Valley National Bancorp

2016 Annual Dodd-Frank Act Stress Test Disclosure

October 2016

2016 Annual Dodd-Frank Act Stress Test Disclosure for Valley National Bancorp and Valley National Bank

Introduction

Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and related regulations requires national banks and federal savings associations with consolidated assets of more than $10 billion, including Valley National Bancorp (referred to herein as "we", "us", "our" or "Valley"), to conduct annual stress tests. In the Dodd-Frank Act stress test ("DFAST") conducted annually and completed in July of this year, we are required to perform stress tests using a set of macroeconomic scenarios (supervisory baseline, supervisory adverse and supervisory severely adverse) developed by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The results of the stress tests are submitted to the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve Board.

Stress testing is an integral component of our internal capital adequacy assessment. We incorporate DFAST into our internal processes to assess our capital adequacy to ensure that Valley holds an appropriate amount of capital based on the risk associated with our businesses and consistent with Valley's Board of Director's Risk Appetite Statement.

The DFAST rules require us to publish a summary of the stress test results based on the Federal Reserve Board's severely adverse scenario in October of this year. Our planning horizon for the 2016 stress test is the first quarter of 2016 through the first quarter of 2018.

Basel III-Based Capital Rules ("Basel III")

Valley is required to compute its capital ratios for each quarter of the planning horizon. The Common Equity Tier I, Tier I Risk Based Capital, Total Risk Based Capital and Leverage ratios are calculated utilizing the Basel III-based capital rules.

Standardized Capital Rules

We are required to calculate capital ratios under the Standardized Capital Rules. Risk weighted assets and capital are calculated under the Standardized Capital Rules that utilize the Revised Capital Framework definition of capital. The new definitions of capital include changes to certain limitations on the instruments that can be included in regulatory capital and the items that must be deducted.

Severely Adverse Scenario

The severely adverse scenario is developed and prescribed by the Federal Reserve Board. For the 2016 DFAST, the scenarios include 28 variables, 16 domestic and 12 international. This included six measures of economic activity and prices; four aggregate measures of asset prices or financial conditions; six measures of interest rates; and twelve measures of international conditions.

GDP and Unemployment

The severely adverse scenario for the United States is characterized by a severe global recession, accompanied by a period of heightened corporate financial stress and negative yields for short-term U.S. Treasury securities. U.S. real GDP begins to decline in 1Q16 and reaches a trough in 1Q17 that is 6¼ percent below the pre-recession peak. The unemployment rate increases by 5 percentage points, to 10 percent, by 3Q17 and headline consumer price inflation rises from about ¼ percent at an annual rate in 1Q16 to about 1¼ percent at an annual rate by the end of the recession.

U.S. Interest Rates and Credit Spreads

Corporate financial conditions are stressed severely, reflecting mounting credit losses, heightened investor risk aversion, and strained market liquidity conditions; the spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities increases to 5¾ percent by the end of 2016. As a result of the severe decline in real activity and subdued inflation, short-term Treasury rates fall to negative ½ percent by mid-2016 and remain at that level through 1Q19. The 10-year Treasury yield drops to about ¼ percent in 1Q16, rising gradually thereafter to reach about ¾ percent by the end of the recession in early 2017 and about 1¾ percent by 1Q19.

Equity Markets & Other Prices

Asset prices drop sharply in the scenario, consistent with the developments described above. Equity prices fall approximately 50 percent through the end of 2016, accompanied by a surge in equity market volatility, which approaches the levels attained in 2008. House prices and commercial real estate prices also experience considerable declines, with house prices dropping 25 percent through 3Q18 and commercial real estate prices falling 30 percent through 2Q18. The declines in aggregate US real estate prices are expected to be concentrated in regions that have experienced rapid price gains over the past several years.

Summary of Results

The following table summarizes the results of Valley’s calculations under the Federal Reserve Board’s severely adverse scenario over the planning horizon. The results incorporate the following capital action assumptions that are consistent with the Federal Reserve Board’s DFAST rules for each of the quarters in the planning horizon:

- common stock dividends equal to the quarterly average dollar amount of common stock dividends that were paid in the first quarter of 2015 through the fourth quarter of 2015;
- payments on any other instrument eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest or principal due on such instrument; and
- no redemption or repurchase of any capital instrument eligible for inclusion in the numerator of a regulatory capital ratio.

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Projected Capital Ratios, Pre-Provision Net Revenues ("PPNR"), Aggregate Losses and Net Income

Valley National Bancorp Projections Under the Federal Reserve Board's Severely Adverse Scenario

These results are calculated using capital action assumptions required by the DFAST rules. All projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts.

Actual and Projected Capital Ratios through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	Actual	Stressed	
	Q4 2015	Ending	Lowest
Common equity tier 1 ratio (%)	9.01%	8.76%	8.67%
Tier 1 risk based capital ratio (%)	9.72%	9.44%	9.31%
Total risk based capital ratio (%)	12.02%	12.14%	11.82%
Tier 1 leverage ratio (%)	7.90%	7.12%	7.07%

Projected Loan Losses by Type of Loan from Q1 2016 through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	in millions	Portfolio Loss Rates[1]
Total Loan and Lease Losses	88.5	0.60%
First Lien Mortgages	7.1	0.26%
Junior Liens and HELOCs	1.9	0.39%
Commercial and Industrial	30.1	1.49%
Commercial Real Estate	28.3	0.39%
Credit Cards	1.0	13.47%
Other Consumer	16.4	0.92%
Other Loans	3.7	1.10%

[1]Average balances used to calculate portfolio loss rates exclude purchase credit impaired loans

Projected PPNR, Losses and Net(Loss)/Income After Taxes from Q1 2016 through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	in millions	Percentage of Average Assets
PPNR	575.4	2.53%
Other Revenue	-	-
Less		
Provision for Loan Losses	163.7	0.72%
Realized Losses/(Gains) on Securities	-	-
Equals		
Net (Loss)/Income Before Taxes	411.6	1.81%
*Figures may not total due to rounding		

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Projected Capital Ratios, Pre-Provision Net Revenues ("PPNR"), Aggregate Losses and Net Income

Valley National Bank Projections Under the Federal Reserve Board's Severely Adverse Scenario

These results are calculated using capital action assumptions required by the DFAST rules. All projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts.

Actual and Projected Capital Ratios through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario			
	Actual	Stressed	
	Q4 2015	Ending	Lowest
Common equity tier 1 ratio (%)	10.22%	10.11%	9.91%
Tier 1 risk based capital ratio (%)	10.22%	10.11%	9.91%
Total risk based capital ratio (%)	11.53%	11.81%	11.42%
Tier 1 leverage ratio (%)	8.29%	7.58%	7.50%

Projected Loan Losses by Type of Loan from Q1 2016 through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario		
	in millions	Portfolio Loss Rates[1]
Total Loan and Lease Losses	88.5	0.60%
First Lien Mortgages	7.1	0.26%
Junior Liens and HELOCs	1.9	0.39%
Commercial and Industrial	30.1	1.49%
Commercial Real Estate	28.3	0.39%
Credit Cards	1.0	13.47%
Other Consumer	16.4	0.92%
Other Loans	3.7	1.10%

[1] Average balances used to calculate portfolio loss rates exclude purchase credit impaired loans

Projected PPNR, Losses and Net(Loss)/Income After Taxes from Q1 2016 through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario		
	in millions	Percentage of Average Assets
PPNR	606.2	2.67%
Other Revenue	-	-
Less		
Provision for Loan Losses	163.7	0.72%
Realized Losses/(Gains) on Securities	-	-
Equals		
Net (Loss)/Income Before Taxes	442.4	1.95%
*Figures may not total due to rounding		

Based on the Federal Reserve Board's severely adverse scenario, the most significant drivers of the changes in Valley's regulatory capital ratios over the planning horizon when compared with actual regulatory capital ratios as of the fourth quarter of 2015 are:

- increased risk weighted assets resulting from modest loan and investment growth over the planning horizon;
- loan losses which are included in our net (loss)/income projections and increased allowance for loans and lease losses
- impairment of approximately $26 million associated with our purchase credit impaired loan portfolio which represents the loss we may incur over the life of the portfolio which extends well beyond the planning horizon; and
- lower PPNR over the planning horizon resulting in decreased net (loss)/income.

Material Risk Captured in the Stress Test

Credit Risk
Credit risk represents the principal loss we would incur if a borrower or counterparty based on its inability or unwillingness failed to perform on an obligation. Valley's exposure to credit risk is principally in the form of lending.

Credit risk is incorporated into our 2016 DFAST results via the severely adverse macroeconomic scenario. The significant drop in economic output, home prices and equity prices as well as a rise in the unemployment rate resulted in increased credit risk which is reflected in our provision for loan losses.

Liquidity Risk
Liquidity risk is the risk to earnings or capital arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Our 2016 DFAST results account for liquidity risk by projecting funding balances based on the severely adverse scenario and assessing the impact of any outflows on our balance sheet.

Interest Rate Risk
Interest rate risk is the risk to earnings or capital arising from movements in market interest rates. Interest rate risk arises from the impact of movements in interest rates and the timing of cash flows (repricing risk), from changing rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in bank products (options risk).

Interest rate risk is incorporated into our 2016 DFAST results based on the significant compression in the yield curve evidenced by the narrowing of the spread between the 3-Month and 10-Year Treasury Yields. Additionally, the 3-Month Treasury Yield turns negative. This dynamic sufficiently captures interest rate risk over the course of the planning horizon.

Operational Risk
Operational risk is the risk to earnings or capital arising from inadequate or failed internal processes or systems, the misconduct or errors of people, and adverse external events. Operational losses result from internal fraud; external fraud; employment practices and workplace safety; clients, products, and business practices; damage to physical assets; business disruption and systems failures; and execution, delivery, and process management. For capital stress testing purposes, compliance risk has been considered as part of operational risk.

Operational risk losses are assessed based on the assumed conditions of the severely adverse scenario. The estimates may include judgements based on Valley's historical operational risk experience, internal factors and industry trends. The 2016 DFAST results incorporate operational risk losses within the non-interest expense projections over the planning horizon.

Acquisition Risk
Acquisition risk can potentially impact enterprise-wide risk indicators. Risk exposures arise from expanding the geographic reach of the combined entity and broadening of the customer base potentially through new products or services. An acquisition may result in greater concentration of counterparty credit risk or exposure to financial instruments. Identifying potential changes in enterprise risks, creating an action plan to address them, and assessing changes to risk management strategies post-acquisition are critical to managing acquisition risk.

Description of Our Stress Testing Methodologies

Our stress testing projections are primarily estimated using quantitative methodologies. Management judgement is also a critical component of the process and therefore some estimates are conveyed based on a qualitative approach. We use econometric models to estimate pre-provision net revenue and credit losses to assess our capital levels for each quarter over the planning horizon.

On whole, line items determined to be material to the balance sheet or income statements are projected using quantitative models. However, in certain situations where statistical correlations to macroeconomic variables are weak or in cases where sufficient historical data are not available, we use qualitative estimations to determine the projections over the planning horizon. Typically, qualitative estimations are more conservative in nature, in that the results are more adverse to capital.

We largely utilize the variables developed and prescribed by the Federal Reserve Board in our econometric models. In certain circumstances we may utilize variables that are extrapolated based on what was provided by the Federal Reserve Board.

Our stress testing methodologies are subject to a rigorous effective challenge and validation process that is critical to achieving accurate and credible results. The effective challenge process engages our subject matter experts at various levels to provide a thorough analysis and review of the results. The validation process incorporates an additional level of review by assessing the appropriateness of the models utilized in the stress test, including the suitability of each model's purpose, assumptions, and performance.

Valley National Bancorp's wholly owned subsidiary, Valley National Bank represents 99.9 percent of the consolidated Company's assets; therefore, we apply the same methodologies when conducting stress tests at the bank level.

Supplementary Information

Additional information on DFAST is available on the Federal Reserve Board's website at https://www.federalreserve.gov/bankinforeg/stress-tests/2016-Preface.htm.