Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2019

OR

☐ **Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**

For the transition period from _________ to _________

Commission File Number 1-11277

Valley National Bancorp
(Exact name of registrant as specified in its charter)

New Jersey	**22-2477875**
(State or other jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
One Penn Plaza New York, NY	**10119**
(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	Trading Symbols	Name of exchange on which registered
Common Stock, no par value	VLY	The Nasdaq Stock Market LLC
Non-Cumulative Perpetual Preferred Stock, Series A, no par value	VLYPP	The Nasdaq Stock Market LLC
Non-Cumulative Perpetual Preferred Stock, Series B, no par value	VLYPO	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files.) Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐	Smaller reporting company	☐

Non-accelerated filer	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 331,800,601 shares were outstanding as of November 7, 2019.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	September 30, 2019	December 31, 2018
Assets	(Unaudited)	
Cash and due from banks	$ 312,396	$ 251,541
Interest bearing deposits with banks	185,841	177,088
Investment securities:		
Held to maturity (fair value of $2,121,203 at September 30, 2019 and $2,034,943 at December 31, 2018)	2,093,757	2,068,246
Available for sale	1,628,062	1,749,544
Total investment securities	3,721,819	3,817,790
Loans held for sale, at fair value	41,621	35,155
Loans	26,567,159	25,035,469
Less: Allowance for loan losses	(161,853)	(151,859)
Net loans	26,405,306	24,883,610
Premises and equipment, net	309,730	341,630
Lease right of use assets	286,960	—
Bank owned life insurance	440,026	439,602
Accrued interest receivable	97,282	95,296
Goodwill	1,084,665	1,084,665
Other intangible assets, net	68,150	76,990
Other assets	811,743	659,721
Total Assets	$ 33,765,539	$ 31,863,088
Liabilities		
Deposits:		
Non-interest bearing	$ 6,379,271	$ 6,175,495
Interest bearing:		
Savings, NOW and money market	11,294,679	11,213,495
Time	7,872,172	7,063,984
Total deposits	25,546,122	24,452,974
Short-term borrowings	1,825,417	2,118,914
Long-term borrowings	2,250,633	1,654,268
Junior subordinated debentures issued to capital trusts	55,631	55,370
Lease liabilities	311,145	3,125
Accrued expenses and other liabilities	218,516	227,983
Total Liabilities	30,207,464	28,512,634
Shareholders' Equity		
Preferred stock, no par value; 50,000,000 authorized shares:		
Series A (4,600,000 shares issued at September 30, 2019 and December 31, 2018)	111,590	111,590
Series B (4,000,000 shares issued at September 30, 2019 and December 31, 2018)	98,101	98,101
Common stock (no par value, authorized 450,000,000 shares; issued 332,101,525 shares at September 30, 2019 and 331,634,951 shares at December 31, 2018)	116,650	116,240
Surplus	2,807,266	2,796,499
Retained earnings	454,020	299,642
Accumulated other comprehensive loss	(26,468)	(69,431)
Treasury stock, at cost (295,961 common shares at September 30, 2019 and 203,734 common shares at December 31, 2018)	(3,084)	(2,187)
Total Shareholders' Equity	3,558,075	3,350,454
Total Liabilities and Shareholders' Equity	$ 33,765,539	$ 31,863,088

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Interest Income				
Interest and fees on loans	$ 298,384	$ 265,870	$ 883,595	$ 751,146
Interest and dividends on investment securities:				
Taxable	21,801	21,362	67,166	64,907
Tax-exempt	4,219	5,023	13,379	16,383
Dividends	3,171	3,981	9,140	9,648
Interest on federal funds sold and other short-term investments	1,686	805	3,947	2,570
Total interest income	329,261	297,041	977,227	844,654
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	35,944	28,775	110,247	75,848
Time	42,848	20,109	121,350	51,360
Interest on short-term borrowings	12,953	15,193	40,362	31,838
Interest on long-term borrowings and junior subordinated debentures	16,891	16,164	45,761	50,458
Total interest expense	108,636	80,241	317,720	209,504
Net Interest Income	220,625	216,800	659,507	635,150
Provision for credit losses	8,700	6,552	18,800	24,642
Net Interest Income After Provision for Credit Losses	211,925	210,248	640,707	610,508
Non-Interest Income				
Trust and investment services	3,296	3,143	9,296	9,635
Insurance commissions	2,748	3,646	7,922	11,493
Service charges on deposit accounts	5,904	6,597	17,634	20,529
Losses on securities transactions, net	(93)	(79)	(114)	(880)
Other-than-temporary impairment losses on securities	—	—	(2,928)	—
Portion recognized in other comprehensive income (before taxes)	—	—	—	—
Net impairment losses on securities recognized in earnings	—	—	(2,928)	—
Fees from loan servicing	2,463	2,573	7,260	6,841
Gains on sales of loans, net	5,194	3,748	13,700	18,143
(Losses) gains on sales of assets, net	(159)	(1,899)	76,997	(2,121)
Bank owned life insurance	2,687	2,545	6,779	6,960
Other	19,110	8,764	39,880	28,758
Total non-interest income	41,150	29,038	176,426	99,358
Non-Interest Expense				
Salary and employee benefits expense	77,271	80,778	236,559	253,014
Net occupancy and equipment expense	29,203	26,295	86,789	81,120
FDIC insurance assessment	5,098	7,421	16,150	20,963
Amortization of other intangible assets	4,694	4,697	13,175	13,607
Professional and legal fees	5,870	6,638	15,286	29,022
Amortization of tax credit investments	4,385	5,412	16,421	15,156
Telecommunication expense	2,698	3,327	7,317	9,936
Other	16,658	17,113	43,712	52,531
Total non-interest expense	145,877	151,681	435,409	475,349
Income Before Income Taxes	107,198	87,605	381,724	234,517
Income tax expense	25,307	18,046	110,035	50,191
Net Income	81,891	69,559	271,689	184,326
Dividends on preferred stock	3,172	3,172	9,516	9,516

Net Income Available to Common Shareholders	$	78,719	$	66,387	$	262,173	$	174,810

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Earnings Per Common Share:				
Basic	$ 0.24	$ 0.20	$ 0.79	$ 0.53
Diluted	0.24	0.20	0.79	0.53
Cash Dividends Declared per Common Share	0.11	0.11	0.33	0.33
Weighted Average Number of Common Shares Outstanding:				
Basic	331,797,982	331,486,500	331,716,652	331,180,213
Diluted	333,405,196	333,000,242	333,039,436	332,694,080

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 81,891	$ 69,559	$ 271,689	$ 184,326
Other comprehensive income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net gains (losses) arising during the period	8,135	(8,683)	42,890	(36,129)
Less reclassification adjustment for net losses included in net income	72	57	90	631
Total	8,207	(8,626)	42,980	(35,498)
Unrealized gains and losses on derivatives (cash flow hedges)				
Net gains (losses) on derivatives arising during the period	76	221	(989)	2,636
Less reclassification adjustment for net losses included in net income	324	472	806	2,127
Total	400	693	(183)	4,763
Defined benefit pension plan				
Amortization of net loss	56	113	166	337
Total other comprehensive income (loss)	8,663	(7,820)	42,963	(30,398)
Total comprehensive income	$ 90,554	$ 61,739	$ 314,652	$ 153,928

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

For the Nine Months Ended September 30, 2019

	Preferred Stock	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
				($ in thousands)				
Balance - December 31, 2018	$ 209,691	331,431	$ 116,240	$ 2,796,499	$ 299,642	$ (69,431)	$ (2,187)	$ 3,350,454
Adjustment due to the adoption of ASU No. 2016-02	—	—	—	—	4,414	—	—	4,414
Adjustment due to the adoption of ASU No. 2017-08	—	—	—	—	(1,446)	—	—	(1,446)
Balance - January 1, 2019	209,691	331,431	116,240	2,796,499	302,610	(69,431)	(2,187)	3,353,422
Net income	—	—	—	—	113,330	—	—	113,330
Other comprehensive income, net of tax	—	—	—	—	—	16,174	—	16,174
Cash dividends declared:								
Preferred stock, Series A, $0.39 per share	—	—	—	—	(1,797)	—	—	(1,797)
Preferred stock, Series B, $0.34 per share	—	—	—	—	(1,375)	—	—	(1,375)
Common stock, $0.11 per share	—	—	—	—	(36,686)	—	—	(36,686)
Effect of stock incentive plan, net	—	302	226	2,935	(99)	—	(1,251)	1,811
Balance - March 31, 2019	209,691	331,733	116,466	2,799,434	375,983	(53,257)	(3,438)	3,444,879
Net income	—	—	—	—	76,468	—	—	76,468
Other comprehensive income, net of tax	—	—	—	—	—	18,126	—	18,126
Cash dividends declared:								
Preferred stock, Series A, $0.39 per share	—	—	—	—	(1,797)	—	—	(1,797)
Preferred stock, Series B, $0.34 per share	—	—	—	—	(1,375)	—	—	(1,375)
Common stock, $0.11 per share	—	—	—	—	(36,712)	—	—	(36,712)
Effect of stock incentive plan, net	—	55	105	4,625	(377)	—	176	4,529
Balance - June 30, 2019	209,691	331,788	116,571	2,804,059	412,190	(35,131)	(3,262)	3,504,118
Net income	—	—	—	—	81,891	—	—	81,891
Other comprehensive income, net of tax	—	—	—	—	—	8,663	—	8,663
Cash dividends declared:								
Preferred stock, Series A, $0.39 per share	—	—	—	—	(1,797)	—	—	(1,797)
Preferred stock, Series B, $0.34 per share	—	—	—	—	(1,375)	—	—	(1,375)
Common stock, $0.11 per share	—	—	—	—	(36,732)	—	—	(36,732)
Effect of stock incentive plan, net	—	18	79	3,207	(157)	—	178	3,307
Balance - September 30, 2019	$ 209,691	331,806	$ 116,650	$ 2,807,266	$ 454,020	$ (26,468)	$ (3,084)	$ 3,558,075

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

For the Nine Months Ended September 30, 2018

	Preferred Stock	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
	($ in thousands)							
Balance - December 31, 2017	$ 209,691	264,469	$ 92,727	$ 2,060,356	$ 216,733	$ (46,005)	$ (337)	$ 2,533,165
Reclassification due to the adoption of ASU No. 2016-01	—	—	—	—	480	(480)	—	—
Reclassification due to the adoption of ASU No. 2017-12	—	—	—	—	61	(61)	—	—
Adjustment due to the adoption of ASU No. 2016-16	—	—	—	—	(17,611)	—	—	(17,611)
Balance - January 1, 2018	209,691	264,469	92,727	2,060,356	199,663	(46,546)	(337)	2,515,554
Net income	—	—	—	—	41,965	—	—	41,965
Other comprehensive loss, net of tax	—	—	—	—	—	(17,557)	—	(17,557)
Cash dividends declared:								
Preferred stock, Series A, $0.39 per share	—	—	—	—	(1,797)	—	—	(1,797)
Preferred stock, Series B, $0.34 per share	—	—	—	—	(1,375)	—	—	(1,375)
Common stock, $0.11 per share	—	—	—	—	(36,635)	—	—	(36,635)
Effect of stock incentive plan, net	—	1,714	355	8,717	(2,266)	—	(169)	6,637
Common stock issued	—	65,007	22,742	715,121	—	—	348	738,211
Balance - March 31, 2018	209,691	331,190	115,824	2,784,194	199,555	(64,103)	(158)	3,245,003
Net income	—	—	—	—	72,802	—	—	72,802
Other comprehensive income, net of tax	—	—	—	—	—	(5,021)	—	(5,021)
Cash dividends declared:								
Preferred stock, Series A, $0.39 per share	—	—	—	—	(1,797)	—	—	(1,797)
Preferred stock, Series B, $0.34 per share	—	—	—	—	(1,375)	—	—	(1,375)
Common stock, $0.11 per share	—	—	—	—	(36,534)	—	—	(36,534)
Effect of stock incentive plan, net	—	264	203	4,996	(58)	—	(907)	4,234
Balance - June 30, 2018	209,691	331,454	116,027	2,789,190	232,593	(69,124)	(1,065)	3,277,312
Net income	—	—	—	—	69,559	—	—	69,559
Other comprehensive income, net of tax	—	—	—	—	—	(7,820)	—	(7,820)
Cash dividends declared:								
Preferred stock, Series A, $0.39 per share	—	—	—	—	(1,797)	—	—	(1,797)
Preferred stock, Series B, $0.34 per share	—	—	—	—	(1,375)	—	—	(1,375)
Common stock, $0.11 per share	—	—	—	—	(36,584)	—	—	(36,584)
Effect of stock incentive plan, net	—	47	127	3,968	(28)	—	(426)	3,641
Balance - September 30, 2018	$ 209,691	331,501	$ 116,154	$ 2,793,158	$ 262,368	$ (76,944)	$ (1,491)	$ 3,302,936

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 271,689	$ 184,326
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,329	20,367
Stock-based compensation	11,504	15,840
Provision for credit losses	18,800	24,642
Net amortization of premiums and accretion of discounts on securities and borrowings	21,584	26,262
Amortization of other intangible assets	13,175	13,607
Losses on securities transactions, net	114	880
Proceeds from sales of loans held for sale	644,454	591,583
Gains on sales of loans, net	(13,700)	(18,143)
Net impairment losses on securities recognized in earnings	2,928	—
Originations of loans held for sale	(338,996)	(307,623)
(Gains) losses on sales of assets, net	(76,997)	2,121
Net change in:		
Cash surrender value of bank owned life insurance	(6,779)	(6,960)
Accrued interest receivable	(1,986)	(6,553)
Other assets	(264,228)	(39,119)
Accrued expenses and other liabilities	92,542	(5,941)
Net cash provided by operating activities	412,433	495,289
Cash flows from investing activities:		
Net loan originations and purchases	(1,846,329)	(2,324,977)
Investment securities held to maturity:		
Purchases	(317,794)	(220,192)
Maturities, calls and principal repayments	281,961	195,448
Investment securities available for sale:		
Purchases	(19,892)	(239,226)
Sales	—	38,625
Maturities, calls and principal repayments	188,619	194,312
Death benefit proceeds from bank owned life insurance	6,354	2,546
Proceeds from sales of real estate property and equipment	107,132	6,665
Purchases of real estate property and equipment	(15,753)	(16,880)
Cash and cash equivalents acquired in acquisition	—	156,612
Net cash used in investing activities	(1,615,702)	(2,207,067)
Cash flows from financing activities:		
Net change in deposits	1,093,148	869,967
Net change in short-term borrowings	(293,497)	1,569,824
Advances of long-term borrowings	850,000	—
Repayments of long-term borrowings	(255,000)	(675,682)
Cash dividends paid to preferred shareholders	(9,516)	(9,516)
Cash dividends paid to common shareholders	(110,037)	(102,414)
Purchase of common shares to treasury	(1,505)	(2,780)
Common stock issued, net	(351)	2,648
Other, net	(365)	—
Net cash provided by financing activities	1,272,877	1,652,047
Net change in cash and cash equivalents	69,608	(59,731)
Cash and cash equivalents at beginning of year	428,629	416,110

Cash and cash equivalents at end of period	$	498,237	$	356,379

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

	Nine Months Ended September 30,	
	2019	2018
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$ 312,663	$ 205,821
Federal and state income taxes	106,296	47,217
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$ 1,453	$ 697
Transfer of loans to loans held for sale	302,861	289,633
Lease right of use assets obtained in exchange for operating lease liabilities	306,471	—
Acquisition:		
Non-cash assets acquired:		
Investment securities held to maturity	$ —	$ 214,217
Investment securities available for sale	—	308,385
Loans	—	3,736,984
Premises and equipment	—	62,066
Bank owned life insurance	—	49,052
Accrued interest receivable	—	12,123
Goodwill	—	394,028
Other intangible assets	—	45,906
Other assets	—	100,059
Total non-cash assets acquired	$ —	$ 4,922,820
Liabilities assumed:		
Deposits	$ —	$ 3,564,843
Short-term borrowings	—	649,979
Long-term borrowings	—	87,283
Junior subordinated debentures issued to capital trusts	—	13,249
Accrued expenses and other liabilities	—	26,848
Total liabilities assumed	—	4,342,202
Net non-cash assets acquired	$ —	$ 580,618
Net cash and cash equivalents acquired in acquisition	$ —	$ 156,612
Common stock issued in acquisition	$ —	$ 737,230

See accompanying notes to consolidated financial statements.

Note 1. Basis of Presentation

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

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley's financial position, results of operations, changes in shareholders' equity and cash flows at September 30, 2019 and for all periods presented have been made. The results of operations for the three and nine months ended on September 30, 2019 are not necessarily indicative of the results to be expected for the entire fiscal year.

In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses, purchased credit impaired loans, the evaluation of goodwill and other intangible assets for impairment, and income taxes. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley's Annual Report on Form 10-K for the year ended December 31, 2018.

In June 2019, Valley announced that it will acquire Oritani Financial Corp. ("Oritani") and its principal subsidiary, Oritani Bank, headquartered in Washington Township, New Jersey. Oritani has approximately $4.0 billion in assets, $3.4 billion in loans, $2.9 billion in deposits, and maintains a branch network of 26 offices in New Jersey. The common shareholders of Oritani will receive 1.60 shares of Valley common stock for each Oritani share they own. The transaction is valued at an estimated $740 million, based on Valley's closing stock price on June 25, 2019. The transaction is expected to close in the fourth quarter of 2019. Valley has received all the requisite regulatory approvals to complete the merger. The merger remains subject to other customary closing conditions, including the approval by the shareholders of both Valley and Oritani at their respective special meetings to be held on November 14, 2019.

Note 2. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except for share data)			
Net income available to common shareholders	$ 78,719	$ 66,387	$ 262,173	$ 174,810
Basic weighted average number of common shares outstanding	331,797,982	331,486,500	331,716,652	331,180,213
Plus: Common stock equivalents	1,607,214	1,513,742	1,322,784	1,513,867
Diluted weighted average number of common shares outstanding	333,405,196	333,000,242	333,039,436	332,694,080
Earnings per common share:				
Basic	$ 0.24	$ 0.20	$ 0.79	$ 0.53
Diluted	0.24	0.20	0.79	0.53

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of restricted stock units, common stock options, and warrants to purchase Valley's common shares. Common stock options and warrants with exercise prices that exceed the average market price of Valley's common stock during the periods presented have an anti-dilutive effect on the diluted earnings per common share calculation and therefore are excluded from the diluted earnings per share calculation. Anti-dilutive
common stock options equaled approximately 265 thousand and 475 thousand shares for the three and nine months ended September 30, 2019, respectively. Anti-dilutive warrants and common stock options equaled 2.9 million shares and 3.3 million shares for the three and nine months ended September 30, 2018, respectively. All of Valley's outstanding warrants expired unexercised in the fourth quarter of 2018.

Note 3. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2019:

	Components of Accumulated Other Comprehensive Loss			Total Accumulated Other Comprehensive Loss
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	
	(in thousands)			
Balance at June 30, 2019	$ 1,214	$ (4,614)	$ (31,731)	$ (35,131)
Other comprehensive income before reclassification	8,135	76	—	8,211
Amounts reclassified from other comprehensive income	72	324	56	452
Other comprehensive income, net	8,207	400	56	8,663
Balance at September 30, 2019	$ 9,421	$ (4,214)	$ (31,675)	$ (26,468)

	Components of Accumulated Other Comprehensive Loss			Total Accumulated Other Comprehensive Loss
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	
	(in thousands)			
Balance at December 31, 2018	$ (33,559)	$ (4,031)	$ (31,841)	$ (69,431)
Other comprehensive income (loss) before reclassification	42,890	(989)	—	41,901
Amounts reclassified from other comprehensive income (loss)	90	806	166	1,062
Other comprehensive income (loss), net	42,980	(183)	166	42,963
Balance at September 30, 2019	$ 9,421	$ (4,214)	$ (31,675)	$ (26,468)

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three and nine months ended September 30, 2019 and 2018:

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Components of Accumulated Other Comprehensive Loss	**2019**	**2018**	**2019**	**2018**	**Income Statement Line Item**
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$ (93)	$ (86)	$ (114)	$ (881)	Losses on securities transactions, net
Tax effect	21	29	24	250	
Total net of tax	(72)	(57)	(90)	(631)	
Unrealized losses on derivatives (cash flow hedges) before tax	(453)	(660)	(1,126)	(2,977)	Interest expense
Tax effect	129	188	320	850	
Total net of tax	(324)	(472)	(806)	(2,127)	
Defined benefit pension plan:					
Amortization of net loss	(79)	(157)	(235)	(471)	*
Tax effect	23	44	69	134	
Total net of tax	(56)	(113)	(166)	(337)	
Total reclassifications, net of tax	$ (452)	$ (642)	$ (1,062)	$ (3,095)	

* Amortization of net loss is included in the computation of net periodic pension cost recognized within other non-interest expense.

Note 4. New Authoritative Accounting Guidance

New Accounting Guidance Adopted in 2019

Accounting Standards Update (ASU) No. 2016-02, “Leases (Topic 842)” and subsequent related updates require lessees to recognize leases on balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model that requires lessees to recognize a right of use (ROU) asset and related lease liability for all leases with a term longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Leases will continue to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

Effective January 1, 2019, Valley adopted ASU No. 2016-02 (and subsequent related updates) and recorded ROU assets of approximately $216 million (net of the reversal of the deferred rent liability at such date) and lease obligations of approximately $241 million. Valley elected the "package of practical expedients," as permitted under the transition guidance within Topic 842. The practical expedients enable Valley to carry forward lease

classifications under the prior accounting guidance (Topic 840). Additionally, the expedients enable the use of hindsight, through which Valley reassessed the likelihood of extending leases under extension clauses available to Valley. This shortened the expected lives of certain leases. As a result, Valley recorded a $4.4 million (net of tax) credit adjustment to the opening balance of retained earnings as of January 1, 2019. Valley also made accounting policy elections to (i) separate non-lease components from its lease obligations with the non-lease components being charged to earnings when incurred and to (ii) exclude short-term leases of 12 months or less from the balance sheet. The comparative periods prior to the adoption date of Topic 842 will continue to be presented in the financial statements in accordance with prior GAAP (Topic 840). See Note 9 for the additional required disclosures.

ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities" shortens the amortization period for certain callable debt securities held at a premium. ASU No. 2017-08 requires the premium to be amortized to the earliest call date. The accounting for securities held at a discount does not change and the discount continues to be amortized as an adjustment to yield over the contractual life (to maturity) of the instrument. ASU No. 2017-08 was effective for Valley on January 1, 2019 and was applied using the modified retrospective method, resulting in a cumulative-effect adjustment to the opening balance of retained earnings totaling $1.4 million (net of tax) as of January 1, 2019. ASU No. 2017-08 did not have a significant impact on Valley's consolidated financial statements.

ASU No. 2019-01, "Leases (Topic 842): Codification Improvements" reinstates the fair value exception in ASC 840, in which lessors will measure fair value, at lease commencement, as cost, reflecting any applicable volume or trade discounts. ASU No. 2019-01 also requires lessors that are depository or lending institutions in the scope of Topic 842 to classify the principal portion of lease payments received under sales-type and direct financing leases as cash flows from investing activities. The interest portion of those and all lease payments received under operating leases are classified as cash flows from operating activities. Effective January 1, 2019, Valley early adopted ASU No. 2019-01 concurrent with its adoption of Topic 842. The adoption of ASU No. 2019-01 did not have a material impact on Valley's consolidated financial statements.

New Accounting Guidance Not Yet Adopted

ASU No. 2019-05, "Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief" provides transition relief for entities adopting the credit losses standard, ASU No. 2016-13. Specifically, this update amends ASU No. 2016-13 to allow companies to irrevocably elect, upon adoption of ASU No. 2016-13, the fair value option for financial instruments that (1) were previously recorded at amortized cost, (2) are within the scope of the credit losses guidance in Topic 326-20, (3) are eligible for the fair value option under Topic 825-10, and (4) are not held-to-maturity debt securities. ASU No. 2019-05 is effective for Valley for reporting periods beginning January 1, 2020. Management is currently evaluating the impact of the ASU on Valley’s consolidated financial statements.

ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. The most significant provisions of the ASU relate to how companies will estimate expected credit losses under Topic 326 by incorporating (1) expected recoveries of financial assets, including recoveries of amounts expected to be written off and those previously written off, and (2) clarifying that contractual extensions or renewal options that are not unconditionally cancellable by the lender are considered when determining the contractual term over which expected credit losses are measured. ASU No. 2019-04 is effective for Valley for reporting periods beginning January 1, 2020. Management is currently evaluating the impact of the ASU on Valley’s consolidated financial statements. See more details regarding our current implementation of Topic 326 and ASU No. 2016-13 below.

ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test guidance) to measure a goodwill impairment charge. Instead, an entity will be required to record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (i.e., measure the charge based on Step 1 of the current guidance). In addition, ASU No. 2017-04 eliminates the requirements for any

reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. However, an entity will be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU No. 2017-04 is effective for Valley for its annual or any interim goodwill impairment tests in fiscal years beginning January 1, 2020 and is not expected to have a significant impact on the presentation of Valley's consolidated financial statements. Early adoption is permitted for annual and interim goodwill impairment testing dates.

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" amends the accounting guidance on the impairment of financial instruments. ASU No. 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on all expected losses over the lives of the assets rather than incurred losses. Under the new guidance, an entity is required to measure all expected credit losses for certain financial assets (including loans, held-to-maturity securities and other receivables) held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts.

ASU No. 2016-13 is effective for Valley for reporting periods beginning January 1, 2020 and management is currently evaluating the impact of the ASU on Valley's consolidated financial statements. Valley's implementation effort is managed through several cross-functional working groups. These groups continue to evaluate selected loss models that accurately project lifetime expected loss estimates. In conjunction with the evaluation, Valley will assess the necessary changes to its operational processes and controls over the allowance for credit losses. Valley expects that the adoption of ASU No. 2016-13 will result in an increase in its allowance for credit losses due to several factors, including the allowance related to Valley loans will increase to include credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, and an allowance will be established for estimated credit losses on investment securities classified as held to maturity. Additionally, the non-accretable difference (as defined in Note 7) on PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans under the new accounting guidance.

Valley is currently performing parallel runs for the CECL model and completing the implementation and documentation processes for the applicable internal controls, data sources, and the system configuration and validation, among other things. Based on the preliminary results of Valley's third parallel run, the overall CECL impact was estimated to be an increase of $50 million to $70 million in the allowance for credit losses as compared to these reserves at September 30, 2019 (See Note 8 for more information). The estimated increase is exclusive of the expected balance sheet gross-up of the non-accretable difference (or "credit mark") on Valley's PCI loans, as well as the impact of the proposed Oritani acquisition expected to be completed in the fourth quarter of 2019. Additionally, the adoption of ASU No. 2016-13 is not expected to have a significant impact on Valley's regulatory capital ratios. The extent of the expected reserve increase is still under evaluation and will be significantly influenced by the composition, characteristics and quality of our loan and investment securities portfolios, as well as the prevailing economic conditions and forecasts as of the CECL adoption date. Additionally, management will continue to refine and validate the new methodologies and models during the fourth quarter of 2019. These internal and external factors could materially affect the actual impact of the CECL adoption on Valley's financial statements.

Note 5. Fair Value Measurement of Assets and Liabilities

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

- **Level 1** - Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.

- **Level 2** - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets) for substantially the full term of the asset or liability.
- **Level 3** - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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

The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at September 30, 2019 and December 31, 2018. The assets presented under "nonrecurring fair value measurements" in the tables below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

		Fair Value Measurements at Reporting Date Using:		
	September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$ 70,965	$ 70,965	$ —	$ —
U.S. government agency securities	30,037	—	30,037	—
Obligations of states and political subdivisions	180,467	—	179,787	680
Residential mortgage-backed securities	1,310,587	—	1,310,587	—
Corporate and other debt securities	36,006	—	36,006	—
Total available for sale	1,628,062	70,965	1,556,417	680
Loans held for sale [(1)]	41,621	—	41,621	—
Other assets [(2)]	217,035	—	217,035	—
Total assets	$ 1,886,718	$ 70,965	$ 1,815,073	$ 680
Liabilities				
Other liabilities [(2)]	$ 60,087	$ —	$ 60,087	$ —
Total liabilities	$ 60,087	$ —	$ 60,087	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans [(3)]	$ 47,619	$ —	$ —	$ 47,619
Loan servicing rights	715	—	—	715
Foreclosed assets	3,705	—	—	3,705
Total	$ 52,039	$ —	$ —	$ 52,039

	December 31, 2018	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$ 49,306	$ 49,306	$ —	$ —
U.S. government agency securities	36,277	—	36,277	—
Obligations of states and political subdivisions	197,092	—	197,092	—
Residential mortgage-backed securities	1,429,782	—	1,429,782	—
Corporate and other debt securities	37,087	—	37,087	—
Total available for sale	1,749,544	49,306	1,700,238	—
Loans held for sale [(1)]	35,155	—	35,155	—
Other assets [(2)]	48,979	—	48,979	—
Total assets	$ 1,833,678	$ 49,306	$ 1,784,372	$ —
Liabilities				
Other liabilities [(2)]	$ 23,681	$ —	$ 23,681	$ —
Total liabilities	$ 23,681	$ —	$ 23,681	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans [(3)]	$ 45,245	$ —	$ —	$ 45,245
Loan servicing rights	273	—	—	273
Foreclosed assets	5,673	—	—	5,673
Total	$ 51,191	$ —	$ —	$ 51,191

(1) Represents residential mortgage loans originated for sale that are carried at fair value and had contractual unpaid principal balances totaling approximately $40.8 million and $34.6 million at September 30, 2019 and December 31, 2018, respectively.

(2) Derivative financial instruments are included in this category.

(3) Excludes PCI loans.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Available for sale securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain preferred equity securities are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things.

Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data.

In calculating the fair value of one impaired special revenue bond (within obligations of states and political subdivisions in the table above) under Level 3, Valley prepared its best estimate of the present value of the cash flows to determine an internal price estimate. In determining the internal price, Valley utilized recent financial information and developments provided by the issuer, as well as other unobservable inputs which reflect Valley's own assumptions about the inputs that market participants would use in pricing of the defaulted security. A quoted price received from an independent pricing service was weighted with the internal price estimate to determine the fair value of the instrument at September 30, 2019. See Note 6 for additional information regarding this impaired security.

Loans held for sale. Residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at September 30, 2019 and December 31, 2018 based on the short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair values of Valley's derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at September 30, 2019 and December 31, 2018), is determined based on the current market prices for similar instruments. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at September 30, 2019 and December 31, 2018.

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

The following valuation techniques were used for certain non-financial assets measured at fair value on a nonrecurring basis, including impaired loans reported at the fair value of the underlying collateral, loan servicing rights and foreclosed assets, which are reported at fair value upon initial recognition or subsequent impairment as described below.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that may be adjusted based on certain discounting criteria. At September 30, 2019, certain appraisals were discounted based on specific market data by location and property type. During the quarter ended September 30, 2019, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. There were $158 thousand and $1.1 million in collateral dependent loan charge-offs to the allowance for loan losses for the three and nine months ended September 30, 2019, respectively. The collateral dependent loan charge-offs to the allowance for loan losses for the three and nine months ended September 30, 2018 were immaterial. At September 30, 2019, collateral dependent impaired loans with a total recorded investment of $81.9 million were reduced by specific valuation allowance allocations totaling $34.3 million to a reported total net carrying amount of $47.6 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to,

prepayment speeds, internal rate of return ("discount rate"), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At September 30, 2019, the fair value model used a blended prepayment speed (stated as constant prepayment rates) of 12.0 percent and a discount rate of 9.6 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. At September 30, 2019, certain loan servicing rights were re-measured at fair value totaling $715 thousand. Valley recorded net impairment charges on its loan servicing rights totaling $64 thousand and net recoveries of impairment charges totaling $19 thousand for the three and nine months ended September 30, 2019, respectively, as compared to net recoveries of impairment charges totaling $48 thousand and $365 thousand for the three and nine months ended September 30, 2018, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. There were no discount adjustments of the appraisals of foreclosed assets at September 30, 2019. At September 30, 2019, foreclosed assets included $3.7 million of assets that were measured at fair value upon initial recognition or subsequently re-measured at September 30, 2019. The foreclosed assets charge-offs to the allowance for the loan losses totaled $668 thousand and $267 thousand for the three months ended September 30, 2019 and 2018, respectively, and $2.1 million and $1.5 million for the nine months ended September 30, 2019 and 2018, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net losses within non-interest expense of $379 thousand and $245 thousand for the three months ended September 30, 2019 and 2018, respectively, and $539 thousand and $390 thousand for the nine months ended September 30, 2019 and 2018, respectively. There were no net losses from re-measurement of foreclosed assets at fair value subsequent to their initial recognition for the three months ended September 30, 2019 and 2018.

Other Fair Value Disclosures

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

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

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

The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at September 30, 2019 and December 31, 2018 were as follows:

		September 30, 2019		December 31, 2018	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$ 312,396	$ 312,396	$ 251,541	$ 251,541
Interest bearing deposits with banks	Level 1	185,841	185,841	177,088	177,088
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	138,393	144,872	138,517	142,049
U.S. government agency securities	Level 2	7,462	7,553	8,721	8,641
Obligations of states and political subdivisions	Level 2	517,430	530,482	585,656	586,033
Residential mortgage-backed securities	Level 2	1,360,903	1,374,825	1,266,770	1,235,605
Trust preferred securities	Level 2	37,319	30,897	37,332	31,486
Corporate and other debt securities	Level 2	32,250	32,574	31,250	31,129
Total investment securities held to maturity		2,093,757	2,121,203	2,068,246	2,034,943
Net loans	Level 3	26,405,306	25,889,653	24,883,610	24,068,755
Accrued interest receivable	Level 1	97,282	97,282	95,296	95,296
Federal Reserve Bank and Federal Home Loan Bank stock [(1)]	Level 1	235,965	235,965	232,080	232,080
Financial liabilities					
Deposits without stated maturities	Level 1	17,673,950	17,673,950	17,388,990	17,388,990
Deposits with stated maturities	Level 2	7,872,172	7,891,568	7,063,984	7,005,573
Short-term borrowings	Level 1	1,825,417	1,825,486	2,118,914	2,091,892
Long-term borrowings	Level 2	2,250,633	2,467,403	1,654,268	1,751,194
Junior subordinated debentures issued to capital trusts	Level 2	55,631	55,670	55,370	55,692
Accrued interest payable [(2)]	Level 1	30,819	30,819	25,762	25,762

(1) Included in other assets.

(2) Included in accrued expenses and other liabilities.

Note 6. Investment Securities

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2019 and December 31, 2018 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2019				
U.S. Treasury securities	$ 138,393	$ 6,479	$ —	$ 144,872
U.S. government agency securities	7,462	93	(2)	7,553
Obligations of states and political subdivisions:				
Obligations of states and state agencies	305,129	7,885	(585)	312,429
Municipal bonds	212,301	5,777	(25)	218,053
Total obligations of states and political subdivisions	517,430	13,662	(610)	530,482
Residential mortgage-backed securities	1,360,903	17,687	(3,765)	1,374,825
Trust preferred securities	37,319	53	(6,475)	30,897
Corporate and other debt securities	32,250	430	(106)	32,574
Total investment securities held to maturity	$ 2,093,757	$ 38,404	$ (10,958)	$ 2,121,203
December 31, 2018				
U.S. Treasury securities	$ 138,517	$ 3,532	$ —	$ 142,049
U.S. government agency securities	8,721	55	(135)	8,641
Obligations of states and political subdivisions:				
Obligations of states and state agencies	341,702	4,332	(5,735)	340,299
Municipal bonds	243,954	3,141	(1,361)	245,734
Total obligations of states and political subdivisions	585,656	7,473	(7,096)	586,033
Residential mortgage-backed securities	1,266,770	3,203	(34,368)	1,235,605
Trust preferred securities	37,332	77	(5,923)	31,486
Corporate and other debt securities	31,250	96	(217)	31,129
Total investment securities held to maturity	$ 2,068,246	$ 14,436	$ (47,739)	$ 2,034,943

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2019 and December 31, 2018 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
September 30, 2019						
U.S. government agency securities	$ 2,093	$ (2)	$ —	$ —	$ 2,093	$ (2)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	11,459	(45)	35,927	(540)	47,386	(585)
Municipal bonds	4,379	(9)	784	(16)	5,163	(25)
Total obligations of states and political subdivisions	15,838	(54)	36,711	(556)	52,549	(610)
Residential mortgage-backed securities	117,588	(171)	319,039	(3,594)	436,627	(3,765)
Trust preferred securities	—	—	29,491	(6,475)	29,491	(6,475)
Corporate and other debt securities	6,696	(54)	4,947	(52)	11,643	(106)
Total	$ 142,215	$ (281)	$ 390,188	$ (10,677)	$ 532,403	$ (10,958)
December 31, 2018						
U.S. government agency securities	$ —	$ —	$ 6,074	$ (135)	$ 6,074	$ (135)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	16,098	(266)	138,437	(5,469)	154,535	(5,735)
Municipal bonds	3,335	(37)	60,078	(1,324)	63,413	(1,361)
Total obligations of states and political subdivisions	19,433	(303)	198,515	(6,793)	217,948	(7,096)
Residential mortgage-backed securities	72,240	(852)	846,671	(33,516)	918,911	(34,368)
Trust preferred securities	—	—	30,055	(5,923)	30,055	(5,923)
Corporate and other debt securities	9,948	(52)	4,835	(165)	14,783	(217)
Total	$ 101,621	$ (1,207)	$ 1,086,150	$ (46,532)	$ 1,187,771	$ (47,739)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. Within the held to maturity portfolio, the total number of security positions in an unrealized loss position was 82 at September 30, 2019 and 378 at December 31, 2018.

The unrealized losses within the residential mortgage-backed securities category of the held to maturity portfolio at September 30, 2019 mostly related to investment grade securities issued by Ginnie Mae.

The unrealized losses existing for more than twelve months for trust preferred securities at September 30, 2019 primarily related to four non-rated single-issuer trust preferred securities issued by bank holding companies. All single-issuer trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered “well-capitalized institutions” at September 30, 2019.

As of September 30, 2019, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.4 billion.

The contractual maturities of investments in debt securities held to maturity at September 30, 2019 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 23,737	$ 23,760
Due after one year through five years	247,505	254,040
Due after five years through ten years	220,403	230,852
Due after ten years	241,209	237,726
Residential mortgage-backed securities	1,360,903	1,374,825
Total investment securities held to maturity	$ 2,093,757	$ 2,121,203

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 5.1 years at September 30, 2019.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at September 30, 2019 and December 31, 2018 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2019				
U.S. Treasury securities	$ 70,947	$ 27	$ (9)	$ 70,965
U.S. government agency securities	29,479	579	(21)	30,037
Obligations of states and political subdivisions:				
Obligations of states and state agencies	83,794	510	(83)	84,221
Municipal bonds	95,381	1,019	(154)	96,246
Total obligations of states and political subdivisions	179,175	1,529	(237)	180,467
Residential mortgage-backed securities	1,300,050	14,191	(3,654)	1,310,587
Corporate and other debt securities	35,422	584	—	36,006
Total investment securities available for sale	$ 1,615,073	$ 16,910	$ (3,921)	$ 1,628,062
December 31, 2018				
U.S. Treasury securities	$ 50,975	$ —	$ (1,669)	$ 49,306
U.S. government agency securities	36,844	71	(638)	36,277
Obligations of states and political subdivisions:				
Obligations of states and state agencies	100,777	18	(3,682)	97,113
Municipal bonds	101,207	209	(1,437)	99,979
Total obligations of states and political subdivisions	201,984	227	(5,119)	197,092
Residential mortgage-backed securities	1,469,059	1,484	(40,761)	1,429,782
Corporate and other debt securities	37,542	213	(668)	37,087
Total investment securities available for sale	$ 1,796,404	$ 1,995	$ (48,855)	$ 1,749,544

The age of unrealized losses and fair value of related securities available for sale at September 30, 2019 and December 31, 2018 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
September 30, 2019						
U.S. Treasury securities	$ 25,940	$ (9)	$ —	$ —	$ 25,940	$ (9)
U.S. government agency securities	—	—	2,131	(21)	2,131	(21)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	21,181	(11)	10,270	(72)	31,451	(83)
Municipal bonds	2,226	(29)	15,301	(125)	17,527	(154)
Total obligations of states and political subdivisions	23,407	(40)	25,571	(197)	48,978	(237)
Residential mortgage-backed securities	96,615	(256)	303,880	(3,398)	400,495	(3,654)
Total	$ 145,962	$ (305)	$ 331,582	$ (3,616)	$ 477,544	$ (3,921)
December 31, 2018						
U.S. Treasury securities	$ —	$ —	$ 49,306	$ (1,669)	$ 49,306	$ (1,669)
U.S. government agency securities	2,120	(20)	26,775	(618)	28,895	(638)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	17,560	(95)	75,718	(3,587)	93,278	(3,682)
Municipal bonds	5,018	(106)	70,286	(1,331)	75,304	(1,437)
Total obligations of states and political subdivisions	22,578	(201)	146,004	(4,918)	168,582	(5,119)
Residential mortgage-backed securities	119,645	(668)	1,221,942	(40,093)	1,341,587	(40,761)
Corporate and other debt securities	12,339	(161)	12,397	(507)	24,736	(668)
Total	$ 156,682	$ (1,050)	$ 1,456,424	$ (47,805)	$ 1,613,106	$ (48,855)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at September 30, 2019 was 177 as compared to 545 at December 31, 2018.

The unrealized losses for the residential mortgage-backed securities category of the available for sale portfolio at September 30, 2019 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae and Fannie Mae.

As of September 30, 2019, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.1 billion.

The contractual maturities of debt securities available for sale at September 30, 2019 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 37,985	$ 38,025
Due after one year through five years	114,646	115,107
Due after five years through ten years	65,745	66,839
Due after ten years	96,647	97,504
Residential mortgage-backed securities	1,300,050	1,310,587
Total investment securities available for sale	$ 1,615,073	$ 1,628,062

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted average remaining expected life for residential mortgage-backed securities available for sale was 6.1 years at September 30, 2019.

Other-Than-Temporary Impairment Analysis

Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; or unanticipated changes in the competitive environment could have a negative effect on Valley's investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods.

During the second quarter of 2019 and the nine months ended September 30, 2019, Valley recognized a $2.9 million other-than-temporary credit impairment charge on one special revenue bond classified as available for sale (within the obligations of states and state agencies in the tables above). The credit impairment was due to severe credit deterioration disclosed by the issuer in the second quarter of 2019, as well as the issuer's default on its contractual payment. At September 30, 2019, the impaired security had an adjusted amortized cost and fair value of $680 thousand. Comparatively, there were no other-than-temporary impairment losses on securities recognized in earnings for the three and nine months ended September 30, 2018.

The obligations of states and political subdivisions include special revenue bonds which had an aggregated amortized cost and fair value of $300.8 million and $304.5 million, respectively, at September 30, 2019. The gross unrealized losses associated with the special revenue bonds totaled $757 thousand as of September 30, 2019. The special revenue bonds were largely issued by the states of (or municipalities within) Utah, Idaho, Minnesota, Florida, other state housing authorities, as well the Port Authority of New York. As part of Valley's pre-purchase analysis and on-going quarterly assessment of impairment of the obligations of states and political subdivisions, our Credit Risk Management Department conducts a financial analysis and risk rating assessment of each security issuer based on the issuer's most recently issued financial statements and other publicly available information. Exclusive of the impaired security, these investments are a mix of bonds with investment grade ratings or not rated paying in accordance with their contractual terms. The vast majority of the bonds not rated by the rating agencies are state housing finance agency revenue bonds secured by Ginnie Mae securities that are commonly referred to as Tax Exempt Mortgage Securities (TEMS). Valley will continue to closely monitor the special revenue bond portfolio as part of its quarterly impairment analysis.

The impaired special revenue bond was not accruing interest as of September 30, 2019. 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.

Management does not believe that any individual unrealized loss as of September 30, 2019 included in the investment portfolio tables above represents other-than-temporary impairment, as management mainly attributes the declines in fair value to changes in interest rates and market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on any other securities, except for the impaired special revenue bond discussed above.

Note 7. Loans

The detail of the loan portfolio as of September 30, 2019 and December 31, 2018 was as follows:

	September 30, 2019			December 31, 2018		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Loans:						
Commercial and industrial	$ 4,038,064	$ 657,544	$ 4,695,608	$ 3,590,375	$ 740,657	$ 4,331,032
Commercial real estate:						
Commercial real estate	11,121,325	2,244,129	13,365,454	9,912,309	2,494,966	12,407,275
Construction	1,385,070	152,520	1,537,590	1,122,348	365,784	1,488,132
Total commercial real estate loans	12,506,395	2,396,649	14,903,044	11,034,657	2,860,750	13,895,407
Residential mortgage	3,770,500	362,831	4,133,331	3,682,984	428,416	4,111,400
Consumer:						
Home equity	382,079	107,729	489,808	371,340	145,749	517,089
Automobile	1,436,313	295	1,436,608	1,319,206	365	1,319,571
Other consumer	896,640	12,120	908,760	846,821	14,149	860,970
Total consumer loans	2,715,032	120,144	2,835,176	2,537,367	160,263	2,697,630
Total loans	$ 23,029,991	$ 3,537,168	$ 26,567,159	$ 20,845,383	$ 4,190,086	$ 25,035,469

Total loans include net unearned premiums and deferred loan costs of $18.3 million and $21.5 million at September 30, 2019 and December 31, 2018, respectively. The outstanding balances (representing contractual balances owed to Valley) for PCI loans totaled $3.7 billion and $4.4 billion at September 30, 2019 and December 31, 2018, respectively.

Valley transferred $302.9 million and $289.6 million of residential mortgage loans from the loan portfolio to loans held for sale during the nine months ended September 30, 2019 and 2018, respectively. Excluding the loan transfers, there were no sales of loans from the held for investment portfolio during the nine months ended September 30, 2019 and 2018.

Purchased Credit-Impaired Loans

PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools.

The following table presents changes in the accretable yield for PCI loans during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Balance, beginning of period	$ 853,887	$ 630,550	$ 875,958	$ 282,009
Acquisition	—	—	—	474,208
Accretion	(47,475)	(54,367)	(155,981)	(180,034)
Net (decrease) increase in expected cash flows	(58,268)	23,983	28,167	23,983
Balance, end of period	$ 748,144	$ 600,166	$ 748,144	$ 600,166

The net increase in expected cash flows for certain pools of loans (included in the tables above) during the nine months ended September 30, 2019 is recognized prospectively as an adjustment to the yield over the estimated remaining life of the individual pools. Based upon reforecasted cash flows, the net increase for the nine months ended September 30, 2019 was largely driven by additional advances on acquired lines of credit coupled with lower prospective loss expectations, partially offset by higher loan prepayments. The net decrease in expected cash flows for the three months ended September 30, 2019 was largely due to the high volume of contractual principal prepayments caused by the low level of market interest rates.

Credit Risk Management

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

Credit Quality

The following table presents past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis) by loan portfolio class at September 30, 2019 and December 31, 2018:

	Past Due and Non-Accrual Loans						
	30-59 Days Past Due Loans	60-89 Days Past Due Loans	Accruing Loans 90 Days or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	(in thousands)						
September 30, 2019							
Commercial and industrial	$ 5,702	$ 3,158	$ 4,133	$ 75,311	$ 88,304	$ 3,949,760	$ 4,038,064
Commercial real estate:							
Commercial real estate	20,851	735	1,125	9,560	32,271	11,089,054	11,121,325
Construction	11,523	7,129	—	356	19,008	1,366,062	1,385,070
Total commercial real estate loans	32,374	7,864	1,125	9,916	51,279	12,455,116	12,506,395
Residential mortgage	12,945	4,417	1,347	13,772	32,481	3,738,019	3,770,500
Consumer loans:							
Home equity	362	249	—	1,625	2,236	379,843	382,079
Automobile	9,118	1,220	648	207	11,193	1,425,120	1,436,313
Other consumer	3,599	108	108	218	4,033	892,607	896,640
Total consumer loans	13,079	1,577	756	2,050	17,462	2,697,570	2,715,032
Total	$ 64,100	$ 17,016	$ 7,361	$ 101,049	$ 189,526	$ 22,840,465	$ 23,029,991
December 31, 2018							
Commercial and industrial	$ 13,085	$ 3,768	$ 6,156	$ 70,096	$ 93,105	$ 3,497,270	$ 3,590,375
Commercial real estate:							
Commercial real estate	9,521	530	27	2,372	12,450	9,899,859	9,912,309
Construction	2,829	—	—	356	3,185	1,119,163	1,122,348
Total commercial real estate loans	12,350	530	27	2,728	15,635	11,019,022	11,034,657
Residential mortgage	16,576	2,458	1,288	12,917	33,239	3,649,745	3,682,984
Consumer loans:							
Home equity	872	40	—	2,156	3,068	368,272	371,340
Automobile	7,973	1,299	308	80	9,660	1,309,546	1,319,206
Other consumer	895	47	33	419	1,394	845,427	846,821
Total consumer loans	9,740	1,386	341	2,655	14,122	2,523,245	2,537,367
Total	$ 51,751	$ 8,142	$ 7,812	$ 88,396	$ 156,101	$ 20,689,282	$ 20,845,383

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

The following table presents information about impaired loans by loan portfolio class at September 30, 2019 and December 31, 2018:

	Recorded Investment With No Related Allowance	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
	(in thousands)				
September 30, 2019					
Commercial and industrial	$ 12,661	$ 97,878	$ 110,539	$ 123,876	$ 35,730
Commercial real estate:					
Commercial real estate	23,857	25,913	49,770	51,676	1,287
Construction	354	—	354	354	—
Total commercial real estate loans	24,211	25,913	50,124	52,030	1,287
Residential mortgage	6,752	4,904	11,656	12,740	525
Consumer loans:					
Home equity	186	549	735	836	57
Total consumer loans	186	549	735	836	57
Total	$ 43,810	$ 129,244	$ 173,054	$ 189,482	$ 37,599
December 31, 2018					
Commercial and industrial	$ 8,339	$ 89,513	$ 97,852	$ 104,007	$ 29,684
Commercial real estate:					
Commercial real estate	16,732	25,606	42,338	44,337	2,615
Construction	803	457	1,260	1,260	13
Total commercial real estate loans	17,535	26,063	43,598	45,597	2,628
Residential mortgage	7,826	6,078	13,904	14,948	600
Consumer loans:					
Home equity	125	1,146	1,271	1,366	113
Total consumer loans	125	1,146	1,271	1,366	113
Total	$ 33,825	$ 122,800	$ 156,625	$ 165,918	$ 33,025

The following table presents, by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$ 114,233	$ 763	$ 87,414	$ 422
Commercial real estate:				
Commercial real estate	49,608	551	50,809	556
Construction	354	—	987	15
Total commercial real estate loans	49,962	551	51,796	571
Residential mortgage	11,592	76	14,112	152
Consumer loans:				
Home equity	738	11	2,454	17
Total consumer loans	738	11	2,454	17
Total	$ 176,525	$ 1,401	$ 155,776	$ 1,162

	Nine Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$ 112,308	$ 1,777	$ 88,376	$ 1,348
Commercial real estate:				
Commercial real estate	46,894	1,817	52,993	1,735
Construction	509	—	1,811	54
Total commercial real estate loans	47,403	1,817	54,804	1,789
Residential mortgage	12,574	315	13,707	502
Consumer loans:				
Home equity	872	32	2,093	83
Total consumer loans	872	32	2,093	83
Total	$ 173,157	$ 3,941	$ 158,980	$ 3,722

Interest income recognized on a cash basis (included in the table above) was immaterial for the three and nine months ended September 30, 2019 and 2018.

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

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

Performing TDRs (not reported as non-accrual loans) totaled $79.4 million and $77.2 million as of September 30, 2019 and December 31, 2018, respectively. Non-performing TDRs totaled $70.1 million and $55.0 million as of September 30, 2019 and December 31, 2018, respectively.

The following table presents non-PCI loans by loan class modified as TDRs during the three and nine months ended September 30, 2019 and 2018. The pre-modification and post-modification outstanding recorded investments disclosed in the tables below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at September 30, 2019 and 2018, respectively.

	Three Months Ended September 30,					
	2019			2018		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	53	$ 42,902	$ 41,772	6	$ 3,970	$ 3,751
Commercial real estate:						
Commercial real estate	1	75	75	1	233	231
Total commercial real estate	1	75	75	1	233	231
Consumer	1	19	19	—	—	—
Total	55	$ 42,996	$ 41,866	7	$ 4,203	$ 3,982

	Nine Months Ended September 30,					
	2019			2018		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	104	$ 78,601	$ 72,183	22	$ 14,719	$ 13,904
Commercial real estate:						
Commercial real estate	3	4,740	4,699	6	4,207	4,504
Construction	—	—	—	2	565	285
Total commercial real estate	3	4,740	4,699	8	4,772	4,789
Residential mortgage	1	155	154	5	980	952
Consumer	1	19	19	1	88	83
Total	109	$ 83,515	$ 77,055	36	$ 20,559	$ 19,728

The total TDRs presented in the above table had allocated specific reserves for loan losses of $29.6 million and $6.3 million at September 30, 2019 and 2018, respectively. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in the "Impaired Loans" section above. There were no partial charge-offs related to TDR loan modifications during the three months ended September 30, 2019 as compared to $2.0 million of partial charge-offs for the nine months ended September 30, 2019. There were no charge-offs related to TDR loan modifications during the three and nine months ended September 30, 2018.

The non-PCI loans modified as TDRs within the previous 12 months and for which there was a payment default (90 or more days past due) for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,			
	2019		2018	
Troubled Debt Restructurings Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	($ in thousands)			
Commercial and industrial	1	$ 604	4	$ 3,645
Residential mortgage	1	154	5	1,015
Total	2	$ 758	9	$ 4,660

	Nine Months Ended September 30,			
	2019		2018	
Troubled Debt Restructurings Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	($ in thousands)			
Commercial and industrial	19	$ 12,235	8	$ 6,770
Commercial real estate	1	283	—	—
Residential mortgage	3	369	5	1,015
Consumer	1	18	—	—
Total	24	$ 12,905	13	$ 7,785

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

The following table presents the credit exposure by internally assigned risk rating by class of loans (excluding PCI loans) at September 30, 2019 and December 31, 2018 based on the most recent analysis performed:

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
			(in thousands)		
September 30, 2019					
Commercial and industrial	$ 3,866,300	$ 32,858	$ 71,483	$ 67,423	$ 4,038,064
Commercial real estate	11,000,256	74,046	46,137	886	11,121,325
Construction	1,384,715	—	355	—	1,385,070
Total	$ 16,251,271	$ 106,904	$ 117,975	$ 68,309	$ 16,544,459
December 31, 2018					
Commercial and industrial	$ 3,399,426	$ 31,996	$ 92,320	$ 66,633	$ 3,590,375
Commercial real estate	9,828,744	30,892	51,710	963	9,912,309
Construction	1,121,321	215	812	—	1,122,348
Total	$ 14,349,491	$ 63,103	$ 144,842	$ 67,596	$ 14,625,032

At September 30, 2019 and December 31, 2018, the commercial and industrial loans rated substandard and doubtful in the above table included performing TDR taxi medallion loans and non-accrual (but mostly performing to their contractual terms) taxi medallion loans, respectively.

For residential mortgages, automobile, home equity and other consumer loan portfolio classes (excluding PCI loans), Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of September 30, 2019 and December 31, 2018:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total Non-PCI Loans
		(in thousands)	
September 30, 2019			
Residential mortgage	$ 3,756,728	$ 13,772	$ 3,770,500
Home equity	380,454	1,625	382,079
Automobile	1,436,106	207	1,436,313
Other consumer	896,422	218	896,640
Total	$ 6,469,710	$ 15,822	$ 6,485,532
December 31, 2018			
Residential mortgage	$ 3,670,067	$ 12,917	$ 3,682,984
Home equity	369,184	2,156	371,340
Automobile	1,319,126	80	1,319,206
Other consumer	846,402	419	846,821
Total	$ 6,204,779	$ 15,572	$ 6,220,351

Valley evaluates the credit quality of its PCI loan pools based on the expectation of the underlying cash flows of each pool, derived from the aging status and by payment activity of individual loans within the pool. The following table presents the recorded investment in PCI loans by class based on individual loan payment activity as of September 30, 2019 and December 31, 2018:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total PCI Loans
		(in thousands)	
September 30, 2019			
Commercial and industrial	$ 628,545	$ 28,999	$ 657,544
Commercial real estate	2,221,154	22,975	2,244,129
Construction	149,870	2,650	152,520
Residential mortgage	356,413	6,418	362,831
Consumer	117,664	2,480	120,144
Total	$ 3,473,646	$ 63,522	$ 3,537,168
December 31, 2018			
Commercial and industrial	$ 710,045	$ 30,612	$ 740,657
Commercial real estate	2,478,990	15,976	2,494,966
Construction	364,815	969	365,784
Residential mortgage	421,609	6,807	428,416
Consumer	158,502	1,761	160,263
Total	$ 4,133,961	$ 56,125	$ 4,190,086

Other real estate owned (OREO) totaled $6.4 million and $9.5 million at September 30, 2019 and December 31, 2018, respectively. OREO included foreclosed residential real estate properties totaling $1.5 million and $852 thousand at September 30, 2019 and December 31, 2018, respectively. Residential mortgage and consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $1.7 million and $1.8 million at September 30, 2019 and December 31, 2018, respectively.

Note 8. Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the allowance for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for loan losses is based on ongoing evaluations of the probable estimated losses inherent in the loan portfolio, including unexpected additional credit impairment of PCI loan pools subsequent to acquisition. There was no allowance allocation for PCI loan losses at September 30, 2019 and December 31, 2018.

The following table summarizes the allowance for credit losses at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(in thousands)	
Components of allowance for credit losses:		
Allowance for loan losses	$ 161,853	$ 151,859
Allowance for unfunded letters of credit	2,917	4,436
Total allowance for credit losses	$ 164,770	$ 156,295

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Components of provision for credit losses:				
Provision for loan losses	$ 8,757	$ 6,432	$ 20,319	$ 23,726
Provision for unfunded letters of credit	(57)	120	(1,519)	916
Total provision for credit losses	$ 8,700	$ 6,552	$ 18,800	$ 24,642

The following tables detail activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2019 and 2018:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
	(in thousands)				
Three Months Ended September 30, 2019					
Allowance for loan losses:					
Beginning balance	$ 94,384	$ 48,978	$ 5,219	$ 6,524	$ 155,105
Loans charged-off	(527)	(158)	(111)	(2,191)	(2,987)
Charged-off loans recovered	330	28	3	617	978
Net (charge-offs) recoveries	(197)	(130)	(108)	(1,574)	(2,009)
Provision for loan losses	6,815	(77)	191	1,828	8,757
Ending balance	$ 101,002	$ 48,771	$ 5,302	$ 6,778	$ 161,853
Three Months Ended September 30, 2018					
Allowance for loan losses:					
Beginning balance	$ 74,257	$ 53,812	$ 4,624	$ 6,069	$ 138,762
Loans charged-off	(833)	—	—	(1,150)	(1,983)
Charged-off loans recovered	1,131	12	9	600	1,752
Net recoveries (charge-offs)	298	12	9	(550)	(231)
Provision for loan losses	9,442	(3,694)	286	398	6,432
Ending balance	$ 83,997	$ 50,130	$ 4,919	$ 5,917	$ 144,963

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
			(in thousands)		
Nine Months Ended September 30, 2019					
Allowance for loan losses:					
Beginning balance	$ 90,956	$ 49,650	$ 5,041	$ 6,212	$ 151,859
Loans charged-off	(7,882)	(158)	(126)	(5,971)	(14,137)
Charged-off loans recovered	2,008	71	13	1,720	3,812
Net (charge-offs) recoveries	(5,874)	(87)	(113)	(4,251)	(10,325)
Provision for loan losses	15,920	(792)	374	4,817	20,319
Ending balance	$ 101,002	$ 48,771	$ 5,302	$ 6,778	$ 161,853
Nine Months Ended September 30, 2018					
Allowance for loan losses:					
Beginning balance	$ 57,232	$ 54,954	$ 3,605	$ 5,065	$ 120,856
Loans charged-off	(1,606)	(348)	(167)	(3,783)	(5,904)
Charged-off loans recovered	4,057	396	269	1,563	6,285
Net recoveries (charge-offs)	2,451	48	102	(2,220)	381
Provision for loan losses	24,314	(4,872)	1,212	3,072	23,726
Ending balance	$ 83,997	$ 50,130	$ 4,919	$ 5,917	$ 144,963

The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology at September 30, 2019 and December 31, 2018. Loans individually evaluated for impairment represent Valley's impaired loans. Loans acquired with discounts related to credit quality represent Valley's PCI loans.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
			(in thousands)		
September 30, 2019					
Allowance for loan losses:					
Individually evaluated for impairment	$ 35,730	$ 1,287	$ 525	$ 57	$ 37,599
Collectively evaluated for impairment	65,272	47,484	4,777	6,721	124,254
Total	$ 101,002	$ 48,771	$ 5,302	$ 6,778	$ 161,853
Loans:					
Individually evaluated for impairment	$ 110,539	$ 50,124	$ 11,656	$ 735	$ 173,054
Collectively evaluated for impairment	3,927,525	12,456,271	3,758,844	2,714,297	22,856,937
Loans acquired with discounts related to credit quality	657,544	2,396,649	362,831	120,144	3,537,168
Total	$ 4,695,608	$ 14,903,044	$ 4,133,331	$ 2,835,176	$ 26,567,159
December 31, 2018					
Allowance for loan losses:					
Individually evaluated for impairment	$ 29,684	$ 2,628	$ 600	$ 113	$ 33,025
Collectively evaluated for impairment	61,272	47,022	4,441	6,099	118,834
Total	$ 90,956	$ 49,650	$ 5,041	$ 6,212	$ 151,859
Loans:					
Individually evaluated for impairment	$ 97,852	$ 43,598	$ 13,904	$ 1,271	$ 156,625
Collectively evaluated for impairment	3,492,523	10,991,059	3,669,080	2,536,096	20,688,758
Loans acquired with discounts related to credit quality	740,657	2,860,750	428,416	160,263	4,190,086
Total	$ 4,331,032	$ 13,895,407	$ 4,111,400	$ 2,697,630	$ 25,035,469

Note 9. Leases

Lessor Arrangements

Valley's lessor arrangements primarily consist of direct financing and sales-type leases for equipment included in the commercial and industrial loan portfolio. Lease agreements may include options to renew and for the lessee to purchase the leased equipment at the end of the lease term.

At September 30, 2019, the total net investment in direct financing and sales-type leases was $422.0 million, comprised of $420.7 million in lease receivables and $1.3 million in unguaranteed residuals. Total lease income was $5.0 million and $3.6 million for the three months ended September 30, 2019 and 2018, respectively, and $13.9 million and $10.8 million for the nine months ended September 30, 2019 and 2018, respectively.

Lessee Arrangements

Valley's lessee arrangements predominantly consist of operating and finance leases for premises and equipment. The majority of the operating leases include one or more options to renew that can significantly extend the lease terms. Valley’s leases have a wide range of lease expirations through the year 2062.

Operating and finance leases are recognized as right of use (ROU) assets and lease liabilities in the consolidated statements of financial position. The ROU assets represent the right to use underlying assets for the lease terms and

lease liabilities represent Valley's obligations to make lease payments arising from the lease. The ROU assets include any prepaid lease payments and initial direct costs, less any lease incentives. At the commencement dates of leases, ROU assets and lease liabilities are initially recognized based on their net present values with the lease terms including options to extend or terminate the lease when Valley is reasonably certain that the options will be exercised to extend. ROU assets are amortized into net occupancy and equipment expense over the expected lives of the leases.

Lease liabilities are discounted to their net present values on the balance sheet based on incremental borrowing rates as determined at the lease commencement dates using quoted interest rates for readily available borrowings, such as fixed rate FHLB advances, with similar terms as the lease obligations. Lease liabilities are reduced by actual lease payments.

In March 2019, Valley closed a sale-leaseback transaction for 26 properties, consisting of 25 branches and 1 corporate office, for an aggregate sales price of $100.5 million. As a result, Valley recorded a pre-tax net gain totaling $78.5 million during the first quarter of 2019. Additionally, Valley recorded ROU assets and lease obligations totaling $78.4 million, respectively, for the lease of the 26 properties with an expected term of 12 years. The lease was determined to be an operating lease and Valley expects to record lease costs of approximately $7.9 million within occupancy and equipment expense on a straight-line basis annually over the term of the lease.

The following table presents the components of ROU assets and lease liabilities by lease type at September 30, 2019.

	September 30, 2019
	(in thousands)
ROU assets:	
Operating leases	$ 286,014
Finance leases	946
Total	$ 286,960
Lease liabilities:	
Operating leases	$ 309,228
Finance leases	1,917
Total	$ 311,145

The following table presents the components by lease type, of total lease cost recognized in the consolidated statement of income for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(in thousands)	
Finance lease cost:		
Amortization of ROU assets	$ 72	$ 218
Interest on lease liabilities	47	148
Operating lease cost	9,096	25,019
Short-term lease cost	134	268
Variable lease cost	723	2,695
Sublease income	(779)	(2,465)
Total lease cost (included in net occupancy and equipment expense)	$ 9,293	$ 25,883

The following table presents supplemental cash flow information related to leases for the nine months ended September 30, 2019:

		Nine Months Ended September 30, 2019
		(in thousands)
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	25,813
Operating cash flows from finance leases		148
Financing cash flows from finance leases		365

The following table presents supplemental information related to leases at September 30, 2019:

	September 30, 2019
Weighted-average remaining lease term	
Operating leases	12.95 years
Finance leases	3.25 years
Weighted-average discount rate	
Operating leases	3.69%
Finance leases	8.25%

The following table presents a maturity analysis of lessor and lessee arrangements outstanding as of September 30, 2019:

	Lessor		Lessee			
	Direct Financing and Sales-Type Leases		Operating Leases		Finance Leases	
			(in thousands)			
2019	$	34,982	$	8,865	$	171
2020		125,406		35,660		684
2021		107,213		35,068		684
2022		84,768		33,520		684
2023		61,462		30,124		—
Thereafter		48,374		253,421		—
Total lease payments		462,205		396,658		2,223
Less: present value discount		(40,201)		(87,430)		(306)
Total	$	422,004	$	309,228	$	1,917

The following table presents minimum aggregate lease payments in accordance with Topic 840 at September 30, 2018:

	Gross Rents	Sublease Income	Net Rents
		(in thousands)	
2018	$ 6,916	$ 556	$ 6,360
2019	27,781	2,196	25,585
2020	27,930	2,152	25,778
2021	27,103	2,086	25,017
2022	26,100	1,970	24,130
Thereafter	273,997	8,707	265,290
Total lease payments	$ 389,827	$ 17,667	$ 372,160

Net occupancy and equipment expense included lease cost of $7.9 million and $24.3 million, net of sublease income of $871 thousand and $2.7 million, for the three and nine months ended September 30, 2018, respectively.

Note 10. Goodwill and Other Intangible Assets

Goodwill totaled $1.1 billion at September 30, 2019 and December 31, 2018. There were no changes to the carrying amounts of goodwill allocated to Valley's business segments, or reporting units thereof, for goodwill impairment analysis (as reported in Valley's Annual Report on Form 10-K for the year ended December 31, 2018). There was no impairment of goodwill during the three and nine months ended September 30, 2019 and 2018.

The following table summarizes other intangible assets as of September 30, 2019 and December 31, 2018:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
		(in thousands)		
September 30, 2019				
Loan servicing rights	$ 91,991	$ (68,225)	$ (64)	$ 23,702
Core deposits	80,470	(37,392)	—	43,078
Other	3,945	(2,575)	—	1,370
Total other intangible assets	$ 176,406	$ (108,192)	$ (64)	$ 68,150
December 31, 2018				
Loan servicing rights	$ 87,354	$ (63,161)	$ (83)	$ 24,110
Core deposits	80,470	(29,136)	—	51,334
Other	3,945	(2,399)	—	1,546
Total other intangible assets	$ 171,769	$ (94,696)	$ (83)	$ 76,990

Loan servicing rights are accounted for using the amortization method. Under this method, Valley amortizes the loan servicing assets over the period of the economic life of the assets arising from estimated net servicing revenues. On a quarterly basis, Valley stratifies its loan servicing assets into groupings based on risk characteristics and assesses each group for impairment based on fair value. Impairment charges on loan servicing rights are recognized in earnings when the book value of a stratified group of loan servicing rights exceeds its estimated fair value. See the "Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis" section of Note 5 for additional information regarding the fair valuation and impairment of loan servicing rights.

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 8.2 years. The line item labeled “Other” included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of approximately 7.6 years. Valley evaluates core deposits and other

intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three and nine months ended September 30, 2019 and 2018.

The following table presents the estimated future amortization expense of other intangible assets for the remainder of 2019 through 2023:

	Loan Servicing Rights	Core Deposits	Other
		(in thousands)	
2019	$ 1,132	$ 2,705	$ 59
2020	4,031	9,607	220
2021	3,314	8,252	206
2022	2,731	6,898	191
2023	2,252	5,544	131

Valley recognized amortization expense on other intangible assets, including net impairment (or recovery of impairment) charges on loan servicing rights, totaling approximately $4.7 million and $4.7 million for the three months ended September 30, 2019 and 2018, respectively, and $13.2 million and $13.6 million for the nine months ended September 30, 2019 and 2018, respectively.

Note 11. Stock–Based Compensation

Valley currently has one active employee stock plan, the 2016 Long-Term Stock Incentive Plan (the "2016 Stock Plan"), adopted by Valley's Board of Directors on January 29, 2016 and approved by its shareholders on April 28, 2016. The primary purpose of the 2016 Stock Plan is to provide additional incentive to officers and key employees of Valley and its subsidiaries, whose substantial contributions are essential to the continued growth and success of Valley, and to attract and retain competent and dedicated officers and other key employees whose efforts will result in the continued and long-term growth of Valley's business.

Under the 2016 Stock Plan, Valley may award shares of common stock in the form of stock appreciation rights, both incentive and non-qualified stock options, restricted stock and restricted stock units (RSUs) to its employees and non-employee directors (for acting in their roles as board members). As of September 30, 2019, 4.3 million shares of common stock were available for issuance under the 2016 Stock Plan. The essential features of each award are described in the award agreement relating to that award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley's common stock on the last sale price reported for Valley's common stock on such date or the last sale price reported preceding such date, except for performance-based awards with a market condition. The grant date fair values of performance-based awards that vest based on a market condition are determined by a third party specialist using a Monte Carlo valuation model.

Restricted Stock. Valley has awarded restricted stock to executive officers, key employees and directors of Valley, providing for the immediate award of Valley common stock subject to certain vesting and restrictions under the 2016 Stock Plan. Compensation expense is measured based on the grant-date fair value of the shares. Valley did not award any shares of restricted stock during the nine months ended September 30, 2019 as compared to 1.2 million shares of time-based restricted stock awarded during the nine months ended September 30, 2018. The majority of the awards have vesting periods of three years. Generally, the restrictions on such awards lapse at an annual rate of one-third of the total award commencing with the first anniversary of the date of grant. The average grant date fair value of the restricted stock awards granted during the nine months ended September 30, 2018 was $11.88 per share.

Restricted Stock Units (RSUs). Valley granted 868 thousand shares of time-based RSUs during the nine months ended September 30, 2019. Valley did not grant time-based restricted stock units during the nine months ended September 30, 2018. The majority of the awards have vesting periods of three years. Generally, the restrictions on such awards lapse at an annual rate of one-third of the total award commencing with the first anniversary of the date of the grant. The average grant date fair value of the RSUs granted during the nine months ended September 30, 2019 was $10.43 per share.

Valley granted 532 thousand and 446 thousand shares of performance-based RSUs to certain executive officers for the nine months ended September 30, 2019 and 2018, respectively. The performance-based RSU awards include RSUs with vesting conditions based upon certain levels of growth in Valley's tangible book value per share plus dividends and RSUs with vesting conditions based upon Valley's total shareholder return as compared to our peer group. The RSUs "cliff" vest after three years based on the cumulative performance of Valley during that time period. The RSUs earn dividend equivalents (equal to cash dividends paid on Valley's common stock) over the applicable performance period. Dividend equivalents are accumulated and paid to the grantee at the vesting date or forfeited if the performance conditions are not met. The grant date fair value of the RSUs granted during the nine months ended September 30, 2019 and 2018 was $10.43 per share and $12.35 per share, respectively.

Valley recorded total stock-based compensation expense of $3.2 million and $3.7 million for the three months ended September 30, 2019 and 2018, respectively, and $11.5 million and $15.8 million for the nine months ended September 30, 2019 and 2018, respectively. The fair values of stock awards are expensed over the shorter of the vesting or required service period. As of September 30, 2019, the unrecognized amortization expense for all stock-based employee compensation totaled approximately $18.9 million and will be recognized over an average remaining vesting period of 2 years.

Note 12. Derivative Instruments and Hedging Activities

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

Cash Flow Hedges of Interest Rate Risk. Valley's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, Valley uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of either fixed or variable-rate amounts in exchange for the receipt of variable or fixed-rate amounts from a counterparty, respectively.

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

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

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

Valley sometimes enters into risk participation agreements with external lenders where the banks are sharing their risk of default on the interest rate swaps on participated loans. Valley either pays or receives a fee depending on the participation type. Risk participation agreements are credit derivatives not designated as hedges. Credit derivatives are not speculative and are not used to manage interest rate risk in assets or liabilities. Changes in the fair value in

credit derivatives are recognized directly in earnings. At September 30, 2019, Valley had 19 credit swaps with an aggregate notional amount of $110.9 million related to risk participation agreements.

At September 30, 2019, Valley had one "steepener" swap with a total current notional amount of $10.4 million where the receive rate on the swap mirrors the pay rate on the brokered deposits and the rates paid on these types of hybrid instruments are based on a formula derived from the spread between the long and short ends of the constant maturity swap (CMS) rate curve. Although these types of instruments do not meet the hedge accounting requirements, the change in fair value of both the bifurcated derivative and the stand alone swap tend to move in opposite directions with changes in the three-month LIBOR rate and therefore provide an effective economic hedge.

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

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

	September 30, 2019			December 31, 2018		
	Fair Value			Fair Value		
	Other Assets	Other Liabilities	Notional Amount	Other Assets	Other Liabilities	Notional Amount
	(in thousands)					
Derivatives designated as hedging instruments:						
Cash flow hedge interest rate swaps	$ —	$ 1,941	$ 255,000	$ —	$ 27	$ 332,000
Fair value hedge interest rate swaps	—	290	7,346	—	347	7,536
Total derivatives designated as hedging instruments	$ —	$ 2,231	$ 262,346	$ —	$ 374	$ 339,536
Derivatives not designated as hedging instruments:						
Interest rate swaps and embedded derivatives	$ 216,340	$ 57,180	$ 3,840,078	$ 48,642	$ 22,533	$ 3,390,578
Mortgage banking derivatives	695	676	254,021	337	774	105,247
Total derivatives not designated as hedging instruments	$ 217,035	$ 57,856	$ 4,094,099	$ 48,979	$ 23,307	$ 3,495,825

The Chicago Mercantile Exchange and London Clearing House variation margins are classified as a single-unit of account with the fair value of certain cash flow and non-designated derivative instruments. As a result, the fair value of the designated cash flow interest rate swaps assets and designated and non-designated interest rate swaps liabilities were offset by variation margins posted by (with) the applicable counterparties and reported in the table above on a net basis at September 30, 2019 and December 31, 2018.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Amount of loss reclassified from accumulated other comprehensive loss to interest expense	$ (453)	$ (660)	$ (1,126)	$ (2,977)
Amount of gain (loss) recognized in other comprehensive income (loss)	108	310	(1,404)	3,698

The accumulated net after-tax losses related to effective cash flow hedges included in accumulated other comprehensive loss were $4.2 million and $4.0 million at September 30, 2019 and December 31, 2018, respectively.

Amounts reported in accumulated other comprehensive loss related to cash flow interest rate derivatives are reclassified to interest expense as interest payments are made on the hedged variable interest rate liabilities. Valley estimates that $2.7 million will be reclassified as an increase to interest expense over the next 12 months.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Derivative - interest rate swaps:				
Interest income	$ 48	$ 73	$ 121	$ 292
Hedged item - loans:				
Interest income	$ (48)	$ (73)	$ (121)	$ (292)

Fee income related to derivative interest rate swaps executed with commercial loan customers totaled $13.9 million and $4.0 million for the three months ended September 30, 2019 and 2018, respectively, and $23.4 million and $11.7 million for the nine months ended September 30, 2019 and 2018, respectively, and was included in other non-interest income.

The following table presents the hedged items related to interest rate derivatives designated as hedges of fair value and the cumulative basis fair value adjustment included in the net carrying amount of the hedged items at September 30, 2019 and December 31, 2018.

Line Item in the Statement of Financial Position in Which the Hedged Item is Included	Carrying Amount of the Hedged Asset		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Asset	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
	(in thousands)			
Loans	$ 7,636	$ 7,882	$ 290	$ 346

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Non-designated hedge interest rate derivatives				
Other non-interest expense	$ (468)	$ (8)	$ (1,225)	$ 440

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

Valley has agreements with its derivative counterparties providing that if Valley defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Valley could also be declared in default on its derivative counterparty agreements. Additionally, Valley has an agreement with several of its derivative counterparties that contains provisions that require Valley's debt to maintain an investment grade credit rating from each of the major credit rating agencies from which it receives a credit rating. If Valley's credit rating is reduced below investment grade, or such rating is withdrawn or suspended, then the counterparty could terminate the derivative positions and Valley would be required to settle its obligations under the agreements. As of September 30, 2019, Valley was in compliance with all of the provisions of its derivative counterparty agreements. As of September 30, 2019, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $24.3 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties.

Note 13. Balance Sheet Offsetting

Certain financial instruments, including derivatives (consisting of interest rate swaps and caps) and repurchase agreements (accounted for as secured long-term borrowings), may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. Valley is party to master netting arrangements with its financial institution counterparties; however, Valley does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of cash or marketable investment securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. Master repurchase agreements which include "right of set-off" provisions generally have a legally enforceable right to offset recognized amounts. In such cases, the collateral would be used to settle the fair value of the repurchase agreement should Valley be in default. The table below presents information about Valley's financial instruments that are eligible for offset in the consolidated statements of financial condition as of September 30, 2019 and December 31, 2018.

	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset		Net Amount
				Financial Instruments	Cash Collateral	
			(in thousands)			
September 30, 2019						
Assets:						
Interest rate swaps	$ 216,340	$ —	$ 216,340	$ (14,579)	$ —	$ 201,761
Liabilities:						
Interest rate swaps	$ 59,411	$ —	$ 59,411	$ (14,579)	$ (23,737) [(1)]	$ 21,095
Repurchase agreements	350,000	—	350,000	—	(350,000) [(2)]	—
Total	$ 409,411	$ —	$ 409,411	$ (14,579)	$ (373,737)	$ 21,095
December 31, 2018						
Assets:						
Interest rate swaps and caps	$ 48,642	$ —	$ 48,642	$ (1,214)	$ —	$ 47,428
Liabilities:						
Interest rate swaps and caps	$ 22,907	$ —	$ 22,907	$ (1,214)	$ (1,852) [(1)]	$ 19,841
Repurchase agreements	150,000	—	150,000	—	(150,000) [(2)]	—
Total	$ 172,907	$ —	$ 172,907	$ (1,214)	$ (151,852)	$ 19,841

(1) Represents the amount of collateral posted with derivative counterparties that offsets net liability positions.

(2) Represents the fair value of non-cash pledged investment securities.

Note 14. Tax Credit Investments

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

Valley’s tax credit investments are carried in other assets on the consolidated statements of financial condition. Valley’s unfunded capital and other commitments related to the tax credit investments are carried in accrued expenses and other liabilities on the consolidated statements of financial condition. Valley recognizes amortization of tax credit investments, including impairment losses, within non-interest expense of the consolidated statements of income using the equity method of accounting. After initial measurement, the carrying amounts of tax credit investments with non-readily determinable fair values are increased to reflect Valley's share of income of the investee and are reduced to reflect its share of losses of the investee, dividends received and other-than-temporary impairments, if applicable (See "Other-Than-Temporary Impairment Analysis" section below).

The following table presents the balances of Valley's affordable housing tax credit investments, other tax credit investments, and related unfunded commitments at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(in thousands)	
Other Assets:		
Affordable housing tax credit investments, net	$ 26,352	$ 36,961
Other tax credit investments, net	50,174	68,052
Total tax credit investments, net	$ 76,526	$ 105,013
Other Liabilities:		
Unfunded affordable housing tax credit commitments	$ 1,556	$ 4,520
Unfunded other tax credit commitments	4,911	8,756
Total unfunded tax credit commitments	$ 6,467	$ 13,276

The following table presents other information relating to Valley's affordable housing tax credit investments and other tax credit investments for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Components of Income Tax Expense:				
Affordable housing tax credits and other tax benefits	$ 1,666	$ 1,761	$ 5,087	$ 5,011
Other tax credit investment credits and tax benefits	1,902	5,817	6,863	16,982
Total reduction in income tax expense	$ 3,568	$ 7,578	$ 11,950	$ 21,993
Amortization of Tax Credit Investments:				
Affordable housing tax credit investment losses	$ 530	$ 708	$ 1,796	$ 1,375
Affordable housing tax credit investment impairment losses	857	558	2,381	1,660
Other tax credit investment losses	1,093	1,103	4,589	2,893
Other tax credit investment impairment losses	1,905	3,043	7,655	9,228
Total amortization of tax credit investments recorded in non-interest expense	$ 4,385	$ 5,412	$ 16,421	$ 15,156

Other-Than-Temporary Impairment Analysis

An impairment loss is recognized when the fair value of the tax credit investment is less than its carrying value. The determination of whether a decline in value of a tax credit investment is other-than-temporary requires significant judgment and is performed separately for each investment. The tax credit investments are reviewed for impairment quarterly, or whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. These circumstances can include, but are not limited to, the following factors:

- Evidence that we do not have the ability to recover the carrying amount of the investment;
- The inability of the investee to sustain earnings;
- A current fair value of the investment based upon cash flow projections that is less than the carrying amount; and
- Change in the economic or technological environment that could adversely affect the investee's operations

On a quarterly basis, Valley obtains financial reporting on its underlying tax credit investment assets for each fund from the fund manager who is independent of us and the Fund Sponsor. The financial reporting is reviewed for deterioration in the financial condition of the fund, the level of cash flows and any significant losses or impairment

charges. Valley also regularly reviews the condition and continuing prospects of the underlying operations of the investment with the fund manager, including any observations from site visits and communications with the fund sponsor, if available. Annually, Valley obtains the audited financial statements prepared by an independent accounting firm for each investment, as well as the annual tax returns. Generally, none of the aforementioned review factors are individually conclusive and the relative importance of each factor will vary based on facts and circumstances. However, the longer the expected period of recovery, the stronger and more objective the positive evidence needs to be in order to overcome the presumption that the impairment is other than temporary. If management determines that a decline in value is other than temporary per its quarterly and annual reviews, including current probable cash flow projections, the applicable tax credit investment is written down to its estimated fair value through an impairment charge to earnings, which establishes the new cost basis of the investment.

The aggregate unamortized investment related to three federal renewable energy tax credit funds sponsored by DC Solar represented approximately $2.4 million (or approximately $800 thousand for each fund) of the $68.1 million of net other tax credit investments reported as of December 31, 2018. These funds are disclosed in detail in Note 15. During the first quarter of 2019, Valley determined that future cash flows related to the remaining investments in all three funds were not probable based upon new information available, including the sponsor's bankruptcy proceedings which were reclassified to Chapter 7 from Chapter 11 in late March 2019. As a result, we recognized an other-than-temporary impairment charge for the entire aggregate unamortized investment of $2.4 million during the first quarter, which is included within amortization of tax credit investments for the nine months ended September 30, 2019.

Note 15. Income Taxes

The federal energy investment tax credit (FEITC) program encourages the use of renewable energy, including solar energy. The energy program reduces federal income taxes by offering a 30 percent tax credit to owners of energy property that meets established performance and quality standards. In addition, there are other returns from tax losses and cash flows generated by the investment. Typically, an owner and the tax credit investor, such as Valley, establish a limited partnership. The tax credit investor usually has a substantial, but passive, interest in the partnership and the owner of the solar energy property has a small interest. The ownership structure permits the tax benefits to pass through to the tax credit investor with an expected exit from ownership after five years.

The amount of the FEITC is calculated based on the total cost of a renewable energy property. From 2013 to 2015, Valley invested in three FEITC funds (Fund VI, Fund XII and Fund XIX) sponsored by DC Solar to purchase a total of 512 mobile solar generator units. The valuation of the unit price of the solar units was supported by an appraisal prepared by a well-recognized national appraisal firm. The total tax credits of $22.8 million were used to reduce Valley's federal income taxes payable in its consolidated financial statements from 2013 to 2015.

The full value of the FEITC is earned immediately when a solar energy property is placed in service. However, the tax credit is subject to recapture for federal tax purposes for a five-year compliance period, if the property ceases to remain eligible for the tax credit. A property may become ineligible during the compliance period due to (i) a sale or disposal of the property, (ii) lease of the property to a tax exempt entity or (3) its removal from service (i.e., no longer available for lease). During the first year after the property has been placed in service, the recapture rate is 100 percent of the tax credit. The rate declines by 20 percent each year thereafter until the end of the fifth year. The compliance period expires at the end of the fifth year after the property has been placed in service. All three funds leased the mobile solar generator units to DC Solar Distributions, which stated its intention to sublease the units to third parties.

An entity shall initially recognize the financial statement effects of a tax position when it is more likely than not (or a likelihood of more than 50 percent), based on the technical merits, that the position will be sustained upon examination. The level of evidence that is necessary and appropriate to support an entity's assessment of the technical merits of a tax position is a matter of judgment that depends on all available information. At each of the investment dates, Valley obtained two tax opinions from national law firms that, based upon the facts recited,

support the recognition of the tax credits in its tax returns. Based upon management's review of the tax opinions on the investment's legal structure, Valley recognized and measured each tax position at 100 percent of the tax credit.

Valley's subsequent measurement of a tax position is based on management's best judgment given the facts, circumstances, and information available at the latest quarterly reporting date. A change in judgment that results in subsequent derecognition or change in measurement of a tax position taken in a prior annual period (including any related interest and penalties) is recognized as a discrete item in the period in which the change occurs.

In late February 2019, Valley learned of Federal Bureau of Investigation (FBI) allegations of fraudulent conduct by DC Solar, including information about asset seizures of DC Solar property and assets of its principals and ongoing federal investigations. Since learning of the allegations, Valley has conducted an ongoing investigation coordinated with other DC Solar fund investors, investors' outside counsel and a third party specialist. The facts uncovered to date by the investor group impact each investor differently, affecting their likelihood of loss and the ultimate amount of tax benefit likely to be recaptured. To date, over 93 percent of the 512 solar generator units purchased by Valley's three funds have been positively identified by a third party specialist at several leasee and other locations throughout the United States. Valley has also learned through its investigation that the IRS has challenged the valuation appraisals of similar solar generator units that were used to determine the federal renewable energy tax credits related to another DC Solar fund owned by an unrelated investor.

Given the circumstances at this time, including the aforementioned IRS challenge of the appraisals of similar units used by an unrelated fund investor, and management's best judgments regarding the settlement of the tax positions that it would ultimately accept with the IRS, Valley currently expects a partial loss and tax benefit recapture. As a result of this quarterly assessment, our net income for the three and nine months ended September 30, 2019 includes an increase to our provision for income taxes of $133 thousand and $12.5 million, respectively, reflecting the reserve for uncertain tax liability positions (shown in the table below) related to renewable energy tax credits and other tax benefits previously recognized from the investments in the DC Solar funds plus interest. Valley can provide no assurance that it will not recognize additional tax provisions related to this uncertain tax liability as management learns and analyzes additional facts and information, or that Valley will not ultimately incur a complete loss on the related tax positions, which is currently estimated to be $29.8 million (inclusive of tax provisions totaling $12.5 million for the nine months ended September 30, 2019).

A reconciliation of Valley's gross unrecognized tax benefits at September 30, 2019 and 2018 are presented in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	$ 12,323	$ 4,238	$ —	$ 4,238
Additions based on tax positions related to current year	133	—	12,456	—
Ending balance	$ 12,456	$ 4,238	$ 12,456	$ 4,238

The entire balance of unrecognized tax benefits, if recognized, would favorably affect our effective income tax rate. Valley's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. Accrued interest associated with uncertain tax positions totaled approximately $2.3 million and $1.8 million at September 30, 2019 and December 31, 2018, respectively.

Valley monitors its tax positions for the underlying facts, circumstances, and information available including the federal investigation of DC Solar and changes in tax laws, case law and regulations that may necessitate subsequent de-recognition of previous tax benefits.

Note 16. Business Segments

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

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management’s confidence and strategies and management’s expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as “should,” “expect,” “believe,” “view,” “will,” “opportunity,” “allow,” “continues,” “reflects,” “typically,” “usually,” “anticipate,” or similar statements or variations of such terms. Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements in addition to those risk factors disclosed in Valley’s Annual Report on Form 10-K for the year ended December 31, 2018, include, but are not limited to:

- failure to obtain shareholder approval for the acquisition of Oritani Financial Corp. or to satisfy other conditions to the merger on the proposed terms and within the proposed timeframe;
- the inability to realize expected cost savings and synergies from the Oritani merger in amounts or in the timeframe anticipated;
- costs or difficulties relating to Oritani integration matters might be greater than expected;
- material adverse changes in Valley’s or Oritani’s operations or earnings;
- the inability to retain customers and qualified employees of Oritani;
- the inability to repay $635 million of higher cost FHLB borrowings in conjunction with the Oritani merger;
- developments in the DC Solar bankruptcy and federal investigations that, after careful analysis by management, could require the recognition of additional tax provision charges related to uncertain tax liability positions;
- higher or lower than expected income tax expense or tax rates, including increases or decreases resulting from changes in uncertain tax position liabilities, tax laws, regulations and case law;
- weakness or a decline in the economy, mainly in New Jersey, New York, Florida and Alabama;
- a decline in commercial real estate values within our market areas, including the potential negative impact of recent changes to New York City's rent laws;
- the inability to grow customer deposits to keep pace with loan growth;
- an increase in our allowance for credit losses due to higher than expected loan losses within one or more segments of our loan portfolio;
- less than expected cost savings from Valley's branch transformation strategy;

- greater than expected technology related costs due to, among other factors, prolonged or failed implementations, additional project staffing and obsolescence caused by continuous and rapid market innovations;
- the loss of or decrease in lower-cost funding sources within our deposit base, including our inability to achieve deposit retention targets under Valley's branch transformation strategy;
- cyber-attacks, computer viruses or other malware that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage our systems;
- results of examinations by the OCC, the FRB, the CFPB and other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for credit losses, write-down assets, reimburse customers, change the way we do business, or limit or eliminate certain other banking activities;
- damage verdicts or settlements or restrictions related to existing or potential litigations arising from claims of violations of laws or regulations brought as class actions, breach of fiduciary responsibility, negligence, fraud, contractual claims, environmental laws, patent or trademark infringement, employment related claims, and other matters;
- changes in accounting policies or accounting standards, including the new authoritative accounting guidance (known as the current expected credit loss (CECL) model) which may increase the level of our allowance for credit losses after adoption on January 1, 2020;
- our inability or determination not to pay dividends at current levels, or at all, because of inadequate earnings, regulatory restrictions or limitations, changes in our capital requirements or a decision to increase capital by retaining more earnings;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- unexpected significant declines in the loan portfolio due to the lack of economic expansion, increased competition, large prepayments, changes in regulatory lending guidance or other factors; and
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships.

Critical Accounting Policies and Estimates

Valley’s accounting policies are fundamental to understanding management’s discussion and analysis of its financial condition and results of operations. At September 30, 2019, we identified our policies on the allowance for loan losses, purchased credit-impaired loans, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Management has reviewed the application of these policies with the Audit Committee of Valley’s Board of Directors. Our critical accounting policies are described in detail in Part II, Item 7 in Valley’s Annual Report on Form 10-K for the year ended December 31, 2018.

New Authoritative Accounting Guidance

See Note 4 to the consolidated financial statements for a description of new authoritative accounting guidance, including the respective dates of adoption and effects on results of operations and financial condition.

Executive Summary

Company Overview. At September 30, 2019, Valley had consolidated total assets of approximately $33.8 billion, total net loans of $26.4 billion, total deposits of $25.5 billion and total shareholders’ equity of $3.6 billion. Our commercial bank operations include branch office locations in northern and central New Jersey, the New York City Boroughs of Manhattan, Brooklyn, Queens, and Long Island, Florida and Alabama. Of our current 217 branch network, 56 percent, 18 percent, 19 percent and 7 percent of the branches are in New Jersey, New York, Florida and Alabama, respectively. Despite targeted branch consolidation activity, we have significantly grown both in asset

size and locations over the past several years primarily through bank acquisitions, including our acquisition of USAmeriBancorp, Inc. ("USAB") on January 1, 2018.

Oritani Financial Corp. Merger. In June 2019, Valley announced that it will acquire Oritani Financial Corp. ("Oritani") and its principal subsidiary, Oritani Bank, headquartered in Washington Township, New Jersey. Oritani has approximately $4.0 billion in assets, $3.4 billion in loans, $2.9 billion in deposits, and maintains a branch network of 26 offices in New Jersey. The merger will double Valley's market share in demographically attractive Bergen County and enhance its presence in Hudson County.

The common shareholders of Oritani will receive 1.60 shares of Valley common stock for each Oritani share they own. The transaction is valued at an estimated $740 million, based on Valley's closing stock price on June 25, 2019. The transaction is expected to close in the fourth quarter of 2019. Valley has received all the requisite regulatory approvals to complete the merger. The merger remains subject to other customary closing conditions, including the approval by the shareholders of both Valley and Oritani at their respective special meetings to be held on November 14, 2019.

We currently plan to consolidate nine branches, consisting of six Oritani branches and three legacy Valley branches, upon completion of our subsequent systems conversion for the Oritani operations. We do not expect these branch closings to impact the timing of the planned closures discussed in the "Branch Transformation" section below.

Branch Transformation. As previously disclosed, Valley has embarked on a strategy to overhaul its retail network. Approximately one year ago, we established the foundation of what the transformation of our branch network would look like in coming years. At that time, we identified 74 branches that did not meet certain internal performance measures, including 20 branches that were closed and consolidated by the end of the first quarter of 2019. For the remaining 54 branches, we implemented tailored action plans focused on improving profitability and deposit levels, as well as upgrades in staffing and training, within a defined timeline.

At September 30, 2019, the majority of the 54 branches have seen measurable success in terms of relative cost of deposits, deposit mix and overall balance growth. However, some locations have not met our established performance targets. As such, we currently expect to close approximately 10 branches by the end of the second quarter of 2020.

For the remaining branch network, we continue to monitor the operating performance of each branch and implement tailored action plans focused on improving profitability and deposit levels for those branches that underperform.

Sale Leaseback. During March 2019, Valley closed a sale-leaseback transaction for 26 properties resulting in a pre-tax gain of $78.5 million for the first quarter of 2019.

Investment in DC Solar Funds. From 2013 to 2015, Valley invested in three federal renewable energy tax credit funds sponsored by DC Solar and claimed the related federal tax credit benefits of approximately $22.8 million in its consolidated financial statements during these periods. In late February 2019, we learned of allegations of fraudulent conduct by DC Solar, including information about asset seizures of DC Solar property and assets of its principals and ongoing federal investigations. We referred to these matters in our Annual Report on Form 10-K for 2018. Since learning of the allegations, Valley has conducted an ongoing investigation coordinated with other DC Solar fund investors, investors' outside counsel and a third party specialist.

Given the circumstances that we are aware of at this time and management's best judgments regarding the settlement of the tax positions that it would ultimately accept with the IRS, we currently expect a partial loss and tax benefit recapture. As a result of this quarterly assessment, our net income for the three and nine months ended September 30, 2019 includes an increase to our provision for income taxes of $133 thousand and $12.5 million, respectively, reflecting the reserve for uncertain tax liability positions related to renewable energy tax credits and other tax benefits previously recognized from the investments in the DC Solar funds plus interest. During the first quarter of 2019, we also recognized a full write down of the related unamortized investments totaling $2.4 million

(previously presented in other assets) due to other than temporary impairment losses. We can provide no assurance that we will not recognize additional tax provisions related to this uncertain tax liability as we learn and analyze additional facts and information, or that we will not ultimately incur a complete loss on the related tax positions, which is currently estimated to be $29.8 million (inclusive of the $12.5 million provision during the nine months ended September 30, 2019). See Notes 14 and 15 to the consolidated financial statements for additional information related to our tax credit investments and reserves for uncertain tax liability positions.

Quarterly Results. Net income for the third quarter of 2019 was $81.9 million, or $0.24 per diluted common share, compared to $69.6 million, or $0.20 per diluted common share, for the third quarter of 2018. The $12.3 million increase in quarterly net income as compared to the same quarter one year ago was largely due to: (i) a $12.1 million increase in non-interest income mainly due to higher swap fee income from commercial loan customer transactions and increased net gains on the sale of residential mortgage loans, (ii) a $3.8 million increase in our net interest income mostly due to higher average loan balances driven by strong organic loan growth over the last 12 months and higher loan yield, (iii) a $5.8 million decrease in non-interest expense due, in part, to decreases in the FDIC insurance assessment, salaries and employee benefits and amortization of tax credit investments, partially offset by (iv) a $7.3 million increase in income tax expense largely due to higher pre-tax income and (v) a $2.1 million increase in our provision for credit losses. See the "Net Interest Income," "Non-Interest Income," "Non-Interest Expense", and "Income Taxes" sections below for more details on the items above impacting our third quarter 2019 results, as well as other items discussed elsewhere in this MD&A.

Operating Environment. During 2018, the Federal Reserve gradually increased the target range for the federal funds rate. As a result, the target range increased from 1.25 percent to 1.50 percent as of January 1, 2018 to 2.25 percent to 2.50 percent at December 31, 2018. The Federal Reserve elected to cut the target range for the federal funds rate by 0.25 percent at their Federal Open Market Committee meetings held in both July 2019 and September 2019. On October 30, 2019, the Federal Reserve cut interest rates by 0.25 percent again, resulting in a current target range for the federal funds rate of 1.50 to 1.75 percent. The Federal Reserve Chairman Jerome H. Powell indicated that the recent cut was made to help keep the U.S. economy strong in the face of global developments and to provide some insurance against ongoing risks. These and other comments by the Federal Reserve Chairman appear to signal that the Federal Reserve will pause and assess incoming date before it considers lowering borrowing costs again.

The 10-year U.S. Treasury note yield ended the third quarter at 1.68 percent, 32 basis points lower compared with June 30, 2019. The spread between the 2- and 10-year U.S. Treasury note yields ended the third quarter of 2019 at 0.05 percent, 20 basis points lower compared to the end of the second quarter of 2019 and 19 basis points lower compared to September 30, 2018.

For all U.S. commercial banks, loans and leases grew approximately 2.4 percent on an annual basis in the third quarter of 2019 compared to the previous quarter. For the industry, fewer banks reported waning demand for commercial and industrial loan products to large and middle market firms compared to the previous quarter. Similarly, demand remained weak for most commercial real estate loans secured by nonfarm nonresidential structures during the quarter. Alternatively, a small number of banks reported demand for multifamily loans had increased, the first such reading in several quarters. Valley continued to see strong demand for commercial real estate and commercial and industrial loans across its geographies in the third quarter of 2019. However, should demand weaken for commercial loans and competition for deposits increase further in Valley's markets, these factors, along with the potential for a prolonged flat yield curve environment, may challenge our business operations and results, as highlighted throughout the remaining MD&A discussion below.

Loans. Loans increased $765.0 million, or 11.9 percent on an annualized basis to approximately $26.6 billion at September 30, 2019 from June 30, 2019. The increase was mainly due to continued strong quarter over quarter organic growth in commercial real estate and commercial and industrial loans, as well as stronger automobile loan volumes during the third quarter of 2019. During the third quarter of 2019, we originated $139 million of residential mortgage loans for sale rather than held for investment and sold approximately $87 million of pre-existing loans from our residential mortgage loan portfolio. Residential mortgage loans held for sale totaled $41.6 million and $36.6 million at September 30, 2019 and June 30, 2019, respectively.

For the full year of 2019, we established a goal to grow our overall loan portfolio in the range of 6 to 8 percent. We have maintained this guidance in the early stages of the fourth quarter of 2019 given our current loan pipeline and market conditions. See further details on our loan activities under the “Loan Portfolio” section below.

Asset Quality. Our past due loans and non-accrual loans discussed further below exclude PCI loans. Under U.S. GAAP, 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. Our PCI loan portfolio totaled $3.5 billion, or 13.3 percent, of our total loan portfolio at September 30, 2019.

Total non-performing assets (NPAs), consisting of non-accrual loans, other real estate owned (OREO), other repossessed assets and non-accrual debt securities increased $4.0 million to $110.7 million at September 30, 2019 as compared to June 30, 2019 mainly due to an increase of $4.5 million in non-accrual loans during the third quarter of 2019. Non-accrual loans increased due, in part, to a $3.9 million commercial real estate loan at September 30, 2019 previously reported in loans past due 30 to 59 days at June 30, 2019. The $3.9 million non-accrual loan had no related reserves within the allowance for loan losses based upon the adequacy of the collateral valuation at September 30, 2019. Non-accrual loans represented 0.38 percent of total loans at September 30, 2019 as compared to 0.37 percent at June 30, 2019.

Total accruing past due loans (i.e., loans past due 30 days or more and still accruing interest) increased $21.4 million to $88.5 million, or 0.33 percent of total loans, at September 30, 2019 as compared to $67.0 million, or 0.26 percent of total loans, at June 30, 2019. The higher level of accruing past due loans at September 30, 2019 was largely caused by a few large matured performing commercial real estate and construction loans in the normal process of renewal. While we are required to report these matured performing loans as accruing past due loans, we believe the loans are well-secured, in the process of collection and do not represent a material negative trend in our credit quality at September 30, 2019.

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, management cannot provide assurance that our non-performing assets will not increase from the levels reported as of September 30, 2019. See the "Non-Performing Assets" section below for further analysis of our asset quality.

Deposits and Other Borrowings. Our mix of the deposit categories of total average deposits for the third quarter of 2019 remained relatively unchanged as compared to the second quarter of 2019 with a continued moderate shift to time deposits. Average non-interest bearing deposits; savings, NOW and money market deposits; and time deposits represented approximately 26 percent, 44 percent and 30 percent of total deposits as of September 30, 2019, respectively. Overall, average deposits totaled $24.8 billion for the third quarter of 2019 and increased by $137.1 million as compared to the second quarter of 2019. The increase in average deposit balances was largely due to increases of $335.9 million and $29.2 million in time deposits and non-interest bearing deposits, respectively, partially offset by a decrease in money market deposits during the third quarter of 2019. The increase in the average time deposits and decrease in money market deposits was largely due to increased use of brokered time deposits and a decline in the use of brokered money market deposits, respectively, during the third quarter due to normal liquidity management and changes in market interest rates and availability of such instruments.

Actual ending balances for deposits increased $772.2 million to approximately $25.5 billion at September 30, 2019 from June 30, 2019 largely due to a $534.0 million increase in time deposits. Savings, NOW and money market deposits and non-interest bearing deposits also increased by $186.7 million and $51.5 million at September 30, 2019 from June 30, 2019, respectively. Time deposits primarily increased due to the greater use of short-term brokered certificates of deposit with interest rates comparable or favorable to similar duration wholesale borrowings available from other funding sources, such as the FHLB, in the third quarter of 2019. Total brokered deposits (consisting of both time and money market deposit accounts) were $3.7 billion at September 30, 2019 as compared to $3.2 billion at June 30, 2019.

Average short-term borrowings decreased $114.8 million to $2.3 billion for the third quarter of 2019 as compared to the second quarter of 2019 largely due to the maturity and repayment of short-term FHLB borrowings. Average

long-term borrowings (including junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of financial condition) increased by $536.4 million to $2.1 billion for the third quarter of 2019 as compared to the second quarter of 2019 mainly due to higher long-term FHLB borrowings and long-term institutional repos balances.

Actual ending balances for short-term borrowings decreased $562.4 million at September 30, 2019 as compared to June 30, 2019 largely due to the maturity and repayment of $695 million of FHLB borrowings that were mostly funded by a mix of new brokered time deposits, long-term FHLB borrowings and long-term institutional repos. As a result, long-term borrowings increased $450.5 million to $2.3 billion at September 30, 2019 as compared to June 30, 2019.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Return on average assets	0.98%	0.91%	1.10%	0.82%
Return on average assets, as adjusted	1.00	0.96	0.96	0.94
Return on average shareholders' equity	9.26	8.41	10.44	7.46
Return on average shareholders' equity, as adjusted	9.40	8.84	9.10	8.50
Return on average tangible shareholders' equity (ROATE)	13.75	12.96	15.65	11.54
ROATE, as adjusted	13.96	13.61	13.65	13.14

Adjusted return on average assets, adjusted return on average shareholders' equity, ROATE and adjusted ROATE included in the table above are non-GAAP measures. Management believes these measures provide information useful to management and investors in understanding our underlying operational performance, business and performance trends, and the measures facilitate comparisons of our prior performance with the performance of others in the financial services industry. These non-GAAP financial measures should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP. These non-GAAP financial measures may also be calculated differently from similar measures disclosed by other companies. The non-GAAP measure reconciliations are presented below.

Adjusted net income is computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income, as reported	$ 81,891	$ 69,559	$ 271,689	$ 184,326
Add: Net impairment losses on securities (net of tax)	—	—	2,078	—
Add: Losses on securities transactions (net of tax)	67	56	82	630
Add: Severance expense (net of tax) (1)	—	—	3,433	—
Add: Tax credit investment impairment (net of tax) (2)	—	—	1,757	—
Add: Branch related asset impairment (net of tax) (3)	—	1,304	—	1,304
Add: Legal expenses (litigation reserve impact only, net of tax)	—	1,206	—	8,726
Add: Merger related expenses (net of tax) (4)	1,043	935	1,068	12,949
Add: Income Tax Expense (5)	133	—	12,456	2,000
Less: Gain on sale-leaseback transaction (net of tax) (6)	—	—	(55,707)	—
Net income, as adjusted	$ 83,134	$ 73,060	$ 236,856	$ 209,935

(1) Severance expense is included in salary and employee benefits expense.
(2) Impairment is included in the amortization of tax credit investments.
(3) Branch related asset impairment is included in net losses on sales of assets within non-interest income.
(4) Merger related expenses are primarily within professional and legal fees in 2019 and salary and employee benefits and other expense in 2018.
(5) Income tax expense related to reserves for uncertain tax positions in 2019 and a USAB acquisition charge in 2018.
(6) The gain on sale leaseback transactions is included in net gains on the sales of assets within other non-interest income.

Adjusted annualized return on average assets is computed by dividing adjusted net income by average assets, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in thousands)			
Net income, as adjusted	$ 83,134	$ 73,060	$ 236,856	$ 209,935
Average assets	$ 33,419,137	$ 30,493,175	$ 32,811,565	$ 29,858,764
Annualized return on average assets, as adjusted	1.00%	0.96%	0.96%	0.94%

Adjusted annualized return on average shareholders' equity is computed by dividing adjusted net income by average shareholders' equity, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in thousands)			
Net income, as adjusted	$ 83,134	$ 73,060	$ 236,856	$ 209,935
Average shareholders' equity	$ 3,536,528	$ 3,307,690	$ 3,471,432	$ 3,292,439
Annualized return on average shareholders' equity, as adjusted	9.40%	8.84%	9.10%	8.50%

ROATE and adjusted ROATE are computed by dividing net income and adjusted net income, respectively, by average shareholders' equity less average goodwill and average other intangible assets, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in thousands)			
Net income	$ 81,891	$ 69,559	$ 271,689	$ 184,326
Net income, as adjusted	$ 83,134	$ 73,060	$ 236,856	$ 209,935
Average shareholders' equity	$ 3,536,528	$ 3,307,690	$ 3,471,432	$ 3,292,439
Less: Average goodwill and other intangible assets	1,154,462	1,161,167	1,157,203	1,162,980
Average tangible shareholders' equity	$ 2,382,066	$ 2,146,523	$ 2,314,229	$ 2,129,459
Annualized ROATE	13.75%	12.96%	15.65%	11.54%
Annualized ROATE, as adjusted	13.96%	13.61%	13.65%	13.14%

In addition to the items used to calculate net income, as adjusted, in the tables above, our net income is, from time to time, impacted by fluctuations in the level of net gains on sales of loans and swap fees recognized from commercial loan customer transactions. These amounts can vary widely from period to period due to, among other factors, the amount of residential mortgage loans originated for sale, bulk loan portfolio sales and commercial loan customer demand for certain products. See the "Non-Interest Income" section below for more details.

Net Interest Income

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

Net interest income on a tax equivalent basis totaling $221.7 million for the third quarter of 2019 increased $3.6 million as compared to the third quarter of 2018 and increased $355 thousand as compared to the second quarter of 2019. The increase as compared to the second quarter of 2019 was largely due to higher average loan balances and lower costs of interest-bearing liabilities, partly offset by lower yielding loans. Interest income on a tax equivalent basis increased $1.5 million to $330.4 million for the third quarter of 2019 as compared to the second quarter of 2019 mainly due to a $584.3 million increase in average loans. Interest expense of $108.6 million for the third quarter of 2019 increased $1.1 million as compared to the second quarter of 2019 largely due to higher average balances for long-term borrowings and time deposits, partially offset by the overall lower cost of funds.

Average interest earning assets increased $2.5 billion to $30.5 billion for the third quarter of 2019 as compared to the third quarter of 2018 due to strong organic loan growth over the last 12-month period. Compared to the second quarter of 2019, average interest earning assets increased by $617.2 million from $29.9 billion due to continued organic loan growth during the third quarter of 2019 and higher average overnight funds mostly due to fluctuations in the timing of loan and investment activity, partially offset by a moderate decrease in the investment securities portfolio. Average loans increased $584.3 million to $26.1 billion for the third quarter of 2019 from the second quarter of 2019 mainly due to the strong loan growth within the commercial and industrial, commercial real estate and automobile loan portfolios.

Average interest bearing liabilities increased $2.1 billion to $22.9 billion for the third quarter of 2019 as compared to the third quarter of 2018 mainly due to both retail and brokered time deposit growth, partly caused by our increased use of brokered CDs as a cost effective alternative to shorter term FHLB borrowings in our funding and liquidity strategy. Compared to the second quarter of 2019, average interest bearing liabilities increased by $529.6 million in the third quarter of 2019. Increases in both average deposits and long-term borrowings were partially offset by a decrease in average short-term borrowings caused by the maturity of short-term FHLB borrowings during the third quarter of 2019. See additional information under "Deposits and Other Borrowings" in the Executive Summary section above.

Our net interest margin on a tax equivalent basis of 2.91 percent for the third quarter of 2019 decreased by 21 basis points and 5 basis points from 3.12 percent and 2.96 percent for the third quarter of 2018 and second quarter of 2019, respectively. The yield on average interest earning assets decreased by 7 basis points on a linked quarter basis mostly due to a decrease in the yield on loans. The yield on average loans decreased by 8 basis points to 4.57 percent for the third quarter of 2019 as compared to the second quarter of 2019 partly due to repayment of higher yielding loans and a decline in accretable yield on PCI loans in the third quarter of 2019. The overall cost of average interest bearing liabilities decreased 3 basis points to 1.90 percent for the third quarter of 2019 as compared to the linked second quarter of 2019 due to lower interest rates on certain deposits and borrowings repricing during the third quarter. Our cost of total average deposits was 1.27 percent for the third quarter of 2019 and remained unchanged as compared to the second quarter of 2019.

Looking forward, we expect the interest rate pressures on the level of our net interest margin to remain during the fourth quarter of 2019 due, in part, to lower market interest rates on new and renewed loan originations and a prolonged flat yield curve environment. However, continued repricing of stated maturity deposits and other borrowings over the next 12-month period should largely mitigate the expected lower loan yields. Based upon our most recent projection, we anticipate net interest income growth will equal approximately 3.5 to 4.5 percent for the full year of 2019 as compared to 2018.

The following table reflects the components of net interest income for the three months ended September 30, 2019, June 30, 2019 and September 30, 2018:

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

	Three Months Ended								
	September 30, 2019			June 30, 2019			September 30, 2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)								
Assets									
Interest earning assets:									
Loans (1)(2)	$26,136,745	$298,384	4.57%	$25,552,415	$296,934	4.65%	$23,659,190	$265,871	4.50%
Taxable investments (3)	3,411,330	24,972	2.93	3,453,676	25,284	2.93	3,399,910	25,343	2.98
Tax-exempt investments (1)(3)	632,709	5,341	3.38	658,727	5,514	3.35	730,711	6,358	3.48
Interest bearing deposits with banks	313,785	1,686	2.15	212,566	1,168	2.20	181,901	805	1.77
Total interest earning assets	30,494,569	330,383	4.33	29,877,384	328,900	4.40	27,971,712	298,377	4.27
Allowance for loan losses	(157,176)			(156,747)			(141,400)		
Cash and due from banks	267,331			265,015			289,829		
Other assets	2,812,665			2,744,661			2,428,322		
Unrealized (losses) gains on securities available for sale, net	1,748			(23,169)			(55,288)		
Total assets	$33,419,137			$32,707,144			$30,493,175		
Liabilities and shareholders' equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$11,065,959	$ 35,944	1.30%	$11,293,885	$ 38,020	1.35%	$11,032,866	$ 28,775	1.04%
Time deposits	7,383,202	42,848	2.32	7,047,319	40,331	2.29	4,967,691	20,109	1.62
Total interest bearing deposits	18,449,161	78,792	1.71	18,341,204	78,351	1.71	16,000,557	48,884	1.22
Short-term borrowings	2,265,528	12,953	2.29	2,380,294	14,860	2.50	2,766,398	15,193	2.20
Long-term borrowings (4)	2,143,432	16,891	3.15	1,607,046	14,297	3.56	1,991,294	16,164	3.25
Total interest bearing liabilities	22,858,121	108,636	1.90	22,328,544	107,508	1.93	20,758,249	80,241	1.55
Non-interest bearing deposits	6,387,188			6,358,034			6,222,646		
Other liabilities	637,300			539,047			204,590		
Shareholders' equity	3,536,528			3,481,519			3,307,690		
Total liabilities and shareholders' equity	$33,419,137			$32,707,144			$30,493,175		
Net interest income/interest rate spread (5)		$221,747	2.43%		$221,392	2.47%		$218,136	2.72%
Tax equivalent adjustment		(1,122)			(1,158)			(1,336)	
Net interest income, as reported		$220,625			$220,234			$216,800	
Net interest margin (6)			2.89%			2.95%			3.10%
Tax equivalent effect			0.02%			0.01%			0.02%
Net interest margin on a fully tax equivalent basis (6)			2.91%			2.96%			3.12%

The following table reflects the components of net interest income for the nine months ended September 30, 2019 and 2018:

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

	Nine Months Ended					
	September 30, 2019			September 30, 2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	($ in thousands)					
Assets						
Interest earning assets:						
Loans (1)(2)	$25,651,195	$883,595	4.59%	$22,939,106	$751,149	4.37%
Taxable investments (3)	3,418,614	76,306	2.98	3,413,492	74,555	2.91
Tax-exempt investments (1)(3)	660,162	16,936	3.42	740,832	20,738	3.73
Interest bearing deposits with banks	251,728	3,947	2.09	237,535	2,570	1.44
Total interest earning assets	29,981,699	980,784	4.36	27,330,965	849,012	4.14
Allowance for loan losses	(155,643)			(133,299)		
Cash and due from banks	273,191			274,638		
Other assets	2,734,304			2,426,795		
Unrealized (losses) gains on securities available for sale, net	(21,986)			(40,335)		
Total assets	$32,811,565			$29,858,764		
Liabilities and shareholders' equity						
Interest bearing liabilities:						
Savings, NOW and money market deposits	$11,268,852	$110,247	1.30%	$11,061,781	$ 75,848	0.91%
Time deposits	7,215,745	121,350	2.24	4,755,539	51,360	1.44
Total interest bearing deposits	18,484,597	231,597	1.67	15,817,320	127,208	1.07
Short-term borrowings	2,220,014	40,362	2.42	2,144,854	31,838	1.98
Long-term borrowings (4)	1,807,503	45,761	3.38	2,234,373	50,458	3.01
Total interest bearing liabilities	22,512,114	317,720	1.88	20,196,547	209,504	1.38
Non-interest bearing deposits	6,288,382			6,167,869		
Other liabilities	539,637			201,909		
Shareholders' equity	3,471,432			3,292,439		
Total liabilities and shareholders' equity	$32,811,565			$29,858,764		
Net interest income/interest rate spread (5)		$663,064	2.48%		$639,508	2.76%
Tax equivalent adjustment		(3,557)			(4,358)	
Net interest income, as reported		$659,507			$635,150	
Net interest margin (6)			2.93%			3.10%
Tax equivalent effect			0.02%			0.02%
Net interest margin on a fully tax equivalent basis (6)			2.95%			3.12%

(1) Interest income is presented on a tax equivalent basis using a 21 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 financial 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.

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 us 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

	Three Months Ended September 30, 2019 Compared to September 30, 2018			Nine Months Ended September 30, 2019 Compared to September 30, 2018		
	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*	$ 28,226	$ 4,287	$ 32,513	$ 92,014	$ 40,432	$ 132,446
Taxable investments	85	(456)	(371)	112	1,639	1,751
Tax-exempt investments*	(832)	(185)	(1,017)	(2,151)	(1,651)	(3,802)
Interest bearing deposits with banks	680	201	881	162	1,215	1,377
Total increase in interest income	28,159	3,847	32,006	90,137	41,635	131,772
Interest Expense:						
Savings, NOW and money market deposits	87	7,082	7,169	1,445	32,954	34,399
Time deposits	12,019	10,720	22,739	33,698	36,292	69,990
Short-term borrowings	(2,843)	603	(2,240)	1,149	7,375	8,524
Long-term borrowings and junior subordinated debentures	1,209	(482)	727	(10,354)	5,657	(4,697)
Total increase in interest expense	10,472	17,923	28,395	25,938	82,278	108,216
Total increase in net interest income	$ 17,687	$ (14,076)	$ 3,611	$ 64,199	$ (40,643)	$ 23,556

* Interest income is presented on a tax equivalent basis using 21 percent as the federal tax rate for 2019 and 2018.

Non-Interest Income

Non-interest income increased $12.1 million and $77.1 million for the three and nine months ended September 30, 2019 as compared to the same periods of 2018, respectively. The following table presents the components of non-interest income for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Trust and investment services	$ 3,296	$ 3,143	$ 9,296	$ 9,635
Insurance commissions	2,748	3,646	7,922	11,493
Service charges on deposit accounts	5,904	6,597	17,634	20,529
Losses on securities transactions, net	(93)	(79)	(114)	(880)
Other-than-temporary impairment losses on securities	—	—	(2,928)	—
Portion recognized in other comprehensive income (before taxes)	—	—	—	—
Net impairment losses on securities recognized in earnings	—	—	(2,928)	—
Fees from loan servicing	2,463	2,573	7,260	6,841
Gains on sales of loans, net	5,194	3,748	13,700	18,143
(Losses) gains on sales of assets, net	(159)	(1,899)	76,997	(2,121)
Bank owned life insurance	2,687	2,545	6,779	6,960
Other	19,110	8,764	39,880	28,758
Total non-interest income	$ 41,150	$ 29,038	$ 176,426	$ 99,358

Insurance commissions decreased $898 thousand and $3.6 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods in 2018 mainly due to lower volumes of business generated by the Bank's insurance agency subsidiary.

Service charges on deposit accounts decreased $2.9 million for the nine months ended September 30, 2019 as compared to the same period of 2018 mostly due to lower checking and ATM fees.

Other-than-temporary impairment losses on securities for the nine months ended September 30, 2019 relates to one special revenue bond in default of its contractual payments. See the "Investment Securities Portfolio" section of this MD&A and Note 6 to the consolidated financial statements for further details on our investment securities impairment analysis.

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 and losses on our loans originated for sale and carried at fair value at each period end. Net gains on sales of loans increased $1.4 million and decreased $4.4 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods of 2018, largely due to fluctuations in volume of residential mortgage loan sales. During the third quarter of 2019, we sold $221 million of residential mortgage loans as compared to $177 million sold during the third quarter of 2018, including $87 million and $26 million of pre-existing loans sold from our residential mortgage loan portfolio, respectively. During the nine months ended September 30, 2019, we sold $637 million of residential mortgage loans as compared to $870 million for the same period one year ago. In addition, the net gains on sales of loans for the nine months ended September 30, 2019 included a gain of $1.1 million on the sale of our retail credit card portfolio totaling approximately $6.2 million in loans. See further discussions of our residential mortgage loan origination activity under the "Loan Portfolio" section of this MD&A below.

Net gains on sales of assets increased $79.1 million for the nine months ended September 30, 2019 primarily due to a $78.5 million gain on the sale (and leaseback) of 26 locations recognized during the first quarter of 2019.

Other non-interest income increased $10.3 million and $11.1 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods of 2018. The increases were mostly due to fee income related to derivative interest rate swaps executed with commercial loan customers which totaled $13.9 million and $23.4 million for the three and nine months ended September 30, 2019, respectively, as compared to $4.1 million and $11.8 million for the three and nine months ended September 30, 2018, respectively.

Non-Interest Expense

Non-interest expense decreased $5.8 million and $39.9 million for the three and nine months ended September 30, 2019 as compared to the same periods of 2018, respectively. The following table presents the components of non-interest expense for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Salary and employee benefits expense	$ 77,271	$ 80,778	$ 236,559	$ 253,014
Net occupancy and equipment expense	29,203	26,295	86,789	81,120
FDIC insurance assessment	5,098	7,421	16,150	20,963
Amortization of other intangible assets	4,694	4,697	13,175	13,607
Professional and legal fees	5,870	6,638	15,286	29,022
Amortization of tax credit investments	4,385	5,412	16,421	15,156
Telecommunications expense	2,698	3,327	7,317	9,936
Other	16,658	17,113	43,712	52,531
Total non-interest expense	$ 145,877	$ 151,681	$ 435,409	$ 475,349

Salary and employee benefits expense decreased $3.5 million and $16.5 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods of 2018 partially due to lower headcount caused by our recent branch transformation and other operational improvements. The decrease for the nine months ended September 30, 2019 was also due to $9.6 million of change in control, severance and retention expenses related to the USAB acquisition recognized in the first quarter of 2018, partially offset by non-merger related severance expense of $4.8 million for the first quarter of 2019.

Net occupancy and equipment increased $2.9 million and $5.7 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods of 2018. The increase was mostly due to higher rental expense resulting from the sale leaseback transaction for 26 locations closed during the first quarter of 2019 and higher repair and equipment expense.

The FDIC insurance assessment decreased $2.3 million and $4.8 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods of 2018 largely due to the FDIC's termination of the large bank surcharge portion of our quarterly assessment effective September 30, 2018.

Professional and legal fees decreased $13.7 million for the nine months ended September 30, 2019 as compared to the same period of 2018 mainly caused by a $12.2 million litigation reserve charge recognized in 2018. Professional and legal fees included merger expenses of approximately $1.4 million related to the pending Oritani acquisition and $828 thousand of merger expense related to the USAB acquisition for the nine months ended September 30, 2019 and 2018, respectively.

Amortization of tax credit investments decreased $1.0 million and increased $1.3 million for the three and nine months ended September 30, 2019, respectively, as compared to the same periods of 2018. The third quarter decrease was largely due to normal differences in the timing and amount of such investments and recognition of the

related tax credits. The increase for the nine months of 2019 was primarily due to a $2.4 million other-than-temporary impairment charge related to investments in three federal renewable energy tax credit funds. See Note 14 to the consolidated financial statements for more details. Tax credit investments, while negatively impacting the level of our operating expenses and efficiency ratio, produce tax credits that reduce our income tax expense and effective tax rate.

Telecommunications expense decreased $2.6 million for the nine months ended September 30, 2019 as compared to the same period of 2018 partly due to branch reductions and other operating efficiencies.

Other non-interest expense decreased $8.8 million for the nine months ended September 30, 2019 as compared to the same period of 2018. The decrease was due, in part, to $2.2 million of USAB merger related charges recognized during the first quarter of 2018 and a $1.6 million increase in net gains on sale of OREO properties during the nine months ended September 30, 2019. In addition, several significant components of other expense declined as compared to the same period of 2018 partly due to the integration of USAB's operations completed in the second quarter of 2018, branch closures and other cost reduction initiatives.

Efficiency Ratio

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus total non-interest income. 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. Our overall efficiency ratio, and its comparability to some of our peers, is negatively impacted by the amortization of tax credit investments, as well as infrequent charges within non-interest income and expense.

The following table presents our efficiency ratio and a reconciliation of the efficiency ratio adjusted for certain items during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
	($ in thousands)			
Total non-interest expense	$ 145,877	$ 151,681	$ 435,409	$ 475,349
Less: Severance expense (pre-tax)	—	—	4,838	—
Less: Amortization of tax credit investments (pre-tax)	4,385	5,412	16,421	15,156
Less: Legal expenses (litigation reserve impact only, pre-tax)	—	1,684	—	12,184
Less: Merger related expenses (pre-tax)	1,434	1,304	1,469	18,080
Total non-interest expense, adjusted	$ 140,058	$ 143,281	$ 412,681	$ 429,929
Net interest income	$ 220,625	$ 216,800	$ 659,507	$ 635,150
Total non-interest income	41,150	29,038	176,426	99,358
Less: Gain on sale-leaseback transaction (pre-tax)	—	—	78,505	—
Add: Losses on securities transactions, net (pre-tax)	93	79	114	880
Add: Net impairment losses on securities (pre-tax)	—	—	2,928	—
Add: Branch related asset impairment (pre-tax)	—	1,821	—	1,821
Total net interest income and non-interest income	$ 261,868	$ 247,738	$ 760,470	$ 737,209
Efficiency ratio	55.73%	61.70%	52.09%	64.72%
Efficiency ratio, adjusted	53.48%	57.84%	54.27%	58.32%

Management continuously monitors its expenses in an effort to optimize Valley's performance. Based upon these efforts and our revenue goals, we seek to achieve an adjusted efficiency ratio (as shown in the table above) below 55 percent for 2019. However, we can provide no assurance that our adjusted efficiency ratio will meet our target or remain at the level reported for the fourth quarter of 2019.

Income Taxes

Income tax expense totaled $25.3 million for the third quarter of 2019 as compared to $27.5 million and $18.0 million for the second quarter of 2019 and third quarter of 2018, respectively. Our effective tax rate was 23.6 percent, 26.5 percent, and 20.6 percent for the third quarter of 2019, second quarter of 2019, and third quarter of 2018, respectively. The decline in the effective tax rate from the second quarter of 2019 was mostly due to reduced state tax expense, while the increase from the third quarter of 2018 was partly caused by a change in the State of New Jersey tax laws effective July 1, 2018 and higher tax credits benefiting the third quarter of 2018.

Our uncertain tax liabilities totaled $12.5 million at September 30, 2019 and relate to renewable energy tax credits and other tax benefits previously recognized from investments in the DC Solar funds. See additional information regarding our uncertain tax liability positions at Note 15 of the consolidated financial statements.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management’s judgment include changes in income, tax laws and regulations, and tax planning strategies. For the fourth quarter of 2019, we currently estimate that our effective tax rate will range from 24 percent to 26 percent.

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, which involves the allocation of uniform funding cost based on each segment's average earning assets outstanding for the period. The financial reporting for each segment contains allocations and reporting in line with our operations, which may not necessarily be comparable to any other financial institution. The accounting for each segment includes internal accounting policies designed to measure consistent and reasonable financial reporting and may result in income and expense measurements that differ from amounts under U.S. GAAP. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data.

The following tables present the financial data for each business segment for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30, 2019				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
			($ in thousands)		
Average interest earning assets	$ 6,858,216	$ 19,278,529	$ 4,357,824	$ —	$ 30,494,569
Income (loss) before income taxes	18,300	91,629	6,781	(9,512)	107,198
Annualized return on average interest earning assets (before tax)	1.07%	1.90%	0.62%	N/A	1.41%

	Three Months Ended September 30, 2018				
	Consumer Lending	**Commercial Lending**	**Investment Management**	**Corporate and Other Adjustments**	**Total**
			($ in thousands)		
Average interest earning assets	$ 6,264,778	$ 17,394,412	$ 4,312,522	$ —	$ 27,971,712
Income (loss) before income taxes	12,684	80,768	9,732	(15,579)	87,605
Annualized return on average interest earning assets (before tax)	0.81%	1.86%	0.90%	N/A	1.25%

Consumer Lending

This segment, representing approximately 26.2 percent of our loan portfolio at September 30, 2019, is mainly comprised of residential mortgage loans and automobile loans, and to a lesser extent, home equity loans, secured personal lines of credit and other consumer loans (including credit card loans). The duration of the residential mortgage loan portfolio (which represented 15.5 percent of our loan portfolio at September 30, 2019) is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans (representing 5.4 percent of total loans at September 30, 2019) 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. The consumer lending segment also includes the Wealth Management and Insurance Services Division, comprised of trust, asset management, and insurance services.

Average interest earning assets in this segment increased $593.4 million to $6.9 billion for the three months ended September 30, 2019 as compared to the third quarter of 2018. The increase was largely due to loan growth from new and refinanced residential mortgage loan originations, including a higher level of non-conforming jumbo mortgages held for investment over the last 12 month period, as well as solid demand for both automobile loans and collateralized personal lines of credit.

Income before income taxes generated by the consumer lending segment increased $5.6 million to $18.3 million for the third quarter of 2019 as compared to the third quarter of 2018. Net interest income increased $2.6 million and was mainly driven by the increase in average loans, partially offset by higher funding costs. Non-interest expense decreased $4.2 million for the third quarter of 2019 as compared to the same quarter of 2018 partly due to lower residential mortgage loan commission rates paid in 2019. The positive impact of the aforementioned items was partially offset by a $1.3 million increase in the provision for loan losses for the third quarter of 2019 as compared to the third quarter of 2018 mainly driven by the strong loan growth.

The net interest margin on the consumer lending portfolio decreased 8 basis points to 2.61 percent for the third quarter of 2019 as compared to the third quarter of 2018, mainly due to a 28 basis point increase in the costs associated with our funding sources, partially offset by a 20 basis point increase in the yield on average loans. Despite a decline in short-term interest rates during third quarter of 2019 as compared to the second quarter of 2019 caused by monetary policy actions at the Federal Reserve, our cost of funds increased from one year ago mainly due to the Federal Reserve's gradual increase in short-term interest rates during 2018 (commencing in late March 2018) and strong competition for deposits which increased the level of interest rates on many of our interest bearing deposit products and other wholesale funding. The 20 basis point increase in loan yield was mainly due to higher market interest rates on new loan volumes. See the "Executive Summary" and the "Net Interest Income" sections above for more details on our net interest margin and funding sources.

Commercial Lending

The commercial lending segment is comprised of floating rate and adjustable rate commercial and industrial loans and construction 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 totaled approximately $4.7 billion and represented 17.7 percent of the total loan portfolio at September 30, 2019. Commercial real estate loans and construction loans totaled $14.9 billion and represented 56.1 percent of the total loan portfolio at September 30, 2019.

Average interest earning assets in this segment increased approximately $1.9 billion to $19.3 billion for the three months ended September 30, 2019 as compared to the third quarter of 2018. The increase was mostly due to strong organic loan growth within the commercial and industrial and commercial real estate loan portfolios over the last 12-month period.

For the three months ended September 30, 2019, income before income taxes for the commercial lending segment increased $10.9 million to $91.6 million as compared to the same quarter of 2018 mainly due to increases in non-interest income and net interest income. Non-interest income increased $10.1 million to $15.1 million during the three months ended September 30, 2019 as compared to the third quarter of 2018 mainly due to a $9.8 million increase in fee income related to derivative interest rate swaps executed with commercial loan customers. Net interest income increased $4.6 million to $164.0 million for the third quarter of 2019 as compared to the same period in 2018 largely due to higher average loan balances. The positive impact of the aforementioned items was partially offset by a $2.3 million increase in internal transfer expense for the third quarter of 2019 as compared to the third quarter of 2018 largely due to higher salaries and employee benefits expenses for this business segment caused, in part, by expansion of our commercial lending teams.

The net interest margin for this segment decreased 25 basis points to 3.41 percent for the third quarter of 2019 as compared to the second quarter of 2018 largely due to a 28 basis point increase in the cost of our funding sources, partially offset by a 3 basis point increase in the yield on average loans.

Investment Management

The investment management segment generates a large portion of our income through investments in various types of securities and interest-bearing deposits with other banks. These investments are mainly comprised of fixed rate 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 least sensitive assets to changes in market interest rates. However, a portion of the investment portfolio is invested in shorter-duration securities to maintain the overall asset sensitivity of our balance sheet. See the "Asset/Liability Management" section below for further analysis.

Average interest earning assets in this segment increased $45.3 million during the third quarter of 2019 as compared to the third quarter of 2018 largely due to a $101.2 million increase in average overnight funds and interest bearing deposits, partially offset by lower average investment security balances. The increase in average interest bearing deposits related to excess liquidity fluctuations caused by the timing of loan and investment activity.

For the quarter ended September 30, 2019, income before income taxes for the investment management segment decreased $3.0 million to $6.8 million as compared to the third quarter of 2018. The decline was largely due to a $3.6 million decrease in net interest income caused by higher interest expense for the three months ended September 30, 2019, partially offset by a $599 thousand decrease in internal transfer expense.

The net interest margin for this segment decreased 36 basis points to 1.57 percent for the third quarter of 2019 as compared to the same quarter of 2018 largely due to a 28 basis point increase in costs associated with our funding sources and an 8 basis point decrease in the yield on average investments. The decrease in the yield on average investments was mainly due to maturities of higher yielding securities over the last 12 months.

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 securities gains and losses, including net impairment losses, not reported in the investment management segment above, interest expense related to subordinated notes, amortization of tax credit investments, as well as non-core items, including merger expenses, litigation reserves and the gain on the sale leaseback transaction.

The corporate segment recognized $9.5 million and $15.6 million of pre-tax loss for the three months ended September 30, 2019 and 2018, respectively, mainly due to decreases in non-interest expense and internal transfer expense, as well as an increases in both internal transfer income and non-interest income. Non-interest expense decreased $2.4 million to $100.6 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 largely due to declines in several expense categories, including salaries and employee benefits, legal and professional fees, and other non-interest expense. Internal transfer income increased $2.3 million for the three months ended September 30, 2019 from the third quarter of 2018. Non-interest income increased $1.1 million to $8.3 million for the three months ended September 30, 2019 as compared to the third quarter in 2018. See further details in the "Non-Interest Income" and "Non-Interest Expense" sections of this MD&A.

The following tables present the financial data for each business segment for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30, 2019				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
			($ in thousands)		
Average interest earning assets	$ 6,812,001	$ 18,839,194	$ 4,330,504	$ —	$ 29,981,699
Income (loss) before income taxes	56,013	264,793	22,440	38,478	381,724
Annualized return on average interest earning assets (before tax)	1.10%	1.87%	0.69%	N/A	1.70%

	Nine Months Ended September 30, 2018				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
			($ in thousands)		
Average interest earning assets	$ 6,058,416	$ 16,880,690	$ 4,391,859	$ —	$ 27,330,965
Income (loss) before income taxes	43,444	226,373	30,562	(65,862)	234,517
Annualized return on average interest earning assets (before tax)	0.96%	1.79%	0.93%	N/A	1.14%

Consumer Lending

Average interest earning assets in this segment increased $753.6 million to $6.8 billion for the nine months ended September 30, 2019 as compared to the same period in 2018. The increase was largely due to loan growth from new and refinanced residential mortgage loan originations held for investment, automobile loans and collateralized personal lines of credit over the last 12 months.

Income before income taxes generated by the consumer lending segment increased $12.6 million to $56.0 million for the nine months ended September 30, 2019 as compared to the same period in 2018 largely due to an increase of $9.8 million in net interest income. The increased net interest income was mostly due to higher average loans and yields on new loan volumes. Non-interest expense also decreased $12.6 million for the nine months ended September 30, 2019 as compared to the same period in 2018 mainly due to lower salaries and employee benefits

expenses, which was offset by a $7.9 million decrease in non-interest income for the nine months ended September 30, 2019. The decrease in non-interest income was largely due to lower gains on sales of loans and a decline in wealth management revenues.

The net interest margin on the consumer lending portfolio decreased 11 basis point to 2.63 percent for the nine months ended September 30, 2019 as compared to the same period one year ago mainly due to a 39 basis point increase in the costs associated with our funding sources, partially offset by a 28 basis point increase in the yield on average loans. The increase in our cost of funds was primarily due to greater use of wholesale and brokered deposit funding and higher rates on most deposit products. Although the operating and interest rate environment remains volatile, we did see average deposit costs peak in May 2019 and decline in the second and third quarters of 2019.
This trend has continued during the early stages of the fourth quarter of 2019. See the "Executive Summary" and the "Net Interest Income" sections above for more details on our deposits and other borrowings.

Commercial Lending

Average interest earning assets in this segment increased $2.0 billion to $18.8 billion for the nine months ended September 30, 2019 as compared to the same period in 2018. This increase was mostly due to organic loan growth during the last 12 months.

For the nine months ended September 30, 2019, income before income taxes for the commercial lending segment increased $38.4 million to $264.8 million as compared to the same period in 2018. Net interest income increased $26.9 million to $487.6 million for the nine months ended September 30, 2019 as compared to the same period in 2018 largely due to higher average balances and an increase in yield on new loan originations, partially offset by higher interest expense. Non-interest income also increased $13.3 million for the nine months ended September 30, 2019 as compared to the same period in 2018 largely due to an $11.6 million increase in fee income related to derivative interest rate swaps executed with commercial loan customers which totaled $23.4 million and $11.8 million for the nine months ended September 30, 2019 and 2018, respectively. The provision for credit losses decreased $6.4 million to $13.8 million during the nine months ended September 30, 2019 as compared to $20.2 million for the same period in 2018. See further details in the "Allowance for Credit Losses" section in this MD&A.

The net interest margin for this segment decreased 18 basis point to 3.45 percent for the nine months ended September 30, 2019 as compared to the same period in 2018 as a 39 basis point increase in the cost of our funding sources was partially offset by a 21 basis point increase in yield on average loans.

Investment Management

Average interest earning assets in this segment decreased $61.4 million during the nine months ended September 30, 2019 as compared to the same period in 2018. The decrease was largely due to a decline of $80.7 million in average non-taxable investments, partially offset by a $14.2 million increase in federal funds sold and other interest bearing deposits, respectively, for the nine months ended September 30, 2019 as compared to the same period in 2018.

For the nine months ended September 30, 2019, income before income taxes for the investment management segment decreased $8.1 million to $22.4 million as compared to the same period in 2018 mainly due to a $13.1 million decrease in net interest income, partially offset by a $4.2 million decrease in the internal transfer expense. The decrease in net interest income was mainly driven by the lower average investment balances and normal repayment of higher yielding securities during the nine months ended September 30, 2019 as compared to the same period of 2018.

The net interest margin for this segment decreased 37 basis points to 1.63 percent for the nine months ended September 30, 2019 as compared to the same period in 2018 largely due to a 39 basis point increase in costs associated with our funding sources, partially offset by a 2 basis point increase in the yield on average investments.

Corporate and other adjustments

The pre-tax net income for the corporate segment totaled $38.5 million for the nine months ended September 30, 2019 as compared to a net loss of $65.9 million for the same period in 2018. The positive change of $104.3 million was mainly due to an increase in non-interest income coupled with a decrease in non-interest expense. The non-interest income increased $71.2 million to $97.6 million for the nine months ended September 30, 2019 as compared to the same period in 2018 primarily due to a $78.5 million gain on the sale (and leaseback) of 26 locations recognized during the first quarter of 2019. The non-interest expense decreased $32.6 million to $301.2 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. This decrease was largely due to salaries and employee benefits expenses related to the pre-operations conversion of the USAB acquisition, USAB merger expenses, and professional and legal fees for litigation reserves recognized during the nine months ended September 30, 2018 (See further details in the "Non-Interest Expense" section above).

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 attempt 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 new residential mortgage originations retained in our mortgage portfolio through increasing or decreasing loan sales in the secondary market, product pricing levels, the desired maturity levels for new originations, the composition levels of both our interest earning assets and interest bearing liabilities, 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 12-month and 24-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 September 30, 2019. The model assumes immediate changes in interest rates without any proactive change in the composition or size of the balance sheet, or other future actions that management might undertake to mitigate this risk. In the model, the forecasted shape of the yield curve remains static as of September 30, 2019. The impact of interest rate derivatives, such as interest rate swaps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of September 30, 2019. Although the size of Valley's balance sheet is forecasted to remain static as of September 30, 2019 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 the third quarter of 2019. The model also utilizes an immediate parallel shift in market interest rates at September 30, 2019.

The assumptions used in the net interest income simulation are inherently uncertain. Actual results may differ significantly from those presented in the table below 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 below. Management cannot provide any assurance about the actual effect of changes in interest rates on our net interest income.

The following table reflects management's expectations of the change in our net interest income over the next 12- month period in light of the aforementioned assumptions. While an instantaneous and severe shift in interest rates was used in this simulation model, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact than shown in the table below.

	Estimated Change in Future Net Interest Income	
Changes in Interest Rates	**Dollar Change**	**Percentage Change**
(in basis points)	**($ in thousands)**	
+200	$ 35,861	3.98%
+100	21,780	2.42
–100	(39,211)	(4.35)
–200	(65,120)	(7.23)

As noted in the table above, a 100 basis point immediate decrease in interest rates combined with a static balance sheet where the size, mix, and proportions of assets and liabilities remain unchanged is projected to decrease net interest income over the next 12 months by 4.35 percent. Valley's sensitivity to changes in market rates increased as compared to December 31, 2018 (which projected a decrease of 0.49 percent in net interest income over a 12 month period) partly due to changes in model assumptions related to non-maturity deposit account studies completed in the third quarter of 2019. Management believes the interest rate sensitivity remains within an acceptable tolerance range at September 30, 2019. However, the level of net interest income sensitivity may increase or decrease in the future as a result of changes in deposit and borrowings strategies, the slope of the yield curve and projected cash flows.

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 carefully performed and reported by our Treasury Department to two Board committees. Among other actions, Treasury reviews 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 liquidity to cover current and potential funding requirements.

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 125 percent or reliance

on wholesale funding greater than 27.5 percent of total funding. The Bank was in compliance with the foregoing policies at September 30, 2019.

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, loans held for sale, and, from time to time, federal funds sold and receivables related to unsettled securities transactions. These liquid assets totaled approximately $2.3 billion, representing 7.4 percent of earning assets, at September 30, 2019 and $2.3 billion, representing 8.0 percent of earning assets, at December 31, 2018. Of the $2.3 billion of liquid assets at September 30, 2019, approximately $1.1 billion of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately $986 million in principal payments from securities in the total investment portfolio over the next 12 months 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 September 30, 2019) are projected to be approximately $6.6 billion over the next 12 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, including retail and commercial deposits, brokered and municipal deposits, and short-term and long-term borrowings. Our core deposit base, which generally excludes fully insured brokered deposits and both retail and brokered certificates of deposit over $250 thousand, represents the largest of these sources. Average core deposits totaled approximately $19.8 billion and $18.1 billion for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively, representing 66.1 percent and 65.3 percent of average earning assets for the respective periods. 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.

Additional funding may be provided through deposit gathering networks and in the form of federal funds purchased through our well established relationships with numerous correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $827 million for a short term from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York (FHLB) 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 can obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At September 30, 2019, our borrowing capacity under the Federal Reserve's discount window was $1.7 billion.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as repos (i.e., securities sold under agreements to repurchase). Short-term borrowings (consisting of FHLB advances, repos, and from time to time, federal funds purchased) decreased approximately $293.5 million to $1.8 billion at September 30, 2019 as compared to December 31, 2018. The decrease was caused by declines of $337 million and $116.5 million in repos and FHLB borrowings, respectively, partially offset by a $160 million increase in federal funds purchased at September 30, 2019.

Corporation Liquidity

Valley’s recurring cash requirements primarily consist of dividends to preferred and common shareholders and interest expense on subordinated notes and junior subordinated debentures issued to capital trusts. As part of our on-

going asset/liability management strategies, Valley could also use cash to repurchase shares of its outstanding common stock under its share repurchase program or redeem its callable junior subordinated debentures. 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 preferred and common dividends, if declared, and interest expense payable to subordinated note holders and capital trusts, given the current capital levels and current profitable operations of the Bank. In addition to dividends received from the Bank, Valley can satisfy its cash requirements by utilizing its own cash and potential new funds borrowed from outside sources or capital issuances. Valley also has the right to defer interest payments on the junior subordinated debentures, and therefore distributions on its trust preferred securities for consecutive quarterly periods up to five years, but not beyond the stated maturity dates, and subject to other conditions.

Investment Securities Portfolio

As of September 30, 2019, we had $2.1 billion and $1.6 billion in held to maturity and available for sale investment securities, respectively. Our total investment portfolio was comprised of U.S. Treasury securities, U.S. government agency securities, tax-exempt and taxable issuances of states and political subdivisions (including special revenue bonds), residential mortgage-backed securities, single-issuer trust preferred securities principally issued by bank holding companies, and high quality corporate bonds issued by banks at September 30, 2019. 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, Fannie Mae and Freddie Mac.

Among other securities, our investments in the trust preferred securities, bank issued corporate bonds and special revenue bonds may pose a higher risk of future impairment charges to us as a result of the uncertain economic environment and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security.

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. See our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information regarding our 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.

The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at September 30, 2019:

	September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity investment grades: *				
AAA Rated	$ 1,723,548	$ 31,488	$ (3,776)	$ 1,751,260
AA Rated	224,559	5,816	(17)	230,358
A Rated	23,205	478	—	23,683
BBB Rated	10,739	305	(35)	11,009
Not rated	111,706	317	(7,130)	104,893
Total investment securities held to maturity	$ 2,093,757	$ 38,404	$ (10,958)	$ 2,121,203
Available for sale investment grades: *				
AAA Rated	$ 1,459,398	$ 15,546	$ (3,728)	$ 1,471,216
AA Rated	75,242	618	(42)	75,818
A Rated	21,071	219	(21)	21,269
BBB Rated	17,986	382	—	18,368
Non-investment grade	7,502	—	(95)	7,407
Not rated	33,874	145	(35)	33,984
Total investment securities available for sale	$ 1,615,073	$ 16,910	$ (3,921)	$ 1,628,062

* Rated using external rating agencies (primarily S&P and Moody's). Ratings categories include the 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 unrealized losses in the AAA rated category (in the above table) in both held to maturity and available for sale investment securities are mainly related to residential mortgage-backed securities mainly issued by Ginnie Mae, Fannie Mae, and Freddie Mac. The held to maturity portfolio includes $111.7 million in investments not rated by the rating agencies with aggregate unrealized losses of $7.1 million at September 30, 2019. The unrealized losses for this category included $6.5 million of unrealized losses related to four single-issuer bank trust preferred issuances with a combined amortized cost of $36.0 million. All single-issuer trust preferred securities classified as held to maturity, including the aforementioned four securities, 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 September 30, 2019, 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.

During the nine months ended September 30, 2019, Valley recognized a $2.9 million other-than-temporary credit impairment charge related to one special revenue bond classified as available for sale (within obligations of states and state agencies reported in Note 6 of the consolidated financial statements). The credit impairment was due to severe credit deterioration disclosed by the issuer in the second quarter of 2019, as well as the issuer's default to its contractual payment during the same period. At September 30, 2019, the impaired security had an adjusted amortized cost and fair value of $680 thousand (after the credit impairment) and is reported in the "non-investment grade" category in the table above. Comparatively, there were no other-than-temporary impairment losses on securities recognized in earnings for the nine months ended September 30, 2018. See additional information regarding our other-than-temporary impairment analysis and special revenue bond portfolio at Note 6 to the consolidated financial statements.

The impaired municipal bond discussed above was not accruing interest as of September 30, 2019. 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.

Loan Portfolio

The following table reflects the composition of the loan portfolio as of the dates presented:

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
	($ in thousands)				
Loans					
Commercial and industrial	$ 4,695,608	$ 4,615,765	$ 4,504,927	$ 4,331,032	$ 4,015,280
Commercial real estate:					
Commercial real estate	13,365,454	12,798,017	12,665,425	12,407,275	12,251,231
Construction	1,537,590	1,528,968	1,454,199	1,488,132	1,416,259
Total commercial real estate	14,903,044	14,326,985	14,119,624	13,895,407	13,667,490
Residential mortgage	4,133,331	4,072,450	4,071,237	4,111,400	3,782,972
Consumer:					
Home equity	489,808	501,646	513,066	517,089	521,797
Automobile	1,436,608	1,362,466	1,347,759	1,319,571	1,288,902
Other consumer	908,760	922,850	866,505	860,970	834,849
Total consumer loans	2,835,176	2,786,962	2,727,330	2,697,630	2,645,548
Total loans*	$ 26,567,159	$ 25,802,162	$ 25,423,118	$ 25,035,469	$ 24,111,290
As a percent of total loans:					
Commercial and industrial	17.7%	17.9%	17.7%	17.3%	16.7%
Commercial real estate	56.1	55.5	55.6	55.5	56.6
Residential mortgage	15.5	15.8	16.0	16.4	15.7
Consumer loans	10.7	10.8	10.7	10.8	11.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes net unearned premiums and deferred loan costs of $18.3 million, $19.6 million, $20.5 million, $21.5 million and $16.7 million at September 30, 2019, June 30, 2019, March 31, 2019, December 31, 2018, and September 30, 2018, respectively.

Loans increased $765.0 million, or 11.9 percent on an annualized basis, to approximately $26.6 billion at September 30, 2019 from June 30, 2019. The increase was mainly due to continued strong quarter over quarter organic growth in commercial real estate and commercial and industrial loans, as well as stronger automobile loan volumes during the third quarter of 2019. During the third quarter of 2019, we originated $139 million of residential mortgage loans for sale rather than held for investment and we also sold approximately $87 million of pre-existing loans from our residential mortgage loan portfolio. Residential mortgage loans held for sale totaled $41.6 million and $35.2 million at September 30, 2019 and December 31, 2018, respectively.

Total commercial and industrial loans increased $79.8 million, or 6.9 percent on an annualized basis, from June 30, 2019 to approximately $4.7 billion at September 30, 2019. Exclusive of a decline in PCI loans, commercial and industrial loans increased $119.2 million, or 12.2 percent on an annualized basis during the third quarter of 2019. The increase was mostly driven by new small to middle market lending relationships within our markets aided by our ability to hire strong lending talent, focused calling efforts and, to a lesser extent, by increased business investment from existing relationships.

Commercial real estate loans (excluding construction loans) increased $567.4 million, or 17.7 percent on an annualized basis to $13.4 billion at September 30, 2019 from June 30, 2019. Exclusive of an $83.8 million decline in PCI loans, commercial real estate loans increased $651.2 million, or 24.9 percent on an annualized basis during the third quarter of 2019. The increase was mainly due to continued strong loan volumes in our primary markets in Florida, New Jersey and New York and some migration of completed construction projects to permanent financing.

Construction loans increased $8.6 million to $1.5 billion at September 30, 2019 from June 30, 2019. During the third quarter of 2019, loan advances on new and existing construction projects were largely offset by loan repayments and the mitigation of completed projects to permanent commercial real estate loan financing.

Total residential mortgage loans increased $60.9 million to approximately $4.1 billion at September 30, 2019 from June 30, 2019. The loan growth was partially offset by the sale of pre-existing loans totaling $87 million and a $15.2 million decline in PCI loans during the third quarter of 2019. New and refinanced residential mortgage loan originations totaled approximately $477 million for the third quarter of 2019 as compared to $347 million and $497 million for the second quarter of 2019 and third quarter of 2018, respectively.

Home equity loans totaled $489.8 million at September 30, 2019 and decreased by $11.8 million as compared to June 30, 2019. The decrease was largely due to a $7.9 million decline in PCI loans caused by normal repayments.

Automobile loans increased by $74.1 million to $1.4 billion at September 30, 2019 as compared to June 30, 2019. The third quarter annualized growth was 21.8 percent due to higher application volumes as compared to the second quarter of 2019. Our Florida dealership network contributed $47.9 million in auto loan originations, representing approximately 23 percent of Valley's total new auto loan production during the third quarter of 2019 and was relatively consistent with the linked second quarter of 2019.

Other consumer loans decreased $14.1 million to $908.8 million at September 30, 2019 as compared to $922.9 million at June 30, 2019 mostly due to lower volumes of new collateralized personal lines of credit as compared to the second quarter of 2019.

Most of our lending is in northern and central New Jersey, New York City, Long Island and Florida, except for smaller auto and residential mortgage loan portfolios derived from other neighboring states of New Jersey, which could present a geographic and credit risk if there was another significant broad based economic downturn within these regions. To mitigate our geographic 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.

Purchased Credit-Impaired Loans

PCI loans decreased $652.9 million to $3.5 billion at September 30, 2019 from $4.2 billion at December 31, 2018, mainly due to both scheduled repayment and prepayment of contractual principal balances. Our PCI loans include loans acquired in business combinations subsequent to 2011 and, to a much lesser extent, covered loans in which we will share losses with the FDIC under loss-sharing agreements. Covered loans, consisting of residential mortgage and other consumer loans, totaled $23.8 million and $27.6 million at September 30, 2019 and December 31, 2018, respectively.

As required by U.S. GAAP, all of our PCI loans are accounted for under ASC Subtopic 310-30. This accounting guidance requires 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, 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 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 acquisition, we use a third party service provider to assist with our assessment of the contractual and estimated cash flows. During subsequent annual evaluation periods, Valley uses a third party software application to assess the contractual and estimated cash flows. Using updated loan-level information derived from Valley's main operating system, contractually required loan payments and expected cash flows for each pool level, the software reforecasts 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 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.

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 flow, Valley will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which Valley does not reforecast estimated cash flows, the prior reporting period's estimated cash flows are adjusted to reflect the actual cash received and credit events which transpired during the current reporting period.

The following tables summarize the changes in the carrying amounts of PCI loans and the accretable yield on these loans for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,			
	2019		**2018**	
	Carrying Amount	**Accretable Yield**	**Carrying Amount**	**Accretable Yield**
	(in thousands)			
PCI loans:				
Balance, beginning of the period	$ 3,771,957	$ 853,887	$ 4,647,701	$ 630,550
Acquisition	—	—	(9,520)	—
Accretion	47,475	(47,475)	54,367	(54,367)
Payments received	(282,103)	—	(262,513)	—
Net (decrease) increase in expected cash flows	—	(58,268)	—	23,983
Transfers to other real estate owned	(161)	—	—	—
Balance, end of the period	$ 3,537,168	$ 748,144	$ 4,430,035	$ 600,166

	Nine Months Ended September 30,			
	2019		2018	
	Carrying Amount	Accretable Yield	Carrying Amount	Accretable Yield
	(in thousands)			
PCI loans:				
Balance, beginning of the period	$ 4,190,086	$ 875,958	$ 1,387,215	$ 282,009
Acquisition	—	—	3,735,162	474,208
Accretion	155,981	(155,981)	180,034	(180,034)
Payments received	(806,937)	—	(872,183)	—
Net increase in expected cash flows	—	28,167	—	23,983
Transfers to other real estate owned	(1,962)	—	(193)	—
Balance, end of the period	$ 3,537,168	$ 748,144	$ 4,430,035	$ 600,166

The net increase in expected cash flows for certain pools of loans (included in the tables above) during the nine months ended September 30, 2019 is recognized prospectively as an adjustment to the yield over the estimated remaining life of the individual pools. Based upon our 2019 reforecasted cash flows, the net increase for the nine months ended September 30, 2019 was largely driven by additional advances on acquired lines of credit coupled with lower prospective loss expectations, partially offset by higher loan prepayments. The net decrease in expected cash flows for the three months ended September 30, 2019 was largely due to the high volume of contractual principal prepayments caused by the low level of market interest rates.

Non-performing Assets

Non-performing assets (excluding PCI loans) include non-accrual loans, other real estate owned (OREO), other repossessed assets (which consist of automobiles and taxicab medallions) and non-accrual debt securities at September 30, 2019. 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 cost or fair value, less estimated costs to sell, thereafter. Our non-performing assets totaling $110.7 million at September 30, 2019 increased 3.7 percent from June 30, 2019 and increased 24.9 percent from September 30, 2018, respectively (as shown in the table below). The $4.0 million increase in non-performing assets at September 30, 2019 as compared to June 30, 2019 was mainly due to an increase of $4.5 million in non-accrual loans and higher repossessed assets during the third quarter of 2019, partially offset by a decline in OREO balances. Non-performing assets as a percentage of total loans and non-performing assets totaled 0.41 percent at both September 30, 2019 and June 30, 2019. Past due loans and non-accrual loans in the table 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. For details regarding performing and non-performing PCI loans, see the "Credit quality indicators" section in Note 7 to the consolidated financial statements.

The following table sets forth by loan category accruing past due and non-performing assets on the dates indicated in conjunction with our asset quality ratios:

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
			($ in thousands)		
Accruing past due loans: *					
30 to 59 days past due:					
Commercial and industrial	$ 5,702	$ 14,119	$ 5,120	$ 13,085	$ 9,462
Commercial real estate	20,851	6,202	39,362	9,521	3,387
Construction	11,523	—	1,911	2,829	15,576
Residential mortgage	12,945	19,131	15,856	16,576	10,058
Total Consumer	13,079	11,932	6,647	9,740	7,443
Total 30 to 59 days past due	64,100	51,384	68,896	51,751	45,926
60 to 89 days past due:					
Commercial and industrial	3,158	4,135	1,756	3,768	1,431
Commercial real estate	735	354	2,156	530	2,502
Construction	7,129	1,342	—	—	36
Residential mortgage	4,417	3,635	3,635	2,458	3,270
Total Consumer	1,577	1,484	990	1,386	1,249
Total 60 to 89 days past due	17,016	10,950	8,537	8,142	8,488
90 or more days past due:					
Commercial and industrial	4,133	3,298	2,670	6,156	1,618
Commercial real estate	1,125	—	—	27	27
Residential mortgage	1,347	1,054	1,402	1,288	1,877
Total Consumer	756	359	523	341	282
Total 90 or more days past due	7,361	4,711	4,595	7,812	3,804
Total accruing past due loans	$ 88,477	$ 67,045	$ 82,028	$ 67,705	$ 58,218
Non-accrual loans: *					
Commercial and industrial	$ 75,311	$ 76,216	$ 76,270	$ 70,096	$ 52,929
Commercial real estate	9,560	6,231	2,663	2,372	7,103
Construction	356	—	378	356	—
Residential mortgage	13,772	12,069	11,921	12,917	16,083
Total Consumer	2,050	1,999	2,178	2,655	2,248
Total non-accrual loans	101,049	96,515	93,410	88,396	78,363
Other real estate owned (OREO)	6,415	7,161	7,317	9,491	9,863
Other repossessed assets	2,568	2,358	2,628	744	445
Non-accrual debt securities **	680	680	—	—	—
Total non-performing assets (NPAs)	$ 110,712	$ 106,714	$ 103,355	$ 98,631	$ 88,671
Performing troubled debt restructured loans	$ 79,364	$ 74,385	$ 73,081	$ 77,216	$ 81,141
Total non-accrual loans as a % of loans	0.38%	0.37%	0.37%	0.35%	0.33%
Total NPAs as a % of loans and NPAs	0.41	0.41	0.40	0.39	0.37
Total accruing past due and non-accrual loans as a % of loans	0.71	0.63	0.69	0.62	0.57
Allowance for loan losses as a % of non-accrual loans	160.17	160.71	165.27	171.79	184.99

* Past due loans and non-accrual loans exclude PCI loans that are accounted for on a pool basis.

** Includes other-than-temporarily impaired special revenue bond classified as available for sale presented at carrying value at September 30, 2019 and June 30, 2019.

Loans past due 30 to 59 days increased $12.7 million to $64.1 million at September 30, 2019 as compared to June 30, 2019. The increase was largely due to matured performing construction and commercial real estate loans that were in the normal process of renewal totaling $11.5 million and $10.6 million at September 30, 2019, respectively. These

increases were partially offset by an $8.4 million decrease in commercial and industrial loans at September 30, 2019 mainly due to the renewal of a $10.0 million loan that was reported in this delinquency category at June 30, 2019.

Loans past due 60 to 89 days increased $6.1 million to $17.0 million at September 30, 2019 as compared to June 30, 2019 largely due to a $5.8 million increase in construction loan delinquencies. Construction loans past due 60 to 89 days totaled $7.1 million at September 30, 2019 and consisted of two matured performing loans in the normal process of renewal.

Loans past due 90 days or more and still accruing interest increased $2.7 million to $7.4 million at September 30, 2019 as compared to $4.7 million at June 30, 2019. All of the loans past due 90 days or more and still accruing are considered to be well secured and in the process of collection.

Non-accrual loans increased $4.5 million to $101.0 million at September 30, 2019 as compared to $96.5 million at June 30, 2019. The increase was due, in part, to a $3.9 million commercial real estate loan at September 30, 2019 previously reported in loans past due 30 to 59 days at June 30, 2019. The $3.9 million non-accrual loan had no related reserves within the allowance for loan losses based upon the adequacy of the collateral valuation at September 30, 2019.

During the third quarter of 2019, we continued to closely monitor our New York City and Chicago taxi medallion loans totaling $111.8 million and $7.6 million, respectively, within the commercial and industrial loan portfolio at September 30, 2019. While most of the taxi medallion loans are currently performing, negative trends in market valuations of the underlying taxi medallion collateral could impact the future performance and internal classification of this portfolio. At September 30, 2019, the taxi medallion portfolio included impaired loans totaling $91.1 million with related reserves of $34.2 million within the allowance for loan losses as compared to impaired loans totaling $78.3 million with related reserves of $29.5 million at June 30, 2019. The increase in both impaired taxi medallion loans and related reserves as compared to June 30, 2019 was largely due to the previously disclosed $13.7 million of performing non-impaired taxi medallion loans which matured in June 2019 that were subsequently restructured and classified as performing troubled debt restructured (TDR) loans in the third quarter of 2019. At September 30, 2019, the impaired taxi medallion loans largely consisted of $67.1 million of non-accrual loans and $24.0 million of performing troubled debt restructured (TDR) loans classified as substandard loans.

Valley's historical taxi medallion lending criteria had been conservative regarding capping the loan amounts in relation to market valuations, as well as obtaining personal guarantees and other collateral in certain instances. However, the severe decline in the market valuation of taxi medallions has adversely affected the estimated fair valuation of these loans and, as a result, increased the level of our allowance for loan losses at September 30, 2019 (See the "Allowance for Credit Losses" section below). Potential further declines in the market valuation of taxi medallions could also negatively impact the future performance of this portfolio. For example, a 25 percent decline in our current estimated market value of the taxi medallions would require additional allocated reserves of $12.3 million within the allowance for loan losses based upon the impaired taxi medallion loan balances at September 30, 2019.

OREO properties decreased $746 thousand to $6.4 million at September 30, 2019 from $7.2 million at June 30, 2019. Sales of OREO properties resulted in net losses of $417 thousand and net gains of $1.7 million for the three and nine months ended September 30, 2019, respectively. The net losses on the sales of OREO properties were immaterial for both the three and nine months ended September 30, 2018. The residential mortgage and consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $1.7 million at September 30, 2019.

TDRs represent loan modifications for customers experiencing financial difficulties where a concession has been granted. Performing TDRs (i.e., TDRs not reported as loans 90 days or more past due and still accruing or as non-accrual loans) increased $5.0 million to $79.4 million at September 30, 2019 as compared to $74.4 million at June 30, 2019. Performing TDRs consisted of 123 loans (primarily in the commercial and industrial loan and commercial real estate portfolios) at September 30, 2019. On an aggregate basis, the $79.4 million in performing TDRs at September 30, 2019 had a modified weighted average interest rate of approximately 5.39 percent as compared to a pre-modification weighted average interest rate of 5.64 percent.

Allowance for Credit Losses

The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commercial letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable losses inherent in the loan portfolio and unfunded letter of credit commitments at the balance sheet dates, based on ongoing evaluations of the loan portfolio. Our methodology for evaluating the appropriateness of the allowance for loan losses includes:

- segmentation of the loan portfolio based on the major loan categories, which consist of commercial and industrial, commercial real estate (including construction), residential mortgage, and other consumer loans (including automobile and home equity loans);
- tracking the historical levels of classified loans and delinquencies;
- assessing the nature and trend of loan charge-offs;
- providing specific reserves on impaired loans; and
- evaluating the PCI loan pools for additional credit impairment subsequent to the acquisition dates.

Additionally, the qualitative factors, such as the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration when evaluating the adequacy of the allowance for credit losses. The allowance for credit loss methodology and accounting policy are fully described in Part II, Item 7 and Note 1 to the consolidated financial statements in Valley's Annual Report on Form 10-K for the year ended December 31, 2018.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses is dependent upon a variety of factors largely beyond our control, including the view of the OCC toward loan classifications, performance of the loan portfolio, and the economy. The OCC 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.

The table below summarizes the relationship among loans, loans charged-off, loan recoveries, the provision for credit losses and the allowance for credit losses for the periods indicated.

	Three Months Ended			Nine Months Ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
			($ in thousands)		
Average loans outstanding	$ 26,136,745	$ 25,552,415	$ 23,659,190	$ 25,651,195	$ 22,939,106
Beginning balance - Allowance for credit losses	158,079	158,961	143,154	156,295	124,452
Loans charged-off:					
Commercial and industrial	(527)	(3,073)	(833)	(7,882)	(1,606)
Commercial real estate	(158)	—	—	(158)	(348)
Construction	—	—	—	—	—
Residential mortgage	(111)	—	—	(126)	(167)
Total Consumer	(2,191)	(1,752)	(1,150)	(5,971)	(3,783)
Total charge-offs	(2,987)	(4,825)	(1,983)	(14,137)	(5,904)
Charged-off loans recovered:					
Commercial and industrial	330	1,195	1,131	2,008	4,057
Commercial real estate	28	22	12	71	396
Construction	—	—	—	—	—
Residential mortgage	3	9	9	13	269
Total Consumer	617	617	600	1,720	1,563
Total recoveries	978	1,843	1,752	3,812	6,285
Net (charge-offs) recoveries	(2,009)	(2,982)	(231)	(10,325)	381
Provision charged for credit losses	8,700	2,100	6,552	18,800	24,642
Ending balance - Allowance for credit losses	$ 164,770	$ 158,079	$ 149,475	$ 164,770	$ 149,475
Components of allowance for credit losses:					
Allowance for loan losses	$ 161,853	$ 155,105	$ 144,963	$ 161,853	$ 144,963
Allowance for unfunded letters of credit	2,917	2,974	4,512	2,917	4,512
Allowance for credit losses	$ 164,770	$ 158,079	$ 149,475	$ 164,770	$ 149,475
Components of provision for credit losses:					
Provision for losses on loans	$ 8,757	$ 3,706	$ 6,432	$ 20,319	$ 23,726
Provision for unfunded letters of credit	(57)	(1,606)	120	(1,519)	916
Provision for credit losses	$ 8,700	$ 2,100	$ 6,552	$ 18,800	$ 24,642
Annualized ratio of net charge-offs (recoveries) to average loans outstanding	0.03%	0.05%	0.00%	0.05%	0.00 %
Allowance for credit losses as a % of non-PCI loans	0.72	0.72	0.76	0.72	0.76
Allowance for credit losses as a % of total loans	0.62	0.61	0.62	0.62	0.62

Net loan charge-offs totaled $2.0 million for the third quarter of 2019 as compared to $3.0 million for the second quarter of 2019, and $231 thousand during the third quarter of 2018. The decrease in net loan charge-offs as compared to the second quarter of 2019 was mainly due to better performance within the commercial and industrial loan category in the third quarter of 2019. There were no taxi medallion loan charge-offs during the third quarters of 2019 and 2018 as compared to $2.3 million for the second quarter of 2019. The overall level of loan charge-offs (as presented in the above table) continues to trend within management's expectations for the credit quality of the loan portfolio.

During the third quarter of 2019, we recorded an $8.7 million provision for credit losses as compared to $2.1 million and $6.6 million for the second quarter of 2019 and the third quarter of 2018, respectively. The increase in the third quarter of 2019 provision as compared to the second quarter of 2019 was largely due to additional allocated reserves of $5.4 million related to the $13.7 million of impaired taxi medallion loans classified as TDR loans upon renewal during the third quarter of 2019.

The following table summarizes the allocation of the allowance for credit losses to specific loan portfolio categories and the allocations as a percentage of each loan category:

	September 30, 2019		June 30, 2019		September 30, 2018	
	Allowance Allocation	**Allocation as a % of Loan Category**	**Allowance Allocation**	**Allocation as a % of Loan Category**	**Allowance Allocation**	**Allocation as a % of Loan Category**
			($ in thousands)			
Loan Category:						
Commercial and Industrial loans*	$ 103,919	2.21%	$ 97,358	2.11%	$ 88,509	2.20%
Commercial real estate loans:						
Commercial real estate	23,044	0.17%	23,796	0.19%	29,093	0.24%
Construction	25,727	1.67%	25,182	1.65%	21,037	1.49%
Total commercial real estate loans	48,771	0.33%	48,978	0.34%	50,130	0.37%
Residential mortgage loans	5,302	0.13%	5,219	0.13%	4,919	0.13%
Consumer loans:						
Home equity	487	0.10%	505	0.10%	576	0.11%
Auto and other consumer	6,291	0.27%	6,019	0.26%	5,341	0.25%
Total consumer loans	6,778	0.24%	6,524	0.23%	5,917	0.22%
Total allowance for credit losses	$ 164,770	0.62%	$ 158,079	0.61%	$ 149,475	0.62%

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* Includes the reserve for unfunded letters of credit.

At September 30, 2019, our allowance allocations for losses as a percentage of total loans remained relatively stable as compared to June 30, 2019 and September 30, 2018 for most loan categories. However, the allocation for commercial and industrial loans increased 0.10 percent to 2.21 percent at September 30, 2019 as compared to June 30, 2019 largely due to additional allocated reserves for impaired taxi medallion loans within this loan category. Our allowance for credit losses as a percentage of total non-PCI loans (excluding PCI loans with carrying values totaling approximately $3.5 billion) was 0.72 percent, 0.72 percent and 0.76 percent at September 30, 2019, June 30, 2019 and September 30, 2018, respectively. PCI loans are accounted for on a pool basis and initially recorded net of fair valuation discounts related to credit which may be used to absorb future losses on such loans before any allowance for loan losses is recognized subsequent to acquisition. Due to the adequacy of such discounts, there were no allowance reserves related to PCI loans at September 30, 2019, June 30, 2019 and September 30, 2018.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders' equity. At September 30, 2019 and December 31, 2018, shareholders' equity totaled approximately $3.6 billion and $3.4 billion, and represented 10.5 percent of total assets. During the nine months ended September 30, 2019, total shareholders' equity increased by $207.6 million primarily due to (i) net income of $271.7 million, (ii) an increase in other comprehensive income of $43.0 million, (iii) a $9.5 million increase attributable to the effect of our stock incentive plan, and (iv) a $3.0 million net cumulative effect adjustment to retained earnings for the adoption of new accounting guidance as of January 1, 2019. These positive changes were partially offset by cash dividends declared on common and preferred stock totaling a combined $119.6 million for the nine months ended September 30, 2019.

Valley and Valley National Bank are subject to the regulatory capital requirements administered by the Federal Reserve Bank and the OCC. Quantitative measures established by regulation to ensure capital adequacy require Valley and Valley National Bank to maintain minimum amounts and ratios of common equity Tier 1 capital, total and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets, as defined in the regulations.

Effective January 1, 2016, the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") new rules required a common equity Tier 1 capital to risk-weighted assets ratio of 4.5 percent, Tier 1 capital to risk-weighted assets ratio of 6.0 percent, ratio of total capital to risk-weighted assets of 8.0 percent, and minimum leverage ratio of 4.0 percent. The rule changes also included the implementation of a 2.5 percent capital conservation buffer added to the minimum requirements for capital adequacy purposes, subject to a three-year phase-in period. On January 1, 2019, the capital conservation buffer was fully phased-in. As of September 30, 2019, and December 31, 2018, Valley and Valley National Bank exceeded all capital adequacy requirements (see tables below).

The following tables present Valley's and Valley National Bank's actual capital positions and ratios under Basel III risk-based capital guidelines at September 30, 2019 and December 31, 2018:

	Actual		Minimum Capital Requirements		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
As of September 30, 2019						
Total Risk-based Capital						
Valley	$ 2,919,188	11.03%	$ 2,778,657	10.500%	N/A	N/A
Valley National Bank	2,895,016	10.95	2,776,070	10.500	$ 2,643,876	10.00%
Common Equity Tier 1 Capital						
Valley	2,245,482	8.49	1,852,438	7.000	N/A	N/A
Valley National Bank	2,630,246	9.95	1,850,713	7.000	1,718,520	6.50
Tier 1 Risk-based Capital						
Valley	2,460,418	9.30	2,249,389	8.500	N/A	N/A
Valley National Bank	2,630,246	9.95	2,247,295	8.500	2,115,101	8.00
Tier 1 Leverage Capital						
Valley	2,460,418	7.61	1,292,785	4.00	N/A	N/A
Valley National Bank	2,630,246	8.14	1,292,084	4.00	1,615,105	5.00
As of December 31, 2018						
Total Risk-based Capital						
Valley	$ 2,786,971	11.34%	$ 2,426,975	9.875%	N/A	N/A
Valley National Bank	2,698,654	10.99	2,424,059	9.875	$ 2,454,743	10.00%
Common Equity Tier 1 Capital						
Valley	2,071,871	8.43	1,566,781	6.375	N/A	N/A
Valley National Bank	2,442,359	9.95	1,564,899	6.375	1,595,583	6.50
Tier 1 Risk-based Capital						
Valley	2,286,676	9.30	1,935,435	7.875	N/A	N/A
Valley National Bank	2,442,359	9.95	1,933,110	7.875	1,963,794	8.00
Tier 1 Leverage Capital						
Valley	2,286,676	7.57	1,208,882	4.00	N/A	N/A
Valley National Bank	2,442,359	8.09	1,207,039	4.00	1,508,798	5.00

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

	September 30, 2019		December 31, 2018	
	($ in thousands, except for share data)			
Common shares outstanding		331,805,564		331,431,217
Shareholders' equity	$	3,558,075	$	3,350,454
Less: Preferred stock		209,691		209,691
Less: Goodwill and other intangible assets		1,152,815		1,161,655
Tangible common shareholders' equity	$	2,195,569	$	1,979,108
Tangible book value per common share	$	6.62	$	5.97
Book value per common share	$	10.09	$	9.48

Management believes the tangible book value per common share ratio provides information useful to management and 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. This non-GAAP financial measure should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP. This non-GAAP financial measure may also be calculated differently from similar measures disclosed by other companies.

Typically, our primary source of capital growth is through retention of earnings. Our rate of earnings retention is derived by dividing undistributed earnings per common share by earnings (or net income available to common stockholders) per common share. Our retention ratio was 58.2 percent for the nine months ended September 30, 2019 as compared to 41.3 percent for the year ended December 31, 2018. Our retention ratio increased from the year ended December 31, 2018 mainly due to the net gain from our sale leaseback transaction in the first quarter of 2019 and a continued strong focus by management on our operational efficiency.

Cash dividends declared amounted to $0.33 per common share for each of the nine months ended September 30, 2019 and 2018. The Board is committed to examining and weighing relevant facts and considerations, including its commitment to shareholder value, each time it makes a cash dividend decision. The Federal Reserve has cautioned all bank holding companies about distributing dividends which may reduce the level of capital or not allow capital to grow considering the increased capital levels as required under the Basel III rules. Prior to the date of this filing, Valley has received no objection or adverse guidance from the FRB or the OCC regarding the current level of its quarterly common stock dividend.

Off-Balance Sheet Arrangements, Contractual Obligations and Other Matters

For a discussion of Valley's off-balance sheet arrangements and contractual obligations see information included in Valley's Annual Report on Form 10-K for the year ended December 31, 2018 in the MD&A section - "Off-Balance Sheet Arrangements" and Notes 12 and 13 to the consolidated financial statements included in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, and commodity prices. Valley's market risk is composed primarily of interest rate risk. See page 68 for a discussion of interest rate sensitivity.

Item 4. Controls and Procedures

(a) Disclosure controls and procedures. Valley maintains disclosure controls and procedures which, consistent with Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, ("Exchange Act") are defined to mean controls and other procedures that are designed to ensure that information required to be disclosed in the reports that Valley files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that such information is accumulated and communicated to Valley's management, including Valley's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Valley's CEO and CFO, with the assistance of other members of Valley's management, have evaluated the effectiveness of Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, Valley's CEO and CFO have concluded that Valley's disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in internal controls over financial reporting. Valley's CEO and CFO have also concluded that there have not been any changes in Valley's internal control over financial reporting in the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, Valley's internal control over financial reporting.

Valley's management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and all fraud. A system of internal control, no matter how well conceived and operated, provides reasonable, not absolute, assurance that the objectives of the system of internal control are met. The design of a system of internal control reflects resource constraints and the benefits of controls must be considered relative to their costs. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Valley have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns occur because of a simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of internal control is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions; over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, we may be a party to various outstanding legal proceedings and claims. There have been no material changes in the legal proceedings previously disclosed under Part I, Item 3 and Note 15 to the consolidated financial statements within Valley's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under Part I, Item 1A of Valley's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter, we did not sell any equity securities not registered under the Securities Act of 1933, as amended. Purchases of equity securities by the issuer and affiliated purchasers during the three months ended September 30, 2019 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (2)
July 1, 2019 to July 31, 2019	3,808	$ 10.80	—	4,112,465
August 1, 2019 to August 31, 2019	859	11.07	—	4,112,465
September 1, 2019 to September 30, 2019	1,502	11.07	—	4,112,465
Total	6,169	$ 10.89	—	

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

(2) 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 September 30, 2019.

Item 6. Exhibits

(3) Articles of Incorporation and By-laws:

- (3.1) Restated Certificate of Incorporation of the Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 10-Q Quarterly Report filed on November 7, 2017.
- (3.2) By-laws of the Registrant, as amended and restated, incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 8-K Current Report filed on October 23, 2018.

(10) Material Contracts

- (10.1) Form of Change in Control Agreement for Senior Executive Vice President (covering Michael Hagedorn).*

(31.1) Certification pursuant to Securities Exchange Rule 13a-14(a)/15d-14(a) signed by Ira Robbins, Chairman of the Board, President and Chief Executive Officer of the Company.*

(31.2) Certification pursuant to Securities Exchange Rule 13a-14(a)/15d-14(a) signed by Michael D. Hagedorn, Senior Executive Vice President and Chief Financial Officer of the Company.*

(32) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Ira Robbins, Chairman of the Board, President and Chief Executive Officer of the Company, and Michael D. Hagedorn, Senior Executive Vice President and Chief Financial Officer of the Company.*

(101) Interactive Data File (XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) *

(104) Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VALLEY NATIONAL BANCORP
(Registrant)

Date: November 7, 2019	/s/ Ira Robbins Ira Robbins Chairman of the Board, President and Chief Executive Officer
Date: November 7, 2019	/s/ Michael D. Hagedorn Michael D. Hagedorn Senior Executive Vice President and Chief Financial Officer

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Section 2: EX-10.1 (EXHIBIT 10.1)

EXHIBIT 10.1

CHANGE-IN-CONTROL AGREEMENT FOR SENIOR EXECUTIVE VICE PRESIDENT [ ]

THIS CHANGE-IN-CONTROL AGREEMENT (this "*Agreement*"), is made as of _______________, among VALLEY NATIONAL BANK ("*Bank*"), a national banking association with its executive office at 1455 Valley Road, Wayne, New Jersey, VALLEY NATIONAL BANCORP ("*Valley*"), a New Jersey corporation which maintains its principal office at 1455 Valley Road, Wayne, New Jersey (Valley and the Bank collectively are the "*Company*") and (the "*Executive*").

BACKGROUND

WHEREAS, the Executive has been continuously employed by the Bank and Valley for a period of years and is a Senior Executive Vice President of the Company;

WHEREAS, the Executive has worked diligently in the Executive's positions in the business of the Bank and Valley;

WHEREAS, the Boards of Directors of the Bank and Valley (either one, the Board of Directors" and together, the Boards) believe that the future services of the Executive are of great value to the Bank and Valley and that it is important for the growth and development of the Bank that the Executive continue in the Executive's position;

WHEREAS, if the Company receives any proposal from a third person concerning a possible business combination with, or acquisition of equities securities of, the Company, the Boards believe

it is imperative that the Company and the Boards be able to rely upon the Executive to continue in the Executive's position, and that they be able to receive and rely upon the Executive's advice, if they request it, as to the best interests of the Company and its shareholders, without concern that the Executive might be distracted by the personal uncertainties and risks created by such a proposal;

WHEREAS, to achieve that goal, and to retain the Executive's services prior to any such activity, the Compensation Committee of the Boards has approved entering into this Agreement to govern the Executive's employment terms and termination benefits in the event of and for a period of time after a Change-in-Control of the Company, as hereinafter defined;

WHEREAS, the Executive and the Company had entered into a Change-in-Control Agreement, and have agreed to replace that Agreement with this Agreement;

NOW, THEREFORE, to assure the Company that it will have the continued dedication of the Executive and the availability of the Executive's advice and counsel notwithstanding the possibility, threat or occurrence of an acquisition or bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive, each intending to be legally bound hereby agree as follows:

1. Definitions.

a. Cause. For purposes of this Agreement "*Cause*" with respect to the termination by the Company of Executive's employment shall mean (i) willful and continued failure by the Executive to perform the Executive's duties for the Company under this Agreement after at least one warning in writing from the Board of Directors identifying specifically any such failure;

(ii) the willful engaging by the Executive in misconduct which causes material injury to the Company as specified in a written notice to the Executive from the Board of Directors; or (iii) conviction of a crime (other than a traffic violation), habitual drunkenness, drug abuse, or excessive absenteeism other than for illness, after a warning (required with respect to drunkenness or absenteeism only) in writing from the Board of Directors to refrain from such behavior. No act or failure to act on the part of the Executive shall be considered willful unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the action or omission was in the best interest of the Company.

b. Change-in-Control. "Change-in-Control" means any of the following events: (i) when Valley or a Valley Subsidiary acquires actual knowledge that any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act), other than an affiliate of Valley or a Valley Subsidiary or an employee benefit plan established or maintained by Valley, a Valley Subsidiary or any of their respective affiliates, is or becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act) directly or indirectly, of securities of Valley representing more than twenty-five percent (25%) of the combined voting power of Valley's then outstanding securities (a "Control Person"); (ii) upon the first purchase of Valley's common stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by Valley, a Valley Subsidiary or an employee benefit plan established or maintained by Valley, a Valley Subsidiary or any of their respective affiliates); (iii) the consummation of (A) a transaction, other than a Non-Control Transaction, pursuant to which Valley is merged with or into, or is consolidated with, or becomes the subsidiary of another corporation, (B) a sale or disposition of all or substantially all of Valley's assets or (C) a plan of liquidation or dissolution of Valley; (iv) if during any period of two (2)

consecutive years, individuals (the “Continuing Directors”) who at the beginning of such period constitute the Board of Directors of Valley (the “Valley Board”) cease for any reason to constitute at least 60% thereof or, following a Non-Control Transaction, 60% of the board of directors of the Surviving Corporation; provided that any individual whose election or nomination for election as a member of the Valley Board (or, following a Non-Control Transaction, the board of directors of the Surviving Corporation) was approved by a vote of at least two-thirds of the Continuing Directors then in office shall be considered a Continuing Director; or (v) upon a sale of (A) common stock of the Bank if after such sale any person other than Valley, an employee benefit plan established or maintained by Valley or a Valley Subsidiary, or an affiliate of Valley or a Valley Subsidiary, owns a majority of the Bank’s common stock or (B) all or substantially all of the Bank’s assets (other than in the ordinary course of business). For purposes of this paragraph: (I) Valley will be deemed to have become a subsidiary of another corporation if any other corporation (which term shall include, in addition to a corporation, a limited liability company, partnership, trust, or other organization) owns, directly or indirectly, 50 percent or more of the total combined outstanding voting power of all classes of stock of Valley or any successor to Valley; (II) “Non-Control Transaction” means a transaction in which Valley is merged with or into, or is consolidated with, or becomes the subsidiary of another corporation pursuant to a definitive agreement providing that at least 60% of the directors of the Surviving Corporation immediately after the transaction are individuals who were directors of Valley on the day before the first public announcement relating to the transaction; (III) the “Surviving Corporation” in a transaction in which Valley becomes the subsidiary of another corporation is the ultimate parent entity of Valley or Valley’s successor; (IV) the “Surviving Corporation” in any other transaction pursuant to which Valley is merged with or into another corporation is the surviving or resulting corporation in the merger or consolidation;

and (V) “Valley Subsidiary” means any corporation in an unbroken chain of corporations, beginning with Valley, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

c. Contract Period. “*Contract Period*” shall mean the period commencing the day immediately preceding a Change-in-Control and ending on the earlier of (i) the third anniversary of the Change-in-Control or (ii) the death of the Executive. For the purpose of this Agreement, a Change-in-Control shall be deemed to have occurred at the date specified in the definition of Change-in-Control.

d. Exchange Act. “*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

e. Good Reason. When used with reference to a voluntary termination by Executive of the Executive’s employment with the Company, “*Good Reason*” shall mean any of the following, if taken without Executive’s express written consent:

(1) The assignment to Executive of any duties inconsistent with, or the reduction of powers or functions associated with, Executive’s position, title, duties, responsibilities and status with the Company immediately prior to a Change-in-Control; any removal of Executive from, or any failure to re-elect Executive to any positions(s) or offices (s) Executive held immediately prior to such Change-in-Control;

(2) A reduction by the Company in Executive's annual base compensation as in effect immediately prior to a Change-in-Control or the failure to award Executive annual increases in accordance herewith;

(3) A failure by the Company to continue any bonus plan in which Executive participated immediately prior to the Change-in-Control (except that the Company may institute plans, programs or arrangements providing the Executive substantially similar benefits) or a failure by the Company to continue Executive as a participant in such plan on at least the same basis as Executive participated in such plan prior to the Change-in-Control; or a failure to pay the Executive the bonus provided for in Section 4.b hereof at the time and in the manner therein specified;

(4) The Company's transfer of Executive to another geographic location outside of New Jersey or more than 25 miles from the Executive's present office location, except for required occasional travel on the Company's business to an extent consistent with Executive's business travel obligations immediately prior to such Change-in-Control;

(5) The failure by the Company to continue in effect any employee benefit plan, program or arrangement (including, without limitation the Company's retirement plan, benefit equalization plan, life insurance plan, health and accident plan, disability plan, deferred compensation plan or long term stock incentive plan) in which Executive is participating immediately prior to a Change-in-Control (except that the Company may institute or continue plans, programs or arrangements providing Executive with substantially similar benefits); the taking of any action by the Company which would

adversely affect Executive's participation in or materially reduce Executive's benefits under, any of such plans, programs or arrangements; the failure to continue, or the taking of any action which would deprive Executive, of any material fringe benefit enjoyed by Executive immediately prior to such Change-in-Control; or the failure by the Company to provide Executive with the number of paid vacation days to which Executive was entitled immediately prior to such Change-in-Control;

(6) The failure by the Company to obtain an assumption in writing of the obligations of the Company to perform this Agreement by any successor to the Company and to provide such assumption to the Executive prior to any Change-in-Control; or

(7) Any purported termination of Executive's employment by the Company during the term of this Agreement which is not effected pursuant to all of the requirements of this Agreement; and, for purposes of this Agreement, no such purported termination shall be effective.

2. Employment. The Company hereby agrees to employ the Executive, and the Executive hereby accepts employment, during the Contract Period upon the terms and conditions set forth herein.

3. Position. During the Contract Period the Executive shall be employed by the Company in the position the Executive held with the Company prior to the Change-in-Control, or with such other corporate or divisional profit center as shall then be the principal successor to the business, assets and properties of the Company, with the same title and the same duties and responsibilities as before the Change-in-Control. The Executive shall devote full time and attention

to the business of the Company, and shall not during the Contract Period be engaged in any other business activity. This paragraph shall not be construed as preventing the Executive from managing any investments which do not require any service on the Executive's part in the operation of such investments or from continuing to serve on any boards of directors or trustees which he served prior to the Change-in-Control or for which consent is provided after a Change-in-Control.

4. Cash Compensation. The Company shall pay to the Executive compensation for services during the Contract Period as follows:

a. Base Salary. A base annual salary equal to the annual salary in effect as of the Change-in-Control. The annual salary shall be payable in installments in accordance with the Company's usual payroll method.

b. Annual Bonus. An annual cash bonus equal to the average of the cash bonuses awarded to the Executive in the three years prior to the Change-in-Control (or such lesser number of full years during which Executive has been employed by the Company). Subject to any express regulatory requirements, the bonus shall be paid within 45 days of the end of the calendar year for which the bonus is awarded.

c. Annual Review. The Board of Directors during the Contract Period shall review annually, or at more frequent intervals which the Board of Directors determines is appropriate, the Executive's compensation and shall award the Executive additional compensation to reflect the Executive's performance, the performance of the Company and competitive compensation levels, all as determined in the discretion of the Board of Directors.

5. Expenses and Fringe Benefits.

a. Expenses. During the Contract Period, the Executive shall be entitled to reimbursement for all business expenses incurred by the Executive with respect to the business of the Company in the same manner and to the same extent as such expenses were previously reimbursed to the Executive immediately prior to the Change-in-Control.

b. Deferred Compensation Plan. During the Contract Period, if the Executive prior to the Change-in-Control was entitled to benefits under Valley's Deferred Compensation Plan, effective January 1, 2017 ("*DCP*"), the Executive shall be entitled to continued benefits under the DCP after the Change-in-Control and the DCP may not be modified or terminated to reduce or eliminate such benefits during the Contract Period.

c. Club Membership and Automobile. If prior to the Change-in-Control, the Executive was entitled to membership in a country club and/or the use of an automobile or monthly automobile allowance, the Executive during the Contract Period shall be entitled to the same membership and/or use of an automobile at least comparable to the automobile provided to the Executive or monthly automobile allowance prior to the Change-in-Control.

d. Other Benefits. During the Contract Period, the Executive also shall be entitled to vacations and sick days, in accordance with the practices and procedures of the Company, as such existed immediately prior to the Change-in-Control. During the Contract Period, the Executive also shall be entitled to hospital, health, medical and life insurance, and any other benefits enjoyed, from time to time, by senior officers of the Company, all upon terms as favorable as those enjoyed by other senior officers of the Company. Notwithstanding anything in this paragraph 5(d) to the contrary, if the Company adopts any change in the benefits provided for senior

officers of the Company, and such policy is uniformly applied to all officers of the Company (and any successor or acquirer of the Company, if any) including the chief executive officer of such entities, then no such change shall be deemed to be contrary to this paragraph.

6. Termination for Cause. During the Contract Period, the Company shall have the right to terminate the Executive for Cause, upon written notice to the Executive of the termination which notice shall specify the reasons for the termination. In the event of termination for Cause the Executive shall be entitled to any compensation or benefits earned through the date of termination but shall not be entitled to any further compensation or benefits under this Agreement.

7. Disability. During the Contract Period if the Executive becomes permanently disabled, or is unable to perform the duties hereunder for 4 consecutive months, the Company may terminate the employment of the Executive. In such event, the Executive shall be entitled to any compensation or benefits earned through the date of such termination plus a lump sum payable within ten business days of termination of employment equal to one twelfth of the Executive's highest annual salary (including any 401(k) plan or DCP deferral) paid in any of the three calendar years immediately prior to the Change-in-Control but the Executive shall not be entitled to any further compensation or benefits under this Agreement.

8. Death Benefits. Upon the Executive's death during the Contract Period, the Executive's estate shall be entitled to any compensation or benefits earned through the date of death plus a lump sum payable within thirty business days of the date of death equal to one twelfth of the Executive's highest annual salary (including any 401(k) plan or DCP deferral) paid in any of the

three calendar years immediately prior to the Change-in-Control but the Executive shall not be entitled to any further compensation or benefits under this Agreement.

9. Termination Without Cause or Resignation for Good Reason. The Company may terminate the Executive without Cause during the Contract Period by written notice to the Executive providing four weeks notice. The Executive may resign for Good Reason during the Contract Period upon four weeks' written notice to the Company specifying facts and circumstances claimed to support the Good Reason. The Executive shall be entitled to give a Notice of Termination that his or her employment is being terminated for Good Reason at any time during the Contract Period, not later than twelve months after any occurrence of an event stated to constitute Good Reason. If the Company terminates the Executive's employment during the Contract Period without Cause or if the Executive Resigns for Good Reason during the Contract Period, the Company shall, subject to section 12 hereof:

a. within 20 business days of the termination of employment, pay the Executive a lump sum severance payment equal to two (2) times the Executive's highest annual compensation paid during or for a calendar year, in any of the three calendar years immediately prior to the Change-in-Control, where annual compensation means (i) salary paid during a calendar year (including any 401(k) plan or DCP deferral) plus (ii) cash bonuses awarded to the Executive for such calendar year, regardless of when paid; and

b. within 20 business days of the termination of employment, pay the Executive a lump sum amount equal two (2) times (A) the aggregate annual COBRA premium amounts (based upon COBRA rates then in effect) and annual dental coverage premium amounts,

reflecting what was being provided to the Executive (and his spouse and family) at the time of termination of employment, minus (B) the aggregate annual amount of any employee contribution that would have been required of the Executive (determined as of the termination of employment).

The Executive shall not have a duty to mitigate the damages suffered by the Executive in connection with the termination by the Company of the Executive's employment without Cause or a resignation for Good Reason during the Contract Period. For the avoidance of doubt, amounts payable hereunder will not be reduced or offset by amounts or benefits earned by the Executive elsewhere. If the Company fails to pay the Executive any lump sum amounts or other benefits due the Executive hereunder, the Executive, after giving 10 days' written notice to the Company identifying the Company's failure, shall be entitled to recover from the Company on a monthly basis as incurred all of the Executive's reasonable legal fees and expenses incurred in connection with enforcement against the Company of the terms of this Agreement. The Executive shall be denied payment of legal fees and expenses only if a court finds that the Executive sought payment of such fees without reasonable cause and not in good faith.

10. Resignation Without Good Reason. The Executive shall be entitled to resign from the employment of the Company at any time during the Contact Period without Good Reason, but upon such resignation the Executive shall not be entitled to any additional compensation for the time after which the Executive ceases to be employed by the Company, and shall not be entitled to any of the other benefits provided hereunder. No such resignation shall be effective unless in writing with four weeks' notice thereof.

11. Non-Disclosure of Confidential Information.

a. Non-Disclosure of Confidential Information. Except in the course of the Executive's employment with the Company and in the pursuit of the business of the Company or any of its subsidiaries or affiliates, the Executive shall not, at any time during or following the Contract Period, disclose or use, any confidential information or proprietary data of the Company or any of its subsidiaries or affiliates. The Executive agrees that, among other things, all information concerning the identity of and the Company's relations with its customers is confidential information.

b. Specific Performance. Executive agrees that the Company does not have an adequate remedy at law for the breach of this section and agrees that he shall be subject to injunctive relief and equitable remedies as a result of the breach of this section. The invalidity or unenforceability of any provision of this Agreement shall not affect the force and effect of the remaining valid portions. No alleged breach or breach of this Section 11 shall give the Company the right to withhold or offset against any payments or benefits due the Executive under this Agreement.

c. Survival. This section shall survive the termination of the Executive's employment hereunder and the expiration of this Agreement.

12. Net Best Tax Provision.

a. Net Best Provision. Anything in this Agreement to the contrary notwithstanding, in the event that the payments and benefits provided to Executive under this Agreement, when aggregated with any other payments or benefits payable to or received by Executive (the "Aggregate Benefits"), would (i) constitute "parachute payments" within the

meaning of Section 280G of the Code, and (ii) be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive's Aggregate Benefits will be either: (a) delivered in full, or (b) delivered as to such lesser extent as would result in no portion of such Aggregate Benefits being subject to the Excise Tax, whichever of the foregoing amounts results in the receipt by the Executive on an after-tax basis of the greatest amount of Aggregate Benefits, taking into account the federal, state and local income taxes, including the Excise Tax, that would be imposed upon the Executive's Aggregate Benefits.

b. Method of Determination. Unless Valley and the Executive otherwise agree in writing, any determination required under this Section will be made in writing by Valley's independent public accountants, or other nationally-recognized accounting firm, executive compensation/consulting firm or law firm selected by the Executive and consented to by Valley (which consent shall not be unreasonably withheld, delayed or denied) (the "Accounting/Benefits Firm"). The determination of such Accounting /Benefits Firm will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section, the Accounting/Benefits Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Accounting/Benefits Firm such information and documents as the Accounting/Benefits Firm may reasonably request in order to make a determination under this Section. To the extent any reduction in Aggregate Benefits is required by this Section, the Aggregate Benefits shall be reduced or eliminated in accordance with the Executive's instructions provided Valley has no reasonable objection thereto, and all reductions or eliminations shall be based on the value of the Aggregate

Benefits established for purposes of the determination required under this Section. All fees and expenses of the Accounting/Benefits Firm shall be borne solely by the Company

13. Term and Effect Prior to Change-in-Control.

a. Term. Except as otherwise provided in section b below, this Agreement shall commence on the date hereof and shall remain in effect for a period of 3 years from the date hereof (the *"Term"*) or until the end of the Contract Period, whichever is later. The Term shall be automatically extended for an additional one year period on the anniversary date hereof (so that the Term is always 3 years) unless, prior to a Change-in-Control, the Compensation and Human Resources Committee of Valley notifies the Executive in writing that the Contract is not so extended, in which case the Term shall end at the expiration of then current 3 year Term.

b. No Effect Prior to Change-in-Control. This Agreement shall not effect any rights of the Company to terminate the Executive prior to a Change-in-Control or any rights of the Executive granted in any other agreement or contract or plan with the Company. The rights, duties and benefits provided hereunder shall only become effective upon and after a Change-in-Control. If the full-time employment of the Executive by the Company is ended for any reason prior to a Change-in-Control, this Agreement shall thereafter be of no further force and effect.

14. Severance Compensation and Benefits Not in Derogation of Other Benefits. Anything to the contrary herein contained notwithstanding, the payment or obligation to pay any monies, or granting of any benefits, rights or privileges to Executive as provided in this Agreement shall not be in lieu or derogation of the rights and privileges that the Executive now has or will have under any plans or programs of or agreements with the Company, except that as long as the Executive

receives the lump sum payments due under Section 9 hereunder (as may be reduced under Section 12), the Executive shall not be entitled to any other severance payments under the Company's severance policy for officers and employees or under any individual severance agreement or arrangement the Executive may have entered into with the Company.

15. Notice. During the Contract Period, any notice of termination of the employment of the Executive by the Company or by the Executive to the Company shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a dated notice which shall (i) indicate the specific termination provision in this Agreement relied upon; (ii) set forth, if necessary, in reasonable detail the facts and circumstances claimed to provide a basis for termination of the employment of the Executive or from the Company under the provision so indicated; (iii) specify a date of termination, which shall be not less than two weeks nor more than six weeks after such Notice of Termination is given, except in the case of termination of employment by the Company of the Executive for Cause pursuant to Section 6 hereof, in which case the Notice of Termination may specify a date of termination as of the date such Notice of Termination is given; and (iv) be given by personal delivery or, if the individual is not personally available, by certified mail to the last known address of the individual. Upon the death of the Executive, no Notice of Termination need be given.

16. Payroll and Withholding Taxes. All payments to be made or benefits to be provided hereunder by the Company shall be subject to applicable federal and state payroll or withholding taxes, including if applicable the Excise Tax.

17. Section 409A Compliance. This Agreement is intended to be compliant with, or exempt from, the requirements of Section 409A of the Internal Revenue Code ("Section 409A"), taking into account the severance pay exception and the short term deferral rules that are applicable under 409A, and it shall be administered accordingly. Notwithstanding anything else to the contrary in this Agreement, the DCP, or any other plan, contract, program or otherwise, the Company (and its affiliates) are expressly authorized to delay any scheduled payments under this Agreement, the DCP, and any other plan, contract, program or otherwise, as such payments relate to the Executive, if the Company (or its affiliate) determines that such delay is necessary in order to comply with the requirements of Section 409A of the Internal Revenue Code. Any such payment (which shall be considered to be a separate payment and, and not a series of payments) shall be delayed until the first day of the month following the date that is six (6) months after the Executive 's separation from service (as defined and determined under Section 409A). At the end of such period of delay, the Executive will be paid the delayed payment amounts, plus interest for the period of any such delay. For purposes of the preceding sentence, interest shall be calculated using the six (6) month Treasury Bill rate in effect on the date on which the payment is delayed, and shall be compounded daily.

18. Miscellaneous. This Agreement is the joint and several obligation of the Bank and Valley. The terms of this Agreement shall be governed by, and interpreted and construed in accordance with the provisions of, the laws of New Jersey. This Agreement supersedes all prior agreements and understandings with respect to the matters covered hereby, including expressly any prior dated Change in Control Agreement between the Company and the Executive. The amendment or termination of this Agreement may be made only in a writing executed by the Company and the

Executive, and no amendment or termination of this Agreement shall be effective unless and until made in such a writing. This Agreement shall be binding upon any successor (whether direct or indirect, by purchase, merge, consolidation, liquidation or otherwise) to all or substantially all of the assets of the Company. This Agreement is personal to the Executive and the Executive may not assign any of the Executive's rights or duties hereunder but this Agreement shall be enforceable by the Executive's legal representatives, executors or administrators. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, Valley National Bank and Valley National Bancorp each have caused this Agreement to be signed by their duly authorized representatives pursuant to the authority of their Boards of Directors, and the Executive has personally executed this Agreement, all as of the day and year first written above.

ATTEST:	VALLEY NATIONAL BANCORP
By:	By:
___________________________, Secretary	___________________________, Chairman,
	Compensation and Human Resources Committee
ATTEST:	VALLEY NATIONAL BANK
By:	By:
___________________________, Secretary	___________________________, Chairman,
	Compensation and Human Resources Committee
WITNESS:	EXECUTIVE:

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Section 3: EX-31.1 (EXHIBIT 31.1)

CERTIFICATION

I, Ira Robbins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Valley National Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Ira Robbins

Ira Robbins
Chairman of the Board, President and
Chief Executive Officer

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Section 4: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

I, Michael D. Hagedorn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Valley National Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Michael D. Hagedorn

Michael D. Hagedorn
Senior Executive Vice President and
Chief Financial Officer

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Section 5: EX-32 (EXHIBIT 32)

EXHIBIT 32

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Valley National Bancorp (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ira Robbins, as Chief Executive Officer of the Company, and Michael D. Hagedorn, as Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. (section) 1350, as adopted pursuant to (section) 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ira Robbins

Ira Robbins
Chairman of the Board, President and
Chief Executive Officer

November 7, 2019

/s/ Michael D. Hagedorn

Michael D. Hagedorn
Senior Executive Vice President and
Chief Financial Officer

November 7, 2019

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