VALLEY NATIONAL BANCORP
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2016
OR
¨ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

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

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

New Jersey	22-2477875
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1455 Valley Road Wayne, NJ	07470
(Address of principal executive office)	(Zip code)

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 254,475,120 shares were outstanding as of August 5, 2016

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$220,156	$243,575
Interest bearing deposits with banks	92,975	170,225
Investment securities:		
Held to maturity (fair value of $1,803,711 at June 30, 2016 and $1,621,039 at December 31, 2015)	1,765,220	1,596,385
Available for sale	1,186,341	1,506,861
Total investment securities	2,951,561	3,103,246
Loans held for sale, at fair value	4,540	16,382
Loans	16,499,180	16,043,107
Less: Allowance for loan losses	(108,088)	(106,178)
Net loans	16,391,092	15,936,929
Premises and equipment, net	301,852	298,943
Bank owned life insurance	391,323	387,542
Accrued interest receivable	65,193	63,554
Goodwill	689,589	686,339
Other intangible assets, net	44,843	48,882
Other assets	656,614	656,999
Total Assets	$21,809,738	$21,612,616
Liabilities		
Deposits:		
Non-interest bearing	$5,048,115	$4,914,285
Interest bearing:		
Savings, NOW and money market	8,243,307	8,181,362
Time	3,064,636	3,157,904
Total deposits	16,356,058	16,253,551
Short-term borrowings	1,411,844	1,076,991
Long-term borrowings	1,545,495	1,810,728
Junior subordinated debentures issued to capital trusts	41,496	41,414
Accrued expenses and other liabilities	222,633	222,841
Total Liabilities	19,577,526	19,405,525
Shareholders' Equity		
Preferred stock (no par value, authorized 30,000,000 shares; issued 4,600,000 shares at June 30, 2016 and December 31, 2015)	111,590	111,590
Common stock (no par value, authorized 332,023,233 shares; issued 254,399,394 shares at June 30, 2016 and 253,787,561 shares at December 31, 2015)	88,912	88,626
Surplus	1,934,469	1,927,399
Retained earnings	140,591	125,171
Accumulated other comprehensive loss	(42,999)	(45,695)
Treasury stock, at cost (37,080 common shares at June 30, 2016)	(351)	—
Total Shareholders' Equity	2,232,212	2,207,091
Total Liabilities and Shareholders' Equity	$21,809,738	$21,612,616

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	$169,426	$158,164	$335,497	$308,646
Interest and dividends on investment securities:				
Taxable	14,256	12,233	28,255	27,165
Tax-exempt	3,734	3,595	7,424	7,207
Dividends	1,316	1,616	2,796	3,355
Interest on federal funds sold and other short-term investments	296	146	653	366
Total interest income	189,028	175,754	374,625	346,739
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	9,961	5,911	19,204	11,906
Time	9,223	8,128	18,808	16,102
Interest on short-term borrowings	3,120	207	4,992	301
Interest on long-term borrowings and junior subordinated debentures	15,269	25,331	32,013	50,167
Total interest expense	37,573	39,577	75,017	78,476
Net Interest Income	151,455	136,177	299,608	268,263
Provision for credit losses	1,429	4,500	2,229	4,500
Net Interest Income After Provision for Credit Losses	150,026	131,677	297,379	263,763
Non-Interest Income				
Trust and investment services	2,544	2,576	4,984	5,070
Insurance commissions	4,845	4,130	9,553	8,335
Service charges on deposit accounts	5,094	5,263	10,197	10,553
(Losses) gains on securities transactions, net	(3)	(92)	268	2,324
Fees from loan servicing	1,561	1,642	3,155	3,245
Gains on sales of loans, net	3,105	422	4,900	1,020
Gains on sales of assets, net	709	200	699	481
Bank owned life insurance	1,818	1,618	3,781	3,382
Change in FDIC loss-share receivable	1	595	(559)	(3,325)
Other	4,590	3,846	8,734	7,760
Total non-interest income	24,264	20,200	45,712	38,845
Non-Interest Expense				
Salary and employee benefits expense	56,072	54,574	116,331	111,286
Net occupancy and equipment expense	22,168	22,132	44,957	44,332
FDIC insurance assessment	5,095	4,012	10,194	7,804
Amortization of other intangible assets	2,928	2,096	5,777	4,489
Professional and legal fees	5,472	4,059	9,367	7,400
Loss on extinguishment of debt	315	—	315	—
Amortization of tax credit investments	7,646	4,511	14,910	9,007
Telecommunication expense	2,294	2,045	4,680	4,051
Other	17,813	13,983	31,497	27,161
Total non-interest expense	119,803	107,412	238,028	215,530
Income Before Income Taxes	54,487	44,465	105,063	87,078
Income tax expense	15,460	12,474	29,849	24,746

Net Income	$ 39,027	$ 31,991	$ 75,214	$ 62,332
Dividends on preferred stock	1,797	—	3,594	—
Net Income Available to Common Shareholders	$ 37,230	$ 31,991	$ 71,620	$ 62,332
Earnings Per Common Share:				
Basic	$ 0.15	$ 0.14	$ 0.28	$ 0.27
Diluted	0.15	0.14	0.28	0.27
Cash Dividends Declared per Common Share	0.11	0.11	0.22	0.22
Weighted Average Number of Common Shares Outstanding:				
Basic	254,381,170	232,565,404	254,228,260	232,452,716
Diluted	254,771,213	232,586,616	254,575,873	232,457,748

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$39,027	$31,991	$75,214	$62,332
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net (losses) gains arising during the period	(635)	(5,845)	7,648	(1,909)
Less reclassification adjustment for net losses (gains) included in net income	2	55	(168)	(1,354)
Total	(633)	(5,790)	7,480	(3,263)
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	301	(31)	242	(452)
Less reclassification adjustment for accretion of credit impairment losses included in net income	—	(20)	(286)	(104)
Total	301	(51)	(44)	(556)
Unrealized gains and losses on derivatives (cash flow hedges)				
Net (losses) gains on derivatives arising during the period	(2,122)	1,131	(8,674)	(4,128)
Less reclassification adjustment for net losses included in net income	2,107	991	3,848	1,942
Total	(15)	2,122	(4,826)	(2,186)
Defined benefit pension plan				
Amortization of net loss	43	121	86	240
Total other comprehensive (loss) income	(304)	(3,598)	2,696	(5,765)
Total comprehensive income	$38,723	$28,393	$77,910	$56,567

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$75,214	$62,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,440	10,230
Stock-based compensation	5,184	3,886
Provision for credit losses	2,229	4,500
Net amortization of premiums and accretion of discounts on securities and borrowings	7,047	12,519
Amortization of other intangible assets	5,777	4,489
Gains on securities transactions, net	(268)	(2,324)
Proceeds from sales of loans held for sale	185,577	53,005
Gains on sales of loans, net	(4,900)	(1,020)
Originations of loans held for sale	(171,123)	(32,793)
Gains on sales of assets, net	(699)	(481)
FDIC loss-share receivable (excluding reimbursements)	559	3,325
Net change in:		
Trading securities	—	14,233
Fair value of borrowings hedged by derivative transactions	6,779	(1,059)
Cash surrender value of bank owned life insurance	(3,781)	(3,382)
Accrued interest receivable	(1,639)	(945)
Other assets	(18,585)	(25,207)
Accrued expenses and other liabilities	(743)	(1,696)
Net cash provided by operating activities	99,068	99,612
Cash flows from investing activities:		
Net loan originations	(15,384)	(385,576)
Loans purchased	(443,770)	(629,074)
Investment securities held to maturity:		
Purchases	(309,507)	(168,682)
Sales	—	11,666
Maturities, calls and principal repayments	134,389	209,017
Investment securities available for sale:		
Purchases	(432,530)	(26,791)
Sales	2,081	14,022
Maturities, calls and principal repayments	760,312	80,994
Proceeds from sales of real estate property and equipment	9,146	7,626
Purchases of real estate property and equipment	(15,353)	(9,106)
Reimbursements from the FDIC	94	1,753
Net cash used in investing activities	(310,522)	(894,151)
Cash flows from financing activities:		
Net change in deposits	102,507	296,915
Net change in short-term borrowings	334,853	(20,633)
Proceeds from issuance of long-term borrowings, net	—	98,851
Repayments of long-term borrowings	(269,000)	—
Proceeds from issuance of preferred stock, net	—	111,590

Cash dividends paid to preferred shareholders	(3,594)	—
Cash dividends paid to common shareholders	(55,857)	(51,012)
Purchase of common shares to treasury	(1,615)	(2,082)
Common stock issued, net	3,491	3,708
Net cash provided by financing activities	110,785	437,337
Net change in cash and cash equivalents	(100,669)	(357,202)
Cash and cash equivalents at beginning of year	413,800	830,407
Cash and cash equivalents at end of period	$313,131	$473,205

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

	Six Months Ended June 30,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$76,693	$78,777
Federal and state income taxes	12,964	38,525
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$2,899	$4,369

See accompanying notes to consolidated financial statements.

VALLEY NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1. Basis of Presentation
The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the “Bank”), and all of Valley’s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.
In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley’s financial position, results of operations and cash flows at June 30, 2016 and for all periods presented have been made. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year.
In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.
Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2015.
Note 2. Business Combinations

Acquisitions

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

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

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

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

Note 3. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except for share data)			
Net income available to common shareholders	$37,230	$ 31,991	$71,620	$ 62,332
Basic weighted average number of common shares outstanding	254,381,170	232,565,404	254,228,260	232,452,716
Plus: Common stock equivalents	390,043	21,212	347,613	5,032
Diluted weighted average number of common shares outstanding	254,771,213	232,586,616	254,575,873	232,457,748
Earnings per common share:				
Basic	$0.15	$ 0.14	$0.28	$ 0.27
Diluted	0.15	0.14	0.28	0.27

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of performance-based restricted stock units, common stock options and warrants to purchase Valley's common shares. Common stock options and warrants with exercise prices that exceed the average market price of Valley's common stock during the periods presented have an anti-dilutive effect on the diluted earnings per common share calculation and therefore are excluded from the diluted earnings per share calculation. Anti-dilutive common stock options and warrants equaled approximately 4.6 million shares for both the three and six months ended June 30, 2016 and 6.1 million for both the three and six months ended June 30, 2015.

Note 4. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and six months ended June 30, 2016.

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at March 31, 2016	$2,777	$ (865)	$ (22,455)	$ (22,152)	$ (42,695)
Other comprehensive (loss) income before reclassifications	(635)	301	(2,122)	—	(2,456)
Amounts reclassified from other comprehensive (loss) income	2	—	2,107	43	2,152
Other comprehensive (loss) income, net	(633)	301	(15)	43	(304)
Balance at June 30, 2016	$2,144	$ (564)	$ (22,470)	$ (22,109)	$ (42,999)

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at December 31, 2015	$(5,336)	$(520)	$(17,644)	$(22,195)	$(45,695)
Other comprehensive income (loss) before reclassifications	7,648	242	(8,674)	—	(784)
Amounts reclassified from other comprehensive income (loss)	(168)	(286)	3,848	86	3,480
Other comprehensive income (loss), net	7,480	(44)	(4,826)	86	2,696
Balance at June 30, 2016	$2,144	$(564)	$(22,470)	$(22,109)	$(42,999)

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three and six months ended June 30, 2016 and 2015.

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended June 30,		Six Months Ended June 30,		
Components of Accumulated Other Comprehensive Loss	2016	2015	2016	2015	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$(3)	$(92)	$268	$2,324	(Losses) gains on securities transactions, net
Tax effect	1	37	(100)	(970)	
Total net of tax	(2)	(55)	168	1,354	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	—	34	489	178	Interest and dividends on investment securities (taxable)
Tax effect	—	(14)	(203)	(74)	
Total net of tax	—	20	286	104	
Unrealized losses on derivatives (cash flow hedges) before tax	(3,597)	(1,699)	(6,568)	(3,328)	Interest expense
Tax effect	1,490	708	2,720	1,386	
Total net of tax	(2,107)	(991)	(3,848)	(1,942)	
Defined benefit pension plan:					
Amortization of net loss	(72)	(205)	(144)	(410)	*
Tax effect	29	84	58	170	
Total net of tax	(43)	(121)	(86)	(240)	
Total reclassifications, net of tax	$(2,152)	$(1,147)	$(3,480)	$(724)	

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

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Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" amends the accounting guidance on the impairment of financial instruments. The ASU No. 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity is required to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU No. 2016-13 is effective for Valley for reporting periods beginning January 1, 2020. Management is currently evaluating the impact of the ASU No. 2016-13 on Valley’s consolidated financial statements.

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

ASU No. 2016-02, “Leases (Topic 842)” requires the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Topic 842 will be effective for Valley for reporting periods beginning January 1, 2019, with an early adoption permitted. Valley must apply a modified retrospective transition approach for the applicable leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Management is currently evaluating the impact of Topic 842 on Valley’s consolidated financial statements.

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

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

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ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)" implements a common revenue standard that clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2016, the Financial Accounting Standards Board issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” and ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing,” to further clarify the new guidance under Topic 606. ASU No. 2014-09 and its aforementioned amendments are effective on January 1, 2018. Management is currently evaluating the new revenue guidance but does not expect it to have a significant impact on Valley’s consolidated financial statements.

Note 6. Fair Value Measurement of Assets and Liabilities

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

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

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

The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at June 30, 2016 and December 31, 2015. The assets presented under "nonrecurring fair value measurements" in the table below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

		Fair Value Measurements at Reporting Date Using:		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$51,035	$ 51,035	$ —	$ —
U.S. government agency securities	25,290	—	25,290	—
Obligations of states and political subdivisions	125,746	—	125,746	—
Residential mortgage-backed securities	876,153	—	865,170	10,983
Trust preferred securities	8,240	—	6,122	2,118
Corporate and other debt securities	80,373	17,743	62,630	—
Equity securities	19,504	727	18,777	—
Total available for sale	1,186,341	69,505	1,103,735	13,101
Loans held for sale (1)	4,540	—	4,540	—
Other assets (2)	60,843	—	60,843	—
Total assets	$1,251,724	$ 69,505	$ 1,169,118	$ 13,101
Liabilities				
Other liabilities (2)	$79,897	$ —	$ 79,897	$ —
Total liabilities	$79,897	$ —	$ 79,897	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$4,612	$ —	$ —	$ 4,612
Loan servicing rights	5,918	—	—	5,918
Foreclosed assets (4)	2,642	—	—	2,642
Total	$13,172	$ —	$ —	$ 13,172

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

(1) Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal balances totaling approximately $4.4 million and $16.1 million at June 30, 2016 and December 31, 2015, respectively.
(2) Derivative financial instruments are included in this category.
(3) Excludes PCI loans.
(4) Includes covered (i.e., subject to loss-sharing agreements with the FDIC) other real estate owned totaling $100 thousand and $4.2 million at June 30, 2016 and December 31, 2015, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and six months ended June 30, 2016 and 2015 are summarized below:

	Available for Sale Securities			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of the period	$12,949	$15,468	$13,793	$19,309
Total net gains (losses) included in other comprehensive income for the period	514	(90)	(71)	(882)
Sales	—	—	—	(2,675)
Settlements	(362)	(666)	(621)	(1,040)
Balance, end of the period	$13,101	$14,712	$13,101	$14,712

No changes in unrealized gains or losses on Level 3 securities were included in earnings during the three and six months ended June 30, 2016 and 2015. There were no transfers of assets into and out of Level 3, or between Level 1 and Level 2, during the three and six months ended June 30, 2016 and 2015.

There have been no material changes in the valuation methodologies used at June 30, 2016 from December 31, 2015.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Available for sale securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley’s own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best information that is both reasonable and available without undue cost and effort.

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In calculating the fair value for the available for sale securities under Level 3, Valley prepared present value cash flow models for certain private label mortgage-backed securities. The cash flows for the residential mortgage-backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security.

The following table presents quantitative information about Level 3 inputs used to measure the fair value of these securities at June 30, 2016:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	0.0-20.2%	10.1 %
		Default rate	3.6-16.2	7.9
		Loss severity	45.4-66.3	60.5

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

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

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

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate and maturity of each mortgage. The market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at June 30, 2016 and December 31, 2015 based on the

short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at June 30, 2016 and December 31, 2015), is determined based on the current market prices for similar instruments provided by Fannie Mae and Freddie Mac. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at June 30, 2016 and December 31, 2015.

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

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

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on certain discounting criteria. At June 30, 2016, appraisals are discounted based on specific market data by location and property type. During the quarter ended June 30, 2016, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The collateral dependent loan charge-offs to the allowance for loan losses totaled $473 thousand and $1.7 million for the three months ended June 30, 2016 and 2015, respectively, and $952 thousand and $2.6 million for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, collateral dependent impaired loans with a total recorded investment of $5.1 million were reduced by specific valuation allowance allocations totaling $460 thousand to a reported total net carrying amount of $4.6 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, prepayment speeds, internal rate of return ("discount rate"), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At June 30, 2016, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 24 percent and a discount rate of 8.0 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recorded net impairment charges on its loan servicing rights totaling $265 thousand and $457 thousand for the three and six months ended June 30, 2016, respectively, as compared net recoveries of impairment charges totaling $245 thousand and $161 thousand for three and six months ended June 30, 2015, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon

initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. The appraisals of foreclosed assets were adjusted up to 2.8 percent at June 30, 2016. At June 30, 2016, foreclosed assets included

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$2.6 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended June 30, 2016. The foreclosed assets charge-offs to the allowance for loan losses totaled $489 thousand and $434 thousand for the three months ended June 30, 2016 and 2015, respectively and $922 thousand and $891 thousand for six months ended June 30, 2016 and 2015, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net loss within non-interest expense of $295 thousand and $470 thousand for the three months ended June 30, 2016 and 2015, respectively and $912 thousand and $482 thousand for six months ended June 30, 2016 and 2015, respectively.

Other Fair Value Disclosures

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

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

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

The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at June 30, 2016 and December 31, 2015 were as follows:

	Fair Value Hierarchy	June 30, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$220,156	$220,156	$243,575	$243,575
Interest bearing deposits with banks	Level 1	92,975	92,975	170,225	170,225
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	138,904	152,772	138,978	149,483
U.S. government agency securities	Level 2	12,076	12,563	12,859	13,130
Obligations of states and political subdivisions	Level 2	565,509	591,925	504,865	527,263
Residential mortgage-backed securities	Level 2	957,377	967,142	852,289	855,272
Trust preferred securities	Level 2	59,795	46,030	59,785	46,437
Corporate and other debt securities	Level 2	31,559	33,279	27,609	29,454
Total investment securities held to maturity		1,765,220	1,803,711	1,596,385	1,621,039
Net loans	Level 3	16,391,092	16,410,318	15,936,929	15,824,475
Accrued interest receivable	Level 1	65,193	65,193	63,554	63,554
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	161,684	161,684	145,068	145,068
Financial liabilities					
Deposits without stated maturities	Level 1	13,291,422	13,291,422	13,095,647	13,095,647
Deposits with stated maturities	Level 2	3,064,636	3,103,627	3,157,904	3,203,389
Short-term borrowings	Level 1	1,411,844	1,411,844	1,076,991	1,076,991
Long-term borrowings	Level 2	1,545,495	1,716,189	1,810,728	1,945,741
Junior subordinated debentures issued to capital trusts	Level 2	41,496	43,865	41,414	44,127
Accrued interest payable (2)	Level 1	11,434	11,434	13,110	13,110

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

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

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

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

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

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

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

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

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

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

Note 7. Investment Securities

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2016				
U.S. Treasury securities	$138,904	$ 13,868	$—	$152,772
U.S. government agency securities	12,076	487	—	12,563
Obligations of states and political subdivisions:				
Obligations of states and state agencies	193,343	13,148	—	206,491
Municipal bonds	372,166	13,268	—	385,434
Total obligations of states and political subdivisions	565,509	26,416	—	591,925
Residential mortgage-backed securities	957,377	14,173	(4,408)	967,142
Trust preferred securities	59,795	39	(13,804)	46,030
Corporate and other debt securities	31,559	1,720	—	33,279
Total investment securities held to maturity	$1,765,220	$ 56,703	$(18,212)	$1,803,711
December 31, 2015				
U.S. Treasury securities	$138,978	$ 10,505	$—	$149,483
U.S. government agency securities	12,859	271	—	13,130
Obligations of states and political subdivisions:				
Obligations of states and state agencies	194,547	10,538	(10)	205,075
Municipal bonds	310,318	11,955	(85)	322,188
Total obligations of states and political subdivisions	504,865	22,493	(95)	527,263
Residential mortgage-backed securities	852,289	11,018	(8,035)	855,272
Trust preferred securities	59,785	36	(13,384)	46,437
Corporate and other debt securities	27,609	1,894	(49)	29,454
Total investment securities held to maturity	$1,596,385	$ 46,217	$(21,563)	$1,621,039

The age of unrealized losses and fair value of related securities held to maturity at June 30, 2016 and December 31, 2015 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
June 30, 2016						
Residential mortgage-backed securities	$225,255	$(1,340)	$253,047	$(3,068)	$478,302	$(4,408)
Trust preferred securities	—	—	44,638	(13,804)	44,638	(13,804)
Total	$225,255	$(1,340)	$297,685	$(16,872)	$522,940	$(18,212)
December 31, 2015						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$6,837	$(5)	$1,965	$(5)	$8,802	$(10)
Municipal bonds	8,814	(72)	10,198	(13)	19,012	(85)
Total obligations of states and political subdivisions	15,651	(77)	12,163	(18)	27,814	(95)
Residential mortgage-backed securities	244,440	(2,916)	162,756	(5,119)	407,196	(8,035)
Trust preferred securities	—	—	45,047	(13,384)	45,047	(13,384)
Corporate and other debt securities	2,951	(49)	—	—	2,951	(49)
Total	$263,042	$(3,042)	$219,966	$(18,521)	$483,008	$(21,563)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. Within the held to maturity portfolio, the total number of security positions in an unrealized loss position was 74 at both June 30, 2016 and December 31, 2015.

The unrealized losses within the residential mortgage-backed securities category of the held to maturity portfolio at June 30, 2016 mainly related to certain investment grade securities issued by Fannie Mae.

The unrealized losses existing for more than twelve months for trust preferred securities at June 30, 2016 primarily related to four non-rated single-issuer trust preferred securities issued by bank holding companies. All single-issuer trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered "well-capitalized institutions" at June 30, 2016.

Management does not believe that any individual unrealized loss as of June 30, 2016 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates and market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of June 30, 2016, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $916.5 million.

The contractual maturities of investments in debt securities held to maturity at June 30, 2016 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	June 30, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$110,870	$110,881
Due after one year through five years	169,388	180,766
Due after five years through ten years	310,727	332,730
Due after ten years	216,858	212,192
Residential mortgage-backed securities	957,377	967,142
Total investment securities held to maturity	$1,765,220	$1,803,711

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.
The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 6.1 years at June 30, 2016.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at June 30, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2016				
U.S. Treasury securities	$51,031	$ 53	$(49)	$51,035
U.S. government agency securities	24,913	397	(20)	25,290
Obligations of states and political subdivisions:				
Obligations of states and state agencies	43,399	873	(101)	44,171
Municipal bonds	80,502	1,382	(309)	81,575
Total obligations of states and political subdivisions	123,901	2,255	(410)	125,746
Residential mortgage-backed securities	873,480	7,300	(4,627)	876,153
Trust preferred securities*	10,300	—	(2,060)	8,240
Corporate and other debt securities	79,501	1,453	(581)	80,373
Equity securities	20,522	605	(1,623)	19,504
Total investment securities available for sale	$1,183,648	$ 12,063	$(9,370)	$1,186,341
December 31, 2015				
U.S. Treasury securities	$551,173	$ 4	$(1,704)	$549,473
U.S. government agency securities	29,316	665	(18)	29,963
Obligations of states and political subdivisions:				
Obligations of states and state agencies	44,285	196	(67)	44,414
Municipal bonds	80,717	209	(374)	80,552
Total obligations of states and political subdivisions	125,002	405	(441)	124,966
Residential mortgage-backed securities	701,764	3,348	(8,684)	696,428
Trust preferred securities*	10,458	—	(2,054)	8,404
Corporate and other debt securities	78,202	1,239	(1,889)	77,552
Equity securities	21,022	575	(1,522)	20,075
Total investment securities available for sale	$1,516,937	$ 6,236	$(16,312)	$1,506,861

* Includes two pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies, at June 30, 2016 and December 31, 2015.

The age of unrealized losses and fair value of related securities available for sale at June 30, 2016 and December 31, 2015 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
June 30, 2016						
U.S. Treasury securities	$25,036	$ (49)	$—	$ —	$25,036	$ (49)
U.S. government agency securities	—	—	4,336	(20)	4,336	(20)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	3,520	(101)	—	—	3,520	(101)
Municipal bonds	—	—	11,015	(309)	11,015	(309)
Total obligations of states and political subdivisions	3,520	(101)	11,015	(309)	14,535	(410)
Residential mortgage-backed securities	233,742	(1,354)	176,651	(3,273)	410,393	(4,627)
Trust preferred securities	—	—	8,240	(2,060)	8,240	(2,060)
Corporate and other debt securities	10,003	(12)	24,719	(569)	34,722	(581)
Equity securities	—	—	14,172	(1,623)	14,172	(1,623)
Total	$272,301	$ (1,516)	$239,133	$ (7,854)	$511,434	$ (9,370)
December 31, 2015						
U.S. Treasury securities	$548,538	$ (1,704)	$—	$ —	$548,538	$ (1,704)
U.S. government agency securities	3,489	(5)	4,736	(13)	8,225	(18)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	24,359	(67)	—	—	24,359	(67)
Municipal bonds	38,207	(128)	13,551	(246)	51,758	(374)
Total obligations of states and political subdivisions	62,566	(195)	13,551	(246)	76,117	(441)
Residential mortgage-backed securities	293,615	(4,147)	164,010	(4,537)	457,625	(8,684)
Trust preferred securities	—	—	8,404	(2,054)	8,404	(2,054)
Corporate and other debt securities	21,203	(471)	36,137	(1,418)	57,340	(1,889)
Equity securities	—	—	14,273	(1,522)	14,273	(1,522)
Total	$929,411	$ (6,522)	$241,111	$ (9,790)	$1,170,522	$ (16,312)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at June 30, 2016 was 117 as compared to 291 at December 31, 2015.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at June 30, 2016 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae.

The unrealized losses more than twelve months for trust preferred securities at June 30, 2016 in the table above largely relate to 2 pooled trust preferred securities with an amortized cost of $10.3 million and a fair value of $8.3 million. One of the two pooled trust preferred securities had unrealized loss of $1.4 million and an investment grade rating at June 30, 2016.

As of June 30, 2016, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $401.3 million.
The contractual maturities of investment securities available for sale at June 30, 2016 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	June 30, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$10,750	$10,749
Due after one year through five years	91,209	92,467
Due after five years through ten years	123,271	124,178
Due after ten years	64,416	63,290
Residential mortgage-backed securities	873,480	876,153
Equity securities	20,522	19,504
Total investment securities available for sale	$1,183,648	$1,186,341

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.
The weighted average remaining expected life for residential mortgage-backed securities available for sale at June 30, 2016 was 9.7 years.
Other-Than-Temporary Impairment Analysis

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

There were no other-than-temporary impairment losses on securities recognized in earnings for the six months ended June 30, 2016 and 2015. At June 30, 2016, four previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of $11.3 million and $11.0 million, respectively, while one previously impaired pooled trust preferred security had an amortized cost and fair value of $2.8 million and $2.1 million, respectively. The previously impaired pooled trust preferred security was not accruing interest during the three and six months ended June 30, 2016 and 2015. Additionally, one previously impaired pooled trust preferred security was sold during the first quarter of 2015 for an immaterial gain. See the table and discussion below for additional information.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has previously recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of period	$5,348	$6,421	$5,837	$8,947
Accretion of credit loss impairment due to an increase in expected cash flows	—	(34)	(489)	(178)
Sales	—	—	—	(2,382)
Balance, end of period	$5,348	$6,387	$5,348	$6,387

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to each period presented. The credit loss component increases if other-than-temporary impairments (initial and subsequent) are recognized in earnings for credit impaired debt securities. The credit loss component is reduced if (i) Valley receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures, (iii) the security is fully written down, or (iv) Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities.

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Sales transactions:				
Gross gains	$—	$—	$271	$3,274
Gross losses	—	—	—	(947)
	—	—	271	2,327
Maturities and other securities transactions:				
Gross gains	$—	$40	$—	$129
Gross losses	(3)	(132)	(3)	(132)
	(3)	(92)	(3)	(3)
Total (losses) gains on securities transactions, net	$(3)	$(92)	$268	$2,324

Valley recognized gross gains from sales transactions of investment securities totaling $3.3 million for the six months ended June 30, 2015 due to the sale of corporate debt securities and trust preferred securities with amortized cost totaling $25.9 million. These transactions included a corporate debt security classified as held to maturity and a previously impaired pooled trust preferred security with amortized costs of $9.8 million and $2.6 million, respectively. Additionally, Valley recognized $947 thousand of gross losses during the six months ended June 30, 2015 due to the sale of mostly trust preferred securities with a total amortized cost of $8.3 million. The vast majority of the sales of investment securities were due to an investment portfolio re-balancing during the second quarter of 2015 due to

changes in our regulatory capital calculation under the new Basel III regulatory capital reform (effective for Valley on January 1, 2015). Under ASC Topic 320, “Investments - Debt and Equity Securities,” the sale of held to maturity securities based

upon the change in capital requirements is permitted without tainting the remaining held to maturity investment portfolio.
Note 8. Loans

The detail of the loan portfolio as of June 30, 2016 and December 31, 2015 was as follows:

	June 30, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans*	Total	Non-PCI Loans	PCI Loans*	Total
	(in thousands)					
Loans:						
Commercial and industrial	$2,200,838	$327,911	$2,528,749	$2,156,549	$383,942	$2,540,491
Commercial real estate:						
Commercial real estate	6,822,650	1,196,144	8,018,794	6,069,532	1,355,104	7,424,636
Construction	632,332	136,515	768,847	607,694	147,253	754,947
Total commercial real estate loans	7,454,982	1,332,659	8,787,641	6,677,226	1,502,357	8,179,583
Residential mortgage	2,857,190	198,163	3,055,353	2,912,079	218,462	3,130,541
Consumer:						
Home equity	380,200	105,530	485,730	391,809	119,394	511,203
Automobile	1,141,510	283	1,141,793	1,238,826	487	1,239,313
Other consumer	489,059	10,855	499,914	426,147	15,829	441,976
Total consumer loans	2,010,769	116,668	2,127,437	2,056,782	135,710	2,192,492
Total loans	$14,523,779	$1,975,401	$16,499,180	$13,802,636	$2,240,471	$16,043,107

* PCI loans include covered loans (mostly consisting of residential mortgage and commercial real estate loans) totaling $81.1 million and $122.3 million at June 30, 2016 and December 31, 2015, respectively.

Total non-covered loans include net unearned premiums and deferred loan costs of $8.3 million and $3.5 million at June 30, 2016 and December 31, 2015, respectively. The outstanding balances (representing contractual balances owed to Valley) for PCI loans totaled $2.1 billion and $2.4 billion at June 30, 2016 and December 31, 2015, respectively.

There were no sales of loans from the held for investment portfolio during the three and six months ended June 30, 2016 and 2015.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools. Valley's PCI loan portfolio included covered loans (i.e., loans in which the Bank will share losses with the FDIC under loss-sharing agreements) totaling $81.1 million and $122.3 million at June 30, 2016 and December 31, 2015, respectively.

The following table presents changes in the accretable yield for PCI loans during the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of period	$387,120	$309,858	$415,179	$336,208
Accretion	(31,519)	(27,757)	(59,578)	(54,107)
Balance, end of period	$355,601	$282,101	$355,601	$282,101

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements with the FDIC is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. The FDIC loss share receivable (which is included in other assets on Valley's consolidated statements of financial condition) totaled $7.6 million and $8.3 million at June 30, 2016 and December 31, 2015, respectively. The aggregate effect of changes in the FDIC loss-share receivable was a net reduction in non-interest income of $559 thousand and $3.3 million for the six months ended June 30, 2016 and 2015, respectively. The larger net reduction during the first half of 2015 was mainly caused by the prospective recognition of the effect of additional cash flows from certain loan pools which were covered by commercial loan loss-sharing agreements that expired in March 2015.

Credit Risk Management

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

Credit Quality

The following table presents past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis, and non-performing loans held for sale) by loan portfolio class at June 30, 2016 and December 31, 2015:

	Past Due and Non-Accrual Loans						
	30-59 Days Past Due Loans	60-89 Days Past Due Loans	Accruing Loans 90 Days or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	(in thousands)						
June 30, 2016							
Commercial and industrial	$5,187	$5,714	$ 218	$ 6,573	$17,692	$2,183,146	$2,200,838
Commercial real estate:							
Commercial real estate	5,076	834	131	19,432	25,473	6,797,177	6,822,650
Construction	—	—	—	5,878	5,878	626,454	632,332
Total commercial real estate loans	5,076	834	131	25,310	31,351	7,423,631	7,454,982
Residential mortgage	10,177	2,326	314	14,866	27,683	2,829,507	2,857,190
Consumer loans:							
Home equity	959	54	—	989	2,002	378,198	380,200
Automobile	1,552	577	127	141	2,397	1,139,113	1,141,510
Other consumer	24	13	12	—	49	489,010	489,059
Total consumer loans	2,535	644	139	1,130	4,448	2,006,321	2,010,769
Total	$22,975	$9,518	$ 802	$ 47,879	$81,174	$14,442,605	$14,523,779
December 31, 2015							
Commercial and industrial	$3,920	$524	$ 213	$ 10,913	$15,570	$2,140,979	$2,156,549
Commercial real estate:							
Commercial real estate	2,684	—	131	24,888	27,703	6,041,829	6,069,532
Construction	1,876	2,799	—	6,163	10,838	596,856	607,694
Total commercial real estate loans	4,560	2,799	131	31,051	38,541	6,638,685	6,677,226
Residential mortgage	6,681	1,626	1,504	17,930	27,741	2,884,338	2,912,079
Consumer loans:							
Home equity	1,308	111	—	2,088	3,507	388,302	391,809
Automobile	1,969	491	164	118	2,742	1,236,084	1,238,826
Other consumer	71	24	44	—	139	426,008	426,147
Total consumer loans	3,348	626	208	2,206	6,388	2,050,394	2,056,782
Total	$18,509	$5,575	$ 2,056	$ 62,100	$88,240	$13,714,396	$13,802,636

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

The following table presents the information about impaired loans by loan portfolio class at June 30, 2016 and December 31, 2015:

	Recorded Investment With No Related Allowance	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
	(in thousands)				
June 30, 2016					
Commercial and industrial	$3,211	$ 19,500	$ 22,711	$ 26,614	$ 3,294
Commercial real estate:					
Commercial real estate	23,758	46,711	70,469	73,333	4,282
Construction	7,415	1,469	8,884	8,894	57
Total commercial real estate loans	31,173	48,180	79,353	82,227	4,339
Residential mortgage	6,901	15,753	22,654	24,126	1,261
Consumer loans:					
Home equity	199	2,268	2,467	2,560	397
Total consumer loans	199	2,268	2,467	2,560	397
Total	$41,484	$ 85,701	$ 127,185	$ 135,527	$ 9,291
December 31, 2015					
Commercial and industrial	$7,863	$ 17,851	$ 25,714	$ 33,071	$ 3,439
Commercial real estate:					
Commercial real estate	30,113	37,440	67,553	71,263	3,354
Construction	8,847	5,530	14,377	14,387	317
Total commercial real estate loans	38,960	42,970	81,930	85,650	3,671
Residential mortgage	7,842	14,770	22,612	24,528	1,377
Consumer loans:					
Home equity	263	1,869	2,132	2,224	295
Total consumer loans	263	1,869	2,132	2,224	295
Total	$54,928	$ 77,460	$ 132,388	$ 145,473	$ 8,782

The following tables present by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$24,157	$ 194	$25,530	$ 211
Commercial real estate:				
Commercial real estate	70,194	475	75,688	894
Construction	10,027	53	11,485	126
Total commercial real estate loans	80,221	528	87,173	1,020
Residential mortgage	22,922	234	22,566	249
Consumer loans:				
Home equity	3,071	20	4,607	38
Total consumer loans	3,071	20	4,607	38
Total	$130,371	$ 976	$139,876	$ 1,518

	Six Months Ended June 30,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$26,244	$ 434	$26,898	$ 457
Commercial real estate:				
Commercial real estate	71,296	1,114	77,098	1,380
Construction	9,915	101	14,063	276
Total commercial real estate loans	81,211	1,215	91,161	1,656
Residential mortgage	23,262	436	22,206	499
Consumer loans:				
Home equity	2,715	43	4,049	68
Total consumer loans	2,715	43	4,049	68
Total	$133,432	$ 2,128	$144,314	$ 2,680

Interest income recognized on a cash basis (included in the table above) was immaterial for the three and six months ended June 30, 2016 and 2015.

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

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

Performing TDRs (not reported as non-accrual loans) totaled $82.1 million and $77.6 million as of June 30, 2016 and December 31, 2015, respectively. Non-performing TDRs totaled $13.7 million and $21.0 million as of June 30, 2016 and December 31, 2015, respectively.

The following tables present loans by loan portfolio class modified as TDRs during the three and six months ended June 30, 2016 and 2015. The pre-modification and post-modification outstanding recorded investments disclosed in the table below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at June 30, 2016 and 2015, respectively.

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	4	$ 5,079	$ 4,094	6	$ 1,947	$ 1,922
Commercial real estate:						
Commercial real estate	2	6,111	6,077	3	1,562	1,573
Construction	—	—	—	1	500	1,190
Total commercial real estate	2	6,111	6,077	4	2,062	2,763
Residential mortgage	5	1,830	1,826	2	1,098	1,097
Consumer	—	—	—	1	1,081	1,079
Total	11	$ 13,020	$ 11,997	13	$ 6,188	$ 6,861

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	6	$ 6,456	$ 5,437	12	$ 3,531	$ 3,412
Commercial real estate:						
Commercial real estate	3	6,658	6,388	4	6,562	6,573
Construction	—	—	—	1	500	1,190
Total commercial real estate	3	6,658	6,388	5	7,062	7,763
Residential mortgage	7	2,222	2,206	3	1,378	1,373
Consumer	1	55	53	1	1,081	1,079
Total	17	$ 15,391	$ 14,084	21	$ 13,052	$ 13,627

The majority of the TDR concessions made during the three and six months ended June 30, 2016 and 2015 involved an extension of the loan term, lowering the monthly payments and interest rate reduction. The total TDRs presented in the above table had allocated specific reserves for loan losses totaling $2.1 million and $1.0 million at June 30, 2016 and 2015, respectively. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in Note 9. One commercial and industrial TDR loan totaling $209 thousand was fully charged-off during the six months ended June 30, 2016. There were no charge-offs related to TDR modifications during the second quarter of 2016 and three and six months ended June 30, 2015.

The following table presents non-PCI loans modified as TDRs within the previous 12 months for which there was a payment default (90 days or more past due) during the three and six months ended June 30, 2016.

Troubled Debt Restructurings Subsequently Defaulted	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	($ in thousands)			
Commercial real estate	2	$ 1,070	1	$ 214
Residential mortgage	1	74	1	74
Consumer	1	30	1	30
Total	4	$ 1,174	3	$ 318

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

The following table presents the risk category of loans (excluding PCI loans) by class of loans at June 30, 2016 and December 31, 2015.

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
	(in thousands)				
June 30, 2016					
Commercial and industrial	$2,114,575	$52,028	$ 34,235	$ —	$2,200,838
Commercial real estate	6,666,210	65,621	90,819	—	6,822,650
Construction	622,721	527	9,084	—	632,332
Total	$9,403,506	$118,176	$ 134,138	$ —	$9,655,820
December 31, 2015					
Commercial and industrial	$2,049,752	$68,243	$ 36,254	$ 2,300	$2,156,549
Commercial real estate	5,893,354	79,279	96,899	—	6,069,532
Construction	596,530	1,102	10,062	—	607,694
Total	$8,539,636	$148,624	$ 143,215	$ 2,300	$8,833,775

For residential mortgages, automobile, home equity and other consumer loan portfolio classes (excluding PCI loans), Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of June 30, 2016 and December 31, 2015:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total Non-PCI Loans
	(in thousands)		
June 30, 2016			
Residential mortgage	$2,842,324	$ 14,866	$ 2,857,190
Home equity	379,211	989	380,200
Automobile	1,141,510	141	1,141,651
Other consumer	489,059	—	489,059
Total	$4,852,104	$ 15,996	$ 4,868,100
December 31, 2015			
Residential mortgage	$2,894,149	$ 17,930	$ 2,912,079
Home equity	389,721	2,088	391,809
Automobile	1,238,708	118	1,238,826
Other consumer	426,147	—	426,147
Total	$4,948,725	$ 20,136	$ 4,968,861

Valley evaluates the credit quality of its PCI loan pools based on the expectation of the underlying cash flows of each pool, derived from the aging status and by payment activity of individual loans within the pool. The following table presents the recorded investment in PCI loans by class based on individual loan payment activity as of June 30, 2016 and December 31, 2015.

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total PCI Loans
	(in thousands)		
June 30, 2016			
Commercial and industrial	$318,935	$ 8,976	$327,911
Commercial real estate	1,185,024	11,120	1,196,144
Construction	135,090	1,425	136,515
Residential mortgage	194,532	3,631	198,163
Consumer	110,545	6,123	116,668
Total	$1,944,126	$ 31,275	$1,975,401
December 31, 2015			
Commercial and industrial	$373,665	$ 10,277	$383,942
Commercial real estate	1,342,030	13,074	1,355,104
Construction	141,547	5,706	147,253
Residential mortgage	214,713	3,749	218,462
Consumer	129,891	5,819	135,710
Total	$2,201,846	$ 38,625	$2,240,471

Other real estate owned (OREO) totaled $12.1 million and $19.0 million (including $1.2 million and $5.0 million of OREO properties which are subject to loss-sharing agreements with the FDIC) at June 30, 2016 and December 31, 2015 respectively. OREO included foreclosed residential real estate properties totaling $6.8 million and $7.0 million at June 30, 2016 and December 31, 2015, respectively. Residential mortgage and consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $9.4 million and $12.3 million at June 30, 2016 and December 31, 2015, respectively.

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Note 9. Allowance for Credit Losses

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

The following table summarizes the allowance for credit losses at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in thousands)	
Components of allowance for credit losses:		
Allowance for loan losses	$108,088	$ 106,178
Allowance for unfunded letters of credit	2,326	2,189
Total allowance for credit losses	$110,414	$ 108,367

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Components of provision for credit losses:				
Provision for loan losses	$1,363	$4,382	$2,092	$4,382
Provision for unfunded letters of credit	66	118	137	118
Total provision for credit losses	$1,429	$4,500	$2,229	$4,500

The following tables detail activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2016 and 2015:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
Three Months Ended June 30, 2016:						
Allowance for loan losses:						
Beginning balance	$48,417	$ 48,454	$ 4,209	$ 4,335	$ —	$105,415
Loans charged-off	(493)	(414)	(151)	(697)	—	(1,755)
Charged-off loans recovered	990	1,458	94	523	—	3,065
Net recoveries (charge-offs)	497	1,044	(57)	(174)	—	1,310
Provision for loan losses	(889)	2,379	(657)	530	—	1,363
Ending balance	$48,025	$ 51,877	$ 3,495	$ 4,691	$ —	$108,088
Three Months Ended June 30, 2015:						
Allowance for loan losses:						
Beginning balance	$44,893	$ 41,656	$ 4,092	$ 4,972	$ 7,018	$102,631
Loans charged-off	(3,226)	(2,590)	(339)	(1,194)	—	(7,349)
Charged-off loans recovered	1,986	690	130	365	—	3,171
Net charge-offs	(1,240)	(1,900)	(209)	(829)	—	(4,178)
Provision for loan losses	(1,939)	4,429	1,172	1,399	(679)	4,382

Ending balance	$41,714	$ 44,185	$ 5,055	$ 5,542	$ 6,339	$102,835

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
	(in thousands)					
Six Months Ended June 30, 2016:						
Allowance for loan losses:						
Beginning balance	$48,767	$ 48,006	$ 4,625	$ 4,780	$ —	$106,178
Loans charged-off	(1,744)	(519)	(232)	(1,771)	—	(4,266)
Charged-off loans recovered	1,516	1,547	109	912	—	4,084
Net (charge-offs) recoveries	(228)	1,028	(123)	(859)	—	(182)
Provision for loan losses	(514)	2,843	(1,007)	770	—	2,092
Ending balance	$48,025	$ 51,877	$ 3,495	$ 4,691	$ —	$108,088
Six Months Ended June 30, 2015:						
Allowance for loan losses:						
Beginning balance	$43,676	$ 42,840	$ 5,093	$ 5,179	$ 5,565	$102,353
Loans charged-off	(3,979)	(2,740)	(388)	(1,908)	—	(9,015)
Charged-off loans recovered	3,037	1,150	244	684	—	5,115
Net charge-offs	(942)	(1,590)	(144)	(1,224)	—	(3,900)
Provision for loan losses	(1,020)	2,935	106	1,587	774	4,382
Ending balance	$41,714	$ 44,185	$ 5,055	$ 5,542	$ 6,339	$102,835

At December 31, 2015, Valley refined and enhanced its assessment of the adequacy of the allowance for loan losses, including both changes to look-back periods for certain portfolios, as well as enhancements to its qualitative factor framework. The enhancements were meant to increase the level of precision in the allowance for credit losses. As a result, Valley no longer has an “unallocated” segment in its allowance for credit losses, as the risks and uncertainties meant to be captured by the unallocated allowance have been included in the qualitative framework for the respective loan portfolio segment (reported in the tables above) at June 30, 2016. As such, the unallocated allowance has in essence been reallocated to the applicable portfolios based on the risks and uncertainties it was meant to capture.

The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology at June 30, 2016 and December 31, 2015.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
	(in thousands)				
June 30, 2016					
Allowance for loan losses:					
Individually evaluated for impairment	$3,294	$4,339	$1,261	$397	$9,291
Collectively evaluated for impairment	44,731	47,538	2,234	4,294	98,797
Total	$48,025	$51,877	$3,495	$4,691	$108,088
Loans:					
Individually evaluated for impairment	$22,711	$79,353	$22,654	$2,467	$127,185
Collectively evaluated for impairment	2,178,127	7,375,629	2,834,536	2,008,302	14,396,594
Loans acquired with discounts related to credit quality	327,911	1,332,659	198,163	116,668	1,975,401
Total	$2,528,749	$8,787,641	$3,055,353	$2,127,437	$16,499,180
December 31, 2015					
Allowance for loan losses:					
Individually evaluated for impairment	$3,439	$3,671	$1,377	$295	$8,782
Collectively evaluated for impairment	45,328	44,335	3,248	4,485	97,396
Total	$48,767	$48,006	$4,625	$4,780	$106,178
Loans:					
Individually evaluated for impairment	$25,714	$81,930	$22,612	$2,132	$132,388
Collectively evaluated for impairment	2,130,835	6,595,296	2,889,467	2,054,650	13,670,248
Loans acquired with discounts related to credit quality	383,942	1,502,357	218,462	135,710	2,240,471
Total	$2,540,491	$8,179,583	$3,130,541	$2,192,492	$16,043,107

Note 10. Goodwill and Other Intangible Assets

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

	Business Segment / Reporting Unit*				
	Wealth Management	Consumer Lending	Commercial Lending	Investment Management	Total
	(in thousands)				
Balance at December 31, 2015	$20,517	$199,119	$ 314,260	$ 152,443	$686,339
Goodwill from business combinations	701	697	1,416	436	3,250
Balance at June 30, 2016	$21,218	$199,816	$ 315,676	$ 152,879	$689,589

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

Goodwill from business combinations, in the table above, includes the effect of the combined adjustments to the estimated fair values of the acquired assets (including core deposits presented in the table below) and liabilities as of the acquisition date of CNL, and goodwill related to the acquisition of certain assets from an independent insurance agency during the first quarter of 2016 (see Note 2 for further details). There was no impairment of goodwill during the three and six months ended June 30, 2016 and 2015.

The following table summarizes other intangible assets as of June 30, 2016 and December 31, 2015:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
	(in thousands)			
June 30, 2016				
Loan servicing rights	$66,793	$ (50,079)	$ (746)	$ 15,968
Core deposits	61,504	(34,851)	—	26,653
Other	4,087	(1,865)	—	2,222
Total other intangible assets	$132,384	$ (86,795)	$ (746)	$ 44,843
December 31, 2015				
Loan servicing rights	$75,932	$ (59,251)	$ (289)	$ 16,392
Core deposits	62,714	(31,934)	—	30,780
Other	4,374	(2,664)	—	1,710
Total other intangible assets	$143,020	$ (93,849)	$ (289)	$ 48,882

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

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 11 years. The line item labeled “Other” included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of approximately 20 years. Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three and six months ended June 30, 2016 and 2015.

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

	Loan Servicing Rights	Core Deposits	Other
	(in thousands)		
2016	$2,440	$ 2,711	$ 148
2017	3,915	4,842	280
2018	3,050	4,215	249
2019	2,291	3,671	235
2020	1,734	3,127	220

Valley recognized amortization expense on other intangible assets, including net impairment charges on loan servicing rights, totaling approximately $2.9 million and $2.1 million for the three months ended June 30, 2016 and 2015, respectively, and $5.8 million and $4.5 million for the six months ended June 30, 2016 and 2015, respectively.

Note 11. Stock–Based Compensation

On April 28, 2016, Valley’s shareholders approved the new 2016 Long-Term Stock Incentive Plan (the "2016 Stock Plan") administered by the Compensation and Human Resources Committee (the “Committee”) appointed by Valley’s

Board of Directors. The purpose of the 2016 Stock Plan is to provide incentives to attract, retain and

motivate officers and other key employees by providing a direct financial interest in Valley's continued success, and provide the flexibility to grant equity awards to non-employee directors as part of their compensation. The 2016 Stock Plan will also ensure that Valley has sufficient shares to meet its anticipated long-term equity compensation needs. Effective January 1, 2016, the 2.2 million of common shares remaining under Valley's 2009 Long-Term Stock Incentive Plan (the "2009 Stock Plan") became available for future grants under the 2016 Stock Plan. Accordingly, Valley will no longer grant new awards under the 2009 Stock Plan.
Under the 2016 Stock Plan, Valley may award shares to its employees and non-employee directors shares of common stock in the form of stock appreciation rights, both incentive and non-qualified stock options, restricted stock and restricted stock units (RSUs). As of June 30, 2016, up to 8.3 million shares of common stock were available for issuance under the 2016 Stock Plan. The essential features of each award are described in the award agreement relating to that award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley’s common stock on the last sale price reported for Valley’s common stock on such date or the last sale price reported preceding such date, except for performance-based awards with a market condition. The grant date fair values of performance-based awards that vest based on a market condition are determined by a third party specialist using a Monte Carlo valuation model.

Valley awarded time-based restricted stock totaling 498 thousand shares and 492 thousand shares during the six months ended June 30, 2016 and 2015, respectively, to both executive officers and key employees of Valley. Time-based restricted stock issued during the three months ended June 30, 2016 and 2015 were immaterial. Valley also awarded 431 thousand and 313 thousand shares of performance-based RSUs under the 2016 Stock Plan during the six months ended June 30, 2016, respectively, to certain executive officers. There were no awards of the performance-based RSUs during the three months ended June 30, 2016 and 2015. The RSUs earn dividend equivalents (equal to cash dividends paid on Valley's common stock) over the applicable performance period. Dividend equivalents and accrued interest, per the terms of the agreements, are accumulated and paid to the grantee at the vesting date, or forfeited if the performance conditions are not met.

The performance-based awards vest based on (i) growth in tangible book value per share plus dividends (75 percent of performance shares) and (ii) total shareholder return as compared to our peer group (25 percent of performance shares). The majority of the performance-based awards "cliff" vest after three years based on the cumulative performance of Valley during that time period. The non-performance based awards have vesting periods ranging from three to six years. Generally, the restrictions on such awards lapse at an annual or bi-annual rate of one-third of the total award commencing with the first or second anniversary of the date of grant, respectively. The average grant date fair value of non-performance and performance-based restricted stock awarded during the six months ended June 30, 2016 was $8.56.

Valley recorded stock-based compensation expense of $2.8 million and $2.0 million for the three months ended June 30, 2016 and 2015, respectively, and $5.2 million and $4.5 million for the six months ended June 30, 2016 and 2015, respectively. The fair values of stock awards are expensed over the shorter of the vesting or required service period. As of June 30, 2016, the unrecognized amortization expense for all stock-based employee compensation totaled approximately $19.1 million and will be recognized over an average remaining vesting period of approximately 3 years.

Note 12. Derivative Instruments and Hedging Activities

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

Cash Flow Hedges of Interest Rate Risk. Valley’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, Valley uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash

flow hedges involve the payment of either fixed or variable-rate amounts in exchange for the receipt of variable or fixed-rate amounts from a counterparty. Interest rate caps designated as cash flow hedges involve the

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receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

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

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

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

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

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

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

	June 30, 2016			December 31, 2015		
	Fair Value			Fair Value		
	Other Assets	Other Liabilities	Notional Amount	Other Assets	Other Liabilities	Notional Amount
	(in thousands)					
Derivatives designated as hedging instruments:						
Cash flow hedge interest rate caps and swaps	$536	$ 32,367	$907,000	$1,284	$ 24,823	$907,000
Fair value hedge interest rate swaps	14,454	1,403	133,106	7,658	1,306	133,209
Total derivatives designated as hedging instruments	$14,990	$ 33,770	$1,040,106	$8,942	$ 26,129	$1,040,209
Derivatives not designated as hedging instruments:						
Interest rate swaps and embedded derivatives	$44,861	$ 44,858	$756,274	$24,628	$ 24,623	$654,134
Mortgage banking derivatives	992	1,269	273,690	204	92	73,438
Total derivatives not designated as hedging instruments	$45,853	$ 46,127	$1,029,964	$24,832	$ 24,715	$727,572

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Amount of loss reclassified from accumulated other comprehensive loss to interest expense	$(3,597)	$(1,699)	$(6,568)	$(3,328)
Amount of (loss) gain recognized in other comprehensive income	(3,625)	1,895	(14,657)	(7,016)

The net gains or losses related to cash flow hedge ineffectiveness were immaterial during the three and six months ended June 30, 2016 and 2015. The accumulated net after-tax losses related to effective cash flow hedges included in accumulated other comprehensive loss were $22.5 million and $17.6 million at June 30, 2016 and December 31, 2015, respectively.

Amounts reported in accumulated other comprehensive loss related to cash flow interest rate derivatives are reclassified to interest expense as interest payments are made on the hedged variable interest rate liabilities. Valley estimates that $12.7 million will be reclassified as an increase to interest expense over the next 12 months.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Derivative - interest rate swaps:				
Interest income	$2	$157	$(97)	$103
Interest expense	2,069	(3,832)	6,797	(1,091)
Hedged item - loans and borrowings:				
Interest income	$(2)	$(157)	$97	$(103)
Interest expense	(2,060)	3,840	(6,779)	1,059

The amounts recognized in non-interest expense related to ineffectiveness of fair value hedges were immaterial for the three and six months ended June 30, 2016 and 2015.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Non-designated hedge interest rate derivatives				
Other non-interest expense	$(92)	$70	$(389)	$108

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

Valley has agreements with its derivative counterparties providing that if Valley defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Valley could also be declared in default on its derivative counterparty agreements. Additionally, Valley has an agreement with several of its derivative counterparties that contains provisions that require Valley’s debt to maintain an investment grade credit rating from each of the major credit rating agencies, from which it receives a credit rating. If Valley’s credit rating is reduced below investment grade or such rating is withdrawn or suspended, then the counterparty could terminate the derivative positions, and Valley would be required to settle its obligations under the agreements. As of June 30, 2016, Valley was in compliance with all of the provisions of its derivative counterparty agreements. As of June 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements was $60.3 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties. At June 30, 2016, Valley had $75.7 million in collateral posted with its counterparties.

Note 13. Balance Sheet Offsetting

Certain financial instruments, including derivatives (consisting of interest rate caps and swaps) and repurchase agreements (accounted for as secured long-term borrowings), may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. Valley is party to master netting arrangements with its financial institution counterparties; however, Valley does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a

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single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of cash or marketable investment securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. Master repurchase agreements which include "right of set-off" provisions generally have a legally enforceable right to offset recognized amounts. In such cases, the collateral would be used to settle the fair value of the repurchase agreement should Valley be in default. The table below presents information about Valley's financial instruments that are eligible for offset in the consolidated statements of financial condition as of June 30, 2016 and December 31, 2015.

				Gross Amounts Not Offset		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Financial Instruments	Cash Collateral	Net Amount
	(in thousands)					
June 30, 2016						
Assets:						
Interest rate caps and swaps	$59,851	$ —	$ 59,851	$(14,991)	$—	$44,860
Liabilities:						
Interest rate caps and swaps	$78,628	$ —	$ 78,628	$(14,991)	$(63,637)	$—
Repurchase agreements	340,000	—	340,000	—	(340,000)*	—
Total	$418,628	$ —	$ 418,628	$(14,991)	$(403,637)	$—
December 31, 2015						
Assets:						
Interest rate caps and swaps	$33,570	$ —	$ 33,570	$(8,942)	$—	$24,628
Liabilities:						
Interest rate caps and swaps	$50,752	$ —	$ 50,752	$(8,942)	$(41,810)	$—
Repurchase agreements	475,000	—	475,000	—	(475,000)*	—
Total	$525,752	$ —	$ 525,752	$(8,942)	$(516,810)	$—

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

Note 14. Tax Credit Investments

Valley's tax credit investments are primarily related to investments promoting qualified affordable housing projects, and other investments related to community development and renewable energy sources. Some of these tax-advantaged investments support Valley's regulatory compliance with the Community Reinvestment Act (CRA). Valley's investments in these entities generate a return primarily through the realization of federal income tax credits, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. These tax credits and deductions are recognized as a reduction of income tax expense.

Valley's tax credit investments are carried in other assets on the consolidated statements of financial condition. Valley's unfunded capital and other commitments related to the tax credit investments are carried in accrued expenses and other liabilities on the consolidated statements of financial condition. Valley recognizes amortization of tax credit investments, including impairment losses, within non-interest expense of the consolidated statements of income using the equity method of accounting. An impairment loss is recognized when the fair value of the tax credit investment is less than its carrying value.

The following table presents the balances of Valley's affordable housing tax credit investments, other tax credit investments, and related unfunded commitments at June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
	(in thousands)	
Other Assets:		
Affordable housing tax credit investments, net	$30,536	$ 32,094
Other tax credit investments, net	57,329	70,681
Total tax credit investments, net	$87,865	$ 102,775
Other Liabilities:		
Unfunded affordable housing tax credit commitments	$6,760	$ 7,330
Unfunded other tax credit commitments	655	12,545
Total unfunded tax credit commitments	$7,415	$ 19,875

The following table presents other information relating to Valley's affordable housing tax credit investments and other tax credit investments for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Components of Income Tax Expense:				
Affordable housing tax credits and other tax benefits	$1,065	$1,383	$2,130	$3,114
Other tax credit investment credits and tax benefits	3,268	4,903	6,536	8,521
Total reduction in income tax expense	$4,333	$6,286	$8,666	$11,635
Amortization of Tax Credit Investments:				
Affordable housing tax credit investment losses	$775	$296	$1,359	$973
Affordable housing tax credit investment impairment losses	60	40	200	528
Other tax credit investment losses	594	493	668	790
Other tax credit investment impairment losses	6,217	3,682	12,683	6,716
Total amortization of tax credit investments recorded in non-interest expense	$7,646	$4,511	$14,910	$9,007

Note 15. Business Segments

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

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management's confidence and strategies and management's expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as "should," "expect," "believe," "view," "opportunity," "allow," "continues," "reflects," "typically," "usually," "anticipate," or similar statements or of such terms. Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements in addition to those risk factors disclosed in Valley's Annual Report on Form 10-K for the year ended December 31, 2015, include, but are not limited to:

- weakness or a decline in the U.S. economy, in particular in New Jersey, New York Metropolitan area (including Long Island) and Florida;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- less than expected cost savings from the maturity, modification or prepayment of long-term borrowings that mature through 2022;
- further prepayment penalties related to the early extinguishment of high cost borrowings;
- less than expected cost savings in 2016 and 2017 from Valley's branch efficiency and cost reduction plans;
- lower than expected cash flows from purchased credit-impaired loans;
- claims and litigation pertaining to fiduciary responsibility, contractual issues, environmental laws and other matters;
- cyber attacks, computer viruses or other malware that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage our systems;
- Results of examinations by the OCC, the FRB, the CFPB and other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for credit losses, write-down assets, require us to reimburse customers, change the way we do business, or limit or eliminate certain other banking activities;

- 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;
- our inability to pay dividends at current levels, or at all, because of inadequate future earnings, regulatory restrictions or limitations, and changes in the composition of qualifying regulatory capital and minimum capital requirements (including those resulting from the U.S. implementation of Basel III requirements);
- higher than expected loan losses within one or more segments of our loan portfolio;
- unexpected significant declines in the loan portfolio due to the lack of economic expansion, increased competition, large prepayments, changes in regulatory lending guidance or other factors;
- unanticipated credit deterioration in our loan portfolio;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- an unexpected decline in real estate values within our market areas;
- changes in accounting policies or accounting standards, including the potential issuance of new authoritative accounting guidance which may increase the required level of our allowance for credit losses;
- higher than expected income tax expense or tax rates, including increases resulting from changes in tax laws, regulations and case law;
- higher than expected FDIC insurance assessments;
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships;
- lack of liquidity to fund our various cash obligations;
- unanticipated reduction in our deposit base;
- potential acquisitions that may disrupt our business;
- declines in value in our investment portfolio, including additional other-than-temporary impairment charges on our investment securities;
- future goodwill impairment due to changes in our business, changes in market conditions, or other factors;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations) subject us to additional regulatory oversight which may result in higher compliance costs and/or require us to change our business model;
- our inability to promptly adapt to technological changes;
- our internal controls and procedures may not be adequate to prevent losses;
- the inability to realize expected revenue synergies from the CNL merger in the amounts or in the timeframe anticipated;
- inability to retain customers and employees, including those of CNL; and
- other unexpected material adverse changes in our operations or earnings.

Critical Accounting Policies and Estimates

Valley’s accounting policies are fundamental to understanding management’s discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2015. We identified our policies on the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Management has reviewed the

application of these policies with the Audit Committee of Valley's Board of Directors. Our critical accounting policies are described in detail in Part II, Item 7 in Valley's Annual Report on Form 10-K for the year ended December 31, 2015.

New Authoritative Accounting Guidance

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

Executive Summary

Company Overview. At June 30, 2016, Valley had consolidated total assets of approximately $21.8 billion, total net loans of $16.4 billion, total deposits of $16.4 billion and total shareholders' equity of $2.2 billion. Our commercial bank operations include branch office locations in northern and central New Jersey, the New York City Boroughs of Manhattan, Brooklyn, Queens, and Long Island; and Florida. Of our current 213 branch network, 66 percent, 18 percent and 16 percent of the branches are located in New Jersey, New York and Florida, respectively. We have grown both in asset size and locations significantly over the past several years primarily through bank acquisitions.

Valley's most recent bank acquisition was completed on December 1, 2015 when Valley acquired CNLBancshares, Inc. (CNL) and its wholly-owned subsidiary, CNLBank, a commercial bank with approximately $1.6 billion in assets, $825 million in loans, and $1.2 billion in deposits, after purchase accounting adjustments, and a branch network of 16 offices on the date of its acquisition by Valley. The CNL acquisition helped strengthen Valley's Florida branch network (originally established in 2014) covering several major markets in central and southern Florida. In late February 2016, we completed the full systems integration of CNLBank's operations into Valley and realized the related staffing efficiencies effective April 1, 2016. See Item 1 of Valley's Annual Report on Form 10-K for the year ended December 31, 2015 for more details regarding our acquisition of CNL and other past merger activity.

Quarterly Results. Net income for the second quarter of 2016 was $39.0 million or 0.15 per diluted common share, compared to $32.0 million, or 0.14 per diluted common share, for the second quarter of 2015. The $7.0 million increase in quarterly net income as compared to the same quarter one year ago was largely due to: (i) a $15.3 million increase in our net interest income mostly due to higher average loan balances (due to both acquired loans and organic growth) and the prepayment and maturity of $845 million and $182 million of high cost long-term borrowings in the fourth quarter of 2015 and first half of 2016, respectively, (ii) a $4.1 million increase in non-interest income mostly caused by increases in net gains on sales of residential mortgage loans and insurance commissions, and (iii) a $3.1 million decrease in the provision for credit losses, partially offset by (iv) a $12.4 million increase in non-interest expense mostly due to increases in amortization of tax credit investments, professional and legal fees, debt prepayment penalties and other operating losses, as well as higher salary and employee benefit expense and other expenses related to the December 2015 acquisition of CNL, and (v) an increase in income tax expense mainly due to higher pre-tax income. See the "Net Interest Income," "Non-Interest Income," and "Non-Interest Expense" sections below for more details on the items above impacting our second quarter 2016 results, as well as other items discussed elsewhere in this MD&A.

Recent Development. In August 2016, we elected to prepay $405 million of FHLB borrowings with various maturity dates in 2018. The prepaid borrowings with a total average cost of 3.69 percent were funded with a new fixed-rate five-year FHLB advance totaling $405 million. The transaction was accounted for as a debt modification under U.S. GAAP. As a result, the new advance has an adjusted annual interest rate of 2.51 percent, after amortization of prepayment penalties totaling $20.0 million paid to the FHLB.

Additionally, Valley terminated an interest rate swap with a notional amount of $125 million in August 2016. The terminated swap, originally maturing in September 2023, was used to hedge the change in the fair value of Valley's 5.125 percent subordinated notes issued in September 2013. The transaction will result in an adjusted fixed annual

interest rate of 3.32 percent on the subordinated notes, after amortization of the derivative valuation adjustment recorded at the termination date.
Economic Overview and Indicators. During the second quarter of 2016, real gross domestic product (GDP) grew at a 1.2 percent annual rate after advancing 0.8 percent in the first quarter of 2016. The pace of hiring slowed somewhat compared to the full year of 2015 and business fixed investment remained weak. Growth in residential fixed investment however has been solid over recent quarters reflecting higher levels of disposable income from earlier declines in commodity prices (most notably oil) and rising confidence in the health of the labor market.

The labor market continued to improve as the civilian unemployment rate declined from 5.0 percent as of March 31, 2016 to 4.9 percent as of June 30, 2016. The pace of hiring slowed from a monthly average of 229 thousand of new jobs in 2015 to 147 thousand of new jobs in the second quarter of 2016. However, the addition of 255 thousand new jobs was reported for July 2016, which far surpassed the expectations of most economists. Measures of wages have increased albeit modestly which may indicate there is a shortage of labor resources.

In the second quarter of 2016, the pace of U.S. existing home sales increased compared to the linked first quarter and the second quarter of 2015. Home sales are expected to rise from current levels as market conditions remain generally favorable. Higher readings of consumer confidence that has been boosted by a strengthening labor market and higher levels of household disposable income should continue to support the housing market. However, low levels of home inventory may weigh on sales.

Compared to the first quarter of 2016, personal consumption of goods increased modestly in the second quarter of 2016 after essentially stalling in the first three months of the year. Personal consumption of services however continued to grow at a modest pace. Households may be shifting away from goods consumption for investment in housing. Equity and home prices continued to rise in the second quarter of 2016 after remaining volatile from certain global shocks in the beginning of the year which should continue to support the consumer.

The Federal Reserve’s Open Market Committee (FOMC) increased the target range of the federal funds rate by 25 basis points to 0.25 to 0.50 percent at its December 2015 meeting. The FOMC maintained the target range for the federal funds rate at 0.25 to 0.50 percent in their July 2016 meeting, citing concerns about recent global economic and financial developments and its impact on U.S. labor markets and inflation. In determining future policy actions, the FOMC will assess progress (both realized and expected) toward its objectives of maximum employment and two percent inflation. The FOMC has maintained its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and will continue rolling over maturing Treasury securities at auction. This policy should help maintain accommodative financial conditions through at least 2017. The FOMC has continued to emphasize that any additional change in monetary policy will be data dependent.

The 10-year U.S. Treasury note yield ended the first quarter at 1.49 percent, 78 basis points lower compared with December 31, 2015. The spread between the 2- and 10-year U.S. Treasury note yields was 0.91 percentage points at June 30, 2016, and 14 basis points and 30 basis points lower than compared to March 31, 2016 and December 31, 2015, respectively.

During the second quarter of 2016, we continued to see strong loan demand primarily for commercial real estate loans throughout our primary markets, including our expanded operations in Florida. However, new loan volumes in other areas, such as such automobile and home equity loans have slowed despite the relatively low levels of market interest rates. Contraction of the rate spreads between long- and short-term interest rates coupled with the repayment of higher rate financial instruments on our balance sheet may continue to weigh on our net interest income and margin in future periods. Additionally, the moderate pace of economic activity reported during the early stages of the third quarter may also challenge our business operations and results, as we have highlighted in remaining MD&A discussion below.

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

	For the Month Ended				
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Selected Economic Indicators:					
Unemployment rate:					
U.S.	4.90 %	5.00 %	5.00 %	5.10 %	5.30 %
New York Metro Region [1]	4.40	4.70	4.40	5.10	5.60
New Jersey	4.90	4.40	5.10	5.60	6.10
New York	4.80	4.80	4.80	5.10	5.50
Miami-Fort Lauderdale Metro Region	4.60	4.90	5.00	5.70	5.60
Florida	4.70	4.90	5.00	5.20	5.50

	Three Months Ended				
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
2-year U.S. Treasury rate [2]	0.77 %	0.84 %	0.84 %	0.69 %	0.61 %
10-year U.S. Treasury rate [2]	1.75	1.91	2.19	2.22	2.16
Real Gross Domestic Product [3]	1.20	1.10	1.40	2.00	3.90
Change in personal income [4] :					
New Jersey	NA	4.20	3.79	4.44	4.27
New York	NA	4.72	3.69	4.59	4.59
Florida	NA	5.11	5.35	5.52	5.19
Homeowner vacancy rates:					
New Jersey	1.90	1.80	1.40	1.40	1.80
New York	2.10	2.20	2.40	1.60	1.90
Florida	2.30	2.30	2.70	2.60	1.90
Number of U.S. regional existing home sales [5] :					
Northeast census region	756,667	696,667	733,333	720,000	676,667
South census region	2,233,333	2,226,667	2,120,000	2,210,000	2,146,667
Number of building permits authorized for new homes [2] :					
New Jersey	1,741	2,594	2,893	2,159	3,449
New York	2,041	2,345	5,495	2,982	10,387
Florida	8,679	8,619	10,141	9,003	8,374

NA—not available
(1) As reported by the Bureau of Labor Statistics for the NY-NJ-PA Metropolitan Statistical Area.
(2) Quarterly average for the period presented.
(3) Quarterly, compounded annual rate of change.
(4) Quarterly average, year over year percent change.
(5) Quarterly average, seasonally adjusted annual rate.
Sources: Bureau of Labor Statistics, U.S. Census Bureau, Federal Reserve Economic Data (FRED)

Loans. Loans increased by $363.2 million, or 9.0 percent on an annualized basis, to $16.5 billion at June 30, 2016 from March 31, 2016 largely due to a $426.4 million net increase in total commercial real estate loans and continued strong growth in collateralized personal lines of credit within the other consumer loans category. Residential mortgage loans decreased $46.5 million to $3.1 billion at June 30, 2016 from March 31, 2016 as we elected to sell $118.4

million of loan originations in an effort to manage the level of interest rate risk on our balance sheet during the second quarter. Total new organic loan originations, excluding new lines of credit and purchased loans, totaled over $900 million mostly in the commercial loan categories during the second quarter of 2016

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compared to approximately $600 million in the first quarter of 2016. Loan growth from new loan volumes was partly offset by a high level of loan repayments (partly due to credit risk considerations), including a $140.0 million decline in the acquired purchased credit-impaired (PCI) loan portion of the portfolio. Total commercial real estate loan growth, totaling 20.4 percent on an annualized basis, as compared to the total balance at March 31, 2016, was due to solid organic loan volumes throughout most of our New Jersey, New York and Florida markets, as well as purchased loan participations in the latter part of the second quarter, consisting of multi-family loans within our Northeast markets. See further details on our loan activities, including the covered loan portfolio, under the “Loan Portfolio” section below.

Asset Quality. Our past due loans and non-accrual loans, discussed further below, exclude PCI loans. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are accounted for on a pool basis and are not subject to delinquency classification in the same manner as loans originated by Valley. All of the loans acquired from CNL in the fourth quarter of 2015 are accounted for as PCI loans. As of June 30, 2016, PCI loans totaled $2.0 billion and represented approximately 12.0 percent of our total loan portfolio.

Total non-PCI loan portfolio delinquencies (including loans past due 30 days or more and non-accrual loans) as a percentage of total loans decreased to 0.49 percent at June 30, 2016 as compared to 0.61 percent at March 31, 2016 largely due to strong collections within non-accrual loans and lower levels of delinquent residential mortgage loans across all of the past due loan categories. Overall, our non-performing assets (including non-accrual loans) decreased by 21.0 percent to $61.3 million at June 30, 2016 as compared to $77.6 million at March 31, 2016 mostly due to a 23.5 percent decrease in non-accrual loans to $47.9 million.

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 somewhat unpredictable direction of U.S. economy and the housing and labor markets, management cannot provide assurance that our non-performing assets will not increase from the levels reported as of June 30, 2016. See the "Non-Performing Assets" section below for further analysis of our asset quality.

Deposits and Other Borrowings. The mix of the deposit categories of total average deposits for the second quarter of 2016 remained relatively unchanged as compared to the first quarter of 2016. Non-interest bearing deposits represented approximately 30 percent of total average deposits for the three months ended June 30, 2016, while savings, NOW and money market accounts were 51 percent and time deposits were 19 percent. Overall, average deposits totaling $16.5 billion for the second quarter of 2016 increased by $72.9 million as compared to the first quarter of 2016 due, in large part, to increased volumes in non-interest deposits, savings, and money market accounts during the second quarter of 2016, partially offset by declines in time deposit and NOW balances. Average time deposits decreased $57.7 million to $3.1 billion for the second quarter of 2016 compared to the first quarter of 2016 mainly due to continued run-off of promotional retail certificates of deposit, as well as our shift to other borrowings alternatives, such as short-term FHLB advances, during the second quarter of 2016.

Average short-term borrowings increased $157.1 million, or 14.8 percent, to $1.2 billion for the three months ended June 30, 2016 as compared to the first quarter of 2016 mostly due to new FHLB advances of $155 million and $27 million issued in March and April 2016, respectively. Actual ending balances for short-term borrowings increased $241.2 million to $1.4 billion at June 30, 2016 as compared to March 31, 2016 due to the aforementioned $27 million in FHLB advances and another $380 million in new FHLB advances issued in late June 2016 that were primarily used for additional liquidity to fund new loan volumes, as well as to repay $135 million in short-term repos that matured in April 2016. The increase in short-term FHLB advances was also partially offset by a moderate decline in customer deposit balances swept into overnight repo accounts at June 30, 2016.

Average long-term borrowings (which include junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of condition) decreased $189.4 million, or 10.5 percent, to $1.6 billion for the second quarter of 2016 from $1.8 billion for the first quarter of 2016 largely due to the aforementioned maturity of $182 million of high cost long-term borrowings replaced by short-term FHLB borrowings during the first

half of 2016. Actual ending balances for long-term borrowings decreased $114.8 million

to $1.5 billion at June 30, 2016 as compared to March 31, 2016 primarily due to the May prepayment of $87 million of FHLB advances assumed in the acquisition of CNL, as well as the matured FHLB advances totaling $27 million. The $87 million prepayment of FHLB borrowings was entirely funded by cash balances that were held as collateral at the FHLB of Atlanta.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Return on average assets	0.72 %	0.67%	0.69 %	0.66%
Return on average shareholders' equity	6.97	6.75	6.75	6.62
Return on average tangible shareholders' equity (ROATE)	10.38	9.96	10.07	9.81

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	($ in thousands)			
Net income	$39,027	$31,991	$75,214	$62,332
Average shareholders' equity	2,238,510	1,896,209	2,229,040	1,883,054
Less: Average goodwill and other intangible assets	(735,115)	(611,474)	(735,276)	(612,510)
Average tangible shareholders' equity	$1,503,395	$1,284,735	$1,493,764	$1,270,544
Annualized ROATE	10.38 %	9.96 %	10.07 %	9.81 %

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

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

Net Interest Income

Net interest income on a tax equivalent basis totaling $153.5 million for the second quarter of 2016 increased $3.3 million and $15.4 million from the first quarter of 2016 and second quarter of 2015, respectively. Interest income on a tax equivalent basis increased $3.5 million to $191.0 million for the second quarter of 2016 as compared to the first quarter of 2016 mainly due to a $259.4 million increase in average loans, as well as the 2 and 8 basis point increases in the yield on average loans and taxable investments, respectively. The increase in yield on average loans for the second quarter of 2016 as compared to the linked first quarter was due, in part, to an increase in periodic interest income recoveries from closed PCI loan pools, as well as moderate increases in both periodic fee income from derivative interest rate swaps executed with commercial lending customers and loan prepayment penalty fees. Interest

expense of

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$37.6 million for the three months ended June 30, 2016 remained relatively unchanged from the first quarter of 2016 and decreased $2.0 million as compared to the second quarter of 2015. During the second quarter of 2016, our interest expense on long-term borrowings declined by approximately $1.5 million largely due to the maturity of $155 million and $27 million of high cost FHLB borrowings in March and April 2016, respectively, as well as the May 2016 prepayment of an additional $87 million of FHLB borrowings assumed in the CNL acquisition. The reduction in interest expense from the FHLB repayments was partially offset a $1.2 million increase in interest expense on short-term borrowings mostly caused by cash flow interest rate swaps with a total notional amount of $182 million that became effective in March and April 2016. Interest expense on savings, NOW and money market deposits also increased $718 thousand during the second quarter of 2016. The increase was partially driven by an increase in the mix of higher rate money market balances within this category and a $35.3 million increase in the total average balances as compared to the first quarter of 2016.

Average interest earning assets increased to $19.5 billion for the second quarter of 2016 as compared to approximately $17.1 billion for the second quarter of 2015 largely due to the acquired loans and investments totaling $825.5 million and $327.3 million, respectively, in the acquisition of CNL on December 1, 2015, as well as strong organic and purchased loan growth over the last twelve month period. The broad-based loan growth within several loan categories since June 30, 2015 was largely supplemented by purchases of loan participations in multi-family loans and 1-4 family loans totaling a combined $1.0 billion primarily from local third party originators during the last twelve months ended June 30, 2016. Compared to the first quarter of 2016, average interest earning assets increased by $50.1 million from $19.5 billion largely due to organic and purchased loan growth mainly within commercial real estate and other consumer loans during the six months ended June 30, 2016, partially offset by maturing short-term U.S. Treasury securities and lower excess cash liquidity held primarily overnight with the Federal Reserve Bank of New York. Average overnight cash balances declined due, in part, to the timing of new loan originations, as well as the $87 million prepayment of FHLB advances during the second quarter of 2016. As a result of the loan growth over the last six months, average loans increased $259.4 million from the first quarter of 2016, while our average investments declined $47.4 million largely due to the maturity of short-term U.S. Treasury securities classified as available for sale purchased in late December 2015.

Average interest bearing liabilities increased $1.6 billion to $14.3 billion for the second quarter of 2016 as compared to the second quarter of 2015 mainly due to deposits and other borrowings totaling $1.2 billion and $147.8 million, respectively, assumed in the acquisition of CNL during the fourth quarter of 2015, and a much greater use of short-term FHLB advances since late December 2015 as part of our overall funding strategy. Compared to the first quarter of 2016, average interest bearing liabilities decreased $54.7 million in the second quarter of 2016 mostly due to the aforementioned prepayment of $87 million in FHLB advances assumed in the CNL acquisition and continued run-off of high-cost time deposits. See additional information under "Deposits and Other Borrowings" in the Executive Summary section above.

The net interest margin on a tax equivalent basis of 3.14 percent for the second quarter of 2016 increased 6 basis points from the first quarter of 2016, and decreased 8 basis points as compared to the second quarter of 2015. The yield on average interest earning assets also increased by 6 basis points on a linked quarter basis driven mostly by higher loan yields. The yield on average loans increased 2 basis points to 4.17 percent for the second quarter of 2016, and was positively impacted by the aforementioned increases in periodic interest income and fees as compared to the first quarter of 2016. Our yield on average taxable investment securities increased by 8 basis points during the second quarter of 2016 as compared to the first quarter of 2016 largely due to the maturity of $500 million in low-yielding short-term U.S. Treasury securities purchased in late December 2015. The overall cost of average interest bearing liabilities increased by 1 basis point from 1.04 percent in the linked first quarter of 2016. The increase was primarily due to a 31 basis point increase in the cost of short-term borrowings largely caused by the aforementioned derivative transactions, partially offset by the maturities of high cost long-term borrowings during March and April 2016, and the run-off of some higher rate retail certificates of deposit. Our cost of total deposits increased 1 basis point to 0.47 percent for the second quarter of 2016 as compared to the three months ended March 31, 2016.

The expected future level of our net interest margin is subject to a multitude of conditional, and sometimes unpredictable, factors that can impact the actual margin results. For example, our margin may continue to face the risk

of compression in the future due to, among other factors, the relatively low level of market interest rates on most

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interest earning asset alternatives, further repayment of higher yielding interest earning assets, the re-pricing risk related to our interest earning assets with short durations if long-term market rates were to decline below current levels, as well as the negative impact on interest expense from certain cash flow hedge derivative transactions related to our borrowings. However, we continuously manage our balance sheet and explore ways to reduce our cost of funds to optimize our net interest margin and overall returns. The aforementioned borrowings repaid in the first half of 2016, an additional $75 million of borrowings with a contractual interest rate of 5 percent that matured in July 2016, and the debt modification of $405 million in high cost FHLB borrowings during August 2016 (See "Recent Development" section above) are all expected to benefit our future net interest income and margin. Additionally, potential future loan growth from solid loan demand in our primary markets (that has continued into the early stages of the third quarter of 2016) is anticipated to positively impact our future net interest income.

The following table reflects the components of net interest income for the three months ended June 30, 2016, March 31, 2016 and June 30, 2015:

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

	Three Months Ended								
	June 30, 2016			March 31, 2016			June 30, 2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)								
Assets									
Interest earning assets:									
Loans (1)(2)	$16,252,915	$169,430	4.17%	$15,993,543	$166,075	4.15%	$14,143,580	$158,169	4.47%
Taxable investments (3)	2,433,896	15,572	2.56	2,497,986	15,479	2.48	2,214,976	13,849	2.50
Tax-exempt investments (1)(3)	585,948	5,745	3.92	569,265	5,677	3.99	537,777	5,531	4.11
Federal funds sold and other interest bearing deposits	264,813	296	0.45	426,676	357	0.33	235,353	146	0.25
Total interest earning assets	19,537,572	191,043	3.91	19,487,470	187,588	3.85	17,131,686	177,695	4.15
Allowance for loan losses	(107,892)			(107,039)			(104,446)		
Cash and due from banks	294,046			296,721			281,877		
Other assets	2,003,679			2,013,099			1,798,802		
Unrealized gains (losses) on securities available for sale, net	2,972			(9,973)			320		
Total assets	$21,730,377			$21,680,278			$19,108,239		
Liabilities and shareholders' equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$8,369,553	$9,961	0.48%	$8,334,289	$9,243	0.44%	$7,076,104	$5,911	0.33%
Time deposits	3,070,113	9,223	1.20	3,127,842	9,585	1.23	2,792,637	8,128	1.16
Total interest bearing deposits	11,439,666	19,184	0.67	11,462,131	18,828	0.66	9,868,741	14,039	0.57
Short-term borrowings	1,218,154	3,120	1.02	1,061,011	1,872	0.71	255,097	207	0.32

Long-term borrowings (4)	1,623,136	15,269	3.76	1,812,556	16,744	3.70	2,582,616	25,331	3.92
Total interest bearing liabilities	14,280,956	37,573	1.05	14,335,698	37,444	1.04	12,706,454	39,577	1.25
Non-interest bearing deposits	5,013,821			4,918,463			4,331,647		
Other liabilities	197,090			206,547			173,929		
Shareholders' equity	2,238,510			2,219,570			1,896,209		
Total liabilities and shareholders' equity	$21,730,377			$21,680,278			$19,108,239		
Net interest income/interest rate spread (5)		$153,470	2.86 %		$150,144	2.81 %		$138,118	2.90 %
Tax equivalent adjustment		(2,015)			(1,991)			(1,941)	
Net interest income, as reported		$151,455			$148,153			$136,177	
Net interest margin (6)			3.10 %			3.04 %			3.18 %
Tax equivalent effect			0.04 %			0.04 %			0.04 %
Net interest margin on a fully tax equivalent basis (6)			3.14 %			3.08 %			3.22 %

The following table reflects the components of net interest income for the six months ended June 30, 2016 and 2015:

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

	Six Months Ended					
	June 30, 2016			June 30, 2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)					
Assets						
Interest earning assets:						
Loans (1)(2)	$16,123,229	$335,506	4.16 %	$13,857,893	$308,657	4.45 %
Taxable investments (3)	2,465,941	31,051	2.52	2,249,872	30,520	2.71
Tax-exempt investments (1)(3)	577,607	11,422	3.95	539,299	11,088	4.11
Federal funds sold and other interest bearing deposits	345,745	653	0.38	289,314	366	0.25
Total interest earning assets	19,512,522	378,632	3.88	16,936,378	350,631	4.14
Allowance for loan losses	(107,466)			(104,414)		
Cash and due from banks	295,384			358,153		
Other assets	2,008,389			1,791,057		
Unrealized losses on securities available for sale, net	(3,501)			(1,327)		
Total assets	$21,705,328			$18,979,847		
Liabilities and shareholders' equity						
Interest bearing liabilities:						
Savings, NOW and money market deposits	$8,351,921	$19,204	0.46 %	$7,109,687	$11,906	0.33 %
Time deposits	3,098,978	18,808	1.21	2,774,955	16,102	1.16
Total interest bearing deposits	11,450,899	38,012	0.66	9,884,642	28,008	0.57
Short-term borrowings	1,139,583	4,992	0.88	191,942	301	0.31
Long-term borrowings (4)	1,717,846	32,013	3.73	2,576,275	50,167	3.89
Total interest bearing liabilities	14,308,328	75,017	1.05 %	12,652,859	78,476	1.24 %
Non-interest bearing deposits	4,966,142			4,271,074		
Other liabilities	201,818			172,860		
Shareholders' equity	2,229,040			1,883,054		
Total liabilities and shareholders' equity	$21,705,328			$18,979,847		
Net interest income/interest rate spread (5)		$303,615	2.83 %		$272,155	2.90 %
Tax equivalent adjustment		(4,007)			(3,892)	
Net interest income, as reported		$299,608			$268,263	
Net interest margin (6)			3.07 %			3.17 %
Tax equivalent effect			0.04 %			0.04 %
Net interest margin on a fully tax equivalent basis (6)			3.11 %			3.21 %