

VALLEY NATIONAL BANCORP  
Form 10-Q  
November 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2015

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 (I.R.S. Employer  
Incorporation or Organization) Identification Number)

1455 Valley Road 07470  
Wayne, NJ (Zip code)  
(Address of principal executive office)  
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  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 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):

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Large accelerated filer

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

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 232,867,360 shares were outstanding as of November 4, 2015

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## VALLEY NATIONAL BANCORP

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except for share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	\$220,023	\$462,569
Interest bearing deposits with banks	71,756	367,838
Investment securities:		
Held to maturity (fair value of \$1,670,951 at September 30, 2015 and \$1,815,976 at December 31, 2014)	1,637,310	1,778,316
Available for sale	797,389	886,970
Trading securities	—	14,233
Total investment securities	2,434,699	2,679,519
Loans held for sale, at fair value	18,184	24,295
Non-covered loans	14,887,323	13,262,022
Covered loans	129,491	211,891
Less: Allowance for loan losses	(104,551)	(102,353)
Net loans	14,912,263	13,371,560
Premises and equipment, net	291,084	282,997
Bank owned life insurance	380,828	375,640
Accrued interest receivable	57,532	57,333
Due from customers on acceptances outstanding	1,622	4,197
FDIC loss-share receivable	7,267	13,848
Goodwill	577,534	575,892
Other intangible assets, net	31,382	38,775
Other assets	567,358	539,392
Total Assets	\$19,571,532	\$18,793,855
Liabilities		
Deposits:		
Non-interest bearing	\$4,365,418	\$4,235,515
Interest bearing:		
Savings, NOW and money market	6,979,804	7,056,133
Time	3,154,641	2,742,468
Total deposits	14,499,863	14,034,116
Short-term borrowings	302,941	146,781
Long-term borrowings	2,529,326	2,526,408
Junior subordinated debentures issued to capital trusts	41,374	41,252
Bank acceptances outstanding	1,622	4,197
Accrued expenses and other liabilities	199,457	178,084
Total Liabilities	17,574,583	16,930,838
Shareholders' Equity		
Preferred stock (no par value, authorized 30,000,000 shares; issued 4,600,000 shares at September 30, 2015)	111,590	—
Common stock (no par value, authorized 332,023,233 shares; issued 232,800,531 shares at September 30, 2015 and 232,127,098 shares at December 31, 2014)	81,352	81,072
Surplus	1,702,907	1,693,752

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Retained earnings	150,255	130,845	
Accumulated other comprehensive loss	(49,052	) (42,495	)
Treasury stock, at cost (10,651 common shares at September 30, 2015 and 16,123 common shares at December 31, 2014)	(103	) (157	)
Total Shareholders' Equity	1,996,949	1,863,017	
Total Liabilities and Shareholders' Equity	\$19,571,532	\$18,793,855	
See accompanying notes to consolidated financial statements.			

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest Income				
Interest and fees on loans	\$ 157,141	\$ 135,108	\$ 465,787	\$ 402,525
Interest and dividends on investment securities:				
Taxable	12,148	15,134	39,313	47,299
Tax-exempt	3,593	3,647	10,800	11,033
Dividends	1,658	1,522	5,013	4,702
Interest on federal funds sold and other short-term investments	150	48	516	102
Total interest income	174,690	155,459	521,429	465,661
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	5,587	4,860	17,493	13,671
Time	9,535	6,981	25,637	20,196
Interest on short-term borrowings	126	218	427	840
Interest on long-term borrowings and junior subordinated debentures	25,482	28,732	75,649	84,843
Total interest expense	40,730	40,791	119,206	119,550
Net Interest Income	133,960	114,668	402,223	346,111
Provision for credit losses	94	(423)	) 4,594	(2,096)
Net Interest Income After Provision for Credit Losses	133,866	115,091	397,629	348,207
Non-Interest Income				
Trust and investment services	2,450	2,411	7,520	7,097
Insurance commissions	4,119	3,632	12,454	12,621
Service charges on deposit accounts	5,241	5,722	15,794	17,109
Gains on securities transactions, net	157	103	2,481	102
Fees from loan servicing	1,703	1,806	4,948	5,262
Gains (losses) on sales of loans, net	2,014	(95)	) 3,034	1,497
(Losses) gains on sales of assets, net	(558)	) 83	(77)	) 211
Bank owned life insurance	1,806	1,571	5,188	4,593
Change in FDIC loss-share receivable	(55)	) (3,823)	) (3,380)	) (11,610)
Other	4,042	3,371	11,802	11,171
Total non-interest income	20,919	14,781	59,764	48,053
Non-Interest Expense				
Salary and employee benefits expense	54,315	45,501	165,601	140,683
Net occupancy and equipment expense	21,526	17,011	65,858	55,708
FDIC insurance assessment	4,168	3,534	11,972	10,214
Amortization of other intangible assets	2,232	2,201	6,721	6,898
Professional and legal fees	4,643	3,609	12,043	11,671
Amortization of tax credit investments	5,224	4,630	14,231	14,148
Advertising	732	1,664	4,092	2,814
Telecommunication expense	2,050	1,622	6,101	4,971
Other	13,762	11,764	37,563	34,881
Total non-interest expense	108,652	91,536	324,182	281,988

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Income Before Income Taxes	46,133	38,336	133,211	114,272
Income tax expense	10,179	10,654	34,925	23,235
Net Income	\$35,954	\$27,682	\$98,286	\$91,037
Dividends on preferred stock	2,017	—	2,017	—
Net Income Available to Common Shareholders	\$33,937	\$27,682	\$96,269	\$91,037
Earnings Per Common Share:				
Basic	\$0.15	\$0.14	\$0.41	\$0.45
Diluted	0.15	0.14	0.41	0.45
Cash Dividends Declared per Common Share	0.11	0.11	0.33	0.33
Weighted Average Number of Common Shares Outstanding:				
Basic	232,737,953	200,614,091	232,548,840	200,406,801
Diluted	232,780,219	200,614,091	232,565,695	200,406,801

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$35,954	\$27,682	\$98,286	\$91,037
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net gains (losses) arising during the period	4,586	(488	) 2,677	13,851
Less reclassification adjustment for net gains included in net income	(91	) (60	) (1,445	) (59
Total	4,495	(548	) 1,232	13,792
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	252	313	(200	) 619
Less reclassification adjustment for accretion of credit impairment losses included in net income	(267	) (115	) (371	) (294
Total	(15	) 198	(571	) 325
Unrealized gains and losses on derivatives (cash flow hedges)				
Net (losses) gains on derivatives arising during the period	(6,163	) 1,251	(10,291	) (7,273
Less reclassification adjustment for net losses included in net income	772	973	2,714	2,911
Total	(5,391	) 2,224	(7,577	) (4,362
Defined benefit pension plan				
Amortization of net loss	119	36	359	110
Total other comprehensive (loss) income	(792	) 1,910	(6,557	) 9,865
Total comprehensive income	\$35,162	\$29,592	\$91,729	\$100,902
See accompanying notes to consolidated financial statements.				



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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$98,286	\$91,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,213	14,562
Stock-based compensation	6,512	5,582
Provision for credit losses	4,594	(2,096 )
Net amortization of premiums and accretion of discounts on securities and borrowings	17,595	18,324
Amortization of other intangible assets	6,721	6,898
Gains on securities transactions, net	(2,481 )	(102 )
Proceeds from sales of loans held for sale	94,342	75,182
Gains on sales of loans, net	(3,034 )	(1,497 )
Originations of loans held for sale	(86,274 )	(67,483 )
Losses (gains) on sales of assets, net	77	(211 )
FDIC loss-share receivable (excluding reimbursements)	3,380	11,610
Net change in:		
Trading securities	14,233	78
Fair value of borrowings hedged by derivative transactions	3,270	—
Cash surrender value of bank owned life insurance	(5,188 )	(4,593 )
Accrued interest receivable	(199 )	419
Other assets	(33,555 )	57,493
Accrued expenses and other liabilities	12,490	(36,048 )
Net cash provided by operating activities	145,982	169,155
Cash flows from investing activities:		
Net loan originations	(486,862 )	(495,941 )
Loans purchased	(1,066,934 )	(128,684 )
Investment securities held to maturity:		
Purchases	(201,681 )	(358,393 )
Sales	11,666	—
Maturities, calls and principal repayments	321,771	268,868
Investment securities available for sale:		
Purchases	(38,819 )	(20,830 )
Sales	14,022	5,447
Maturities, calls and principal repayments	115,397	106,323
Proceeds from sales of real estate property and equipment	10,510	16,317
Purchases of real estate property and equipment	(23,139 )	(18,106 )
Reimbursements from the FDIC	2,835	4,967
Net cash used in investing activities	(1,341,234 )	(620,032 )
Cash flows from financing activities:		
Net change in deposits	465,747	542,225
Net change in short-term borrowings	156,160	16,264
Proceeds from issuance of long-term borrowings, net	98,930	—
Repayments of long-term borrowings	(100,000 )	—
Proceeds from issuance of preferred stock, net	111,590	—

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Cash dividends paid to preferred shareholders	(2,017	) —
Cash dividends paid to common shareholders	(76,671	) (66,047 )
Purchase of common shares to treasury	(2,108	) (946 )
Common stock issued, net	4,993	3,667
Net cash provided by financing activities	656,624	495,163
Net change in cash and cash equivalents	(538,628	) 44,286
Cash and cash equivalents at beginning of year	830,407	369,168
Cash and cash equivalents at end of period	\$291,779	\$413,454

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

	Nine Months Ended September 30,	
	2015	2014
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	\$121,907	\$120,086
Federal and state income taxes	49,932	28,669
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$8,711	\$9,053
Transfer of loans to loans held for sale	—	27,329
See accompanying notes to consolidated financial statements.		

VALLEY NATIONAL BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Basis of Presentation

The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey Corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the "Bank"), and all of Valley's direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley's financial position, results of operations and cash flows at September 30, 2015 and for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2015 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, 2014.

On June 19, 2015, Valley issued 4.6 million shares of its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock"), no par value per share, with a liquidation preference of \$25 per share. Dividends on the Preferred Stock will accrue and be payable quarterly in arrears, at a fixed rate per annum equal to 6.25 percent from the original issue date to, but excluding, June 30, 2025, and thereafter at a floating rate per annum equal to three-month LIBOR plus a spread of 3.85 percent. The net proceeds from the offering and sale of the Preferred Stock totaled approximately \$111.6 million.

Note 2. Business Combinations

CNLBancshares, Inc. On May 27, 2015, Valley entered into a merger agreement to acquire CNLBancshares, Inc. (CNLBancshares) and its wholly-owned subsidiary, CNLBank, headquartered in Orlando, Florida. CNLBancshares has approximately \$1.4 billion in assets, \$843 million in loans and \$1.1 billion in deposits and maintains a branch network of 16 offices. The common shareholders of CNLBancshares will receive 0.75 of a share of Valley common stock for each CNLBancshares share they own, subject to adjustment in the event Valley's average stock price falls below \$8.80 or rises above \$10.13 prior to closing. The transaction is valued at an estimated \$207 million, based on Valley's closing stock price on May 22, 2015 (and includes the stock consideration of \$16.2 million that will be paid to CNLBancshares stock option holders). The merger has received all necessary regulatory and CNLBancshares shareholder approvals, and the transaction is expected to close in December 2015.



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

During the first quarter of 2015, 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 deferred tax assets which, on a combined basis, resulted in a \$1.6 million increase in goodwill (see Note 10 for amount of goodwill as allocated to Valley's business segments). Certain estimates for acquired assets and assumed liabilities are subject to change for up to one year after the closing date of the 1st United acquisition, as additional information becomes available.

### 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 nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except for share data)			
Net income available to common shareholders	\$33,937	\$27,682	\$96,269	\$91,037
Basic weighted average number of common shares outstanding	232,737,953	200,614,091	232,548,840	200,406,801
Plus: Common stock equivalents	42,266	—	16,855	—
Diluted weighted average number of common shares outstanding	232,780,219	200,614,091	232,565,695	200,406,801
Earnings per common share:				
Basic	\$0.15	\$0.14	\$0.41	\$0.45
Diluted	0.15	0.14	0.41	0.45

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 totaled approximately 5.0 million shares for both the three and nine months ended September 30, 2015 and 6.6 million shares for the three and nine months ended September 30, 2014. Restricted stock units not included in common stock equivalents for both the three and nine months ended September 30, 2015 and 2014 were immaterial.

## Note 4. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2015.

	Components of Accumulated Other Comprehensive Loss				Total Accumulated Other Comprehensive Loss
	Unrealized Gains and (Losses) on Available for Sale (AFS) Securities (in thousands)	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	
Balance at June 30, 2015	\$ (5,153 )	\$ (411 )	\$ (16,718 )	\$ (25,978 )	\$ (48,260 )
Other comprehensive income (loss) before reclassifications	4,586	252	(6,163)	—	(1,325)
Amounts reclassified from other comprehensive income (loss)	(91)	(267)	772	119	533
Other comprehensive income (loss), net	4,495	(15)	(5,391)	119	(792)
Balance at September 30, 2015	\$ (658 )	\$ (426 )	\$ (22,109 )	\$ (25,859 )	\$ (49,052 )
Balance at December 31, 2014	\$ (1,890 )	\$ 145	\$ (14,532 )	\$ (26,218 )	\$ (42,495 )
Other comprehensive income (loss) before reclassifications	2,677	(200)	(10,291)	—	(7,814)
Amounts reclassified from other comprehensive income (loss)	(1,445)	(371)	2,714	359	1,257
Other comprehensive income (loss), net	1,232	(571)	(7,577)	359	(6,557)
Balance at September 30, 2015	\$ (658 )	\$ (426 )	\$ (22,109 )	\$ (25,859 )	\$ (49,052 )

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three and nine months ended September 30, 2015 and 2014.

Components of Accumulated Other Comprehensive Loss	Amounts Reclassified from Accumulated Other Comprehensive Loss				Income Statement Line Item
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	\$ 157	\$ 103	\$ 2,481	\$ 102	Gains on securities transactions, net
Tax effect	(66 )	(43 )	(1,036 )	(43 )	
Total net of tax	91	60	1,445	59	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	458	198	636	506	Interest and dividends on investment securities (taxable)
Tax effect	(191 )	(83 )	(265 )	(212 )	
Total net of tax	267	115	371	294	

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Unrealized losses on derivatives (cash flow hedges) before tax	(1,323 )	(1,674 )	(4,651 )	(4,986 )	Interest expense
Tax effect	551	701	1,937	2,075	