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)

þ **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)

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)

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 7.75% Trust Preferred Securities (and the Guarantee by Valley National Bancorp with respect thereto)	New York Stock Exchange
Warrants to purchase Common Stock	New York Stock Exchange
Warrants to purchase Common Stock	NASDAQ Capital Market

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

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

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

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

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

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

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

Large accelerated filer þ	Accelerated filer ¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $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 subsidi 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.

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 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 1st 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				
	Percentage of Loan Portfilo Segment:				
	Commercial and Industrial	Commercial Real Estate	Residential	Consumer	% of Total Loans
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

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.

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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	2002	Senior Vice President of Valley National Bank

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

Available Information

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

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

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SUPERVISION AND REGULATION

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

Bank Holding Company Regulation

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

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

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

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

Regulation of Bank Subsidiary

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

Capital Requirements

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

The OCC s regulations implementing these provisions of FDICIA provide that an institution will be classified as well capitalized if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. An institution will be classified as adequately capitalized if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent or (b) at least 3.0 percent if the institution was rated 1 in its most recent examination, and (iv) does not meet the definition of well capitalized. An institution will be classified as undercapitalized if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent or (b) less than 3.0 percent if the institution was rated 1 in its most recent examination. An institution will be classified as significantly undercapitalized if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. Valley National Bank s capital ratios were all above the minimum levels required for it to be considered a well capitalized financial institution at December 31, 2012.

The U.S. federal banking agencies issued three notices of proposed rulemaking (NPRs) in June 2012 that would revise and/or replace the current regulatory capital rules outlined above with the Basel III final capital framework discussed further in the section below. The NPRs proposed, among other rules, to revise risk-based and leverage capital requirements for all insured banks and savings associations, and top-tier savings and loan holding companies domiciled in the United States. The proposals suggested an effective date of January 1, 2013, however on November 9, 2012 the U.S. federal banking agencies announced that they do not expect any of the Basel III proposed rules to be implemented by the suggested January 2013 date. The NPRs have not been revised or made final as of the filing of this Annual Report on Form 10-K.

Basel III

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

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

When first implemented (assuming no applicable changes in the currently proposed NPRs of the U.S. federal banking agencies), the Basel III final framework requires banking institutions to meet the following minimum capital ratios: 3.5 percent CET1 to risk-weighted assets, 4.5 percent Tier 1 capital to risk-weighted assets, and 8.0 percent Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets. The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1.

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

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

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

On January 7, 2013, the Basel Committee released the revised Basel III Liquidity Coverage Ratio (LCR). The revised LCR standards allow banks to use a broader range of liquid assets to meet their liquidity buffer and reduce some of the run-off assumptions that banks must make in calculating their net cash outflows. The revised standards also clarify that banks may dip below the minimum LCR requirement during periods of stress. The Basel Committee expects national regulators to implement the LCR on a phased-in basis beginning on January 1, 2015. Though the FRB has expressed its intent to implement some version of the LCR and other Basel III liquidity standards in the United States, the scope and timing of U.S. implementation currently is unclear.

The Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, Dodd-Frank requires or permits the Federal banking agencies to adopt regulations affecting banking institutions capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions.

The FRB and the FDIC were part of a joint proposal in June 2012 seeking comment on three NPRs that would revise and replace the agencies current capital rules in connection with the Basel accords. The two NPRs discussed below concern capital issues of significant importance to the Bank and, under certain circumstances, the Company. The third NPR, which relates to advanced approaches and market risk capital rules, is not applicable to the organization s current operations.

The first NPR relates to Basel III and proposes to revise risk-based and leverage capital requirements, including the implementation of new common equity Tier 1 capital requirements and a higher minimum Tier 1 capital requirement. Also included in the NPR are proposed limitations on capital distributions and certain discretionary bonus payments for any banking organization not holding a specified buffer of common equity Tier 1 capital in excess of its minimum risk-based capital requirement. Revisions to the prompt correction action framework and the tangible common equity definition are also included in the NPR. The other NPR applicable to the organization s operations proposes a standardized approach for risk-weighted assets to enhance risk sensitivity and to address certain weaknesses identified over recent years, including methods for determining risk-weighted assets for residential mortgages, securitization exposures and counterparty credit risk. The proposed changes in the two NPRs would be applicable to the Bank and the Company (as long as the Company s assets continue to exceed $500 million).

The comment period for these NPRs ended on October 22, 2012. Since Basel III is intended to be implemented beginning January 1, 2013, the regulators intended to finalize the rules by that date. However, on November 9, 2012, the federal agencies that proposed the NPRs announced that they do not expect that any of the proposed rules would become effective on January 1, 2013. Moreover, the announcement did not indicate the likely new effective date.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) was signed into law on July 21, 2010. Generally, the Act became effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Act, among other things:

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

- After a 3-year phase-in period which begins January 1, 2013, removes trust preferred securities as a permitted component of Tier 1 capital for bank holding companies with assets of $15 billion or more, however, bank holding companies with assets of less than $15 billion (including Valley) at the enactment date will be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital (However, the currently proposed NPRs of the U.S. federal banking agencies may disallow this treatment, phased-in over a 3 to 10 year period based upon varying interpretations of the proposed rules);

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

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

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

Directs federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion, regardless of whether the company is publicly traded or not;

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

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

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

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

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

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

Authorizes de novo interstate branching, subject to non-discriminatory state rules, such as home office protection.

The Dodd-Frank Act authorized the FRB to adopt enhanced supervision and prudential standards for, among others, bank holding companies with total consolidated assets of $50 billion or more (often referred to as systemically important financial institutions or SIFI), and authorized the FRB to establish such standards either on its own or upon the recommendations of the Financial Stability Oversight Council (FSOC), a new systemic risk oversight body created by the Dodd-Frank Act. In October 2012, FRB published two final rules with stress testing requirements in response to these provisions. Under the new rules, bank-holding companies with more than $50 billion in assets will have to undergo an annual supervisory stress test and semi-annual company-run stress tests, with the first test beginning in 2012. The summaries of the results of the company-run stress tests will be available to the public starting in March 2013. All banks with assets between $10 billion and $50 billion are required to conduct annual testing of capital beginning in the fall of 2013 and will not have to publicly disclose the results of that first stress test.

On June 20, 2012, the SEC adopted final rules regarding heightened independence requirements for Compensation Committee members. These rules require stock exchanges to adopt listing standards that address (i) independence of compensation committee members, (ii) the compensation committee s authority to retain compensation advisers, (iii) the compensation committee s consideration of the independence of any compensation advisers, and (iv) the compensation committee s responsibility for the appointment, compensation and oversight of the work of any compensation adviser. On September 25, 2012, the New York Stock Exchange and NASDAQ released proposed compensation committee and compensation committee adviser independence listing standards, and on January 11, 2013, the SEC approved these standards.

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The Consumer Financial Protection Bureau (CFPB) continued to propose amendments to mortgage regulations in August and September of 2012, and in January 2013, the CFPB issued final rules for several of the regulations. On January 10, 2013, the CFPB issued a final rule amending Regulation Z to implement certain amendments to the Truth in Lending Act. The rule implements statutory changes that lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained. The rule also exempts certain transactions from the statute s escrow requirement. The rule will become effective on June 1, 2013. Also on January 10, 2013, the CFPB issued a final rule implementing amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rule amends Regulation Z by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. The rule also amends Regulation Z and Regulation X by imposing other requirements related to homeownership counseling. The rule will become effective on January 10, 2014.

On January 18, 2013, the CFPB amended Regulation B to implement changes to the Equal Credit Opportunity Act. The revisions to Regulation B require creditors to provide applicants with free copies of all appraisals and other written valuations developed in connection with an application for a loan to be secured by a first lien on a dwelling, and require creditors to notify applicants in writing that copies of appraisals will be provided to them promptly. The rule will become effective on January 18, 2014. On January 20, 2013, the CFPB amended Regulation Z to implement requirements and restrictions to the Truth in Lending Act concerning loan originator compensation, qualifications of, and registration or licensing of loan originators, compliance procedures for depository institutions, mandatory arbitration, and the financing of single-premium credit insurance. These amendments revise or provide additional commentary on Regulation Z s restrictions on loan originator compensation, including application of these restrictions to prohibitions on dual compensation and compensation based on a term of a transaction or a proxy for a term of a transaction, and to recordkeeping requirements. This rule also establishes tests for when loan originators can be compensated through certain profits-based compensation arrangements. The amendments to § 1026.36(h) and (i) are effective on June 1, 2013, while the other provisions of the rule are effective on January 10, 2014.

Certain changes in the new mortgage rules promulgated by the CFPB would be applicable to the Bank and the Company. The CFPB is expected to issue additional final rules regarding mortgages in 2013.

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

Dividend Limitations

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

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Loans to Related Parties

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

Community Reinvestment

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

Sarbanes-Oxley Act of 2002

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

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

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

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USA PATRIOT Act

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

Regulations implementing the due diligence requirements require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of concentration accounts, and requires all covered financial institutions to have in place an anti-money laundering compliance program. The OCC, along with other banking agencies, have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

Consumer Financial Protection Bureau Supervision

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

Gramm-Leach-Bliley Act

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

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

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

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

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Insurance of Deposit Accounts

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

In February 2011, as required by the Dodd Frank Act, the Federal Deposit Insurance Corporation approved a final rule that revised the assessment base to consist of average consolidated total assets during the assessment period minus the average tangible equity during the assessment period. In addition, the final revisions eliminated the adjustment for secured borrowings, including Federal Home Loan Bank (FHLB) advances, and made certain other changes to the impact of unsecured borrowings and brokered deposits on an institution s deposit insurance assessment. The final rule also revised the assessment rate schedule to provide initial base assessment rates ranging from 5 to 35 basis points and total base assessment rates ranging from 2.5 to 45 basis points after adjustment. The final rule became effective on April 1, 2011.

As previously noted above, the Dodd-Frank Act made permanent a $250 thousand limit for federal deposit insurance and provided unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions. On January 18, 2011, the FDIC issued a final rule to include Interest on Lawyer Trust Accounts (IOLTAs) in the temporary unlimited deposit coverage for non-interest bearing demand transactions accounts. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total will be insured up to at least $250 thousand.

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

Temporary Liquidity Guarantee Program

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

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

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

Item 1A. ***Risk Factors***

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

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

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

Lawmakers failure to resolve the so called Debt Ceiling or U.S. budgetary crisis in a timely manner, further downgrades of the U.S. credit rating and uncertain credit and financial market conditions may affect the stability of our $1.4 billion in securities issued or guaranteed by the federal government, which may affect the valuation or liquidity of our investment securities portfolio and may increase our future borrowing costs.

As a result of the uncertain domestic political, credit and financial market conditions, including the potential consequences of the federal government defaulting on its obligations for a period of time due to the debt ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose credit default and liquidity risks. Given that future deterioration in the United States credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our U.S. government issued or guaranteed investments will not occur. At December 31, 2012, we had approximately $197.5 million, $45.8 million and $1.2 billion invested in U.S. Treasury securities, U.S. government agency securities, and residential mortgage-backed securities issued or guaranteed by Ginnie Mae and government-sponsored enterprises, respectively. During 2011, Standard and Poor s downgraded the United States credit rating from its AAA rating to AA+. Further downgrades in the future could also affect the stability of securities issued or guaranteed by the federal government. These factors could affect the valuation or liquidity of our portfolio of such investment securities, and could result in our counterparties requiring additional collateral for our borrowings. Further, unless and until the current United States political, credit and financial market conditions have been sufficiently resolved, it may increase our future borrowing costs.

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

Valley s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are

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sensitive to many factors that are beyond Valley s control, including general economic conditions, competition, and policies of various governmental and regulatory agencies and, in particular, the policies of the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest Valley receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Valley s ability to originate loans and obtain deposits, (ii) the fair value of Valley s financial assets and liabilities, including the held to maturity, available for sale, and trading securities portfolios, and (iii) the average duration of Valley s interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk). Any substantial or unexpected change in market interest rates or a prolonged period of historically low interest rates, such as those experienced in 2012 and projected by the FRB to continue beyond 2013, could have a material adverse effect on Valley s financial condition and results of operations. Due, in part, to the low level of market interest rates on loans and investments and a large portion of our long-term borrowing costs that are fixed at interest rates above current market rates of similar new borrowings, our net interest margin on a tax equivalent basis declined 23 basis points to 3.52 percent for the year ended December 31, 2012 as compared to 2011. See additional information at the Net Interest Income and Interest Rate Sensitivity sections of our MD&A.

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

As of December 31, 2012, we had approximately $1.6 billion and $808.0 million in held to maturity and available for sale securities, respectively. We may be required to record impairment charges in earnings related to credit losses on these investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, (a) if we intend to sell a security or (b) it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we will be required to recognize an other-than-temporary impairment charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

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

Among other securities, our investment portfolio includes private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled securities), perpetual preferred securities issued by banks, and bank issued corporate bonds. These investments pose a risk of future impairment charges by us as a result of the slow recovery in the U.S. economy and its negative effect on the performance of these issuers and/or the underlying mortgage loan collateral. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon requirements or recommendations by bank regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley s investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. We recognized other-than-temporary impairment charges on securities of $5.2 million, $20.0 million and $4.6 million in 2012, 2011 and 2010, respectively, attributable to credit as a reduction of non-interest income on the consolidated statements of income mainly due to impaired trust preferred and private label mortgage-backed securities. See the Investment Securities section of this MD&A and Note 4

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to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.

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

Our common cash dividend payout per common share was approximately 89 percent of our earnings per share for the year ended December 31, 2012. Our high dividend rate and corresponding low retention rate resulted from earnings being negatively impacted by several factors, including, but not limited to net impairment losses on certain investment securities, the sustained low level of market interest rates for interest earning assets, and higher operating costs and lower fee income caused by increased banking regulation. A prolonged economic recovery or a downturn in the economy, an increase in our costs to comply with current and future changes in banking laws and regulations, and other factors may negatively impact our future earnings and ability to maintain our dividend at current levels.

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

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

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

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

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2012, over 72 percent of our total loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and could deteriorate in value during the time the credit is extended. A downturn in the real estate market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and shareholders equity could be adversely affected. The declines in home prices in the New Jersey and New York metropolitan markets we serve, along with the reduced availability of mortgage credit, also may result in increases in delinquencies and losses in our loan portfolios. Unexpected decreases in home prices coupled with a prolonged economic recovery and elevated levels of unemployment could drive losses beyond that which is provided for in our allowance for loan losses. In that event, our earnings could be adversely affected.

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

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

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

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

As a result of the weak economic recovery, we continue to face historically high levels of delinquencies on our loans. Our non-accrual loans increased from 0.33 percent at December 31, 2008 to 0.98 percent, 1.12 percent, 1.27 percent and 1.20 of total loans at December 31, 2009, 2010, 2011 and 2012, respectively. Although the economy has gradually improved during 2012, a slowing or further downturn in economic or real estate market conditions could result in increased charge-offs to our allowance for loan losses and lost interest income relating to a higher level of non-performing loans. Non-performing assets (including non-accrual loans, other real estate owned, other repossessed assets, and non-accrual debt securities) totaled $195.5 million at December 31, 2012. These non-performing assets can adversely affect our net income mainly through decreased interest income and increased operating expenses incurred to maintain such assets or loss charges related to subsequent declines in the estimated fair value of foreclosed assets. Adverse changes in the value of our non-performing assets, or the underlying collateral, or in the borrowers performance or financial conditions could adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience further increases in non-performing loans in the future, or that our non-performing assets will not result in lower financial returns in the future.

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

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

The Dodd-Frank Act imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new issuances of trust preferred securities from counting as Tier 1 capital. These restrictions have placed greater limitations on our capital strategies. Under the Dodd-Frank Act, our outstanding trust preferred securities will continue to count as Tier 1 capital but we are unable to issue replacement or additional trust preferred securities which would count as Tier 1 capital. The Dodd-Frank Act also increases regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

The Dodd-Frank Act also amended the Electronic Fund Transfer Act to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as Valley National Bank. In June 2011, the FRB issued a final rule that establishes standards for determining whether an interchange fee received or charged by an issuer with respect to an electronic debit transaction is reasonable and proportionate to the cost incurred by the issuer with respect to the transaction. Effective October 1, 2011, these new standards imposed debit card interchange fee limits which were largely responsible for a $880 thousand reduction in our debit card interchange fees recognized in other non-interest income for the fourth quarter of 2011 as compared to the third quarter of 2011 and a $1.8 million decrease in such fees for the year ended December 31, 2012 as compared to 2011. We can make no assurances that these rules and any new limitations imposed upon us will not continue to reduce such fee income in the future.

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

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

Valley, primarily through its principal subsidiary and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole. Many laws and regulations affect

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

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

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

From time to time, the FASB and the SEC change their guidance governing the form and content of Valley s external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles (U.S. GAAP), such as the FASB, SEC, banking regulators and Valley s independent registered public accounting firm, may change or even reverse their previous interpretations or positions on how these standards should be applied. Such changes are expected to continue, and may accelerate dependent upon the FASB and International Accounting Standards Board commitments to achieving convergence between U.S. GAAP and International Financial Reporting Standards. Changes in U.S. GAAP and changes in current interpretations are beyond Valley s control, can be hard to predict and could materially impact how Valley reports its financial results and condition. In certain cases, Valley could be required to apply a new or revised guidance retroactively or apply existing guidance differently (also retroactively) which may result in Valley restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel, and other expenses that will negatively impact our results of operations.

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

Effective January 1, 2007, we elected to carry the junior subordinated debentures issued to VNB Capital Trust I at fair value. We measure the fair value of these junior subordinated debentures using exchange quoted prices in active markets for similar assets, specifically the trust preferred securities issued by VNB Capital Trust I, which contain identical terms as our junior subordinated debentures (see Note 11 to the consolidated financial statements). As a result, any increase in the market quoted price, or fair market value, of our trust preferred securities will result in a commensurate increase in the liability required to be recorded for the junior subordinated debentures with an offsetting non-cash charge against our earnings. Conversely, a decrease in the market quoted price of such securities will result in a decrease in the liability recorded for the debentures with an offsetting non-cash gain recognized in earnings. We recognized non-cash gains of $2.6 million ($1.7 million after taxes) and $1.3 million ($816 thousand after taxes) during 2012 and 2011, respectively, as compared to non-cash

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charges totaling $5.8 million ($3.8 million after taxes) during 2010 due to the change in the fair value of the junior subordinated debentures determined by the market price of the trust preferred securities. The non-cash gains and charges against our earnings do not impact our liquidity or our regulatory capital. We cannot predict whether or to what extent we would be required to take a non-cash charge against earnings related to the change in fair value of our junior subordinated debentures in future periods. Furthermore, changes in the law and regulations or other factors could require us to redeem the junior subordinated debentures at par value. If we are carrying the junior subordinated debentures at a fair value below par value when such redemption occurs, we will be required to record a charge against earnings in the period in which the redemption occurred.

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

The economic downturn since 2008 has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs dramatically since 2008 and negatively impacted our earnings (See the annual impact in Item 6. Selected Financial Data below). In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $6.5 million. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012 in December 2009. We prepaid estimated assessment fees totaling $45.5 million in December 2009. The FDIC could impose additional special assessments for future quarters or increase the FDIC standard assessments. Furthermore, the Dodd-Frank Act changed the FDIC assessment standards which may cause our assessments to increase. We cannot provide you with any assurances that we will not be required to pay additional FDIC insurance assessments, which could have an adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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future transaction. Furthermore, mergers and acquisitions involve a number of additional risks and challenges, including:

- Potential exposure to asset quality issues or unknown contingent liabilities of the banks, businesses, assets and liabilities we acquire;
- Our success in deploying any cash received in a transaction into assets bearing sufficiently high yields without incurring unacceptable credit or interest rate risk;
- Our ability to earn acceptable levels of interest and non-interest income, including fee income, from the acquired banks, businesses, assets or branches;
- Our ability to control the incremental non-interest expense from the acquired banks, businesses, assets or branches in a manner that enables us to maintain a favorable overall efficiency ratio; and
- Our need to finance an acquisition by borrowing funds or raising additional capital, which could diminish our liquidity or dilute the interests of our existing stockholders.

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

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

In connection with the acquisitions of certain assets and liabilities of LibertyPointe Bank and The Park Avenue Bank, we entered into loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreement with the FDIC in the LibertyPointe Bank transaction, the FDIC is obligated to reimburse us for: (i) 80 percent of any future losses on loans covered by the loss-sharing agreement up to $55.0 million, after we absorb such losses up to the first loss tranche of $11.7 million; and (ii) 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement with the FDIC in The Park Avenue Bank transaction, the FDIC is obligated to reimburse us for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. At December 31, 2012, our FDIC loss-share receivable totaled $45.0 million. Although the FDIC has agreed to reimburse us for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if the loss-sharing agreements are not managed in accordance with their terms. In addition, reimbursable losses are based on the book value of the relevant loans as determined by the FDIC as of the effective dates of the transactions. The amount that we realize on these loans could differ materially from the carrying value that will be reflected in our financial statements, based upon the timing and amount of collections on the covered loans in future periods.

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

Although our de novo branching activities were insignificant in 2012, over the past several years we have implemented a conservative de novo branch strategy to expand our physical presence in Brooklyn and Queens, as well as add locations within our New Jersey and Manhattan markets. Valley has opened a combined total of 15 branch locations within Brooklyn and Queens since starting its initiative in these new markets during 2007.

During 2012, we also expanded our branch network into markets outside of these areas through our acquisition of State Bancorp headquartered in Long Island effective January 1, 2012 (See Note 2 to the consolidated financial statements). The State Bancorp acquisition included 14 branches in Nassau, Suffolk, Queens, and Manhattan that currently remain open and represent approximately 32 percent of our total New York branch network. Valley s ability to successfully execute in these markets depends upon a variety of factors, including its ability to attract and retain experienced personnel, the continued availability of desirable business opportunities and locations, the competitive responses from other financial institutions in the new market areas, and the ability to manage growth. These initiatives, specifically non-acquisition related de novo branch activity, could cause Valley s expenses to increase faster than revenues. Valley can provide no assurances that it will successfully implement or continue such growth initiatives.

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

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

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

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

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

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

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

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

A significant portion of our primary markets is located near coastal waters which could generate naturally occurring severe weather, or in response to climate change, that could have a significant impact on our ability to conduct business. Many areas in Northern New Jersey in which our branches operate are subject to severe flooding and significant weather related disruptions may become common events in the future. On October 29, 2012, Hurricane Sandy struck the Northeast and caused severe property damage and many business closures throughout the New Jersey and New York Metropolitan areas. We believe the storm did not materially impact the vast majority of our borrowers ability to repay their loans or the collateral values securing their loans. However, the full extent of any adverse impact on our markets from the prolonged rebuilding efforts necessary in coastal areas of New Jersey and Long Island is unknown at this time.

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

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

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that

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

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

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. The substantial decline in residential real estate values and the standards used by some originators has resulted in more repurchase requests to many secondary market participants from secondary market purchasers. Since January 1, 2006, we have originated and sold over 12,600 individual residential mortgages totaling approximately $2.4 billion. Over the past several years, we have experienced a nominal amount of repurchase requests (including only two requests in 2012). None of the loan repurchases resulted in loss. As of December 31, 2012, no reserves pertaining to loans sold were established on our financial statements. While we currently believe our repurchase risk remains low based upon our careful loan underwriting and documentation standards, it is possible that requests to repurchase loans could occur in the future and such requests may have a negative financial impact on us.

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

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

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

None

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Item 2. ***Properties***

We conduct our business at 210 retail banking centers locations, with 166 in northern and central New Jersey and 44 in the New York City metropolitan area. We own 97 of our banking center facilities. The other facilities are leased for various terms.

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

	Number of banking centers	% of Total
New Jersey:		
Northern	72	35%
Central	94	44
New York:		
Manhattan	16	8
Brooklyn	9	4
Queens	6	3
Long Island	13	6
Total	210	100%

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

During October 2012, Hurricane Sandy caused major destruction along the East Coast, including damage that has temporarily closed four branches for renovations included in the New Jersey central and Brooklyn, New York locations in the table above. The branch customers from these locations are currently being served at other surrounding branch locations.

The total net book value of our premises and equipment (including land, buildings, leasehold improvements and furniture and equipment) was $279 million at December 31, 2012. We believe that all of our properties and equipment are well maintained, in good condition (except for those affected by Hurricane Sandy) and adequate for all of our present and anticipated needs.

Item 3. ***Legal Proceedings***

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

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PART II

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

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

	Year 2012			Year 2011		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 12.69	$ 11.30	$ 0.16	$ 13.54	$ 11.90	$ 0.16
Second Quarter	12.50	10.17	0.16	13.30	12.18	0.16
Third Quarter	11.07	9.10	0.16	13.46	9.11	0.16
Fourth Quarter	10.27	8.65	0.16	12.22	9.52	0.16

There were 8,541 shareholders of record as of December 31, 2012.

Restrictions on Dividends

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

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Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2007 in: (a) Valley s common stock; (b) the Standard and Poor s (S&P) 500 Stock Index; and (c) the Keefe, Bruyette & Woods KBW50 Bank Index. The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time based on dividends (stock or cash) and increases or decreases in the market price of the stock.

	12/07	12/08	12/09	12/10	12/11	12/12
Valley	$ 100.00	$ 116.43	$ 90.74	$ 101.55	$ 97.49	$ 81.87
KBW 50	100.00	81.43	63.45	76.40	72.45	82.17
S&P 500	100.00	63.01	79.69	91.71	93.62	108.59

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Issuer Repurchase of Equity Securities

The following table presents the purchases of equity securities by the issuer and affiliated purchasers during the three months ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (1)
October 1, 2012 to October 31, 2012		$		4,112,465
November 1, 2012 to November 30, 2012	41,385(2)	8.82		4,112,465
December 1, 2012 to December 31, 2012	169(2)	9.26		4,112,465
Total	41,554			

(1) On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.7 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended December 31, 2012.

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

Equity Compensation Plan Information

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

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Item 6. *Selected Financial Data*

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

	As of or for the Years Ended December 31,				
	2012	**2011 (1)**	**2010 (1)**	**2009 (1)**	**2008 (1)**
	(in thousands, except for share data)				
Summary of Operations:					
Interest income tax equivalent basis (2)	$ 678,410	$ 679,901	$ 682,402	$ 717,411	$ 735,153
Interest expense	181,312	199,013	214,060	262,870	308,895
Net interest income tax equivalent basis (2)	497,098	480,888	468,342	454,541	426,258
Less: tax equivalent adjustment	7,217	6,077	5,590	5,227	5,459
Net interest income	489,881	474,811	462,752	449,314	420,799
Provision for credit losses	25,552	53,335	49,456	47,992	28,282
Net interest income after provisions for credit losses	464,329	421,476	413,296	401,322	392,517
Non-interest income:					
Net impairment losses on securities recognized in earnings	(5,247)	(19,968)	(4,642)	(6,352)	(84,835)
Trading gains (losses), net	2,793	2,271	(6,897)	(10,434)	3,166
Gains on sales of loans, net	46,998	10,699	12,591	8,937	1,274
Other non-interest income	76,402	119,295	90,275	80,100	83,651
Total non-interest income	120,946	112,297	91,327	72,251	3,256
Non-interest expense:					
FDIC insurance assessment	14,292	12,759	13,719	20,128	1,985
Goodwill impairment					
Other non-interest expense	360,608	325,797	305,969	288,039	285,514
Total non-interest expense	374,900	338,556	319,688	308,167	287,499
Income before income taxes	210,375	195,217	184,935	165,406	108,274
Income tax expense	66,748	62,706	54,929	50,587	15,990
Net income	143,627	132,511	130,006	114,819	92,284
Dividends on preferred stock and accretion				19,524	2,090
Net income available to common stockholders	$ 143,627	$ 132,511	$ 130,006	$ 95,295	$ 90,194
Per Common Share (3):					
Earnings per share:					
Basic	$ 0.73	$ 0.74	$ 0.73	$ 0.57	$ 0.57
Diluted	0.73	0.74	0.73	0.57	0.57
Dividends declared	0.65	0.66	0.66	0.66	0.66
Book value	7.57	7.02	7.22	7.02	6.48
Tangible book value (4)	5.26	5.13	5.29	5.21	4.53
Weighted average shares outstanding:					
Basic	197,354,159	178,424,883	177,568,546	167,222,450	158,545,594
Diluted	197,354,372	178,426,070	177,577,663	167,223,242	158,632,863
Ratios:					
Return on average assets	0.91%	0.93%	0.92%	0.80%	0.68%
Return on average shareholders equity	9.57	10.11	10.23	8.55	8.61
Return on average tangible shareholders equity (5)	13.65	13.68	13.84	11.22	11.41
Average shareholders equity to average assets	9.48	9.19	9.00	9.40	7.94
Tangible common equity to tangible assets (6)	6.71	6.58	6.82	6.61	5.16
Efficiency ratio (7)	61.38	57.67	57.70	59.09	67.80

Dividend payout	89.04	88.46	88.89	115.15	115.94
Risk-based capital:					
Tier 1 capital	10.87%	10.81%	10.83%	10.54%	11.36%
Total capital	12.38	12.64	12.81	12.45	13.10
Leverage capital	8.09	7.99	8.23	8.07	9.04
Financial Condition:					
Assets	$ 16,012,646	$ 14,252,755	$ 14,151,249	$ 14,290,734	$ 14,723,813
Net loans	10,892,599	9,665,839	9,241,091	9,268,081	10,050,446
Deposits	11,264,018	9,673,102	9,363,614	9,547,285	9,232,923
Shareholders equity	1,502,377	1,254,836	1,284,935	1,243,748	1,355,746

See Notes to the Selected Financial Data that follow.

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Notes to Selected Financial Data

(1) Previously reported results for the years ended December 31, 2011, 2010, 2009 and 2008 have been revised to reflect an increase in non-interest expense, which after taxes, reduced net income by $1.1 million, $1.2 million, $1.2 million and $1.3 million, respectively, and reduced basic and diluted earnings per common share by $0.01 for each of these years. Certain statistical and other per common data presented in the table have been revised accordingly. See the Correction of an Immaterial Error section of Note 1 to the consolidated financial statements for additional information.

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

(3) All per common share amounts reflect a five percent common stock dividend issued May 25, 2012, and all prior stock splits and dividends.

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

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

	Years Ended December 31,				
	2012	**2011**	**2010** ($ in thousands)	**2009**	**2008**
Common shares outstanding	$ 198,438,271	$ 178,683,030	$ 178,010,307	$ 177,102,621	$ 164,122,554
Shareholders equity	1,502,377	1,254,836	1,284,935	1,243,748	1,355,746
Less: Preferred stock					291,539
Less: Goodwill and other intangible assets	459,357	338,780	343,541	320,729	321,100
Tangible common shareholders equity	$ 1,043,020	$ 916,056	$ 941,394	$ 923,019	$ 743,107
Tangible book value per common share	$ 5.26	$ 5.13	$ 5.29	$ 5.21	$ 4.53

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

	2012	2011	Years Ended December 31, 2010 ($ in thousands)	2009	2008
Net income	$ 143,627	$ 132,511	$ 130,006	$ 114,819	$ 92,284
Average shareholders equity	1,500,997	1,310,939	1,270,778	1,342,790	1,071,358
Less: Average goodwill and other intangible assets	449,078	342,122	331,667	319,756	262,613
Average tangible shareholders equity	$ 1,051,919	$ 968,817	$ 939,111	$ 1,023,034	$ 808,745
Return on average tangible shareholders equity	13.65%	13.68%	13.84%	11.22%	11.41%

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

	2012	2011	At December 31, 2010 ($ in thousands)	2009	2008
Tangible common shareholders equity	$ 1,043,020	$ 916,056	$ 941,394	$ 923,019	$ 743,107
Total assets	16,012,646	14,252,755	14,151,249	14,290,734	14,723,813
Less: Goodwill and other intangible assets	459,357	338,780	343,541	320,729	321,100
Tangible assets	$ 15,553,289	$ 13,913,975	$ 13,807,708	$ 13,970,005	$ 14,402,713
Tangible common shareholders equity to tangible assets	6.71%	6.58%	6.82%	6.61%	5.16%

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

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

a severe decline in the general economic conditions of New Jersey and the New York Metropolitan area;

higher than expected loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business from the recent damages to our primary markets by Hurricane Sandy;

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

unanticipated deterioration in our loan portfolio;

an unanticipated reduction in our originate and sell residential mortgage strategy or a slowdown in residential mortgage loan refinance activity;

Valley s inability to pay dividends at current levels, or at all, because of inadequate future earnings, regulatory restrictions or limitations, and changes in the composition of qualifying regulatory capital and minimum capital requirements (including those resulting from the U.S. implementation of Basel III requirements);

higher than expected increases in our allowance for loan losses;

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

unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;

government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;

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

an unexpected decline in real estate values within our market areas;

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

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- higher than expected FDIC insurance assessments;
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships;
- lack of liquidity to fund our various cash obligations;
- unanticipated reduction in our deposit base;
- potential acquisitions that may disrupt our business;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations) subject us to additional regulatory oversight which may result in higher compliance costs and/or require us to change our business model;
- changes in accounting policies or accounting standards;
- our inability to promptly adapt to technological changes;
- our internal controls and procedures may not be adequate to prevent losses;
- claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters;
- the inability to realize expected revenue synergies from the merger of State Bancorp with Valley in the amounts or in the timeframe anticipated;
- inability to retain State Bancorp s customers and employees;
- lower than expected cash flows from purchased credit impaired loans; and
- other unexpected material adverse changes in our operations or earnings.

Correction of an Immaterial Error

Our previously reported financial condition and results of operations at and for the years ended December 31, 2011 and 2010 have been revised to reflect an adjustment for the straight-line recognition of rental expense and income on operating leases with scheduled rental increases in which Valley is the lessor and lessee, respectively. The adjustment resulted in increases in accrued rent liability, deferred tax assets and net occupancy and equipment expense, as well as decreases in retained earnings, net income and earnings per common share. The effect of these revisions was immaterial to each of the interim and annual periods, including a one cent reduction in basic and diluted earnings per common share in both 2011 and 2010. See Note 1 of the consolidated financial statements for more details.

Critical Accounting Policies and Estimates

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

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

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

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

Allowance for Loan Losses on Non-Covered Loans

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

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

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

Valley has no allowance reserves established at December 31, 2012 related to the non-covered PCI loans acquired from State Bancorp and purchased from another financial institution during the first quarter of 2012. However, the information below regarding our policies to determine the allowance for covered loans is identical to the procedures performed by Valley to determine the carrying amounts and reserves for impairment of non-covered PCI loans subsequent to their acquisition date.

Allowance for Loan Losses on Covered Loans

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

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

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

Changes in Our Allowance for Loan Losses

Valley considers it difficult to quantify the impact of changes in forecast on its allowance for loan losses. However, management believes the following discussion may enable investors to better understand the variables that drive the allowance for loan losses, which amounted to $130.2 million at December 31, 2012.

For impaired credits, if the present value of expected cash flows (for other impaired loans) were 10 percent higher or lower, the allowance would have decreased $8.2 million or increased $9.4 million, respectively, at December 31, 2012. If the fair value of the collateral (for collateral dependent loans) was 10 percent higher or lower, the allowance would have not changed or increased $1.1 million, respectively at December 31, 2012.

If classified loan balances were 10 percent higher or lower, the allowance would have increased or decreased by approximately $2.1 million, respectively, at December 31, 2012.

The credit rating assigned to each non-classified credit is an important variable in determining the allowance. If each non-classified credit were rated one grade worse, the allowance would have increased by approximately $351 thousand, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2012. Additionally, if the historical loss factors used to calculate the allowance for non-classified loans were 10 percent higher or lower, the allowance would have increased or decreased by approximately $6.5 million, respectively, at December 31, 2012.

A key variable in determining the allowance is management s judgment in determining the size of the allowances attributable to general economic conditions and other qualitative risk factors. At December 31, 2012, such allowances were 5.1 percent of the total allowance. If such allowances were 10 percent higher or lower, the total allowance would have increased or decreased by $680 thousand, respectively, at December 31, 2012.

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

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

We recognized other-than-temporary impairment charges on securities of $5.2 million, $20.0 million and $4.6 million in 2012, 2011, and 2010, respectively, as a reduction of non-interest income on the consolidated statements of income. See the Investment Securities section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.

Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, Business Combinations. Goodwill totaling $428.2 million at December 31, 2012 is not amortized but is subject to annual tests for impairment or more often, if events or circumstances indicate it may be impaired. Other intangible assets totaling $31.1 million at December 31, 2012 are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Such evaluation of other intangible assets is based on undiscounted cash flow projections. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities.

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

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

To assist in assessing the impact of potential goodwill or other intangible asset impairment charges at December 31, 2012, the impact of a five percent impairment charge would result in a reduction in net income of approximately $23.0 million. See Note 8 to consolidated financial statements for additional information regarding goodwill and other intangible assets.

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

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

The provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management s judgment, their realizability is determined to be more likely than not. We perform regular reviews to ascertain the realizability of our deferred tax assets. These reviews include management s estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies. In connection with these reviews, if we determine that a portion of the deferred tax asset is not realizable, a valuation allowance is established. As of December 31, 2012, management has determined it is more likely than not that Valley will realize its net deferred tax assets and therefore valuation allowance was not established.

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

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

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

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Executive Summary

Company Overview. At December 31, 2012, Valley had consolidated total assets of $16.0 billion, total net loans of $10.9 billion, total deposits of $11.3 billion and total shareholders equity of $1.5 billion. Our commercial bank operations include branch office locations in northern and central New Jersey and the New York City Boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. Of our current 210 branch network, 79 percent and 21 percent of the branches are located in New Jersey and New York, respectively. We have grown both in asset size and locations significantly over the past several years primarily through both bank acquisitions and de novo branch expansion, including our most recent bank transaction discussed below. See Item 1 of this Annual Report for more details regarding our past merger activity.

Acquisition of State Bancorp, Inc. (State Bancorp). On January 1, 2012, Valley acquired State Bancorp, the holding company for State Bank of Long Island, a commercial bank with $1.7 billion in assets, $1.1 billion in loans and $1.4 billion in deposits, after purchase accounting adjustments, and 16 branches in Nassau, Suffolk, Queens, and Manhattan. We believe our expansion into this attractive area of the Long Island market has already provided additional lending, retail, and wealth management service opportunities to further strengthen our New York Metropolitan operations and will continue to grow Valley brand recognition in these markets. During February 2012, we integrated State Bancorp s systems into Valley with minimal disruption to our customer service and operations. We continue to look for future opportunities to support our new efforts in the Long Island market both through gradual de novo branch expansion and other potential bank acquisitions.

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 $208.4 million (approximately 17.7 million shares of Valley common stock). The transaction generated approximately $109.8 million in goodwill and $8.1 million in core deposit intangible assets subject to amortization. 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 loan, included in Valley s consolidated financial statements at December 31, 2011, was subsequently eliminated as of the acquisition date and is no longer outstanding. See additional details in Note 2 to the consolidated financial statements.

Annual Results. Net income totaled $143.6 million, or $0.73 per diluted common share, for the year ended December 31, 2012 compared to $132.5 million in 2011, or $0.74 per diluted common share. (All common share data is adjusted to reflect a five percent common stock dividend issued on May 25, 2012). The increase in net income was largely due to: (i) a 52 percent decline in our provision for credit losses caused by a decrease in additional impairment recognized on certain covered loan pools acquired in FDIC-assisted transactions in 2010 coupled with the positive effect of the gradual improvement in credit conditions and the U.S. economy on our non-covered loan portfolio during 2012, (ii) an 8 percent increase in non-interest income resulting primarily from higher gains on sales of residential loans originated for sale and lower other-than-temporary impairment charges on investment securities, largely offset by a decrease in net gains on securities transactions and post-acquisition date declines in our FDIC loss-share receivable, (iii) an increase in net interest income mainly caused by the higher loan volume associated to loans acquired from State Bancorp, partially offset by (iv) higher salary and employee benefits, net occupancy and equipment expense and other non-interest expense due, in part, to additional expenses related to our acquisition of State Bancorp and OREO and other expenses partly related to assets acquired in the FDIC-assisted acquisitions. See the Net Interest Income, Non-Interest Income, and Non-Interest Expense sections below for more details on the items above impacting our 2012 annual results.

Economic Overview and Indicators. Major economic uncertainty prevailed throughout most of 2012 and into the fourth quarter of 2012 as the so-called fiscal cliff approached. This combination of scheduled tax increases and cuts in federal spending was set for the end of 2012 and Congress for a long time was unable to agree on ways to address it. This led to dramatically lower business investment and reduced consumer confidence. Although there have been recent glimmers of improvement in the unemployment rate and the

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housing market, most forward looking data, such as new orders and consumer sentiment, portend slower growth in 2013.

Information reviewed at the Federal Open Market Committee meeting in January 2013 suggests that economic activity and employment have continued to expand at a moderate pace in recent months, apart from weather-related disruptions. Although the Unemployment Rate has declined somewhat since the summer when it was at 8.3 percent, it remains elevated at 7.9 percent. Household spending has continued to advance, and the housing sector has shown further signs of improvement, but growth in business fixed investment has slowed.

The FRB, in an effort to clarify its intentions for a struggling economy, for the first time spelled out the unemployment level it would like to see before it raises short-term interest rates. FRB Chairman Bernanke has been quite vocal in his frustration that Congress has not been more proactive in pursuing stimulative fiscal policies. Hence, the FRB has maintained their open-ended quantitative easing policy in an effort to keep interest rates lower and boost the economy. Accordingly, the FRB announced it will continue in 2013 with its plan to purchase of $85 billion in both mortgage-backed securities and U.S. Treasury securities each month, as part of its strategy to maintain low long-term interest rates to encourage borrowing, spending, and investing. Furthermore, the FRB said it did not expect to touch short-term rates until it saw the unemployment rate fall to 6.5 percent or lower, as long as inflation forecasts remain near its 2 percent target. That would mean, according to their most recent projections, that the FRB would keep short-term rates near zero into 2015.

Other data that point to the FRB s accommodative posture include the Core CPI, a method for measuring core inflation, which was up only 1.9 percent year-over-year in December 2012 and suggests a tame inflationary environment. Facing what appears to be little threat of inflationary risk, the FRB is moving forward with the aforementioned monetary accommodation to spur economic activity.

Existing home sales fell by 1 percent in December 2012 to an annual rate of 4.9 million homes, but this much watched economic indicator finished 2012 as its best year since 2007. The housing market s improvement is also evidenced by the unsold home inventory, which at 4.4 months is the lowest level since 2005. The housing recovery along with the low level of interest rates should continue to benefit our residential mortgage loan activities in 2013. However, we believe a low-rate, high unemployment environment, which is reflective of our current operating environment, will continue to challenge our business operations and results in many ways during 2013 and the foreseeable future, as highlighted throughout the remaining MD&A discussion below.

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

The following economic indicators are just a few of many factors that may be used to assess the market conditions in our primary markets of northern and central New Jersey and the New York City metropolitan area. Generally, market conditions have improved from one year ago, however as outlined above, economic

uncertainty, persistent unemployment, as well as high vacancy rates may continue to put pressure on the performance of some borrowers and the level of new loan demand within our area.

	For the Month Ended				
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Key Economic Indicators:					
Unemployment rate:					
U.S.	7.80%	7.80%	8.20%	8.20%	8.50%
New York Metro Region*	8.50%	8.50%	9.50%	8.90%	8.20%
New Jersey	9.60%	9.80%	9.60%	9.00%	9.10%
New York	8.20%	8.90%	8.90%	8.50%	8.20%

	Three Months Ended				
	December 31, 2012	September 30, 2012	June 30, 2012 ($ in millions)	March 31, 2012	December 31, 2011
Personal income:					
New Jersey	NA	$ 473,813	$ 472,756	$ 471,492	$ 464,003
New York	NA	$ 1,012,959	$ 1,011,170	$ 1,003,281	$ 997,078
New consumer bankruptcies:					
New Jersey	NA	0.12%	0.14%	0.15%	0.16%
New York	NA	0.08%	0.09%	0.08%	0.10%
Change in home prices:					
U.S.	NA	2.20%	7.10%	-1.70%	-3.80%
New York Metro Region*	NA	-0.50%	0.91%	-1.78%	-3.70%
New consumer foreclosures:					
New Jersey	NA	0.08%	0.05%	0.08%	0.04%
New York	NA	0.06%	0.05%	0.06%	0.05%
Rental vacancy rates:					
New Jersey	11.70%	10.80%	10.50%	11.60%	10.80%
New York	5.20%	5.00%	5.60%	6.30%	6.30%

NA not available

* As reported by the Bureau of Labor Statistics for the NY-NJ-PA Metropolitan Statistical Area.
Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of New York, S&P Indices, and the U.S. Census Bureau.

Loans. Total non-covered loans (i.e., loans which are not subject to our loss-sharing agreements with the FDIC) increased by $1.3 billion to $10.8 billion at December 31, 2012 from December 31, 2011 primarily due to $987.0 million in non-covered PCI loans (outstanding at December 31, 2012) acquired from State Bancorp and purchased from another financial institution during the first quarter of 2012. Valley also experienced organic loan growth in non-PCI commercial real estate, residential mortgage, and other consumer loans during 2012 as compared to December 31, 2011. Excluding the PCI loans acquired and purchased during 2012, our commercial real estate (including construction loans), residential mortgage, and other consumer loans grew by $186.8 million, $160.0 million, and $42.8 million, respectively, during 2012, while home equity loans and commercial and industrial loans (excluding the elimination of a $37.0 million short-term loan to State Bancorp in our purchase accounting) decreased by $30.7 million and $8.6 million, respectively, due to a large volume of repayments resulting from refinance activity spurred on by the low level of market interest rates. Additionally, residential mortgage loan growth was somewhat tempered by our decision to sell most of our new and refinanced loans during the second half of 2012. As a result, we sold approximately 53 percent of our $2.0 billion residential loan originations during 2012. Overall, our non-PCI loans totaling $9.8 billion within the non-covered loan portfolio at December 31, 2012 grew by 3.4 percent as compared to approximately $9.5 billion at December 31, 2011. Total covered loans (i.e., loans subject to our loss-sharing agreements with the FDIC) decreased to

$180.7 million, or 1.6 percent of our total loans, at December 31, 2012 as compared to $271.8 million, or 2.8 percent of total loans, at December 31, 2011 mainly due to normal collection activity.

Our new and refinanced residential mortgage loan originations of $2.0 billion during the year ended December 31, 2012 increased 70 percent as compared to $1.2 million in 2011. The increased volume is largely the result of the historically low interest rate environment, the success of our low-fixed price residential mortgage refinance programs and our strong emphasis in the New York Metro area supported by our expanded network of full service branches in the New York boroughs and Long Island after the acquisition of State Bancorp on January 1, 2012. Widening loan spreads and the current Federal Reserve monetary policies contributed to increased loan sales into the secondary market during the second half of 2012 as we attempt to maximize mortgage banking revenues within non-interest income, while the low level of market interest rates continues to apply pressure to our net interest income and margin. As a result, Valley sold approximately $961.0 million of residential mortgages during the year ended December 31, 2012 (of which 80 percent were sold during the last six months of 2012) as compared to $358.8 million loans sold in 2011. The increased secondary market sales and the mark to market gains on loans held for sale at fair value materially increased the total gains on the sale of loans recognized in our non-interest income during 2012 as compared to 2011, while allowing us to maintain the appropriate mix of earning assets and an acceptable level of interest rate risk on our balance sheet. Additionally, net loan servicing rights recognized for servicing of the loans sold increased to $16.9 million at December 31, 2012 from $10.2 million at December 31, 2011. During the early part of the first quarter of 2013, mortgage application volume continues to be strong, and we believe this activity will continue into the foreseeable future assuming that market conditions do not adversely change. See further details on our loan activities, including the covered loan portfolio, under the Loan Portfolio section below.

Asset Quality. Given the slow economic recovery, elevated unemployment levels, personal bankruptcies, and higher delinquency rates reported throughout the banking industry, we believe our loan portfolio s credit performance remained at an acceptable level at December 31, 2012. Our past due loans and non-accrual loans, discussed further below, exclude PCI loans. Under U.S. GAAP, the PCI loans (acquired at a discount that is due, in part, to credit quality) are accounted for on a pool basis and are not subject to delinquency classification in the same manner as loans originated by Valley.

Total loans (excluding PCI loans) past due in excess of 30 days increased 0.04 percent to 1.73 percent of our total loan portfolio of $11.0 billion as of December 31, 2012 compared to 1.69 percent of total loans at December 31, 2011, mainly due to an increase in residential mortgage loans within the 30 to 89 days past due category and a higher level of non-accrual commercial real estate loans. Residential mortgage loans past due 30 to 89 days increased $10.5 million to $19.0 million at December 31, 2012; however, Valley believes the mortgage loans in this past due category are well secured, in the process of collection and do not represent a material negative trend within the residential mortgage portfolio. Total non-accrual loans increased $7.5 million to $131.8 million, or 1.20 percent of total loans at December 31, 2012 as compared to $124.3 million, or 1.27 percent of total loans at December 31, 2011. Although the timing of collection is uncertain, we believe most of our non-accrual loans are well secured and, ultimately, collectible. Our lending strategy is based on underwriting standards designed to maintain high credit quality and we remain optimistic regarding the overall future performance of our loan portfolio. However, due to the potential for future credit deterioration caused by the unpredictable future strength of the U.S. economic and housing recoveries and high levels of unemployment, management cannot provide assurance that our non-performing assets will remain at, or decline from, the levels reported as of December 31, 2012. See the Non-performing Assets section below for further analysis of our credit quality.

Investments. During the year ended December 31, 2012, we recognized net gains on securities transactions of $2.6 million as compared to $32.1 million in 2011. The decrease was mainly caused by a steep decline in the sales of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises classified as available for sale as compared to 2011. During 2011, we elected to reduce our holdings of many residential mortgage-backed securities with increased prepayment risk, as well as reduced our credit risk related to these issuers. Other-than-temporary impairment charges attributable to credit totaled $5.2 million in 2012 as compared to $20.0 million in 2011. Of the $5.2 million in impairment charges in 2012, $4.5 million was recognized in earnings during the third quarter of 2012 mostly due to the additional estimated credit losses on previously impaired trust preferred securities issued by one bank holding company. The majority of the impairment charges recognized in 2011 related to the initial impairment of these same trust preferred securities. See further details in the Investment Securities Portfolio section below and Note 4 to the consolidated financial statements.

Deposits and Other Borrowings. The mix of total deposits continued to shift away from time deposits to the other deposit categories during 2012 due to the low level of rates that we offered on certificates of deposit during most of the year and the maturity of higher cost time deposits. Despite the assumption of $412.5 million in time deposits in the State Bancorp acquisition, average time deposits still declined $19.4 million to $2.7 billion for 2012 as compared to 2011. However, lower cost average savings, NOW and money market deposits and non-interest bearing deposits increased $695.9 million and $617.0 million, respectively, largely due to $596.6 million and $371.2 million in deposits assumed in each respective category from State Bancorp. See further discussion of our average interest bearing liabilities under the Net Interest Income section below.

During the fourth quarter of 2011 and the first six months of 2012, we actively reduced the costs associated with our borrowings. In January and June 2012, we modified the terms of $150 million and $100 million in FHLB advances and other long-term borrowings. The modifications resulted in a reduction of the interest rate on these funds, an extension of their maturity dates to 10 years from the date of modification, and a conversion of the debt to non-callable for period of 4 years.We similarly modified the terms of $435 million in FHLB advances and other borrowings during the fourth quarter of 2011. After the modifications, the weighted average interest rate on these borrowings declined by 0.82 percent to 3.91 percent. There were no gains, losses, penalties or fees incurred in the modification transactions. Additionally, Valley redeemed $10.3 million of the principal face amount of its outstanding junior subordinated debentures issued to VNB Capital Trust I and $10.0 million of the face value of the related trust preferred securities during January 2012.

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

On October 29, 2012, Hurricane Sandy struck the Northeast and caused severe property damage and many business closures throughout the New Jersey and New York Metropolitan areas. We believe the storm did not materially impact the vast majority of our borrowers ability to repay their loans or the collateral values securing their loans. For a small amount of our customers affected by the storm, we extended their loan payments for up to 90 days and also waived a nominal amount of late charges and fees. The loan extensions granted, as well as other storm related past due loans, did not have a material impact on our loan delinquencies reported at December 31, 2012 (see Non-performing Assets section below). However, the full extent of any adverse impact on our markets and current customers from the prolonged rebuilding efforts necessary in coastal areas of New Jersey and Long Island is unknown at this time.

Net Interest Income

Net interest income consists of interest income and dividends earned on interest earning assets less interest expense paid on interest bearing liabilities and represents the main source of income for Valley. The net interest

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margin on a fully tax equivalent basis is calculated by dividing tax equivalent net interest income by average interest earning assets and is a key measurement used in the banking industry to measure income from interest earning assets.

Annual Period 2012. Net interest income on a tax equivalent basis increased $16.2 million to $497.1 million for 2012 compared with $480.9 million for 2011. The increase was mainly driven by $1.1 billion in loans acquired in the State Bancorp acquisition on January 1, 2012 and steady quarterly organic loan growth in commercial real estate (excluding construction) loans since December 31, 2011 and residential mortgage loans prior to our switch to more of a originate and sell model in the second half of 2012, coupled with a lower cost on interest bearing liabilities resulting from new and renewed time deposits at lower rates and interest rate modifications of certain long-term borrowings during the fourth quarter of 2011 and first quarter of 2012. However, much of the additional interest income was mitigated by lower interest rates on new loans and investments and the prepayment of higher yielding assets in both of these earning asset categories.

The net interest margin on a tax equivalent basis was 3.52 percent for the year ended December 31, 2012, a decrease of 23 basis points as compared to 3.75 percent for 2011. The level of interest rates remained low during 2012 due to, in part, the FRB s continued efforts to support the U.S. economic recovery and maintain the target federal funds rate at a historical low rate range of between zero to 0.25 percent since the fourth quarter of 2008. The prolonged low level of market interest rates continued to negatively impact the yield on interest earning assets during 2012, resulting in a 50 basis point decline to 4.81 percent as compared to 2011, while average interest rates paid on interest bearing liabilities only decreased 30 basis points in 2012. The decline in yield on interest earning assets was mainly attributable to the low market interest rates on (new and refinanced) loans and investments throughout 2012, large prepayments of high yielding loans and lower average taxable investments partly due to normal payments and prepayments of higher yielding securities. Offsetting some of the negative impact of lower interest rates on new loans and investments, our 2012 efforts to control our funding costs coupled with a low interest rate environment allowed us to decrease the interest rates paid on savings, NOW, and money market accounts, while maturing high cost certificates of deposit, if renewed, also re-priced at lower interest rates. Additionally, lower rates on customer repo balances mostly contributed to an 18 basis point decline in the cost of short-term borrowings during 2012.

Our earning asset portfolio is comprised of both fixed-rate and adjustable-rate loans and investments. Many of our earning assets are priced based upon the prevailing treasury rates, the Valley prime rate (set by Valley management based on various internal and external factors) or on the U.S. prime interest rate as published in The Wall Street Journal. On average, the 10 year treasury rate decreased from 2.76 percent in 2011 to 1.79 percent in 2012, negatively impacting our yield on average loans as new and renewed fixed-rate loans were originated at lower interest rates in 2012. However, Valley s prime rate and the U.S. prime rate have remained at 4.50 percent and 3.25 percent, respectively, since the fourth quarter of 2008. Our U.S. prime rate based loan portfolio should have an immediate positive impact on the yield of our average earning assets, in the unlikely event that the prime rate begins to move upward in 2013 given the FRB s current monetary policies, while an increase in treasury rates should also have a positive, but more gradual, effect on our interest income based on our ability to originate new and renewed fixed rate loans. We do not expect our Valley prime rate portfolio to have an immediate benefit to our interest income in a rising interest rate environment due to its current level above the U.S. prime rate. Additionally, interest income on approximately $1.2 billion of our residential mortgage-backed securities with unamortized purchase premiums totaling $49.6 million at December 31, 2012 could improve if and when interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. Conversely, increases in the prepayment speeds due to declining interest rates will increase the amount of premium amortization expense recognized against interest income related to these securities (as we experienced during most of 2012). At December 31, 2012, the premium amortization on the mortgage-backed securities negatively impacts the yield for this investment category by approximately 1.7 percent.

Average interest earning assets totaling $14.1 billion for the year ended December 31, 2012 increased $1.3 billion as compared to 2011 mainly due to the $1.1 billion in loans acquired in the State Bancorp acquisition and organic loan growth primarily in both our non-PCI commercial real estate and residential mortgage loan portfolios during 2012. Average loan balances increased $1.6 billion to $11.2 billion in 2012 and positively impacted our net interest margin as compared to 2011. The increase in average loan balances during 2012, partially offset by a 52 basis point decline in yield on such loans, also contributed to a $34.5 million increase in interest income on a tax equivalent basis for loans during the year ended December 31, 2012 compared to 2011. Average investment securities decreased $396.2 million to $2.6 billion in 2012, despite $275.7 million in investment securities acquired from State Bancorp on January 1, 2012. The decline in investment securities was largely due to principal repayments on higher yielding securities (including $79 million of called trust preferred securities with an aggregate weighted average yield of approximately 7.35 percent prior to redemption) and securities sold totaling $1.2 billion during 2012 and were mostly reinvested in residential mortgage-backed securities issued by Ginnie Mae, U.S. Treasury securities, and municipal securities. The 2012 reinvestments in the mortgage-backed securities and other taxable securities at low current market rates, partially offset by higher yielding municipal security purchases, primarily led to a $36.1 million decrease in interest income on a tax equivalent basis for investment securities as compared to 2011. Average federal funds sold and other interest bearing deposits increased $61.9 million to $223.5 million for the year ended December 31, 2012 as compared to 2011 mainly due to slightly higher levels of overnight liquidity held in 2012. However, these positions only contributed an additional $133 thousand in interest income due to the historically low target federal funds rate.

Average interest bearing liabilities increased $752.8 million to $11.0 billion for the year ended December 31, 2012 from the same period in 2011 mainly due to $1.0 billion in interest bearing deposits assumed from the acquisition of State Bancorp, partially offset by the run-off of high cost certificates of deposit. However, average time deposits only declined $19.4 million from 2011 due to the maturing high cost certificates largely because of the assumption of $412.5 million in certificates of deposit from State Bancorp on January 1, 2012. Average savings, NOW, and money market account balances increased $695.9 million primarily due to $596.6 million in assumed deposits from State Bancorp, as well as general increases in retail deposits caused by the lack of better yielding cash investment alternatives in 2012 and an increase in customer liquidity in the fourth quarter of 2012 due, in part, to year-end tax planning and continued economic uncertainty. Average short-term borrowings increased $136.0 million from 2011 due to the utilization of slightly more short-term FHLB advances as a flexible low cost source of funds in 2012, while average long-term borrowings declined $59.7 million in 2012 as compared to 2011 mainly due to higher cost FHLB advance maturities in the first half of 2011. The cost of average time deposits, short-term borrowings, long-term borrowings, and savings, NOW and money market accounts decreased 39, 18, 16, and 6 basis points, respectively, during 2012 due to the continued low level of market interest rates throughout the year and, as applicable, the aforementioned maturity of higher cost funds and the modifications to certain long-term borrowings. Additionally, we expect that maturing higher cost time deposits will continue to have some positive benefit to our interest margin in the first quarter of 2013.

Fourth Quarter of 2012. Net interest income on a tax equivalent basis decreased $3.3 million to $120.4 million for the fourth quarter of 2012 from the third quarter of 2012 and remained relatively unchanged as compared to the fourth quarter of 2011. Interest income on a tax equivalent basis decreased $4.3 million from the third quarter of 2012 mainly due to the combination of a $142.4 million decrease in average loans and lower yields on loans and investments. The decrease in interest income was partially offset by a $968 thousand decline in interest expense, which was mostly driven by lower average balances for time deposits and short-term borrowings as well as a 1 basis point decrease in the cost of average savings, NOW, and money market deposits.

The net interest margin on a tax equivalent basis was 3.41 percent for the fourth quarter of 2012, a decrease of 5 basis points from 3.46 percent in the linked third quarter of 2012, and a 33 basis point decline from 3.74 percent for the three months ended December 31, 2011. The yield on average interest earning assets decreased by seven basis points on a linked quarter basis mainly as a result of lower yields on average investment securities caused by the current low market yields on new securities and the continued repayment of higher yielding securities in the portfolio. The yield on average loans also decreased 3 basis points to 5.09 percent for the three months ended December 31, 2012 from the third quarter of 2012 mainly due to new volume at lower interest rates. The aggregate net change in infrequent items that impact our loan yields from time to time, such as accelerated interest accretion recognized on certain PCI loan pools that were fully repaid and loan prepayment penalty fees, added approximately six basis points to our loan yield for the fourth quarter as compared to the third quarter of 2012. However, the repayment volume of higher yielding non-PCI loans (with and without contractual prepayment penalties) remained elevated for the fourth quarter of 2012 and negatively impacted the overall yield on average loans. The overall cost of average interest bearing liabilities increased by approximately 1 basis point from 1.62 percent in the third quarter of 2012 mainly due to a slight change in mix of borrowings, as the individual yields for most categories declined during the fourth quarter. Lower cost short-term borrowings (mainly consisting of FHLB advances) matured and were paid off during the fourth quarter, largely resulting in the average balance decline of $304.6 million for the category, while higher cost maturing time deposits contributed to a decline in average time deposits of only $110.6 million. Our cost of total deposits was 0.49 percent for the fourth quarter of 2012 compared to 0.52 percent for the three months ended September 30, 2012.

We believe our margin may continue to face the risk of compression into the foreseeable future due to the current low level of interest rates on most interest earning asset alternatives combined with the re-pricing risk related to a large percentage of our interest earning assets with short durations (see the Interest Rate Sensitivity Analysis table below). Additionally, our interest income on loans may increase or decrease each period due to prospective yield adjustments resulting from unexpected changes in the actual cash flows from PCI loans pools (see discussion under the Covered Loans section below). However, we continue to tightly manage our balance sheet and our cost of funds to optimize our returns. During 2013, we will continue to explore ways to reduce our costs and optimize our net interest margin, including potential reductions in interest rates on certain deposit products. Additionally, two interest rate caps with a total notional amount of $100 million used to hedge the cash flows of certain borrowings will expire on May 1, 2013, which is expected to have a slightly positive impact on our cost of funds from that point forward in 2013. Although we cannot make any guarantees as to the potential future benefits to our net interest margin, we believe these actions and other asset/liability strategies will at least partially temper the negative impact of the current interest rate environment.

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The following table reflects the components of net interest income for each of the three years ended December 31, 2012, 2011 and 2010:

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY AND

NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	2012			2011			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest ($ in thousands)	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Loans [1][2]	$ 11,238,269	$ 581,828	5.18%	$ 9,608,480	$ 547,371	5.70%	$ 9,474,994	$ 543,017	5.73%
Taxable investments [3]	2,169,106	75,805	3.49	2,615,140	114,784	4.39	2,641,869	123,021	4.66
Tax-exempt investments [1][3].	478,838	20,242	4.23	429,004	17,344	4.04	405,730	15,948	3.93
Federal funds sold and other interest bearing deposits	223,515	535	0.24	161,612	402	0.25	157,163	416	0.26
Total interest earning assets	14,109,728	678,410	4.81	12,814,236	679,901	5.31	12,679,756	682,402	5.38
Allowance for loan losses	(133,322)			(136,432)			(110,776)		
Cash and due from banks	434,038			366,159			310,908		
Other assets	1,436,408			1,209,732			1,225,837		
Unrealized gains (losses) on securities available for sale, net	(12,854)			16,594			13,505		
Total assets	$ 15,833,998			$ 14,270,289			$ 14,119,230		
Liabilities and Shareholders Equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$ 5,094,919	$ 20,090	0.39%	$ 4,399,031	$ 19,876	0.45%	$ 4,171,782	$ 19,126	0.46%
Time deposits	2,708,919	37,466	1.38	2,728,354	48,291	1.77	2,897,793	55,798	1.93
Total interest bearing deposits	7,803,838	57,556	0.74	7,127,385	68,167	0.96	7,069,575	74,924	1.06
Short-term borrowings	328,438	1,387	0.42	192,392	1,154	0.60	194,587	1,345	0.69
Long-term borrowings [4]	2,904,893	122,369	4.21	2,964,555	129,692	4.37	3,099,807	137,791	4.45
Total interest bearing liabilities	11,037,169	181,312	1.64	10,284,332	199,013	1.94	10,363,969	214,060	2.07
Non-interest bearing deposits	3,228,183			2,611,207			2,428,089		
Other liabilities	67,649			63,811			56,394		
Shareholders equity	1,500,997			1,310,939			1,270,778		
Total liabilities and shareholders equity	$ 15,833,998			$ 14,270,289			$ 14,119,230		
Net interest income/interest rate spread [5]		497,098	3.17%		480,888	3.37%		468,342	3.31%
Tax equivalent adjustment		(7,217)			(6,077)			(5,590)	
Net interest income, as reported		$ 489,881			$ 474,811			$ 462,752	
Net interest margin [6]			3.47%			3.71%			3.65%
Tax equivalent effect			0.05			0.04			0.04

Net interest margin on a fully tax equivalent basis[6]	3.52%	3.75%	3.69%

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

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

CHANGE IN NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	Years Ended December 31,					
	2012 Compared to 2011			2011 Compared to 2010		
	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate	Total Change
	(in thousands)					
Interest income:						
Loans*	$ 87,338	$ (52,881)	$ 34,457	$ 7,618	$ (3,264)	$ 4,354
Taxable investments	(17,760)	(21,219)	(38,979)	(1,234)	(7,003)	(8,237)
Tax-exempt investments*	2,081	817	2,898	932	464	1,396
Federal funds sold and other interest bearing deposits	149	(16)	133	12	(26)	(14)
Total increase (decrease) in interest income	71,808	(73,299)	(1,491)	7,328	(9,829)	(2,501)
Interest expense:						
Savings, NOW and money market deposits	2,922	(2,708)	214	1,030	(280)	750
Time deposits	(342)	(10,483)	(10,825)	(3,152)	(4,355)	(7,507)
Short-term borrowings.	646	(413)	233	(15)	(176)	(191)
Long-term borrowings and junior subordinated debentures	(2,576)	(4,747)	(7,323)	(5,942)	(2,157)	(8,099)
Total increase (decrease) in interest expense	650	(18,351)	(17,701)	(8,079)	(6,968)	(15,047)
Increase (decrease) in net interest income	$ 71,158	$ (54,948)	$ 16,210	$ 15,407	$ (2,861)	$ 12,546

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

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Non-Interest Income

The following table presents the components of non-interest income for the years ended December 31, 2012, 2011, and 2010:

	Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
Trust and investment services	$ 7,690	$ 7,523	$ 7,665
Insurance commissions	15,494	15,627	11,334
Service charges on deposit accounts	24,752	22,610	25,691
Gains on securities transactions, net	2,587	32,068	11,598
Net impairment losses on securities recognized in earnings	(5,247)	(19,968)	(4,642)
Trading gains (losses), net:			
Trading securities	219	1,015	(1,056)
Junior subordinated debentures carried at fair value	2,574	1,256	(5,841)
Total trading gains (losses), net	2,793	2,271	(6,897)
Fees from loan servicing	4,843	4,337	4,919
Gains on sales of loans, net	46,998	10,699	12,591
(Losses) gains on sales of assets, net	(329)	426	619
Bank owned life insurance	6,855	7,380	6,166
Change in FDIC loss-share receivable	(7,459)	13,403	6,268
Other	21,969	15,921	16,015
Total non-interest income	$ 120,946	$ 112,297	$ 91,327

Non-interest income represented 15 percent and 14 percent of total interest income plus non-interest income for 2012 and 2011, respectively. For the year ended December 31, 2012, non-interest income increased $8.6 million compared with 2011 mainly due to an increase in the net gains on sale of loans combined with a decrease in other-than-temporary impairment charges on securities recognized in earnings, partially offset by decreases in net gains on securities transactions and non-interest income related to the change in the FDIC loss-share receivable due to post-acquisition items.

Service charges on deposit accounts increased $2.1 million to $24.8 million for 2012 as compared to 2011 mainly due to higher fees charged on checking and savings accounts, as well as a higher volume of ATM and overdraft fees. The increases were partly caused by our acquisition of State Bancorp on January 1, 2012.

Net gains on securities transactions decreased $29.5 million to $2.6 million for the year ended December 31, 2012 as compared to $32.1 million in 2011. The 2012 decline was largely due to a significantly higher volume of sales in the prior year. During 2011, our net gains were mainly due to the sale of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises totaling $320.7 million and $257.4 million, respectively, classified as available for sale during 2011. We elected to sell these securities based on a total rate of return analysis for each security based on their increased risk of accelerated prepayment due to the low level of market interest rates and the extension of certain government programs designed to assist borrowers with low home values in the refinance of their mortgages.Additionally, the sales of the Freddie Mac and Fannie Mae securities reduced our exposure to these government sponsored issuers, and allowed us to reinvest the net proceeds mainly in Ginnie Mae mortgage-backed securities, which are fully guaranteed by the federal government and do not require related regulatory capital to be held by the Bank. See Note 4 to the consolidated financial statements for more details on our gross gains and losses on securities transactions for each period.

Net impairment losses on securities decreased $14.7 million to $5.2 million for the year ended December 31, 2012 as compared to $20.0 million in 2011 primarily due to a decrease in the credit related impairment recognized on trust preferred securities issued by one bank holding company. These interest deferring securities were initially impaired during the fourth quarter of 2011 and subsequently estimated to be further credit impaired during the third quarter of 2012. See the Investment Securities Portfolio section of this MD&A and Note 4 to the consolidated financial statements for further details on our investment securities impairment analysis and the other-than-temporarily impaired securities impacting the net impairment losses on securities reflected in the table above.

Net gains on sales of loans increased $36.3 million to $47.0 million for the year ended December 31, 2012 compared to 2011 primarily due to our decision to sell a larger portion of our residential mortgage originations during the second half of 2012 combined with record mortgage originations during 2012 caused, in part, by the low level of market interest rates, the continued success of Valley s low fixed-price refinance programs, and gradual signs of a housing recovery. Our net gains on sales of loans for each period are comprised of both gains on sales of residential mortgages and the net change in the mark to market gains (or losses) on our loans held of sale carried at fair value each period end. Actual sales of mortgages contributed approximately $43.1 million in gains for the year ended December 31, 2012 as compared to $10.3 million in 2011. The net change in the fair value of loans held for sale increased $3.5 million to $3.9 million for 2012 as compared to 2011 mainly due to an increase in such loans originated and held at December 31, 2012. During the fourth quarter of 2012, we recognized net gains totaling $15.6 million. We expect this level of gains to continue into the first quarter of 2013 as we currently intend to sell a large portion of our mortgage loan production, dependent upon, amongst other factors, the levels of interest rates, consumer demand, the economy and our ability to maintain the appropriate level of interest rate risk on our balance sheet. See further discussions of our 2012 residential mortgage loan origination activity under Loans in the executive summary section of this MD&A above and the fair valuation of our loans held for sale at Note 3 of the consolidated financial statements.

The Bank and the FDIC share in the losses on loans and real estate owned as part of the loss-sharing agreements entered into on both of our FDIC-assisted transactions completed in March 2010. The asset arising from the loss-sharing agreements is referred to as the FDIC loss-share receivable on our consolidated statements of financial condition. Within the non-interest income category, we may recognize income or expense related to the change in the FDIC loss-share receivable resulting from (i) a change in the estimated credit losses on the pools of covered loans, (ii) income from reimbursable expenses incurred during the period, (iii) accretion of the discount resulting from the present value of the receivable recorded at the acquisition dates, and (iv) prospective recognition of decreases in the receivable attributable to better than originally expected cash flows on certain covered loan pools. During the year ended December 31, 2012, the aggregate effect of changes in the FDIC loss-share receivable amounted to a $7.5 million net reduction in non-interest income largely due to a $6.0 million reduction in the FDIC s portion of estimated losses related to unused lines of credit assumed in FDIC-assisted transactions which have expired. See FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets section below in this MD&A and Note 5 to the consolidated financial statements for further details.

Other non-interest income increased $6.0 million primarily due to the reversal of $7.4 million in purchase accounting valuation liabilities related to expired and unused lines of credit assumed in FDIC-assisted transactions during the second quarter of 2012. This reversal resulted in the aforementioned corresponding $6.0 million decrease in our FDIC loss-share receivable portion of such estimated losses as of the acquisition.

In June 2011, the FRB approved a final debit card interchange rule that caps an issuer s base fee at 21 cents per transaction and allows an additional 5 basis point charge per transaction to help cover fraud losses. The FRB also approved an interim final rule that allows a fraud prevention adjustment of 1 cent per transaction conditioned upon an issuer adopting effective fraud prevention policies and procedures. The final and interim final rules on the pricing and routing restrictions, commonly referred to as the Durbin Amendment, became effective on October 1, 2011. Largely the result of the Durbin Amendment, our other non-interest income included debit card interchange fees of only $2.4 million for the year ended December 31, 2012 as compared to $5.1 million for 2011.

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See the Results of Operations 2011 Compared to 2010 section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2010 to 2011.

Non-Interest Expense

The following table presents the components of non-interest expense for the years ended December 31, 2012, 2011, and 2010:

	Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
Salary and employee benefits expense	$ 199,968	$ 176,307	$ 176,106
Net occupancy and equipment expense	71,245	66,332	63,771
FDIC insurance assessment	14,292	12,759	13,719
Amortization of other intangible assets	9,783	9,315	7,721
Professional and legal fees	15,005	15,312	10,137
Advertising	7,103	8,373	4,052
Other	57,504	50,158	44,182
Total non-interest expense	$ 374,900	$ 338,556	$ 319,688

Non-interest expense increased $36.3 million to $374.9 million for the year ended December 31, 2012 from $338.6 million for 2011. The increase from 2011 was mainly attributable to increases in salaries and employee benefits, net occupancy and equipment expense, and other non-interest expense.

Salary and employee benefits expense increased $23.7 million to $200.0 million for the year ended December 31, 2012 as compared to $176.3 million for 2011. The increase was largely due to additional salary and employee benefit expenses related to employees acquired in the State Bancorp acquisition. Higher medical health insurance expense also contributed $4.6 million increase. Our health care expenses are at times volatile due to our election to self-fund a large portion of our insurance plan and these medical expenses are expected to fluctuate based on our plan experience into the foreseeable future. In addition, stock and cash incentive compensation accruals increased $1.5 million for the year ended December 31, 2012 as compared to 2011.

Net occupancy and equipment expense increased $4.9 million to $71.2 million for the year ended December 31, 2012 as compared to $66.3 million for 2011. The increase was mainly due to additional expenses associated with the branches acquired from State Bancorp during January 2012, partially offset by lower seasonal maintenance expenses as compared to 2011. Net occupancy and equipment expense was adjusted for the straight-line recognition of rental expense and income on operating leases totaling $1.6 million for the year ended December 31, 2012 and $2.0 million for each of the years 2011 and 2010. See Note 1 to the consolidated financial statement for further details.

The FDIC insurance assessment increased $1.5 million in 2012 as compared to 2011, largely due to our growth resulting from the acquisition of State Bancorp.

Advertising expense decreased $1.3 million to $7.1 million for the year ended December 31, 2012 as compared to $8.4 million in 2011. The decrease was mainly caused by a lower volume of promotional activity of our one price residential mortgage refinance programs during 2012 due to the benefits of the broad based customer knowledge of our low fixed-price mortgage refinance programs.

Other non-interest expense increased $7.3 million for the year ended December 31, 2012 from $50.2 million in 2011, partly due to several general increases caused by the State Bancorp acquisition, including merger expenses totaling $942 thousand related mainly to data processing conversion charges, as well as a $1.8 million and $2.0 million increases in other real estate owned (OREO) expenses, respectively. Significant components of other non-interest expense include data processing, telephone, service fees, debit card fees, postage, stationery, insurance, and title search fees.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus non-interest income. Our efficiency ratio for the year ended December 31, 2012 was 61.38 percent as compared to 57.67 percent in 2011. The higher efficiency ratio during 2012 as compared to 2011 was largely attributable to the negative impact of the prolonged low level of interest rates on our net interest income. See the Net Interest Income section for further details. We believe this non-GAAP measure provides a meaningful comparison of our operational performance, and facilitates investors assessments of business performance and trends in comparison to our peers in the banking industry.

We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. As part of these efforts, we continue to evaluate the profitability of our entire 210 branch network, consisting of 114 leased and 96 owned locations. Where possible we will right size branches and their staff to better reflect the technological changes taking place in our delivery system (e.g., 24 hour on-line banking, remote deposit, etc.) which continue to be utilized by a higher percentage of our customer base each year, as well as the amount of lobby traffic at each branch. Additionally, we continuously monitor the profitability and customer traffic at each branch location and assess our ability to shrink the size of the office or close it when there is a negative long term outlook for the location and/or an opportunity to move existing customers to another branch location.

See the Results of Operations 2011 Compared to 2010 section below for the discussion and analysis of changes in our non-interest expense from 2010 to 2011.

Income Taxes

Income tax expense was $66.7 million for the year ended December 31, 2012, reflecting an effective tax rate of 31.7 percent, compared with $62.7 million for 2011, reflecting an effective tax rate of 32.1 percent. The slight decrease in the 2012 effective tax rate was due, in part, to an increased investment in tax favored income for 2012 as compared to 2011.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management s judgment include changes in income, tax laws and regulations, and tax planning strategies. Based on the current information available, we anticipate that our effective tax rate will approximate 33 percent for 2013.

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

Business Segments

We have four business segments that we monitor and report on to manage our business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Our reportable segments have been determined based upon Valley s internal structure of operations and lines of business. Each business segment is reviewed routinely for its asset growth, contribution to income before income taxes and return on average interest earning assets and impairment (if events or circumstances indicate a possible inability to realize the carrying amount). Expenses related to the branch network, all other components of retail banking, along with the back office departments of our subsidiary bank are allocated from the corporate and other adjustments segment to each of the other three business segments. Interest expense and internal transfer expense (for general corporate expenses) are allocated to each business segment utilizing a pool funding methodology, whereas each segment is allocated a uniform funding cost based on each segments average earning assets outstanding for the period. The financial reporting for each segment contains allocations and reporting in line with our operations, which may not necessarily be comparable to any other financial institution. The accounting for each segment includes internal accounting policies designed to measure consistent and reasonable financial reporting, and may not necessarily conform to U.S. GAAP. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. See Note 20 to the consolidated financial statements for segments financial data.

Consumer lending. The consumer lending segment is mainly comprised of residential mortgage loans, home equity loans and automobile loans and represented in aggregate 35.6 percent of the total loan portfolio at December 31, 2012. Residential mortgage loans, including $9.7 million of covered loans, totaled approximately $2.5 billion and represented 22.4 percent of our loan portfolio at December 31, 2012. The duration of the residential mortgage loan portfolio is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans within the portfolio is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles.

Average interest earning assets in this segment increased $547.2 million to approximately $3.9 billion for the year ended December 31, 2012 as compared to 2011. The increase was mainly due to the organic growth in our non-covered residential mortgage loans caused by the sustained low level of market interest rates and the continued success of our mortgage refinance programs. However during the second half of 2012, we sold and held for sale a significantly higher portion of our increased residential mortgage loan production as loan spreads widened and we continued to manage the acceptable levels of interest rate risk and mix of loan types on our balance sheet. Home equity loans moderately increased from 2011 largely due to PCI loans acquired from State Bancorp on January 1, 2012; however, non-PCI home equity loans have gradually declined year over year as some borrowers roll balances into refinanced first mortgages and line usage has been negatively impacted by the slow economic recovery. Automobile loan balances also modestly increased as compared to 2011 due, in part, to $19.0 million in purchased loans during 2012. Exclusive of the loan purchases, the auto loan originations, while higher than 2011, have not resulted in significant growth during 2012 due to the high volume of principal repayments in the portfolio and have been limited by the negative impact of the weak economy, high unemployment, and strong competition for quality loan credits.

Income before income taxes generated by the consumer lending segment increased $22.2 million to $73.4 million for the year ended December 31, 2012 as compared to 2011 primarily due to increases in both non-interest income and net interest income. Non-interest income increased $37.9 million mainly due to a $36.3 million increase in net gains on sales of residential mortgage loans during 2012 caused by our recent originate and sell strategy for the majority of our residential mortgage originations. However, net interest income also increased $5.4 million to $129.5 million for 2012 as compared to $124.1 million in 2011 mainly due to the high volume of new mortgage loan originations primarily booked to the loan portfolio during the first half of 2012. These increases were partially offset by a $12.4 million increase in non-interest expense coupled with a $10.5 million increase in the internal transfer expense during 2012 caused, in part, by the State Bancorp acquisition on January 1, 2012.

The net interest margin for the consumer lending segment decreased 37 basis points to 3.29 percent during 2012 as a result of a 63 basis point decrease in interest yield on average loans due to the sustained low level of market interest rates, partially offset by a 26 basis point decrease in cost associated with our funding sources. Over the last twelve month period, our cost of funds continued to be positively impacted by the run-off of maturing high cost certificates of deposit, lower interest rates offered on most of our deposit products, and interest rate modifications to certain long-term borrowings during the fourth quarter of 2011 and the first half of

2012. The return on average interest earning assets before income taxes was 1.86 percent for 2012 compared to 1.51 percent for the prior year period.

Commercial lending. The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio s interest rate characteristics, commercial lending is Valley s business segment that is most sensitive to movements in market interest rates. Commercial and industrial loans, including $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. Commercial real estate loans and construction loans, including $122.2 million of covered loans, totaled $5.0 billion and represented 45.0 percent of the total loan portfolio at December 31, 2012.

Average interest earning assets in this segment increased $1.1 billion to $7.3 billion for the year ended December 31, 2012 as compared to 2011. This increase mainly reflects loans acquired in the State Bancorp acquisition and purchased during the first quarter of 2012, as well as organic growth within the commercial real estate loan portfolio due to loan demand from a broad range of borrowers within our primary markets, as well as our continued emphasis on co-op loan lending in the New York Metro area over the last twelve month period.

For the year ended December 31, 2012, income before income taxes for the commercial lending segment increased $14.8 million to $124.8 million compared to 2011 primarily due to higher net interest income coupled with a decline in the provision for loan losses, partially offset by a decrease in non-interest income and higher internal transfer expense. Net interest income increased $34.8 million to $323.1 million during 2012 as compared to $288.3 million for 2011 and was mainly driven by higher average loan balances. The provision for loan losses decreased $25.9 million to $20.6 million as compared to $46.5 million for 2011, mainly due to a $21.5 million decline in the provision for covered loans.

Non-interest income decreased $18.7 million for 2012 as compared to 2011 mainly due to $16.9 million of other income recognized in 2011 resulting from an increase in our FDIC loss-share receivable related to covered loan pools with additional impairment after the date of acquisition. Internal transfer expense increased $21.1 million to $121.0 million for 2012 as compared to 2011 primarily due to additional costs associated with our acquisition of State Bancorp and higher allocations due to the increased size of the commercial loan portfolio.

The net interest margin for this segment decreased 21 basis points to 4.43 percent during 2012 mainly as a result of a 47 basis point decrease in the yield on average loans, partially offset by a 26 basis point decrease in the cost of our funding sources as compared to 2011. The return on average interest earning assets before income taxes was 1.71 percent for 2012 compared to 1.77 percent for the prior year period.

Investment management. The investment management segment generates a large portion of our income through investments in various types of securities. These securities are mainly comprised of fixed rate investments, trading securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York), as part of our asset/liability management strategies. The fixed rate investments are one of Valley s assets that are least sensitive assets to changes in market interest rates. Net gains and losses on the change in fair value of trading securities and net impairment losses on securities are reflected in the corporate and other adjustments segment.

Average investments decreased $334.3 million for the year ended December 31, 2012 as compared to 2011 primarily due to significant principal payments and prepayments received on residential mortgage-backed securities, securities called for early redemption by their issuer consisting primarily of higher yielding trust preferred securities, sales of certain securities, and lower reinvestment of principal and interest proceeds due to loan growth, as well as the low level of interest rates on current investment alternatives with acceptable risk profiles.

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For the year ended December 31, 2012, income before income taxes for the investment management segment decreased $20.8 million to $21.3 million compared to $42.1 million in 2011 primarily due to a $23.9 million decline in net interest income, partially offset by a $3.9 million decrease in the internal transfer expense. The segment s net interest income was negatively impacted by a decline in the yield on investments mainly resulting from the reinvestment of principal and interest received from higher yielding securities into new securities yielding lower market interest rates and accelerated premium amortization on certain residential mortgage-backed securities, and the significant decline in average investments, partially offset by lower cost of funds.

The net interest margin decreased 51 basis points to 2.21 percent during the year ended December 31, 2012 as compared to 2011 as a result of a 77 basis point decrease in yield on investments, partially offset by a 26 basis point decrease in costs associated with our funding sources.The net interest margin for investment management in 2012 was negatively impacted by the repayment and sales of certain higher yielding securities over the last twelve month period (as well as sales of residential mortgage-backed securities with increased prepayment risk during 2011) that were mostly replaced with securities yielding lower current market interest rates. The return on average interest earning assets before income taxes was 0.74 percent for 2012 compared to 1.31 percent for the prior year period.

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

The pre-tax net loss for the corporate segment increased $1.1 million to $9.2 million for the year ended December 31, 2012 from an $8.1 million for 2011 mainly due to a decreases in interest income, non-interest income and an increase in non-interest expense, partially offset by an increase in the internal transfer income. Non-interest income decreased $10.1 million to $32.1 million for the year ended December 31, 2012 coupled with a $1.1 million decline in net interest income. The increase in non-interest income was mostly attributable to a $29.5 million decrease in net gains on securities transactions largely due to higher 2011 gains on sale of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises with increased risk of prepayment, partially offset by a $14.7 million decrease in net impairment losses on securities. Non-interest expense increased $17.6 million to $249.4 million, as compared to the same period in 2011 primarily due to the acquisition of State Bancorp, and was partially offset by a $27.7 million increase in the internal transfer income during 2012 as compared to 2011.

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ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

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

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of December 31, 2012. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of December 31, 2012. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of December 31, 2012. Although the size of Valley s balance sheet is forecasted to remain static as of December 31, 2012 in our model, the composition is adjusted to reflect new interest earning assets and funding originations coupled with rate spreads utilizing our actual originations during 2012. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2012.

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

	Estimated Change in Future Net Interest Income	
Changes in Interest Rates (in basis points)	Dollar Change	Percentage Change
	($ in thousands)	
+200	$ 14,874	3.26%
+100	2,733	0.60

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

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

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

As noted in the table above, a 100 basis point immediate increase in interest rates is projected to increase net interest income over the next twelve months by 0.60 percent. Our balance sheet sensitivity to such a move in interest rates at December 31, 2012 increased as compared to December 31, 2011 (which was a decrease of 0.18 percent in net interest income) largely due to a $456.5 million increase in interest bearing deposits with banks, which were mostly held as overnight cash deposits at the Federal Reserve Bank of New York due to our excess liquidity at December 31, 2012. However, our positive sensitivity to a 100 basis point increase in interest rates is somewhat limited by the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management), which currently exceeds the U.S. prime rate by 125 basis points. Due to its current level above the U.S. prime rate, the Valley prime rate is not projected to increase under the 100 basis point immediate increase scenario in our simulation, but would increase and positively impact our net interest income in a 200 basis point immediate increase in interest rates scenario. Additional information regarding our adjustable prime rate loans impact on our margin is located under the Net Interest Income section above. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

As a result of the current low interest rate environment, we do not anticipate any significant declines in interest rates over the next twelve months. For this reason, we did not use an interest rate sensitivity simulation that assumes an immediate decline in the level of interest rates over the next twelve months.

Although we do not expect our Valley prime rate loan portfolio to have an immediate benefit to our interest income in a rising interest rate environment, we attempt to manage the Bank s aggregate sensitivity in a manner to mitigate the potential lag in the portfolios re-pricing. We expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. However, many of the residential mortgage-backed securities have rapidly paid down in the current low interest rate environment, and the resulting acceleration of the securities premium amortization has negatively impacted our interest income during the year ended December 31, 2012 and may continue to do so if the market interest rates remain a historically low levels.

Our interest rate swaps and caps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits and short-term borrowings based on the prime and effective federal funds rates, respectively. We have four cash flow hedge interest rate swaps with a $300 million notional value at December 31, 2012. During the third quarter of 2011, two of the cash flow hedge interest rate swaps with a notional amount of $200 million began to pay fixed and receive floating rates. The other two swaps totaling $100 million began to pay fixed and receive floating rates in July 2012. The floating rate leg of the each transaction is indexed to the U.S. prime rate as reported by The Wall Street Journal. Additionally, we utilize interest rate swaps at times to effectively convert fixed rate loans and deposits to floating rate instruments. Most of these actions are expected to benefit our net interest income in a rising interest rate environment. However,

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due to the prolonged low level of market interest rates and the strike rate of these instruments, the cash flow hedge interest rate swaps and caps negatively impacted our net interest income during the years ended December 31, 2012 and 2011. We expect this negative trend to continue over the next twelve-month period due to the Federal Reserve s pledge to keep market interest rates low in an effort to help the ailing economy. See Note 14 to the consolidated financial statements for further details on our derivative transactions.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities that were outstanding at December 31, 2012 and their associated fair values. The expected cash flows are categorized based on each financial instrument s anticipated maturity or interest rate reset date in each of the future periods presented.

INTEREST RATE SENSITIVITY ANALYSIS

	Rate	2013	2014	2015	2016	2017	Thereafter	Total Balance	Fair Value
					($ in thousands)				
Interest sensitive assets:									
Interest bearing deposits with banks	0.33%	$ 463,022	$	$	$	$	$	$ 463,022	$ 463,022
Investment securities held to maturity	3.72	346,157	139,184	108,652	79,379	74,899	851,436	1,599,707	1,657,950
Investment securities available for sale	2.24	174,423	85,225	66,641	48,959	42,342	390,226	807,816	807,816
Trading securities	8.00						22,157	22,157	22,157
Loans held for sale, at fair value	3.20	120,230						120,230	120,230
Loans	4.77	4,765,285	1,562,961	1,225,049	977,893	786,533	1,705,078	11,022,799	11,038,942
Total interest sensitive assets	4.35%	$ 5,869,117	$ 1,787,370	$ 1,400,342	$ 1,106,231	$ 903,774	$ 2,968,897	$ 14,035,731	$ 14,110,117
Interest sensitive liabilities:									
Deposits:									
Savings, NOW and money market	0.22%	$ 1,746,478	$ 675,510	$ 675,510	$ 1,097,951	$ 250,437	$ 751,313	$ 5,197,199	$ 5,197,199
Time	1.42	1,364,989	487,977	203,379	178,170	246,846	27,405	2,508,766	2,563,726
Short-term borrowings	0.26	154,323						154,323	154,323
Long-term borrowings	3.96	26,000		400,000	364,500	1,005,000	901,799	2,697,299	3,100,273
Junior subordinated debentures	7.20						188,522	188,522	188,371
Total interest sensitive liabilities	1.56%	$ 3,291,790	$ 1,163,487	$ 1,278,889	$ 1,640,621	$ 1,502,283	$ 1,869,039	$ 10,746,109	$ 11,203,892
Interest sensitivity gap		$ 2,577,327	$ 623,883	$ 121,453	$ (534,390)	$ (598,509)	$ 1,099,858	$ 3,289,622	$ 2,906,225
Ratio of interest sensitive assets to interest sensitive liabilities		1.78:1	1.54:1	1.09:1	0.67:1	0.60:1	1.59:1	1.31:1	1.26:1

The above table provides an approximation of the projected re-pricing of assets and liabilities at December 31, 2012 on the basis of contractual maturities, adjusted for anticipated prepayments of principal (including anticipated call dates on long-term borrowings and junior subordinated debentures), and scheduled rate adjustments. The prepayment experience reflected herein is based on historical experience combined with market consensus expectations derived from independent external sources. The actual maturities of these instruments could vary substantially if future prepayments differ from historical experience or current market expectations. For non-maturity deposit liabilities, in accordance with standard industry practice and our historical experience, we used prepayment and decay rates to estimate deposit runoff.

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

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The total gap re-pricing within one year as of December 31, 2012 was a positive $2.6 billion, representing a ratio of interest sensitive assets to interest sensitive liabilities of 1.78:1. Current market prepayment speeds and balance sheet management strategies implemented throughout 2012 have allowed us to maintain our asset sensitivity level reported in the table above comparable to December 31, 2011. The total gap re-pricing position, as reported in the table above, reflects the projected interest rate sensitivity of our principal cash flows based on market conditions as of December 31, 2012. As the market level of interest rates and associated prepayment speeds move, the total gap re-pricing position will change accordingly, but not likely in a linear relationship. Management does not view our one year gap position as of December 31, 2012 as presenting an unusually high risk potential, although no assurances can be given that we are not at risk from interest rate increases or decreases.

Liquidity

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

The Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposit $100 thousand and over, federal funds purchased, repurchase agreements and FHLB advances) greater than 50 percent of total assets. The Bank was in compliance with the foregoing policies at December 31, 2012.

On the asset side of the balance sheet, the Bank has numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity that are maturing within 90 days or would otherwise qualify as maturities if sold (i.e., 85 percent of original cost basis has been repaid), investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold and receivables related to unsettled securities transactions. These liquid assets totaled approximately $1.9 billion, representing 13.4 percent of earning assets, at December 31, 2012 and $1.2 billion, representing 9.8 percent of earning assets, at December 31, 2011. The increase in liquid assets in 2012 is largely due to increases in interest bearing deposits with banks and investment securities available for sale during 2012. Of the $1.9 billion of liquid assets at December 31, 2012, approximately $371 million of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately $390.4 million in principal from securities in the total investment portfolio during 2013 due to normally scheduled principal repayments and expected prepayments of certain securities, primarily residential mortgage-backed securities.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments (including loans held for sale at December 31, 2012) are projected to be approximately $4.0 billion over the next twelve months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $9.9 billion and $8.6 billion for the years ended December 31, 2012 and 2011, respectively, representing 70.3 percent and

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67.0 percent of average earning assets at December 31, 2012 and 2011, respectively. The level of interest bearing deposits is affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities.

The following table lists, by maturity, all certificates of deposit of $100 thousand and over at December 31, 2012:

	2012 (in thousands)
Less than three months	$ 274,415
Three to six months	113,067
Six to twelve months	284,813
More than twelve months	537,749
Total	$ 1,210,044

Additional funding may be provided from short-term liquidity borrowings through deposit gathering networks and in the form of federal funds purchased obtained through our well established relationships with several correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $970 million for a short time from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. Furthermore, we are able to obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At December 31, 2012, our borrowing capacity under the Fed s discount window was approximately $1.0 billion.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as securities sold under agreements to repurchase (repos). Our short-term borrowings decreased $58.5 million to $154.3 million at December 31, 2012 as compared to $212.8 million at December 31, 2011 mainly due to lower repo balances. At December 31, 2012 and 2011, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

The following table sets forth information regarding Valley s short-term repos at the dates and for the years ended December 31, 2012, 2011, and 2010:

	2012	2011 ($ in thousands)	2010
Securities sold under agreements to repurchase:			
Average balance outstanding	$ 169,662	$ 177,232	$ 184,021
Maximum outstanding at any month-end during the period	189,359	212,849	186,633
Balance outstanding at end of period	154,323	212,849	183,295
Weighted average interest rate during the period	0.45%	0.45%	0.72%
Weighted average interest rate at the end of the period	0.26	0.25	0.47

Corporation Liquidity. Valley s recurring cash requirements primarily consist of dividends to common shareholders and interest expense on junior subordinated debentures issued to capital trusts. These cash needs are routinely satisfied by dividends collected from the Bank. Projected cash flows from the Bank are expected to be adequate to pay common dividends, if declared, and interest expense payable to capital trusts, given the current capital levels and current profitable operations of the bank subsidiary. In addition to dividends received from the Bank, Valley can satisfy its cash requirements by utilizing its own funds, cash and sale of investments, as well as potential borrowed funds from outside sources. In the event Valley would exercise the right to defer payments on

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the junior subordinated debentures, and therefore distributions on its trust preferred securities, Valley would be unable to pay dividends on its common stock until the deferred payments are made.

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

Investment Securities Portfolio

Securities are classified as held to maturity and carried at amortized cost when Valley has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity, and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss, net of tax. Available for sale securities are not considered trading account securities, but rather are securities which may be sold on a non-routine basis. Securities classified as trading are held primarily for sale in the short term or as part of our balance sheet management strategies and are carried at fair value, with unrealized gains and losses included immediately in the net trading gains and losses category of non-interest income. Valley determines the appropriate classification of securities at the time of purchase. The decision to purchase or sell securities is based upon the current assessment of long and short-term economic and financial conditions, including the interest rate environment and other statement of financial condition components. Securities with limited marketability and/or restrictions, such as Federal Home Loan Bank and Federal Reserve Bank stocks, are carried at cost and are included in other assets.

As of December 31, 2012, our investment portfolio was comprised of U.S. Treasury securities, U.S. government agencies, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 15 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (including 3 pooled securities), corporate bonds (most of which were purchased prior to the 2008 financial crisis) primarily issued by banks, and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders equity, except for residential mortgage-backed securities issued by Ginnie Mae.

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

Investment securities at December 31, 2012, 2011, and 2010 were as follows:

	2012	2011 (in thousands)	2010
Held to maturity			
U.S. Treasury securities	$ 99,869	$ 100,018	$ 100,161
Obligations of states and political subdivisions	506,473	433,284	387,280
Residential mortgage-backed securities	813,647	1,180,104	1,114,469
Trust preferred securities	127,505	193,312	269,368
Corporate and other debt securities	52,213	52,198	52,715
Total investment securities held to maturity (amortized cost)	$ 1,599,707	$ 1,958,916	$ 1,923,993
Available for sale			
U.S. Treasury securities	$ 97,625	$	$ 163,810
U.S. government agency securities	45,762	90,748	88,800
Obligations of states and political subdivisions	16,627	20,214	29,462
Residential mortgage-backed securities	510,154	310,137	610,358
Trust preferred securities	57,432	70,424	49,027
Corporate and other debt securities	30,708	33,044	45,967
Total debt securities	758,308	524,567	987,424
Equity securities	49,508	41,953	47,808
Total investment securities available for sale (fair value)	$ 807,816	$ 566,520	$ 1,035,232
Trading			
Trust preferred securities	$ 22,157	$ 21,938	$ 31,894
Total trading securities (fair value)	$ 22,157	$ 21,938	$ 31,894
Total investment securities	$ 2,429,680	$ 2,547,374	$ 2,991,119

As of December 31, 2012, total investments declined $117.7 million or 4.6 percent as compared to 2011, mainly due to higher levels of liquid overnight funds held at December 31, 2012. As of December 31, 2012, our investment securities classified as available for sale increased $241.3 million to $807.8 million as compared to December 31, 2011. This increase was mainly due to reinvestments of the held to maturity residential mortgage-backed principal prepayments in certain available for sale residential mortgage-backed securities issued by Ginnie Mae (fully guaranteed by the U.S. Government), totaling $266.8 million, as well purchases of $97.6 million of U.S Treasury securities.

At December 31, 2012, we had $813.6 million and $510.2 million of residential mortgage-backed securities classified as held to maturity and available for sale securities, respectively. Approximately 97 percent and 75 percent of these residential mortgage-backed securities, respectively, were issued and guaranteed by Ginnie Mae. The residential mortgage-backed securities also include $1.7 million and $47.6 million of private label mortgage-backed securities classified as held to maturity and available for sale, respectively, at December 31, 2012. The remainder of our outstanding residential mortgage-backed security balances at December 31, 2012 was issued by either Freddie Mac or Fannie Mae.

Our trading securities portfolio consisted of three single-issuer bank trust preferred securities at December 31, 2012 and 2011, respectively. During 2011, one trading security was called for early redemption. There was no other trading activity in the portfolio during 2012.

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The following table presents the maturity distribution schedule (unadjusted for any expected prepayments) with the corresponding weighted-average yields of held to maturity and available for sale debt securities at December 31, 2012:

	0-1 year		1-5 years		5-10 years		Over 10 years		Total	
	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)
					($ in thousands)					
Held to maturity										
U.S. Treasury securities	$	%	$	%	$ 66,934	3.28%	$ 32,935	3.71%	$ 99,869	3.42%
Obligations of states and political subdivisions (3).	113,865	1.50	13,392	5.24	157,835	5.06	221,381	4.84	506,473	4.17
Residential mortgage-backed securities (4)					6,224	4.63	807,423	2.67	813,647	2.68
Trust preferred securities							127,505	7.50	127,505	7.50
Corporate and other debt securities	25	2.98	28,205	5.86	15,000	8.50	8,983	7.39	52,213	6.88
Total .	$ 113,890	1.50%	$ 41,597	5.66%	$ 245,993	4.78%	$ 1,198,227	3.65%	$ 1,599,707	3.72%
Available for sale										
U.S. Treasury securities	$	%	$	%	$ 49,453	1.61%	$ 48,172	2.81%	$ 97,625	2.20%
U.S. government agency securities					13,621	1.94	32,141	2.27	45,762	2.17
Obligations of states and political subdivisions (3)	865	5.83	5,295	1.63	10,467	2.44			16,627	2.36
Residential mortgage-backed securities (4)	67	5.26	7,074	4.27	30,308	4.68	472,705	2.56	510,154	2.71
Trust preferred securities							57,432	0.44	57,432	0.44
Corporate and other debt securities			951	2.64	23,813	4.36	5,944	7.87	30,708	4.98
Total (5)	$ 932	5.79%	$ 13,320	3.10%	$ 127,662	2.95%	$ 616,394	2.42%	$ 758,308	2.52%

(1) Held to maturity amounts are presented at amortized costs, stated at cost less principal reductions, if any, and adjusted for accretion of discounts and amortization of premiums. Available for sale amounts are presented at fair value.
(2) Average yields are calculated on a yield-to-maturity basis.
(3) Average yields on obligations of states and political subdivisions are generally tax-exempt and calculated on a tax-equivalent basis using a statutory federal income tax rate of 35 percent.
(4) Residential mortgage-backed securities are shown using stated final maturity.
(5) Excludes equity securities, which do not have maturities.

The residential mortgage-backed securities portfolio is a significant source of our liquidity through the monthly cash flow of principal and interest. Mortgage-backed securities, like all securities, are sensitive to change in the interest rate environment, increasing and decreasing in value as interest rates fall and rise. As interest rates fall, the potential increase in prepayments can reduce the yield on the mortgage-backed securities portfolio, and reinvestment of the proceeds will be at lower yields. Conversely, rising interest rates may reduce cash flows from prepayments and extend anticipated duration of these assets. We monitor the changes in interest rates, cash flows and duration, in accordance with our investment policies. Management seeks out investment securities with an attractive spread over our cost of funds.

Other-Than-Temporary Impairment Analysis

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

Other-than-temporary impairment means we believe the security s impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. As a result of the

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

- The severity and duration of the decline, including the causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility;
- Adverse conditions specifically related to the security, an industry, or geographic area;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency or, if applicable, any regulatory actions impacting the security issuer;
- Recoveries or additional declines in fair value after the balance sheet date;
- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and
- Our intent to sell debt security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis.

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

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

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The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at December 31, 2012:

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity investment grades:*				
AAA Rated	$ 1,012,090	$ 47,389	$ (492)	$ 1,058,987
AA Rated	282,970	17,667	(57)	300,580
A Rated	26,495	904	(4)	27,395
BBB Rated	77,694	6,610	(182)	84,122
Non-investment grade	29,319	949	(424)	29,844
Not rated	171,139	54	(14,171)	157,022
Total investment securities held to maturity	$ 1,599,707	$ 73,573	$ (15,330)	$ 1,657,950
Available for sale investment grades:*				
AAA Rated	$ 602,110	$ 7,856	$ (3,474)	$ 606,492
AA Rated	9,531	1,094		10,625
A Rated	25,360	1,402	(4,086)	22,676
BBB Rated	50,952	857	(1,863)	49,946
Non-investment grade	54,056	2,165	(4,772)	51,449
Not rated	71,465	447	(5,284)	66,628
Total investment securities available for sale	$ 813,474	$ 13,821	$ (19,479)	$ 807,816

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

The held to maturity portfolio includes investments not rated by the rating agencies with amortized costs and unrealized losses totaling $171.1 million and $14.2 million, respectively, at December 31, 2012. The unrealized losses for this category almost entirely relate to 5 single-issuer bank trust preferred security issuances with a combined amortized cost of $47.9 million. All single-issuer bank trust preferred securities classified as held to maturity are paying in accordance with their terms and have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer s most recent bank regulatory report to assess the company s credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review at December 31, 2012, all of the issuers appear to meet the regulatory capital minimum requirements to be considered a well-capitalized financial institution and/or have maintained performance levels adequate to support the contractual cash flows of the security.

The available for sale portfolio includes investments with non-investment grade ratings with amortized costs and fair values totaling $54.1 million and $51.5 million, respectively, at December 31, 2012. The $4.8 million in unrealized losses for this category are largely related to 3 private label mortgage-backed securities (including 1 security with additional estimated credit impairment losses during both the second and third quarters of 2012) and 2 pooled trust preferred securities found to be other-than-temporarily impaired prior to 2012. The available for sale portfolio also includes investments not rated by the rating agencies with aggregate fair values and unrealized losses of $66.6 million and $5.3 million, respectively, at December 31, 2012. The unrealized losses for this category are mostly attributable to previously impaired trust preferred securities issued by one bank holding company that required an additional estimated credit loss to be recognized in earnings during the third quarter of 2012. See the Other-than-Temporarily Impaired Securities section below and Note 4 to the consolidated financial statements for further details.

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Other-than-Temporarily Impaired Securities

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

The following table provides information regarding our other-than-temporary impairment losses on securities recognized in earnings for the years ended December 31, 2012, 2011 and 2010.

	2012	2011 (in thousands)	2010
Held to maturity			
Trust preferred securities	$	$ 18,314	$
Available for sale			
Residential mortgage-backed securities	722	829	2,265
Trust preferred securities	4,525	825	2,377
Net impairment losses on securities recognized in earnings	$ 5,247	$ 19,968	$ 4,642

Impaired Trust Preferred Securities. In 2011, Valley recognized credit impairment charges totaling $18.3 million related to the trust preferred securities of two issuances by one bank holding company, which were classified as held to maturity and subsequently transferred to the available for sale portfolio. In 2012, Valley recognized additional estimated credit losses of $4.5 million on these securities due to further credit deterioration in the financial condition of the issuer. See the Other-Than-Temporarily Impaired Analysis section in Note 4 the consolidated financial statements for further details.

The other-than-temporary impairment charges on trust preferred securities classified as available for sale reported in the table above for the years ended December 31, 2011 and 2010 all relate to two pooled trust preferred securities with a combined amortized cost and fair value of $5.4 million and $3.6 million, respectively, at December 31, 2012, after recognition of all credit impairments. These securities were initially found to be other-than-temporarily impaired in 2008, as each of Valley s tranches in the securities had projected cash flows below their future contractual principal and interest payments.Additional estimated credit losses were recognized on one or both of these securities during 2009 through 2011, as higher default rates decreased the expected cash flows from the securities.

All of the impaired trust preferred securities discussed above were not accruing interest as of December 31, 2012 and 2011. As disclosed in Note 1 to the consolidated financial statements, Valley discontinues the recognition of interest on debt securities if the securities meet both of the following criteria: (i) regularly scheduled interest payments have not been paid or have been deferred by the issuer, and (ii) full collection of all contractual principal and interest payments is not deemed to be the most likely outcome, resulting in the recognition of other-than-temporary impairment of the security.

Impaired Residential Mortgage-Backed Securities. During 2012, Valley recognized net impairment losses of $722 thousand on residential mortgage-backed securities in earnings due to additional estimated credit losses on one of six previously impaired private label mortgage-backed securities. Of the six impaired securities, one and five of the securities were responsible for the total other-than-temporary impairment losses on residential mortgage-backed securities available for sale during 2011 and 2010, respectively, as shown in the table above. At December 31, 2012, Valley s impaired private label mortgage-backed securities had a combined amortized cost of $31.7 million and fair value of $31.4 million, respectively. Although Valley recognized other-than-temporary impairment charges on the securities, each security is currently performing in accordance with its contractual obligations. See the Other-Than-Temporary Impairment Analysis section above for further details regarding the impairment analysis of residential mortgage-backed securities.

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Loan Portfolio

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

	2012	2011	At December 31, 2010 ($ in thousands)	2009	2008
Non-covered loans					
Commercial and industrial	$ 2,084,826	$ 1,878,387	$ 1,825,066	$ 1,801,251	$ 1,965,372
Commercial real estate:					
Commercial real estate	4,417,709	3,574,089	3,378,252	3,500,419	3,324,082
Construction	425,444	411,003	428,232	440,046	510,519
Total commercial real estate	4,843,153	3,985,092	3,806,484	3,940,465	3,834,601
Residential mortgage	2,462,429	2,285,590	1,925,430	1,943,249	2,269,935
Consumer:					
Home equity	485,458	469,604	512,745	566,303	607,700
Automobile	786,528	772,490	850,801	1,029,958	1,364,343
Other consumer	179,731	136,634	88,614	88,845	101,739
Total consumer loans	1,451,717	1,378,728	1,452,160	1,685,106	2,073,782
Total non-covered loans	10,842,125	9,527,797	9,009,140	9,370,071	10,143,690
Covered loans (1)	180,674	271,844	356,655		
Total loans (2)	$ 11,022,799	$ 9,799,641	$ 9,365,795	$ 9,370,071	$ 10,143,690
As a percent of total loans:					
Commercial and industrial	19.0%	19.2%	19.5%	19.2%	19.4%
Commercial real estate	43.9	40.6	40.6	42.1	37.8
Residential mortgage	22.3	23.3	20.6	20.7	22.4
Consumer loans	13.2	14.1	15.5	18.0	20.4
Covered loans	1.6	2.8	3.8		
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

(2) Total loans are net of unearned discounts and deferred loan fees totaling $3.4 million, $7.5 million, $9.3 million, $8.7 million, and $4.8 million at December 31, 2012, 2011, 2010, 2009, and 2008, respectively.

Purchased credit-impaired (PCI) loans, which include loans acquired in FDIC-assisted transactions (covered loans) subject to loss-sharing agreements, are loans acquired at a discount that is due, in part, to credit quality. At December 31, 2012, our non-covered loan portfolio included $987.0 million of PCI loans acquired from State Bancorp and purchased from another financial institution during the first quarter of 2012. See further details regarding these transactions and the non-covered PCI loans at Notes 2 and 5 to the consolidated financial statements and our MD&A discussion below.

Non-covered Loans

Non-covered loans (loans not subject to loss-sharing agreements with the FDIC) increased $1.2 billion from December 31, 2011 largely as a result of the aforementioned PCI loans acquired during the first quarter of 2012. Valley also experienced organic loan growth in non-PCI commercial real estate, residential mortgage, and other consumer loan portfolios during 2012 as compared 2011.

Commercial and industrial loans (excluding the elimination of a $37.0 million short-term loan to State Bancorp in our purchase accounting) increased $243.4 million to $2.1 billion at December 31, 2012 as compared to 2011, primarily due to $252.1 million of PCI loans acquired in 2012, partially offset by full loan repayments from a few large borrowers, including loans which were internally criticized. During 2012, we experienced record commercial and industrial loan originations due, in part, to our expansion into the Long Island, New York market through our first quarter acquisition and an uptick in demand within the New Jersey markets in the latter part of the year. However, the continued impact of strong market competition for both new and existing quality credits in the low interest rate environment, including more focus on middle market customers by some of our larger competitors, as well as some classified loan payoffs impeded our ability to achieve significant loan growth in this category. Additionally, many of our stronger borrowers continued to use their liquidity to prepay loans or reduce their lines of credit rather than earn nominal interest on their excess funds in the current low interest rate environment.Although we are encouraged by several pockets of improving loan demand, particularly in the fourth quarter of 2012, and the new market opportunities in New York City which we have dedicated considerable resources to competing for, including the opening of our One Penn Plaza offices in Manhattan during the latter part of 2012 , we believe the current difficult lending conditions may continue to challenge our ability to achieve significant loan growth in this category in 2013 and into the foreseeable future.

Commercial real estate loans (excluding construction loans) increased $843.6 million from December 31, 2011 primarily due to $645.6 million of acquired PCI loans in 2012. The remaining $198.0 million increase was largely due to our strong business emphasis on co-op and multifamily loan lending in the New York Metro area, as well as increased new loan demand across a broad range of borrowers in our primary markets. Our construction loans increased only $14.4 million from December 31, 2011 despite the acquisition of $25.6 million of PCI loans due to continued paydowns and tepid loan demand caused by the current state of the U.S. economy. However, we are somewhat encouraged by the gradual improvements in new home sales and continued declines in the existing home inventory reported during the latter half of 2012, as well as the government s focus on reducing the unemployment levels during 2013 and beyond. These factors, and others, should help stimulate some growth in the construction portfolio and help expand growth seen in our non-PCI commercial real estate portfolio during 2012 into 2013.

Residential mortgage loans increased $176.8 million from December 31, 2011 mostly due to solid organic growth seen from the continued success of our low fixed-price refinance programs, partially offset by our decision to either hold for sale or sell most of our new and refinanced loans during the second half of 2012. Our new and refinanced residential mortgage loan originations of $2.0 billion during the year ended December 31, 2012 increased 70 percent as compared to $1.2 million in 2011. The increased volume is largely the result of the historically low interest rate environment, the success of our low-fixed price residential mortgage refinance programs and our strong emphasis in the New York Metro area supported by our expanded network of full service branches in the New York boroughs and Long Island after the acquisition of State Bancorp on January 1, 2012. Widening loan spreads and the current Federal Reserve monetary policies contributed to increased loan sales into the secondary market during the second half of 2012 as we attempt to maximize mortgage banking revenues within non-interest income, while the low level of market interest rates continues to apply pressure to our net interest income and margin. As a result, Valley sold approximately $961.0 million of residential mortgages during the year ended December 31, 2012 (of which 80 percent were sold during the last six months of 2012) as compared to $358.8 million loans sold in 2011. We retain mortgage originations based on credit criteria and loan to value levels, the composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments. We do not expect declines in the residential mortgage loan portfolio during the first quarter of 2013. However, we do intend to continue an originate and sell model for a large portion of our mortgage loan originations during 2013 assuming that market conditions do not adversely change. During the early part of the first quarter of 2013, mortgage application volume continues to be very strong.

Total consumer loans increased $73.0 million from December 31, 2011 due, in part, to acquired PCI loans and an increase in other consumer loans, partially offset by paydowns of Valley originated loans in both the automobile and home equity loan portfolios. Other consumer loans increased $42.8 million in 2012 to $179.7 million at December 31, 2012 as compared to 2011 mainly due to an increased volume and higher usage of collateralized personal lines of credit by certain customers. Home equity loans only increased $15.9 million in 2012 as compared to 2011 despite the acquisition of $46.6 million in acquired PCI loans, as loan origination volumes continued to be outpaced by normal loan payments and prepayments during 2012 due to, among other factors, many borrowers electing to rollover loan balances into refinanced first residential mortgages, high unemployment levels, as well as our strict underwriting standards. Automobile loans only increased $14.0 million from December 31, 2011 mostly due to $19.0 million in purchased loans during the second half of 2012. Excluding such purchases, a high volume of automobile loan payoffs outpaced fairly strong auto loan originations for most of 2012. From time to time, the Bank purchases automobile loans originated by, and sometimes serviced by, other financial institutions based on several factors, including current loan origination volumes, market interest rates, excess liquidity and other asset/liability management strategies. All of the purchased automobile loans are selected using Valley s normal underwriting criteria at the time of purchase. We believe that the current industry outlook for 2013 auto sales is positive. However, strong competition for credits meeting our strict underwriting standards and unemployment may restrict the perceived benefits of such sale projections to Valley during 2013.

Despite the overall loan growth in 2012, we may not experience significant organic loan growth in many of our loan categories during the first quarter of 2013 and beyond due to a slow economic recovery, elevated unemployment levels, increased competition for new and existing borrowers, our high level of residential mortgage loans originated for sale or a change in current asset/liability management strategies. Additionally, an unexpected increase in market interest rates (particularly on residential mortgage loans) could impact our ability to generate the same volume of new loans.

Much of our lending is in northern and central New Jersey, New York City and Long Island, with the exception of smaller auto and residential mortgage loan portfolios derived mainly from the neighboring state of Pennsylvania, which could present a geographic and credit risk if there was another significant broad based economic downturn or a prolonged economic recovery within the region. To mitigate these risks, we make efforts to maintain a diversified portfolio as to type of borrower and loan to guard against a potential downward turn in any one economic sector. The impact of the slow economic recovery, sustained elevated unemployment levels in our region during 2012, and low interest rate environment has limited the number of new quality loan opportunities in our primary markets and impacted the performance of our loan portfolio (see the Non-performing Assets section below). We can provide no assurance that our markets will not deteriorate beyond their current levels in the future and cause an increase in the credit risk of our loan portfolio.

The following table reflects the contractual maturity distribution of the commercial and industrial and construction loans within our non-covered loan portfolio as of December 31, 2012:

	One Year or Less	One to Five Years	Over Five Years	Total
		(in thousands)		
Commercial and industrial - fixed-rate	$ 609,894	$ 283,949	$ 29,683	$ 923,526
Commercial and industrial - adjustable-rate	797,639	371,357	38,821	1,207,817
Construction - fixed-rate	39,128	83,564		122,692
Construction - adjustable-rate	97,164	207,512		304,676
	$ 1,543,825	$ 946,382	$ 68,504	$ 2,558,711

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

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans are comprised of loans acquired and purchased in the first quarter of 2012 and covered loans for which the Bank will share losses with the FDIC which totaled $987.0 million and $180.7 million, respectively, at December 31, 2012. Our covered loans, consisting primarily of commercial real estate loans and commercial and industrial loans, were acquired from LibertyPointe Bank and The Park Avenue Bank as a part of two FDIC-assisted transactions during the first quarter of 2010. As required by U.S. GAAP, all of our PCI loans are accounted under ASC Subtopic 310-30. This accounting guidance requires the PCI loans to be aggregated and accounted for as pools of loans based on common risk characteristics. A pool is accounted for as one asset with a single composite interest rate, an aggregate fair value and expected cash flows. For PCI loan pools accounted for under ASC Subtopic 310-30, the difference between the contractually required payments due and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the non-accretable difference. The contractually required payments due represent the total undiscounted amount of all uncollected principal and interest payments. Contractually required payments due may increase or decrease for a variety of reasons, e.g. when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. The Bank estimates the undiscounted cash flows expected to be collected by incorporating several key assumptions including probability of default, loss given default, and the amount of actual prepayments after the acquisition dates. The non-accretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses and uncollectable contractual interest expected to be incurred over the life of the loans. The excess of the undiscounted cash flows expected at the acquisition date over the carrying amount (fair value) of the PCI loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the loans, or pool of loans, using the level yield method. The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment assumptions, and changes in expected principal and interest payments over the estimated lives of the loans. Prepayments affect the estimated life of PCI loans and could change the amount of interest income, and possibly principal, expected to be collected. 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.

At both acquisition and subsequent quarterly reporting dates Valley uses a third party service provider to assist with determining the contractual and estimated cash flows. Valley provides the third party with updated loan-level information derived from Valley s main operating system, contractually required loan payments and expected cash flows for each loan pool individually reviewed by Valley. Using this information, the third party provider determines both the contractual cash flows and cash flows expected to be collected. The loan-level information used to reforecast the cash flows is subsequently aggregated on a pool basis. The expected payment data, discount rates, impairment data and changes to the accretable yield received back from the third party are reviewed by Valley to determine whether this information is accurate and the resulting financial statement effects are reasonable.

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

At the time of acquisition, the estimated cash flows on our PCI loans were derived based on observable market information, as well as Valley s own specific assumptions regarding each loan. Valley performed credit due diligence on the majority of the loans acquired in 2012 and the FDIC-assisted transactions. In addition, Valley engaged a third party to perform credit valuations and expected cash flow forecasts on the acquired loans. The initial expected cash flows for PCI loans were prepared on a loan-level basis utilizing the assumptions developed by Valley in conjunction with the third party. The individual loan-level cash flow assumptions were then aggregated on the basis of pools of loans with similar risk characteristics. Thereafter, on a quarterly basis, Valley analyzes the actual cash flow versus the forecasts at the loan pool level and variances are reviewed to determine their cause. In re-forecasting future estimated cash flows, Valley will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which Valley does not reforecast estimated cash flows, the prior reporting period s estimated cash flows are adjusted to reflect the actual cash received and credit events which transpired during the current reporting period.

The following tables summarize the changes in the carrying amounts of non-covered PCI loans and covered loans (net of the allowance for losses on covered loans), and the accretable yield on these loans for the years ended December 31, 2012 and 2011.

	2012		2011	
	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield
	(in thousands)			
Non-covered PCI loans:				
Balance, beginning of the period	$	$	$	$
Acquisitions	1,205,676	186,198		
Accretion	59,449	(59,449)		
Payments received	(278,135)			
Balance, end of the period	$ 986,990	$ 126,749	$	$
Covered loans, net:				
Balance, beginning of the period	$ 258,316	$ 66,724	$ 350,277	$ 101,052
Accretion	24,164	(24,164)	40,345	(40,345)
Payments received	(104,275)		(108,157)	
Net increase in expected cash flows				6,017
Transfers to other real estate owned	(7,023)		(2,639)	
Provision for losses on covered loans			(21,510)	
Balance, end of the period	$ 171,182	$ 42,560	$ 258,316	$ 66,724

Covered loans in the table above are presented net of the allowance for losses on covered loans, which totaled $9.5 million and $13.5 million at December 31, 2012 and 2011, respectively. This allowance was established due to a decrease in the expected cash flows for certain pools of covered loans based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. During 2011 certain pools of covered loans experienced decreases in their expected cash flows based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. During 2011 and 2010, we recorded provision for losses on covered loans totaling $21.5 million and $6.4 million, respectively, as a component of our provision of credit losses in the consolidated statement of income. The provision for losses on covered loans was partially offset by increases in our FDIC loss-share receivable of $19.5 million and $5.1 million for 2011 and 2010, respectively, for the FDIC s portion of the additional estimated credit losses under the loss sharing agreements (see table in the next section below). This increase in FDIC loss-share receivable is recorded as a component of non-interest income on the consolidated financial statements.

Although we recognized credit impairment for certain pools in 2011 and 2010, on an aggregate basis the acquired pools of covered loans continue to perform better than originally expected. Based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on these loan pools over future periods. The decrease in the FDIC loss-share receivable due to the increase in expected cash flows for these loan pools is recognized on a prospective basis over the shorter period of the lives of the loan pools and the loss-share agreements accordingly. We reduced the FDIC loss-share

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receivable by $7.8 million during 2012 due to the prospective recognition of the effect of additional cash flows from pooled loans with a corresponding reduction in non-interest income for the period. See section below for further details regarding the FDIC loss-share receivable.

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

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

The following table presents changes in the FDIC loss-share receivable for the years ended December 31, 2012 and 2011:

	2012	2011
	(in thousands)	
Balance, beginning of the period	$ 74,390	$ 89,359
Discount accretion of the present value at the acquisition dates	325	582
Effect of additional cash flows on covered loans (prospective recognition)	(7,767)	(10,592)
Increase due to impairment on covered loans		19,520
Other reimbursable expenses	5,467	3,893
Reimbursements from the FDIC	(21,934)	(28,372)
Other	(5,485)	
Balance, end of the period	$ 44,996	$ 74,390

The aggregate effect of changes in the FDIC loss-share receivable was a reduction in non-interest income of $7.5 million for the year ended December 31, 2012 and $13.4 million and $6.3 million increases for the years ended December 31, 2011 and 2010, respectively. The 2012 reduction in non-interest income mostly related to the FDIC s portion of the estimated losses on unused lines of credit assumed in the FDIC-assisted transactions, which have expired.

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

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Non-performing Assets

Non-performing assets (excluding PCI loans) include non-accrual loans, other real estate owned (OREO), and other repossessed assets which consist of four aircraft and several automobiles at December 31, 2012. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is sufficiently collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value, less cost to sell at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. Given the state of the economic recovery, and comparable to many of our peers, the level of non-performing assets remained relatively low as a percentage of the total loan portfolio and non-performing assets at December 31, 2012, but has increased significantly since 2008 as shown in the table below. For details regarding performing and non-performing PCI loans, see the Credit quality indicators section in Note 5 to the consolidated financial statements.

Our past due loans and non-accrual loans in the table below exclude our non-covered and covered 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.

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

	2012	2011	At December 31, 2010 ($ in thousands)	2009	2008
Accruing past due loans [1]					
30 to 89 days past due					
Commercial and industrial	$ 3,578	$ 4,347	$ 13,852	$ 11,949	$ 13,299
Commercial real estate	13,245	13,115	14,563	4,539	5,005
Construction	6,685	2,652	2,804	1,834	5,456
Residential mortgage	18,951	8,496	12,682	12,462	12,189
Consumer	7,227	8,975	14,638	22,835	23,275
Total 30 to 89 days past due	49,686	37,585	58,539	53,619	59,224
90 or more days past due					
Commercial and industrial	$ 283	$ 657	$ 12	$ 2,191	$ 864
Commercial real estate	2,950	422		250	4,257
Construction	2,575	1,823	196		3,156
Residential mortgage	2,356	763	1,556	1,421	5,323
Consumer	501	351	723	1,263	1,957
Total 90 or more days past due	8,665	4,016	2,487	5,125	15,557
Total accruing past due loans	$ 58,351	$ 41,601	$ 61,026	$ 58,744	$ 74,781
Non-accrual loans[1]					
Commercial and industrial	$ 22,424	$ 26,648	$ 13,721	$ 17,424	$ 10,511
Commercial real estate	58,625	42,186	32,981	29,844	14,895
Construction	14,805	19,874	27,312	19,905	877
Residential mortgage	32,623	31,646	28,494	22,922	6,195
Consumer	3,331	3,910	2,547	1,869	595
Total non-accrual loans	131,808	124,264	105,055	91,964	33,073
Other real estate owned (OREO)[2]	15,612	15,227	10,498	3,869	8,278
Other repossessed assets	7,805	796	1,707	2,565	4,317
Non-accrual debt securities[3]	40,303	27,151			
Total non-performing assets (NPAs)	$ 195,528	$ 167,438	$ 117,260	$ 98,398	$ 45,668
Performing troubled debt restructured loans	$ 105,446	$ 100,992	$ 89,696	$ 19,072	$ 7,628
Total non-accrual loans as a % of loans	1.20%	1.27%	1.12%	0.98%	0.33%
Total NPAs as a % of loans and NPAs	1.74	1.68	1.24	1.04	0.45
Total accruing past due and non-accrual loans as a % of loans	1.73	1.69	1.77	1.61	1.06
Allowance for losses on non-covered loans as a % of non-accrual loans	91.58	96.79	112.63	110.90	281.93

(1) Past due loans and non-accrual loans exclude loans that were acquired as part of the FDIC-assisted transactions. These loans are accounted for on a pool basis.

(2) This table excludes OREO properties related to the FDIC-assisted transactions totaling $8.9 million, $6.4 million and $7.8 million at December 31, 2012, 2011 and 2010, respectively, and is subject to the loss-sharing agreements with the FDIC.

(3) Includes other-than-temporarily impaired trust preferred securities classified as available for sale, which are presented at carrying value, net of unrealized losses totaling $6.9 million and $24.6 million at December 31, 2012 and 2011, respectively, after recognition of all credit impairments.

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Total NPAs increased $28.1 million to $195.5 million at December 31, 2012 compared to $167.4 million at December 31, 2011. The increase was mostly due to $7.5 million increase in non-accrual loans, primarily within the commercial real estate loan category mainly caused by a few large impaired borrowing relationships, and a $13.2 million increase in the estimated fair value of non-accrual debt securities (consisting of other-than-temporarily impaired trust preferred securities classified as available for sale). The increase in the carrying value of non-accrual debt securities from 2011 was entirely due to a decrease in the unrealized losses (or non-credit impairment) on such securities. There was no change in the number of debt securities on non-accrual status during 2012 (see additional information at the Investment Securities Portfolio section of this MD&A). Approximately 80 percent of the total non-accrual loans are comprised of commercial real estate, construction and residential mortgage loans. Although loan charge-offs related to commercial real estate and residential mortgage loan categories increased in 2012, Valley continues to have very low loss rates on such loans due to its conservative underwriting standards, including conservative loan to value ratios.

Loans past due 30 to 89 days increased $12.1 million to $49.7 million at December 31, 2012 comp