

VALLEY NATIONAL BANCORP
Form 10-K
February 28, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

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New Jersey
(State or other jurisdiction of

22-2477875
(I.R.S. Employer

Incorporation or Organization)
1455 Valley Road

Identification Number)

Wayne, NJ
(Address of principal executive office)

07470
(Zip code)

973-305-8800

(Registrant's telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, no par value	New York Stock Exchange
VNB Capital Trust I	New York Stock Exchange

7.75% Trust Preferred Securities

(and the Guarantee by Valley National Bancorp with

respect thereto)

Warrants to purchase Common Stock

New York Stock Exchange

Warrants to purchase Common Stock

NASDAQ Capital Market

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$2.0 billion on June 30, 2012.

There were 199,049,210 shares of Common Stock outstanding at February 26, 2013.

Documents incorporated by reference:

Certain portions of the registrant's Definitive Proxy Statement (the 2013 Proxy Statement) for the 2013 Annual Meeting of Shareholders to be held April 17, 2013 will be incorporated by reference in Part III. The 2013 proxy statement will be filed within 120 days of December 31, 2012.

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PART I

Item 1. Business

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

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended (Holding Company Act). The words Valley, the Company, we, our and us refer to Valley National Bancorp and its wholly owned subsidiaries unless we indicate otherwise. At December 31, 2012, Valley had consolidated total assets of \$16.0 billion, total loans of \$11.0 billion, total deposits of \$11.3 billion and total shareholders' equity of \$1.5 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the Bank in this report), Valley owns all of the voting and common shares of VNB Capital Trust I, GCB Capital Trust III, and State Bancorp Capital Trusts I and II through which trust preferred securities were issued. These trusts are not consolidated subsidiaries. See Note 11 to the consolidated financial statements.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 210 branches in 146 communities serving 16 counties throughout northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. The Bank provides a full range of commercial, retail and wealth management financial services products. The Bank provides a variety of banking services including automated teller machines, telephone and internet banking, remote deposit capture, overdraft facilities, drive-in and night deposit services, and safe deposit facilities. The Bank also provides certain international banking services to customers including standby letters of credit, documentary letters of credit and related products, and certain ancillary services such as foreign exchange, documentary collections, foreign wire transfers and the maintenance of foreign bank accounts.

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

an all-line insurance agency offering property and casualty, life and health insurance;

asset management advisors which are Securities and Exchange Commission (SEC) registered investment advisors;

title insurance agencies in both New Jersey and New York;

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

a subsidiary which owns and services auto loans;

a subsidiary which owns and services general aviation aircraft loans and existing commercial equipment leases;

a subsidiary which specializes in health care equipment and other commercial equipment leases; and

a subsidiary which owns and services New York commercial loans and specializes in asset-based lending.

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

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preferred stock to individuals, most of whom are non-senior management Bank employees. The Bank owns the remaining preferred stock and all the common stock of the REITs.

Recent Acquisitions

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

On January 1, 2012, Valley acquired State Bancorp, Inc. (State Bancorp), the holding company for State Bank of Long Island, a commercial bank with approximately \$1.7 billion in assets, \$1.1 billion in loans, and \$1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. Of the acquired branch offices, 14 remain within our 44 branch network in New York and are located mostly in Long Island and Queens. The new locations complement Valley's other New York City locations, including five branches in Queens, and provide a foundation for future expansion efforts into these attractive markets. The shareholders of State Bancorp received a fixed one-for-one exchange ratio for Valley National Bancorp common stock. The total consideration for the acquisition totaled \$208 million. As a condition to the closing of the merger, State Bancorp redeemed \$36.8 million of its outstanding Fixed Rate Cumulative Series A Preferred Stock from the U.S. Treasury. The stock redemption was funded by a \$37.0 million short-term loan from Valley to State Bancorp. The outstanding loan, included in Valley's consolidated financial statements at December 31, 2011, was subsequently eliminated as of the acquisition date.

Additionally, a warrant issued by State Bancorp (in connection with its preferred stock issuance) to the U.S. Treasury in December 2008 was assumed by Valley as of the acquisition date. The ten-year warrant to purchase up to 489 thousand of Valley common shares has an exercise price of \$11.30 per share, and is exercisable on a net exercise basis. Valley has not negotiated the possible redemption of the warrant with the U.S. Treasury. However, the Treasury may request that we make an offer to redeem the warrant in the future, or request that warrant shares be individually sold at public auction. The entire warrant remained outstanding at December 31, 2012. See further details regarding the acquisition of State Bancorp in Note 2 to the consolidated financial statements.

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

In connection with both of the FDIC-assisted transactions, the Bank entered into loss-share agreements with the FDIC. Under the terms of the loss-sharing agreements, the Bank will share in the losses on assets and other real estate owned (referred to as covered loans and covered OREO, together covered assets). The Bank may sell the acquired loans (with or without recourse) but in such case, the FDIC loss-sharing agreements will cease to be effective for any losses incurred on such loans. Additionally, any related FDIC loss-share receivable would be uncollectable and written-off upon settlement of the sale. The commercial and single-family (residential) loan loss-sharing agreements with the FDIC expire in March of 2015 and 2020, respectively. The Company expects approximately 75 percent of the covered loans to mature, substantially paydown under contractual loan terms or work through our collection process on or before the expiration of the related loss-sharing agreements. See Note 2 to the consolidated financial statements for further details regarding these transactions. As of December 31, 2012, the Company had approximately \$180.7 million in covered loans, which comprised 1.6 percent of its total loan portfolio.

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In July 2008, we acquired Greater Community Bancorp, the holding company of Greater Community Bank, a commercial bank with approximately \$1.0 billion in assets, \$812 million in loans (mostly commercial real estate loans), \$715 million in deposits and 16 branches in northern New Jersey. The purchase price of \$167.8 million was paid through a combination of Valley's common stock (10.6 million shares) and 918 thousand warrants. Each warrant is entitled to 1.2155 Valley common shares issuable upon exercise at \$15.64 per share. The warrants have an expiration date of June 30, 2015, and to date, all of the warrants issued remain outstanding.

Business Segments

Valley National Bank reports the results of its operations and manages its business through four business segments: commercial lending, consumer lending, investment management, and corporate and other adjustments. Valley's Wealth Management Division comprised of trust, asset management and insurance services, is included in the consumer lending segment. See Note 20 to the consolidated financial statements for details of the financial performance of our business segments. We offer a variety of products and services within the commercial and consumer lending segments as described below.

Commercial Lending Segment

Commercial and Industrial Loans. Commercial and industrial loans, including \$46.5 million of covered loans, totaled approximately \$2.1 billion and represented 19.3 percent of the total loan portfolio at December 31, 2012. We make commercial loans to small and middle market businesses most often located in the New Jersey and New York area. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Our loan decisions will include consideration of a borrower's standing in the community, willingness to repay debts, collateral coverage and other forms of support. Strong consideration is given to long-term existing customers that have maintained a favorable relationship. Commercial loan products offered consist of term loans for equipment purchases, working capital lines of credit that assist our customer's financing of accounts receivable and inventory, and commercial mortgages for owner occupied properties. Working capital advances are generally used to finance seasonal requirements and are repaid at the end of the cycle by the conversion of short-term assets into cash. Short-term commercial business loans may be collateralized by a lien on accounts receivable, inventory, equipment and/or partly collateralized by real estate. Short-term loans may also be made on an unsecured basis based on a borrower's financial strength and past performance. We, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. Unsecured commercial and industrial loans totaled approximately \$307.0 million at December 31, 2012. In addition, through our subsidiaries we own and service general aviation aircraft loans, provide financing to the diamond and jewelry industry, the medical equipment leasing market, and engage in asset-based accounts receivable and inventory financing.

Commercial Real Estate Loans. Commercial real estate loans and construction loans, including \$122.2 million of covered loans, totaled \$5.0 billion and represented 45.1 percent of the total loan portfolio at December 31, 2012. We originate commercial real estate loans that are secured by multi-unit residential property and non-owner occupied commercial, industrial, and retail property within New Jersey, New York and Pennsylvania. Loans are generally written on an adjustable basis with rates tied to a specifically identified market rate index. Adjustment periods generally range between five to ten years and repayment is structured on a fully amortizing basis for terms up to thirty years. Commercial real estate loans are subject to underwriting standards

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and processes similar to commercial and industrial loans but generally they involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley's primary markets. With respect to loans to developers and builders, we originate and manage construction loans structured on either a revolving or a non-revolving basis, depending on the nature of the underlying development project. Our construction loans totaling \$427.4 million at December 31, 2012 are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single-family residential construction) are controlled with loan advances dependent upon the presale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Consumer Lending Segment

Residential Mortgage Loans. Residential mortgage loans, including \$9.7 million of covered loans, totaled \$2.5 billion and represented 22.4 percent of the total loan portfolio at December 31, 2012. We offer a full range of residential mortgage loans for the purpose of purchasing or refinancing one-to-four family residential properties. Residential mortgage loans are secured by 1-4 family properties generally located in counties where we have a branch presence and contiguous counties (including the State of Pennsylvania). We occasionally make mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Underwriting policies that are based on underwriting standards that generally comply with Fannie Mae and/or Freddie Mac requirements. Appraisals and valuations of real estate collateral are contracted directly with independent appraisers or from valuation services and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with regulatory requirements and guidance issued by the Bank's primary regulator. Credit scoring, using FICO[®] and other proprietary, credit scoring models is employed in the ultimate, judgmental credit decision by Valley's underwriting staff. Valley does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one to four family homes generally located in northern and central New Jersey, the New York City metropolitan area, and eastern Pennsylvania. Valley's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property. Terms of first mortgages range from 10 years for interest only loans (which totaled approximately \$21.4 million at December 31, 2012) to 30 years for fully amortizing loans. The small 10-year interest only loan portfolio is declining year over year as Valley generally does not originate this type of loan product. In deciding whether to make a residential real estate loan, we consider the qualifications of the borrower, the value and condition of the underlying property and other factors that we believe are predictive of future loan performance.

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

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Other Consumer Loans. Other consumer loans, including \$2.3 million of covered loans, totaled \$1.5 billion and represented 13.2 percent of the total loan portfolio at December 31, 2012. Our other consumer loan portfolio is primarily comprised of direct and indirect automobile loans, home equity loans and lines of credit, loans secured by the cash surrender value of life insurance, and to a lesser extent, secured and unsecured other consumer loans (including credit card loans). Valley is an auto lender in New Jersey, New York, Pennsylvania, and Connecticut offering indirect auto loans secured by either new or used automobiles. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Home equity lending consists of both fixed and variable interest rate products. We mainly provide home equity loans to our residential mortgage customers or take a secondary position to another lender's lien position within the footprint of our primary lending territory. We generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75 percent when originating a home equity loan. Other consumer loans include direct consumer term loans, both secured and unsecured. From time to time, the Bank will also purchase prime consumer loans originated by and serviced by other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. Unsecured consumer loans totaled approximately \$126.8 million, including \$8.6 million of credit card loans, at December 31, 2012.

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

Investment Management Segment

Although we are primarily focused on our lending and wealth management services, a large portion of our income is generated through investments in various types of securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York), as part of our asset/liability management strategies. As of December 31, 2012, our total investment securities and interest bearing deposits with banks were \$2.4 billion and \$463.0 million, respectively. See the Investment Securities Portfolio section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 4 to the consolidated financial statements for additional information concerning our investment securities.

Changes in Loan Portfolio Composition

Approximately 71 percent of Valley's \$11.0 billion total loan portfolio consists of non-covered (i.e., loans which are not subject to loss-sharing agreements with the FDIC) commercial real estate (including construction loans), residential mortgage, and home equity loans at December 31, 2012. Of the remaining 29 percent, approximately 27 percent consists of different categories of non-covered loans and approximately 2 percent consists of loans covered by the FDIC loss-sharing agreements. Valley has no internally planned changes that will significantly impact the current composition of our loan portfolio by loan type. However, many external factors outlined in Item 1A. Risk Factors, the Executive Summary section of our MD&A, and elsewhere in this report may impact our ability to maintain the current composition of our loan portfolio. See the Loan Portfolio section of our MD&A in this report for further discussion of our loan composition and concentration risks.

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The following table presents the loan portfolio segments by state as an approximate percentage of each applicable segment and our percentage of total loans by state at December 31, 2012.

	December 31, 2012				% of Total Loans
	Percentage of Loan Portfolio Segment:				
	Commercial and Industrial	Real Estate	Residential	Consumer	
New Jersey	48%	51%	85%	57%	59%
New York	45	45	9	23	34
Pennsylvania	1	1	3	16	3
Connecticut	1	1	1	2	1
Florida	1	1	1	1	1
Other*	4	1	1	1	2
Total	100%	100%	100%	100%	100%

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

Credit Risk Management and Underwriting Approach

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

Our historical and current loan underwriting practice prohibits the origination of payment option ARMs which allow for negative interest amortization and subprime loans. Our residential loan portfolio included approximately \$17.5 million and \$22.0 million of loans that could be identified by us as non-conforming loans commonly referred to as either alt-A, stated income, or no doc loans at December 31, 2012 and 2011, respectively. These loans were mostly originated prior to 2008 and had a weighted average loan-to-value ratio of 70 percent at the date of origination. Virtually all of our loan originations in recent years have conformed to rules requiring documentation of income, assets sufficient to close the transactions and debt to income ratios that support the borrower's ability to repay under the loan's proposed terms and conditions. These rules are applied to all loans originated for retention in our portfolio or for sale in the secondary market.

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

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

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

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

Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as collateral dependent impaired loans. Collateral values for such loans are typically estimated using individual appraisals performed, on average, every 12 months. Between scheduled appraisals, property values are monitored within the commercial portfolio by reference to recent trends in commercial property sales as published by leading industry sources. Property values are monitored within the residential mortgage portfolio by reference to available market indicators, including real estate price indices within Valley's primary lending areas.

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

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

Loan Renewals and Modifications

In the normal course of our lending business, we may renew loans to existing customers upon maturity of the existing loan. These renewals are granted provided that the new loan meets our standard underwriting criteria for such loan type. While our traditional underwriting approach has always been conservative, the underwriting criteria for certain loan types are stricter in light of the current economic environment.

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Additionally, on a case-by-case basis, we may extend, restructure, or otherwise modify the terms of existing loans from time to time to remain competitive and retain certain profitable customers, as well as assist customers who may be experiencing financial difficulties. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan (TDR).

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

Extension of Credit to Past Due Borrowers

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

Loans Originated by Third Parties

From time to time, the Bank purchases residential mortgage and automobile loans, and to a lesser extent other loan types (including commercial real estate loans totaling \$110.0 million at December 31, 2012 that were acquired from another financial institution during the first quarter of 2012), originated by, and sometimes serviced by, other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. Purchased residential mortgage loans and automobile loans (excluding purchased credit-impaired loans acquired in business combinations or FDIC-assisted transactions) totaled approximately \$162.8 million and \$53.3 million, respectively, at December 31, 2012 representing 6.6 percent and 6.8 percent of our total residential mortgage and automobile loan portfolios, respectively. Of the \$162.8 million in purchased residential mortgage loans, \$119.0 million were originated by board-approved independent mortgage bankers. The underwriting documentation for such loans is carefully reviewed on an individual loan-by-loan basis by Valley prior to purchase to ensure each loan meets Valley's normal credit underwriting standards. All of the purchased automobile loans are also selected using Valley's normal underwriting criteria at the time of purchase. At December 31, 2012, the mortgage loans originated by independent mortgage bankers had loans past due 30 days or more totaling 4.1 percent of these loans as compared to 2.2 percent for our total residential mortgage portfolio, including all delinquencies. Overall, the purchased and serviced by Valley residential mortgage and automobile portfolios had loans past due 30 days or more totaling 7.7 percent and 0.4 percent of the total loans within each respective portfolio at December 31, 2012.

Competition

Valley National Bank is one of the largest commercial banks headquartered in New Jersey, with its primary markets located in northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. Valley ranked 16th in competitive ranking and market share based on the deposits reported by 231 FDIC-insured financial institutions in the New York, Northern New Jersey and Long Island deposit market as of June 30, 2012. The FDIC also ranked Valley 8th and 34th in the states of

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New Jersey and New York, respectively, based on deposits as of June 30, 2012. Despite our favorable FDIC rankings, the market for banking and bank-related services is highly competitive and we face substantial competition in all phases of our operations. In addition to the FDIC-insured commercial banks in our principal metropolitan markets, we also compete with other providers of financial services such as savings institutions, credit unions, mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national institutions which offer financial services. Many of these competitors may have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures.

In addition, competition has further intensified as a result of recent changes in regulation, advances in technology and product delivery systems, and bank failures. Web-based and other internet companies are providing non-traditional, but increasingly strong, competition for our borrowers, depositors, and other customers. Within our New Jersey and the New York metropolitan markets, we compete with some of the largest financial institutions in the world that are able to offer a large range of products and services at competitive rates and prices. Nevertheless, we believe we can compete effectively as a result of utilizing various strategies including our long history of local customer service and convenience as part of a relationship management culture, in conjunction with the pricing of loans and deposits. Our customers are influenced by the convenience, quality of service from our knowledgeable staff, personal contacts and attention to customer needs, as well as availability of products and services and related pricing. We provide such convenience through our banking network of 210 branches in 146 communities, an extensive ATM network, and our 24-hour telephone and on-line banking systems.

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

Personnel

At December 31, 2012, Valley National Bank and its subsidiaries employed 2,910 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

Table of Contents*Executive Officers*

Names	Age at December 31, 2012	Executive Officer Since	Office
Gerald H. Lipkin	71	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	55	1991	Director, Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	64	1993	Director, Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	64	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	66	1990	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	69	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	66	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	54	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	65	1991	Executive Vice President of Valley and Valley National Bank
Ira D. Robbins	38	2009	Executive Vice President of Valley and Valley National Bank
Elizabeth E. De Laney	48	2007	First Senior Vice President of Valley National Bank
Eric W. Gould	44	2001	First Senior Vice President of Valley National Bank
Russell C. Murawski	63	2007	First Senior Vice President of Valley National Bank
John H. Noonan	66	2006	First Senior Vice President of Valley National Bank
Stephen P. Davey	57		