic risks based upon the economy of that particular region.

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

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

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(\$ in thousands)				
Average loans outstanding	\$ 9,608,480	\$ 9,474,994	\$ 9,705,909	\$ 9,386,987	\$ 8,261,111
Beginning balance Allowance for credit losses	\$ 126,504	\$ 103,655	\$ 94,738	\$ 74,935	\$ 74,718
Loans charged-off:					
Commercial and industrial ⁽¹⁾	(29,229)	(15,475)	(16,981)	(6,760)	(5,808)
Commercial real estate	(6,305)	(1,823)	(3,110)	(500)	(1,596)
Construction	(4,053)	(1,738)	(1,197)		
Residential mortgage	(3,222)	(3,741)	(3,488)	(501)	(103)
Consumer	(5,906)	(10,882)	(17,689)	(14,902)	(7,628)
	(48,715)	(33,659)	(42,465)	(22,663)	(15,135)
Charged-off loans recovered:					
Commercial and industrial	2,365	4,121	449	627	1,427
Commercial real estate	134	156	75	6	254
Construction	197				
Residential mortgage	129	97	36		17
Consumer	2,236	2,678	2,830	2,141	1,779
	5,061	7,052	3,390	2,774	3,477
Net charge-offs	(43,654)	(26,607)	(39,075)	(19,889)	(11,658)
Provision charged for credit losses	53,335	49,456	47,992	28,282	11,875
Additions from acquisitions				11,410	
Ending balance Allowance for credit losses	\$ 136,185	\$ 126,504	\$ 103,655	\$ 94,738	\$ 74,935
Components of allowance for credit losses:					
Allowance for non-covered loans	\$ 120,274	\$ 118,326	\$ 101,990	\$ 93,244	\$ 72,664
Allowance for covered loans	13,528	6,378			
Allowance for loan losses	133,802	124,704	101,990	93,244	72,664
Allowance for unfunded letters of credit	2,383	1,800	1,665	1,494	2,271

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Allowance for credit losses	\$ 136,185	\$ 126,504	\$ 103,655	\$ 94,738	\$ 74,935
Components of provision for credit losses:					
Provision for losses on non-covered loans	\$ 31,242	\$ 42,943	\$ 47,821	\$ 29,059	\$ 12,751
Provision for losses on covered loans	21,510	6,378			
Provision for loan losses	52,752	49,321	47,821	29,059	12,751
Provision for unfunded letters of credit	583	135	171	(777)	(876)
Provision for credit losses	\$ 53,335	\$ 49,456	\$ 47,992	\$ 28,282	\$ 11,875
Ratio of net charge-offs of non-covered loans to average loans outstanding	0.30%	0.28%	0.40%	0.21%	0.14%
Ratio of net charge-offs during the period to average loans outstanding	0.45	0.28	0.40	0.21	0.14
Allowance for non-covered loan losses as a % of non-covered loans	1.26	1.31	1.09	0.92	0.86
Allowance for credit losses as a % of total loans	1.39	1.35	1.11	0.93	0.88

⁽¹⁾ Includes covered loan charge-offs totaling \$14.4 million during 2011. There were no charge-offs of covered loans during 2010.

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

segmentation of the loan portfolio based on the major loan categories, which consist of commercial, commercial real estate (including construction), residential mortgage and other consumer loans;

tracking the historical levels of classified loans and delinquencies;

assessing the nature and trend of loan charge-offs;

providing specific reserves on impaired loans; and

applying economic outlook factors, assigning specific incremental reserves where necessary.

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

The allowance for loan losses consists of five elements: (i) specific reserves for individually impaired credits, (ii) reserves for adversely classified, or higher risk rated, loans that are not impaired, (iii) reserves for other loans based on historical loss factors, (iv) reserves based on general economic conditions and other qualitative risk factors both internal and external to Valley, including changes in loan portfolio volume, the composition and concentrations of credit, new market initiatives, and the impact of competition on loan structuring and pricing, and (v) an allowance for impaired covered loan pools.

The Credit Risk Management Department individually evaluates non-accrual (non-homogeneous) loans within the commercial and industrial loan and commercial real estate loan portfolio segments over \$250 thousand and troubled debt restructured loans within all the loan portfolio segments for impairment based on the underlying anticipated method of payment consisting of either the expected future cash flows or the related collateral. If payment is expected solely based on the underlying collateral, an appraisal is completed to assess the fair value of the collateral. Collateral dependent impaired loan balances are written down to the current fair value of each loan's underlying collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank's collection process. (See the Assets and Liabilities Measured on Non-recurring Basis section of Note 3 to the consolidated financial statements for further details). If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan's original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for credit losses. At December 31, 2011, a \$23.2 million specific valuation allowance was included in the allowance for credit losses related to \$184.1 million in impaired loans that had such an allowance. See Note 5 to the consolidated financial statements for more details regarding impaired loans.

The allowance allocations for non-classified loans within all of our loan portfolio segments are calculated by applying historical loss factors by specific loan types to the applicable outstanding loans and unfunded commitments. Loss factors are based on the Bank's historical loss experience and may be adjusted for significant changes in the current loan portfolio quality that, in management's judgment, affect the collectability of the portfolio as of the evaluation date.

The allowance contains reserves identified as the unallocated portion in the table below to cover inherent losses within a given loan category which have not been otherwise reviewed or measured on an individual basis.

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Such reserves include management's evaluation of the national and local economy, loan portfolio volumes, the composition and concentrations of credit, credit quality and delinquency trends. These reserves reflect management's attempt to ensure that the overall allowance reflects a margin for imprecision and the uncertainty that is inherent in estimates of probable credit losses.

Net charge-offs have remained relatively low in the last five years as compared to most of our peers despite the 2008 economic recession and the economy's slow paced recovery since 2010. During this five-year period, our net charge-offs were at a high of 0.45 percent of average loans during 2011 and a low of 0.14 percent in 2007. During 2011, our net charge-offs increased \$17.0 million to \$43.7 million as compared to 2010 mainly due to \$14.3 million of charge-offs on impaired covered loans (included in the commercial and industrial loan category in the table above). The charge-offs on impaired covered loans are substantially covered by loss-sharing agreements with the FDIC. The remaining increase was mainly due to higher charge-offs on our impaired non-covered commercial and industrial loans and commercial real estate loans. Despite the recent signals of improving economy, there can be no assurance that our levels of net-charge-offs will improve during 2012, and not deteriorate in the future.

The provision for credit losses was \$53.3 million in 2011 compared to \$49.5 million in 2010. For the year ended December 31, 2011, the provision for credit losses included provisions for losses on non-covered loans (i.e., loans which are not subject to our loss-sharing agreements with the FDIC) and unfunded letters of credit which totaled a combined \$31.8 million, as well as a provision for covered loan losses of \$21.5 million due to credit impairment within certain pools of covered loans acquired in FDIC-assisted transactions. The decrease of \$11.7 million in provision for non-covered loans reflects, among other factors, lower loss factors applied to most loan categories due, in part, to stabilization of our credit quality indicators and loan delinquencies as well as improved economic outlook during 2011.

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

Loan Category:	2011		2010		2009		2008		2007	
	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans
Commercial and industrial*	\$ 65,076	19.2%	\$ 58,229	19.5%	\$ 50,932	19.2%	\$ 44,163	19.4%	\$ 31,638	18.4%
Commercial real estate:										
Commercial real estate	19,222	36.4	15,755	36.0	10,253	37.4	10,035	32.8	8,788	27.9
Construction	12,905	4.2	14,162	4.6	15,263	4.7	15,885	5.0	11,748	4.7
Residential mortgage	9,058	23.3	9,128	20.6	5,397	20.7	4,434	22.4	3,124	24.3
Consumer	8,677	14.1	14,499	15.5	15,480	18.0	14,318	20.4	10,815	24.7
Unallocated	7,719		8,353		6,330		5,903		8,822	
Allowance for non-covered loans	122,657		120,126		103,655		94,738		74,935	
Allowance for covered loans	13,528	2.8	6,378	3.8						
Total allowance for credit losses	\$ 136,185	100.0%	\$ 126,504	100.0%	\$ 103,655	100.0%	\$ 94,738	100.0%	\$ 74,935	100.0%

* Includes the allowance for unfunded letters of credit.

The allowance for credit losses on non-covered loans (including the reserve for unfunded letters of credit) amounted to \$122.7 million or 1.28 percent of non-covered loans at December 31, 2011 as compared to 1.33 at December 31, 2010. During 2011, loss experience and the outlook for the automobile portfolio continued to improve within consumer loans but was mostly negated by increased reserves for commercial and industrial loans and commercial real estate loans on a few large customers. Our allocated reserves for the commercial and

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industrial and commercial real estate loan portfolios increased \$9.1 million from December 31, 2010 mainly due to higher specific reserves for impaired loans driven by higher levels of non-accrual commercial real estate and construction loans and performing troubled debt restructured loans caused in part, by the impact of the slow economic recovery and high unemployment. The average balance of impaired loans during 2011, 2010, and 2009 was approximately \$170.7 million, \$104.1 million, and \$49.8 million, respectively. Management believes that the unallocated allowance is appropriate given the uncertain economic outlook, the size of the loan portfolio and level of loan delinquencies at December 31, 2011. See Note 6 to the consolidated financial statements for additional information regarding our allowance for loan losses.

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. No reserves pertaining to loans sold were established on our financial statements at December 31, 2011 and 2010. See Item 1A. Risk Factors We may incur future losses in connection with repurchases and indemnification payments related to mortgages that we have sold into the secondary market of this Annual Report for additional information.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders' equity. At December 31, 2011 and December 31, 2010, shareholders' equity totaled approximately \$1.3 billion, or 8.9 percent and 9.2 percent of total assets, respectively. During the year ended December 31, 2011, total shareholders' equity decreased by approximately \$29.0 million. This net decrease was related to cash dividends declared on common stock totaling \$117.1 million and a \$56.7 million increase in our accumulated other comprehensive loss, partially offset by net income of \$133.7 million, net proceeds of \$8.2 million from the reissuance of treasury stock or authorized common shares issued under our dividend reinvestment plan, and a \$3.0 million increase attributable to the effect of our stock incentive plan. See Note 18 to the consolidated financial statements for more information regarding the changes in our accumulated other comprehensive loss during 2011.

In 2009, Valley filed a shelf registration statement on Form S-3 with the SEC, which was declared effective immediately. This shelf registration statement allowed Valley to periodically offer and sell in one or more offerings, individually or in any combination, an unlimited aggregate amount of Valley's common stock, preferred stock, or warrants to purchase common stock or preferred stock or units of the two. The shelf registration statement provided Valley with capital raising flexibility and enabled Valley to promptly access the capital markets in order to pursue growth opportunities that may become available in the future or permit Valley to comply with any changes in the regulatory environment that call for increased capital requirements. Valley's ability, and any decision to issue and sell securities pursuant to the shelf registration statement, is subject to market conditions and Valley's capital needs at such time. Although the shelf registration statement expired in February 2012, Valley intends to file a new immediately effective shelf registration statement shortly after filing this Annual Report on Form 10-K. Additional equity offerings, including shares issued under Valley's dividend reinvestment plan (DRIP) may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Such offerings may be necessary in the future due to several factors beyond management's control, including potential increases to the regulatory minimum levels of capital required to be considered a well capitalized bank and the negative impact of the slow moving U.S. economic recovery. See Note 17 to the consolidated financial statements for additional information on Valley's stock issuances, DRIP, and repurchase plan.

Risk-based capital guidelines define a two-tier capital framework. Tier 1 capital consists of common shareholders' equity and eligible long-term borrowing related to VNB Capital Trust I and GCB Capital Trust III, less disallowed intangibles and deferred tax assets, and adjusted to exclude unrealized gains and losses, net of deferred tax. Total risk-based capital consists of Tier 1 capital, Valley National Bank's subordinated borrowings and the allowance for credit losses up to 1.25 percent of risk-adjusted assets. Risk-adjusted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet activities. Valley's Tier 1 capital position included \$176.3 million of its outstanding trust preferred securities issued by capital trusts as of December 31, 2011 and 2010. In compliance with U.S. GAAP, Valley does not consolidate its capital trusts. See Note 12 to the consolidated financial statements for additional information.

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Valley's capital position under risk-based capital guidelines was \$1.1 billion, or 10.9 percent of risk-weighted assets for Tier 1 capital and \$1.3 billion or 12.8 percent for total risk-based capital at December 31, 2011. The comparable ratios at December 31, 2010 were 10.9 percent for Tier 1 capital and 12.9 percent for total risk-based capital. At December 31, 2011 and 2010, Valley was in compliance with the leverage requirement having Tier 1 leverage ratios of 8.1 percent and 8.3 percent, respectively. The Bank's ratios at December 31, 2011 were all above the minimum levels required for Valley to be considered "well capitalized", which require Tier 1 capital to risk-adjusted assets of at least 6 percent, total risk-based capital to risk-adjusted assets of 10 percent and a minimum leverage ratio of 5 percent.

Typically, our primary source of capital growth is through retention of earnings. Our rate of earnings retention is derived by dividing undistributed earnings per common share by earnings (or net income) per common share. Our retention ratio was approximately 12.66 percent and 11.11 percent for the years ended December 31, 2011 and 2010, respectively. During 2011, the retention ratio was positively impacted by net gains on securities transactions and net trading gains (mainly consisting of non-cash mark to market gains on the fair value of junior subordinated debentures), and the change in our FDIC loss-share receivable, largely offset by net impairment losses recognized in earnings and higher income tax expense caused by a one-time tax provision related to a change in tax law during 2011. While we expect that our rate of earnings retention to remain at acceptable levels in future periods, potential future mark to market losses on our junior subordinated debentures, net impairment losses on securities, and other deterioration in earnings and our balance sheet resulting from the weak economic conditions may negatively impact our future earnings and ability to maintain our dividend at current levels.

Cash dividends declared amounted to \$0.69 per common share for both the years ended December 31, 2011 and 2010. The Board continued the cash dividend, which remained unchanged for 2011 but, consistent with its conservative philosophy, the Board is committed to examine and weigh relevant facts and considerations, including its commitment to shareholder value, each time it makes a cash dividend decision in this economic environment. Under Bank Interagency Guidance, the Office of the Comptroller of the Currency has cautioned banks to carefully consider the dividend payout ratio to ensure they maintain sufficient capital to be able to lend to credit worthy borrowers.

Off-Balance Sheet Arrangements

Contractual Obligations and Commitments. In the ordinary course of operations, Valley enters into various financial obligations, including contractual obligations that may require future cash payments. As a financial services provider, we routinely enter into commitments to extend credit, including loan commitments, standby and commercial letters of credit. Such commitments are subject to the same credit policies and approval process accorded to loans made by the Bank. For additional information, see Note 15 of the consolidated financial statements.

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The following table summarizes the Valley's contractual obligations and other commitments to make future payments as of December 31, 2011. Payments for deposits, borrowings and debentures do not include interest. Payments related to leases, capital expenditures, other purchase obligations and commitments to sell loans are based on actual payments specified in the underlying contracts. Commitments to extend credit and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used based upon our historical experience, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Note to Financial Statements	One Year or Less	One to Three Years	Three to Five Years (in thousands)	Over Five Years	Total
Contractual obligations:						
Time deposits	10	\$ 1,489,692	\$ 250,636	\$ 258,768	\$ 502,288	\$ 2,501,384
Long-term borrowings	11	28,554	26,674	724,839	1,946,032	2,726,099