

VALLEY NATIONAL BANCORP  
Form DEF 14A  
March 06, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**  
**(Amendment No.    )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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**Valley National Bancorp**

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March 6, 2007

To Our Shareholders:

You are cordially invited to the Annual Meeting of Shareholders of Valley National Bancorp to be held at the Crowne Plaza Fairfield, 690 Route 46 East, Fairfield, New Jersey, on Wednesday, April 11, 2007 at 2:00 p.m. to vote on two proposals described in The Notice of Annual Meeting of Shareholders and Proxy Statement.

The primary business of the meeting will be to vote upon the election of Directors for the coming year and to ratify the appointment of Ernst & Young as Valley's independent registered public accounting firm for the fiscal year ending December 31, 2007.

Whether or not you plan to attend the meeting, **your vote is important** and we strongly encourage your participation. Please execute and return the enclosed proxy in the envelope provided or submit your proxy by telephone or the internet as instructed on the enclosed proxy card.

Sincerely,

Gerald H. Lipkin

Chairman, President and

Chief Executive Officer

Enclosure

**VALLEY NATIONAL BANCORP**

**1455 Valley Road**

**Wayne, New Jersey 07470**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, April 11, 2007**

To Our Shareholders:

The annual meeting of shareholders of Valley National Bancorp ( Valley ) will be held at the Crowne Plaza Fairfield, 690 Route 46 East, Fairfield, New Jersey, on Wednesday, April 11, 2007 at 2:00 p.m. to vote on these proposals:

1. To elect 14 directors.
2. To ratify the appointment of Ernst & Young as Valley s independent registered public accounting firm for the fiscal year ending December 31, 2007.

Shareholders of record at the close of business on February 16, 2007 are entitled to notice of and to vote at the meeting. Whether or not you plan to attend the meeting, please execute and return the enclosed proxy in the envelope provided or submit your proxy by telephone or the Internet as instructed on the enclosed proxy card.

By Order of the Board of Directors

Gerald H. Lipkin  
Chairman, President and  
Chief Executive Officer

March 6, 2007

Valley National Bancorp

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**VALLEY NATIONAL BANCORP**

**1455 Valley Road**

**Wayne, New Jersey 07470**

**PROXY STATEMENT**

**GENERAL PROXY STATEMENT INFORMATION**

We are providing this proxy statement in connection with the solicitation of proxies by the Board of Directors of Valley National Bancorp ( Valley or the Company ) for use at Valley s 2007 annual meeting of shareholders and at any adjournment of the meeting. You are cordially invited to attend the meeting, which will be held at the Crowne Plaza Fairfield, 690 Route 46 East, Fairfield, New Jersey, on Wednesday, April 11, 2007 at 2:00 p.m. local time. This proxy statement is first being mailed to shareholders on or about March 6, 2007.

**Shareholders Entitled to Vote**

The record date for the meeting is February 16, 2007. Only shareholders of record at the close of business on that date are entitled to notice of and to vote at the meeting.

On the record date there were 115,198,589 shares of common stock outstanding. Each share is entitled to one vote on each matter properly brought before the meeting.

**Multiple Copies of Valley s Annual Report and Proxy Statement**

When more than one holder of Valley common stock shares the same address, we may deliver only one annual report and one proxy statement to that address unless we have received contrary instructions from one or more of those shareholders. Similarly, brokers and other intermediaries holding shares of Valley common stock in street name for more than one beneficial owner with the same address may deliver only one annual report and one proxy statement to that address if they have received consent from the beneficial owners of the stock.

Valley will deliver promptly upon written or oral request a separate copy of the annual report and proxy statement to any shareholder, including a beneficial owner of stock held in street name, at a shared address to which a single copy of either of those documents was delivered. To receive additional copies of Valley s annual report and proxy statement, you may call or write Dianne M. Grenz, Senior Vice President, Valley National Bancorp, at 1455 Valley Road, Wayne, New Jersey 07470, telephone (973) 305-3380 or e-mail her at [dgrenz@valleynationalbank.com](mailto:dgrenz@valleynationalbank.com). You may also access a copy of Valley s annual report and proxy statement on Valley s website, [www.valleynationalbank.com](http://www.valleynationalbank.com).

You may also contact Ms. Grenz at the address or telephone number above if you are a shareholder of record of Valley and you wish to receive a separate annual report and proxy statement in the future, or if you are currently receiving multiple copies of Valley s annual report and proxy statement and want to request delivery of a single copy in the future. If your shares are held in street name and you want to increase or decrease the number of copies of Valley s annual report and proxy statement delivered to your household in the future, you should contact the broker or other intermediary who holds the shares on your behalf.

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### **Proxies and Voting Procedures**

Your vote is important and you are encouraged to vote your shares promptly.

Each proxy submitted will be voted as directed. However, if a proxy solicited by the Board of Directors does not specify how it is to be voted, it will be voted as the Board recommends that is, FOR the election of the 14 nominees for director named in this proxy statement unless the shareholder specifies a different choice by means of his proxy or revokes the proxy prior to the time it is exercised, and FOR the ratification of the appointment of Ernst & Young as Valley's independent registered public accounting firm for the fiscal year ending December 31, 2007.

If any other matters are properly presented at the meeting for consideration, the persons named as proxies will have discretion to vote on those matters according to their best judgment. As of the date of this proxy statement we did not anticipate that any other matters would be raised at the meeting.

We are offering you three alternative ways to vote your shares.

#### To Vote by Mail

To vote your proxy by mail, please sign, date, and mail your proxy card in the envelope provided as soon as possible.

#### To Vote by Telephone (Touch-Tone Phone Only)

If you wish to vote by telephone, call toll-free 1-800-776-9437 and follow the instructions. Have your proxy card available when you call.

#### To Vote by Internet

If you wish to vote using the Internet, you can access the web page at [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions. Have your proxy card available when you access the web page.

Regardless of the method that you use to vote, you will be able to vote in person or revoke your proxy if you follow the instructions provided below in the section entitled "Voting in Person; Revoking Your Proxy."

If you are a participant in Valley's dividend reinvestment plan, the shares that are held in your dividend reinvestment account will be voted in the same manner as your other shares, whether you vote by mail, by telephone or by Internet.

If you are an employee or former employee of Valley, and participate in Valley's Savings and Investment Plan (a 401(k) plan with an employee stock ownership feature - KSOP), you will receive one proxy card representing the total shares you own through this plan. The proxy card will serve as a voting instruction card for the trustee of the plan where all accounts are registered in the same name. If you own shares through the KSOP and do not vote, the plan trustee will vote the plan shares in the same proportion as shares for which instructions were received under the plan. The plan trustee will also vote the unvoted shares in the same proportion as shares for which instructions were received under the plan. Therefore, if you are a participant in the KSOP and vote your shares, the trustee will use your vote when determining the correct proportion.

### **Voting in Person; Revoking Your Proxy**

The method by which you vote will not limit your right to vote at the meeting if you later decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy executed in your favor from the holder of record to be able to vote at the meeting. If you submit a proxy and then wish to change your vote or vote in person at the meeting, you will need to revoke the proxy that you have submitted. You can revoke your proxy at any time before it is exercised by delivery of a properly executed, later-dated proxy or a written revocation of your proxy. A later-dated proxy or written revocation must be received before the meeting by the Corporate Secretary of Valley, Alan D. Eskow, at 1455 Valley Road, Wayne, New Jersey 07470, or it must be delivered to the Corporate Secretary at the meeting before proxies are voted. You may also revoke your proxy by submitting a new proxy via telephone or the Internet. You will be able to change your vote as many times as you wish prior to the annual meeting and the last vote received chronologically will supersede any prior votes.



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### **Required Vote**

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote generally for the election of directors is necessary to constitute a quorum at the meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary power with respect to that item and has not received instructions from the beneficial owner.

Directors will be elected by a plurality of the votes cast at the meeting. Thus, an abstention or a broker non-vote will have no effect on the outcome of the vote on election of directors at the meeting.

Ratification of the appointment of Ernst & Young as Valley's independent registered public accounting firm for the fiscal year ending December 31, 2007, requires the favorable vote of a majority of the votes cast. Thus, an abstention or a broker non-vote will have no effect on the outcome.

### **Method and Cost of Proxy Solicitation**

This proxy solicitation is being made by Valley's Board of Directors and Valley will pay the cost of soliciting proxies. Proxies may be solicited by officers, directors and employees of Valley in person, by mail, telephone, facsimile or other electronic means. We will not specially compensate those persons for their solicitation activities. In accordance with the regulations of the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE), we will reimburse brokerage firms and other custodians, nominees and fiduciaries for their expense incurred in sending proxies and proxy materials to beneficial owners of Valley common stock.



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**ITEM 1 ELECTION OF DIRECTORS****DIRECTOR INFORMATION**

Under Valley's by-laws, the Board of Directors fixes the exact number of directors, with a minimum of 5 and a maximum of 25. The Board has fixed the number of directors at 14.

The persons named on the proxy card intend to vote the proxies FOR the election of the 14 persons named below (unless the shareholder otherwise directs). If, for any reason, any nominee becomes unavailable for election and the Board selects a substitute nominee, the proxies will be voted for the substitute nominee selected by the Board. The Board has no reason to believe that any of the named nominees is not available or will not serve if elected.

Each candidate for director has been nominated to serve a one-year term until Valley's 2008 annual meeting and thereafter until the person's successor has been duly elected and qualified. The following table sets forth the names and ages of the Board's nominees for election, the nominees' position with Valley (if any), the principal occupation or employment of each nominee for the past five years, any other directorships held by the nominee with companies registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act and the period during which each nominee has served as a director of Valley. The nominees' prior service as directors includes prior service as directors of Valley National Bank (the Bank) prior to the formation of the holding company.

Name, Age and Position	Principal Occupations During	Director Since
Andrew B. Abramson, 53	President and Chief Executive Officer, Value Companies, Inc. (real estate development and property management firm)	1994
Pamela R. Bronander, 50	Vice President, KMC Mechanical, Inc. (mechanical contractor)	1993
Eric P. Edelstein, 57	Executive Vice President and Chief Financial Officer, Griffon Corporation (manufacturer and developer of variety of products); former Managing Partner-Business Consulting National Practices of Arthur Andersen LLP	2003
Mary J. Steele Guilfoile, 52	Chairman of MG Advisors, Inc. (privately owned financial services merger and acquisition advisory and consulting firm); former Executive Vice President and Chief Administrative Officer of J. P. Morgan Chase & Co.; former Partner, Chief Financial Officer and Chief Operating Officer of The Beacon Group, LLC (private equity, strategic advisory and wealth management partnership); Partner, The Beacon Group, a private investment group; CPA	2003
H. Dale Hemmerdinger, 62	President of The Hemmerdinger Corporation (a commercial and residential real estate ownership and development company) and Chairman of Atlas Real Estate Funds, Inc.	2003
Graham O. Jones, 62*	Attorney, Jones & Jones	1997
Walter H. Jones, III, 64*	Former Chairman of the Board of Hoke, Inc., its affiliates and subsidiaries (manufacturer of precision fluid control products)	1997
Gerald Korde, 63	President, Birch Lumber Company, Inc. (wholesale and retail lumber distribution company)	1989
Michael L. LaRusso, 61	Financial Consultant; Former Executive Vice President and Director of Corporate Monitoring Group-Union Bank of California	2004

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Name, Age and Position	Principal Occupations During	Director Since
With Valley	Past Five Years; Other Public Company Directorships	
Gerald H. Lipkin, 66	Chairman of the Board, President and Chief Executive Officer of Valley National Bancorp and Valley National Bank	1986
Chairman of the Board, President and Chief Executive Officer		
Robinson Markel, 72	Member of the law firm of Katten Muchin Rosenman LLP (formerly KMZ Rosenman) since February 1998; former Director of Merchants New York Bancorp, Inc. and The Merchants Bank of New York	2001
Robert E. McEntee, 74	Management Consultant; CPA	1979
Richard S. Miller, 72	President, Williams, Caliri, Miller & Otley, A Professional Corporation (law firm); former Director of Ramapo Financial Corporation and The Ramapo Bank	1999
Barnett Rukin, 66	Chief Executive Officer, SLX Capital Management (asset manager); former Senior Vice President and Regional Chief Executive Officer, Northeast Region, Coach USA (bus company); former Chairman and Chief Executive Officer, Hudson Transit Lines, Inc. (operator of Short Line Bus Company)	1991

\* Walter H. Jones, III and Graham O. Jones are brothers.

**RECOMMENDATION AND VOTE REQUIRED ON ITEM 1**

**THE VALLEY BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE NOMINATED SLATE OF DIRECTORS.**

Directors will be elected by a plurality of the votes cast at the meeting.

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**ITEM 2 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT****REGISTERED PUBLIC ACCOUNTING FIRM****INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit & Risk Committee of the Board has appointed Ernst & Young ( E & Y ) as Valley 's independent registered public accounting firm for the fiscal year ending December 31, 2007. If the shareholders do not ratify the selection, the Audit and Risk Committee will reconsider whether or not to retain E & Y, but may retain such independent registered public accountants. E & Y has advised Valley that one or more of its representatives will be present at the annual meeting of shareholders to make a statement if they so desire and to respond to appropriate questions.

Ernst & Young, independent registered public accounting firm, audited the books and records of Valley for the years ended December 31, 2006 and 2005.

The fees billed for services rendered for Valley by its independent accountants for the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Audit fees	\$ 641,100	\$ 586,500
Audit-related fees	52,900	190,100
Tax fees		52,000
All other fees		54,436
	\$ 694,000	\$ 883,036

Audit Fees include the fees associated with an assessment of Valley 's internal control over financial reporting integrated with the audit of Valley 's financial statements. Audit-Related Fees include fees paid for benefit plan audits and other attestation services not directly related to the audit of Valley 's consolidated financial statements. Tax Fees include fees paid for income tax return review.

In 2003, the Audit and Risk Committee adopted a formal policy concerning the pre-approval of audit and non-audit services to be provided by the independent accountants to Valley. The policy requires that all services to be performed by Ernst & Young LLP, Valley 's independent accountants, including audit services, audit-related services and permitted non-audit services, be pre-approved by the Audit and Risk Committee. Specific services being provided by the independent accountants are regularly reviewed in accordance with the pre-approval policy. At each subsequent Audit and Risk Committee meeting, the Committee receives updates on the services actually provided by the independent accountants, and management may present additional services for approval. All services rendered by Ernst & Young LLP are permissible under applicable laws and regulations, and the Audit and Risk Committee pre-approved all audit, audit-related and non-audit services performed by Ernst & Young LLP during fiscal 2006.

**RECOMMENDATION AND VOTE REQUIRED ON ITEM 2**

**THE VALLEY BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" RATIFICATION OF THE  
APPOINTMENT OF ERNST & YOUNG AS VALLEY 'S INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM FOR 2007.**

**Ratification of the appointment of Ernst & Young requires the favorable vote of a majority of the votes cast.**



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## CORPORATE GOVERNANCE

### GENERAL

The business and affairs of Valley are managed under the direction of the Board of Directors. Members of the Board are kept informed of Valley's business through discussions with the Chairman and Valley's other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. In this regard, to further educate directors about Valley and assist committees in their work, committees are encouraged to invite non-member directors to attend committee meetings to learn about the workings of the Board. All members of the Board also served as directors of Valley's subsidiary bank, Valley National Bank, during 2006. It is the Company's policy that all directors attend the annual meeting absent a compelling reason, such as family or medical emergencies. Last year, all directors then serving attended Valley's annual meeting.

Valley's Board of Directors believes that the purpose of corporate governance is to ensure that we maximize shareholder value in a manner consistent with legal requirements. The Board has adopted corporate governance practices, which the Board and senior management believe promote this purpose. We periodically review these governance practices, the rules and listing standards of the NYSE and SEC regulations.

### DIRECTOR INDEPENDENCE

The Board has determined that a majority of the directors and all current members of the Nominating and Corporate Governance, Compensation and Human Resources, and Audit and Risk Committees are independent for purposes of Section 303A of the Listed Company Manual of the New York Stock Exchange, and that the members of the Audit and Risk Committee are also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934 and Section 303.01 of the Listed Company Manual of the New York Stock Exchange. The Board based these determinations primarily on a review of the responses of the directors to questions regarding employment and transaction history, affiliations and family and other relationships and on discussions with the directors.

Valley's independent directors are: Andrew B. Abramson, Pamela R. Bronander, Eric P. Edelstein, H. Dale Hemmerdinger, Walter H. Jones, III, Gerald Korde, Michael L. LaRusso, Robinson Markel, Robert E. McEntee, Richard S. Miller, and Barnett Rukin.

To assist it in making determinations of independence, the Board has concluded that the following relationships are immaterial and that a director whose only relationships with Valley fall within these categories is independent:

A loan made by the Bank to a director, his or her immediate family or an entity affiliated with a director or his or her immediate family, or a loan personally guaranteed by such persons if such loan (i) complies with federal regulations on insider loans, where applicable; and (ii) is not classified by the Bank's credit committee or by any bank regulatory agency which supervised the Bank as substandard, doubtful or loss;

A deposit, trust, insurance brokerage, investment advisory, securities brokerage or similar customer relationship between Valley or its subsidiaries and a director, his or her immediate family or an affiliate of his or her immediate family if such relationship is on customary and usual market terms and conditions;

The employment by Valley or its subsidiaries of any immediate family member of the director if the employee serves below the level of a senior vice president;

Annual contributions by Valley or its subsidiaries to any charity or non-profit corporation with which a director is affiliated if the contributions do not exceed an aggregate of \$30,000 in any calendar year;

Purchases of goods or services by Valley or any of its subsidiaries from a business in which a director or his or her spouse or minor children is a partner, shareholder or officer, if the director, his or her spouse and minor children own five (5%) percent or less of the equity interests of that business and do not serve as an executive officer of the business; or

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Purchases of goods or services by Valley, or any of its subsidiaries, from a director or a business in which the director or his or her spouse or minor children is a partner, shareholder or officer if the annual aggregate purchases of goods or services from the director, his or her spouse or minor children or such business in the last calendar year does not exceed the greater of \$60,000 or 5% of the gross revenues of the business.

### Independence

The Board considered the following categories of items for each director it determined was independent:

Name	Loans*	Trust Services /		Banking Relationship with VNB	Professional	Commercial Relationship
		Asset Under Management			Services to Valley	
Andrew B. Abramson	Commercial and Personal	Trust Services		Checking, Savings, Certificate of Deposit		
Pamela R. Bronander	Commercial and Personal line of credit, Home Equity			Checking, Savings, Certificate of Deposit		
Eric P. Edelstein	Residential Mortgage			Checking		
H. Dale Hemmerdinger	Commercial and Personal			Checking, Savings		Partnership that leases property to VNB
Walter H. Jones, III	Commercial Line of Credit	Trust and Asset Under Management		Checking, Certificate of Deposit	Brother provides legal services to Valley	
Gerald Korde	Commercial, Commercial and Personal Line of Credit	Trust Services		Checking, Money Market		
Michael L. LaRusso	Mortgage, Home Equity			Checking, Money Market, Safekeeping		
Robinson Markel				Checking	Legal	
Robert E. McEntee	Mortgage, Home Equity line of credit, Personal			Checking, Money Market		
Richard S. Miller				Checking, Savings	Legal	
Barnett Rukin	Commercial and home mortgages, Line of credit			Checking, Safe Deposit Box		

\* In compliance with Regulation O .

### Executive Sessions of Non-Management Directors

Valley's Corporate Governance Guidelines require the Board to provide for regular executive sessions including only non-management directors. At least once a year, the Board holds an executive session including only independent directors. Valley's Board has chosen to rotate the presiding director for each meeting among the respective chairmen of the Audit and Risk, Compensation and Human Resources and Nominating and Corporate Governance Committees.





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### **Shareholder and Interested Parties Communications with Directors**

The Board of Directors has established the following procedures for shareholder or interested party communications with the Board of Directors:

Shareholders or interested parties wishing to communicate with the Board of Directors should send any communication to Valley National Bancorp, c/o Alan D. Eskow, Corporate Secretary, at 1455 Valley Road, Wayne, New Jersey 07470. Any such communication should state the number of shares owned by the shareholder.

The Corporate Secretary will forward such communication to the Board of Directors or, as appropriate, to the particular committee chairman, unless the communication is a personal or similar grievance, a shareholder proposal or related communication, an abusive or inappropriate communication, or a communication not related to the duties or responsibilities of the Board of Directors, in which case the Corporate Secretary has the authority to disregard the communication. All such communications will be kept confidential to the extent possible.

The Corporate Secretary will maintain a log of, and copies of, all communications for inspection and review by any Board member, and will regularly review all such communications with the Board or the appropriate committee chairman.

The Board of Directors has also established the following procedures for shareholder or interested party communications with the rotating chairman of the executive sessions of the non-management directors of the Board:

Shareholders or interested parties wishing to communicate with the presiding director of executive sessions should send any communication to Valley National Bancorp, c/o Alan D. Eskow, Corporate Secretary, 1455 Valley Road, Wayne, New Jersey 07470. Any such communication should state the number of shares owned by the shareholder.

The Corporate Secretary will forward such communication to the then presiding director, unless the communication is a personal or similar grievance, a shareholder proposal or related communication, an abusive or inappropriate communication, or a communication not related to the duties or responsibilities of the non-management directors, in which case the Corporate Secretary has the authority to disregard the communication. All such communications will be kept confidential to the extent possible.

The Corporate Secretary will maintain a log of, and copies of, all communications for inspection and review by the presiding director of executive sessions, and shall regularly review all such communications with the presiding director at the next meeting.

### **Committees of the Board of Directors; Board of Directors Meetings**

In 2006, the Board of Directors maintained an Audit and Risk Committee, a Nominating and Corporate Governance Committee and a Compensation and Human Resources Committee. Only independent directors serve on these committees.

During 2006, each director (other than Mr. Edelstein due to a family illness) attended 75% or more of the meetings of the Board of Directors, the Bank Board and of each committee on which he or she served. Valley's Board met five times during 2006 and the Bank's Board met fourteen times during 2006.

The following table presents 2006 membership information for each of Valley's Audit and Risk, Nominating and Corporate Governance, and Compensation and Human Resources Committees.



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Name	Audit and Risk	Nominating and Corporate Governance	Compensation and Human Resources
Andrew B. Abramson	X*	X	X
Pamela R. Bronander			
Eric P. Edelstein	X**		X
Mary J. Steele Guilfoile			
H. Dale Hemmerdinger			X
Graham O. Jones			
Walter H. Jones, III	X	X*	
Gerald Korde	X	X	X**
Michael L. LaRusso	X		X
Robinson Markel		X	X
Robert E. McEntee	X	X	X*
Richard S. Miller		X	
Barnett Rukin			X

\* Committee Chairman

\*\* Vice Chairman

Audit and Risk Committee

Mr. Abramson served as Chairman of the Audit and Risk Committee.

Other members of the committee are Messrs. Edelstein (Vice Chairman), W. Jones, Korde, LaRusso and McEntee.

The committee met six times during 2006.

The Board of Directors has determined that more than one member of the Audit and Risk Committee meets the New York Stock Exchange standard of having accounting or related financial management expertise. The Board of Directors has also determined that Messrs. McEntee and Edelstein each meets the SEC criteria of an Audit Committee Financial Expert.

The Audit and Risk Committee operates pursuant to a charter. The charter gives the Audit and Risk Committee the authority and responsibility for the appointment, retention, compensation and oversight of Valley's independent registered public accounting firm, including pre-approval of all audit and non-audit services to be performed by Valley's independent registered public accounting firm. Other responsibilities of the Audit and Risk Committee pursuant to the charter include:

Reviewing the scope and results of the audit with Valley's independent registered public accounting firm;

Reviewing with management and Valley's independent registered public accounting firm Valley's interim and year-end operating results including SEC periodic reports and press releases;

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Considering the appropriateness of the internal accounting and auditing procedures of Valley;

Considering Valley's outside auditors' independence;

Reviewing the risk management and internal compliance functions;

Reviewing examination reports by bank regulatory agencies;

Reviewing audit reports prepared by Valley's internal audit function;

Reviewing the response of management to those reports; and

Reporting to the full Board concerning significant matters coming to the attention of the committee.

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Nominating and Corporate Governance Committee

Mr. W. Jones served as Chairman of the Nominating and Corporate Governance Committee.

Other members of the committee are Messrs. Abramson, Korde, Markel, McEntee and Miller.

The committee met three times during 2006.

This committee reviews qualifications of and recommends to the Board candidates for election as director of Valley and the Bank, considers the composition of the Board, recommends committee assignments, and discusses management succession for the Chairman and the CEO positions. The Nominating and Corporate Governance Committee develops corporate governance guidelines which include:

Director qualifications and standards;

Director responsibilities;

Director orientation and continuing education;

Limitations concerning service on other boards;

Director access to management and records, criteria for annual self-assessment of the Board, its committees, management and the effectiveness of their functioning.

The committee is also charged with reviewing the Board's adherence to Valley's corporate governance principles and Code of Conduct. The committee reviews recommendations from shareholders regarding corporate governance and director candidates. The procedure for submitting recommendations of director candidates is set forth below under the caption "Nomination of Directors."

Compensation and Human Resources Committee

Mr. McEntee served as Chairman of the Compensation and Human Resources Committee.

Other members of the committee are Messrs. Abramson, Edelstein, Hemmerdinger, Korde (Vice Chairman), LaRusso, Markel and Rukin.

The committee met nine times during 2006.

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This committee determines CEO compensation, sets general compensation levels for all officers and employees and sets specific compensation for named executive officers (NEOs) and other executive officers. It also administers Valley's non-equity compensation plan and the equity compensation plans, including the 1999 Long-Term Stock Incentive Plan and makes awards pursuant to those plans. The Board has approved its charter, which delegates to the committee the responsibility to recommend Board compensation.

### Availability of Committee Charters

The Audit and Risk Committee, Nominating and Corporate Governance Committee and Compensation and Human Resources Committee each operates pursuant to a separate written charter adopted by the Board. Each committee reviews its charter at least annually. All of the committee charters can be viewed at the Corporate Profile link on Valley's website [www.valleynationalbank.com](http://www.valleynationalbank.com). Each charter is also available in print to any shareholder who requests it. The information contained on the website is not incorporated by reference or otherwise considered a part of this document.

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### **Nomination of Directors**

Nominations for a director may be made only by the Board of Directors or a committee of the Board or by a shareholder of record entitled to vote. The Board of Directors has established minimum criteria for members of the Board.

These include:

Directors may not be nominated for election to the Board in the calendar year after the year in which the director turns 75;

The maximum age for an individual to join the Board shall be age 60;

Each Board member must demonstrate that he or she is mentally and physically able to serve regardless of age;

Each Board member must be a U.S. citizen and comply with all federal regulations;

A majority of the Board members must maintain their principal residence within 100 miles of Wayne, New Jersey;

Each non-local resident Board member, who also maintains a secondary residence in New Jersey or within 50 miles of Wayne, New Jersey, may not stand for re-election to the Board for more than four terms following his or her establishment of a legal residence outside of the Bank's primary service area;

Each Board member must own a minimum of 5,000 shares of Valley common stock of which 1,000 shares must be in his or her own name;

Unless there are mitigating circumstances (such as medical or family emergencies), any Board member who attends less than 85% of the Board and assigned Committee Meetings for two consecutive years, will not be nominated for re-election;

Each Board member must prepare for meetings by reading information provided prior to the meeting. Each Board member should participate in meetings, for example, by asking questions and by inquiring about policies, procedures or practices of Valley;

Each Board member should be available for continuing education opportunities throughout the year;

Each Board member is expected to be above reproach in their financial dealings with Valley, the Bank and the community;

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If a Board member (a) has his or her integrity challenged by a governmental agency (indictment or conviction), (b) files for personal or business bankruptcy, (c) materially violates Valley's Code of Conduct, or (d) has a loan made to or guaranteed by the director classified as doubtful, the Board member shall resign. If a loan made to a director or guaranteed by a director is classified substandard, the Board may ask the director to resign;

Each Board member should not serve on the board of any other bank or financial institution while a member of Valley's Board;

Each Board member should be an advocate for Valley within the community; and

It is expected that the Bank will be utilized by the Board member for his or her personal and business affiliations.



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The Nominating and Corporate Governance Committee has adopted a policy regarding consideration of director candidates recommended by shareholders. The Committee will consider nominations made by shareholders. In order for a shareholder to make a nomination, the shareholder must provide a notice along with the additional information and supporting materials to Valley's Corporate Secretary not less than 120 days nor more than 150 days prior to the first anniversary of the date of the preceding year's annual meeting. The shareholder wishing to propose a candidate for consideration by the Nominating and Corporate Governance Committee must own at least 1% of the outstanding Valley common stock. In addition, the Nominating and Corporate Governance Committee has the right to require any additional background or other information from any director candidate or the recommending shareholder as it may deem appropriate. For Valley's annual meeting in the year 2008, we must receive this notice on or after November 6, 2007, and on or before December 6, 2007. The following factors, at a minimum, are considered by the Nominating and Corporate Governance Committee as part of its review of all director candidates and in recommending potential director candidates to the Board:

appropriate mix of educational background, professional background and business experience to make a significant contribution to the overall composition of the Board;

if the Committee deems it applicable, whether the candidate would be considered a financial expert or financially literate as described in the SEC and NYSE rules or an Audit and Risk Committee financial expert as defined by the Sarbanes-Oxley Act of 2002;

if the Committee deems it applicable, whether the candidate would be considered independent under the NYSE rules and the Board's additional independence guidelines set forth in the Company's Corporate Governance Guidelines;

demonstrated character and reputation, both personal and professional, consistent with that required for a bank director;

willingness to apply sound and independent business judgment;

ability to work productively with the other members of the Board;

availability for the substantial duties and responsibilities of a Valley director; and

meets the additional criteria set forth in Valley's Corporate Governance Guidelines.

You can obtain a copy of the full text of Valley's policy regarding shareholder nominations by writing to **Dianne M. Grenz, Senior Vice President, Valley National Bancorp, 1455 Valley Road, Wayne, New Jersey 07470.**

#### **Compensation and Human Resources Committee Processes and Procedures**

The Board has delegated the responsibility for executive compensation matters to the Compensation and Human Resources Committee. The minutes of the committee meetings are provided at Board meetings and the Chair of the committee reports to the Board significant issues dealt with by the committee.

The committee determines CEO compensation, sets general compensation levels for all officers and employees and sets specific compensation for NEOs and other executive officers. It also administers Valley's non-equity compensation plan and the equity compensation plans, including

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the 1999 Long-Term Stock Incentive Plan and makes awards pursuant to those plans. The Board has approved its charter, available on the company's website located at [www.valleynationalbank.com](http://www.valleynationalbank.com), which delegates to the committee the responsibility to recommend Board compensation.

In undertaking its responsibilities, annually, the committee receives from the CEO recommendations for salary, non-equity incentive awards, stock option and restricted stock awards for NEOs and other executive officers. After considering the possible payments under Valley's 1999 Long Term Incentive Plan and discussing the recommendations with the CEO, the committee meets in executive session to make the final decisions on these elements of compensation. All stock awards are made at the closing stock price on the date that the awards are approved.

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The committee also determines the CEO's compensation based on various factors including performance, personal goals and objectives as well as operating targets and the peer group analysis. The determination of the committee is final.

The salaries, non-equity compensation and stock awards to other officers are proposed by the CEO to the committee after he has consulted with the senior officers. These recommendations are reviewed by the committee and after discussion (and in certain cases amendments) are approved. All stock awards are made at the closing stock price on the date that the awards are approved.

Under authority delegated by the committee, all other employees salaries and non-equity compensation are determined by executive management. For stock awards, based on operational considerations, prior awards and staff numbers, a block of shares is allocated by the committee. The individual stock option and restricted stock awards are then allocated by the CEO and his executive staff. All stock awards are made at the closing stock price on the date that the awards are finalized.

Under authority delegated by the committee, during the year, the CEO is authorized to make limited stock option grants and restricted stock awards in specific circumstances (special incentive awards for non-officers, awards to new employees and grants on completion of advanced degrees.) All stock awards are made at the closing stock price on the date that the awards are finalized.

All awards not specifically approved in advance by the committee, but under the authority delegated, are reported to the committee at its next meeting at which time the committee ratifies the action taken.

In 2006, an analysis was conducted internally by the committee, comparing Valley's director compensation with the compensation practices for directors in similarly situated banks or peer banks. Upon review of the results, it was the opinion of the Committee that the current director compensation program was competitive and consistent among its peer banks and no changes were necessary for 2006. The committee reported its findings to the Board.

In 2006 the Committee in its sole discretion employed Fredrick W. Cook & Co. as compensation consultants. The Cook firm was employed to review compensation and performance data of a peer group of comparable financial organizations that had been selected by the committee and in relationship to these data provide an overview and comments on Valley's executive compensation. Also, the Cook firm was requested to provide trend information relating to executive compensation matters (specifically, the benefit equalization plan in 2006.)

In addition, the Cook firm has reviewed and provided comments on the 2007 proxy compensation disclosures.

#### **Code of Business Conduct and Ethics and Corporate Governance Guidelines**

Valley has adopted a Code of Conduct which applies to Valley's chief executive officer, principal financial officer, principal accounting officer and to all other Valley directors, officers and employees. The Code of Conduct is available in the Corporate Profile section of Valley's website located at [www.valleynationalbank.com](http://www.valleynationalbank.com). The Code of Conduct is also available in print to any shareholder who requests it. Valley will disclose any substantive amendments to or waiver from provisions of the Code of Conduct made with respect to the chief executive officer, principal financial officer or principal accounting officer on that website.

We have also adopted Corporate Governance Guidelines, which are intended to provide guidelines for the governance of Valley by the Board and its committees. The Corporate Governance Guidelines are available at the Corporate Profile section of Valley's website located at [www.valleynationalbank.com](http://www.valleynationalbank.com). The Corporate Governance Guidelines are also available in print to any shareholder who requests them.

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**DIRECTOR COMPENSATION****Compensation of Directors**

Annual Compensation of non-employee Directors for 2006 was comprised of the following components, cash compensation consisting of annual retainer, meeting and committee fees, and to the extent that a Director elects to forego all or a portion of the annual retainer and Board meeting fees, participation in the 2004 Directors Restricted Stock Plan. In addition, there is a Directors Retirement Plan. Each of these compensation components is described in detail below. The total 2006 compensation of the non-employee Directors is shown in the following table.

Name	Fees Earned or Paid in		Change in Pension Value and Non-Qualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
	Cash (1)	Stock Awards (2)			
Andrew B. Abramson*	\$ 56,000	\$ 61,054	\$ 2,443	\$ 6,387	\$ 125,884
Pamela R. Bronander	19,625	50,871	1,860	4,146	76,502
Eric P. Edelstein**	22,750	61,054	3,364	6,387	93,555
Mary J. Steele Guilfoile	18,000	61,054	2,454	54,387	135,895
H. Dale Hemmerdinger	69,000		4,606		73,606
Graham O. Jones	65,000		5,469		70,469
Walter H. Jones, III*	75,000		5,902		80,902
Gerald Korde**	86,750		5,593		92,343
Michael L. LaRusso	58,000	31,819	4,273	2,228	96,320
Robinson Markel	75,000		9,523		84,523
Robert E. McEntee*	36,000	61,054	17,659	6,387	121,100
Richard S. Miller (5)	69,000		7,088		76,088
Barnett Rukin	22,250	61,054	6,944	6,387	96,635

\* Bancorp Committee Chairman

\*\* Bancorp Committee Vice Chairman

NOTES:

- (1) Includes committee fees and fees for chairing Board Committees.
- (2) Reflects fees forgone by directors and expensed in 2006, and amortization of restricted stock awards for 2004, 2005 and 2006 pursuant to the 2004 Directors Restricted Stock Plan, in accordance with SFAS No. 123R. See Note 13 Benefit Plans under Stock-Based Compensation, of Valley's Annual Report on Form 10-K for additional information on SFAS No. 123R valuation methodology. Though the deferred stock is subject to forfeiture under certain circumstances, this amount assumes proportionate vesting over the five year deferral period. There were 48,888 outstanding shares under the plan as of December 31, 2006; of which 8,091 shares were outstanding for each of the following participants: Mr. Abramson, Mr. Edelstein, Ms. Guilfoile, Mr. McEntee and Mr. Rukin; 5,503 shares were outstanding for Ms. Bronander and 2,930 shares were outstanding for Mr. LaRusso.

- (3) Represents the change in the net present value of pension benefits between 2005 and 2006 taking into account the age of each director, a present value factor, an interest discount factor and time remaining until retirement.
- (4) Reflects the 2006 cash dividend and interest on deferred dividends under the 2004 Directors Restricted Stock Plan. For Ms. Guilfoile, the amount also includes a \$48,000 consulting fee paid to MG Advisors, Inc. in 2006, pursuant to a long-standing investment banking retainer consulting agreement. Ms. Guilfoile is the chairman of MG Advisors.
- (5) Mr. Miller has 2,688 shares of non-qualified stock options outstanding in connection with a director stock incentive plan acquired by Valley through a merger.

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#### Annual Board Retainer

Non-employee Directors received an annual retainer of \$25,000 per year, paid quarterly. This retainer is paid to recognize expected ongoing dialog of Board members with Valley executives and employees, for being available to provide their professional expertise as needed, to attend various Bank functions, to undertake continuing education and to interface with customers as appropriate.

#### Board Meeting Fees

In recognition of the preparation time, travel time, attendance at and providing professional expertise at the Board meeting, Non-employee Directors received a Board meeting fee of \$2,000 for each meeting attended.

#### Board Committee Fees and Committee Chair Retainer

The Chair of the Audit and Risk Committee received an annual retainer of \$7,500 and the Vice Chair a retainer of \$3,750. The Chair of the Compensation and Human Resources Committee received an annual retainer of \$7,500 and the Vice Chair a retainer of \$3,750. The Chair of the Nominating and Corporate Governance Committee receives an annual retainer of \$7,500. These retainers are to recognize the extensive time that is devoted to committee matters including meetings with management, auditors, attorneys and consultants and preparing committee agendas.

All members of these committees are paid for attending the committee meeting. The meeting fees are \$2,000 for Audit and Risk, \$1,500 for Compensation and Human Resources and \$1,000 for Nominating and Corporate Governance.

The Company and Bank also have a number of other committees that are not disclosed committees under SEC and NYSE rules. These committees deal with oversight of various operating matters. All other committee chairs receive a retainer of \$5,000 and there is an attendance fee of \$500 for each committee except for the AML Compliance Committee, where the meeting fee is \$1,000.

#### Directors Retirement Plan

Valley maintains a retirement plan for eligible non-employee directors of Valley, which was amended in November 2001. The plan provides 10 years of annual benefits to directors with five or more years of service. The benefits commence following the later of a director reaching age 65 or after a director has retired from the Board. The annual benefit is equal to the director's years of service, multiplied by 5%, multiplied by the final annual retainer paid by Valley to the director at the time of retirement. In the event of the death of the director prior to receipt of all benefits, the payments continue to the director's beneficiary or estate.

#### Directors Restricted Stock Plan

In 2005, Valley's shareholders approved the 2004 Director Restricted Stock Plan (2004 Directors Plan). The 2004 Directors Plan provides the non-employee members of the Board of Directors with the opportunity to forego some or all of their annual cash retainer and meeting fees in exchange for shares of Valley restricted stock granted at a percentage of the market value at the date of grant (generally 75%). The discount recognizes the exchange of immediate cash fees for a five year deferral (or to retirement) and certain other restrictions, including forfeiture in certain cases. There are 48,888 shares outstanding under this plan as of December 31, 2006.

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**STOCK OWNERSHIP OF MANAGEMENT  
AND PRINCIPAL SHAREHOLDERS**

The following table contains information about the beneficial ownership of Valley common stock at December 31, 2006 by each director, by each Valley executive officer for whom individual information is required to be set forth in this proxy statement under rules of the Securities and Exchange Commission, and by directors and all executive officers as a group. We know of no person or group that beneficially owns 5% or more of Valley's common stock.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Class (2)
Directors and Named Executive Officers:		
Andrew B. Abramson	213,284(3)	0.18%
Pamela R. Bronander	15,920(4)	0.01
Peter Crocitto	268,177(5)	0.23
Eric P. Edelstein	13,878(6)	0.01
Alan D. Eskow	159,856(7)	0.14
Mary J. Steele Guilfoile	306,886(8)	0.26
H. Dale Hemmerdinger	75,921(9)	0.06
Graham O. Jones	925,994(10)	0.79
Walter H. Jones, III	1,195,743	1.02
Gerald Korde	1,717,564(11)	1.46
Michael L. LaRusso	9,215(12)	0.01
James G. Lawrence	422,496(13)	0.36
Gerald H. Lipkin	542,324(14)	0.46
Robinson Markel	397,119(15)	0.34
Robert E. McEntee	95,940(16)	0.08
Robert M. Meyer	294,832(17)	0.25
Richard S. Miller	74,792(18)	0.06
Barnett Rukin	60,101(19)	0.05
Directors and Executive Officers as a group (30 persons)	8,089,907(20)	6.88

## NOTES:

- (1) Beneficially owned shares include shares over which the named person exercises either sole or shared voting power or sole or shared investment power. It also includes shares owned (i) by a spouse, minor children or by relatives sharing the same home, (ii) by entities owned or controlled by the named person, and (iii) by other persons if the named person has the right to acquire such shares within 60 days by the exercise of any right or option. Unless otherwise noted, all shares are owned of record and beneficially by the named person.
- (2) The number of shares of Valley common stock used in calculating the percentage of the class owned includes 115,357,268 shares of Valley common stock outstanding as of December 31, 2006. The table also includes 2,222,630 shares purchasable pursuant to stock options for Valley shares that were exercisable within 60 days of December 31, 2006.
- (3) This total includes 6,378 shares held by Mr. Abramson's wife, 18,828 shares held by his wife in trust for his children, 3,750 shares held by a family trust of which Mr. Abramson is a trustee, 12,015 shares held by a family foundation, 81,243 shares held by a trust of which

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Mr. Abramson is a trustee, 5,891 shares held in self-directed IRA Plans of which Mr. Abramson and his wife are beneficiaries and 8,091 restricted shares pursuant to the director restricted stock plan.



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- (4) This total includes 2,323 shares held in custody for Ms. Bronander's children, 5,503 restricted shares pursuant to the director restricted stock plan; and of this total, 4,524 shares were pledged as security.
- (5) This total includes 35,464 shares held by Mr. Crocitto's wife, 2,286 shares held in his KSOP, 7,680 shares held by Mr. Crocitto as custodian for his children, 23,245 restricted shares, and 118,929 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006, but not the 45,093 shares potentially available in the future by exercise of his stock options not exercisable within 60 days of December 31, 2006.
- (6) This total includes 8,091 restricted shares pursuant to the director restricted stock plan.
- (7) This total includes 2,404 shares held in Mr. Eskow's KSOP, 669 shares held in his IRA, 1,868 shares held jointly with his wife, 651 shares in an IRA held by his wife, 23,245 restricted shares and 73,137 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006, but not the 45,093 shares potentially available in the future by exercise of his stock options not exercisable within 60 days of December 31, 2006.
- (8) This total includes 142,669 shares held by Ms. Guilfoile's spouse and 8,091 restricted shares pursuant to the director restricted stock plan.
- (9) This total includes 795 shares held by a family foundation, 11,616 shares held by Mr. Hemmerdinger's wife, 13,639 shares held by a corporation of which Mr. Hemmerdinger controls and 31,901 shares held by a corporate pension plan of which Mr. Hemmerdinger and his wife are beneficiaries.
- (10) This total includes 14,951 shares owned by trusts for the benefit of Mr. G. Jones' children of which his wife is co-trustee; and of this total, 911,043 shares were pledged as security.
- (11) This total includes 255,728 shares held in the name of Mr. Korde's wife, 646,143 shares held by his wife as custodian for his children, 235,342 shares held by a trust of which Mr. Korde is a trustee and 94,351 shares held in Mr. Korde's self-directed IRA.
- (12) This total includes 6,064 shares held jointly with Mr. LaRusso's wife and 2,930 restricted shares pursuant to the director restricted stock plan.
- (13) This total includes 16,804 shares owned by Mr. Lawrence's wife, 111,979 shares owned by family members which Mr. Lawrence has the power to vote pursuant to a proxy, 1,006 shares held by Mr. Lawrence as custodian for his son, 1,738 shares held by his spouse and himself as custodians for their grandchildren and 21,458 shares owned by a trust of which he is a beneficiary. This total also includes 7,545 restricted shares and 26,852 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006, but not 41,390 shares potentially available in the future by exercise of his stock options not exercisable within 60 days of December 31, 2006.
- (14) This total includes 171,108 shares held in the name of Mr. Lipkin's wife, 117 shares held jointly with his wife, 2,050 shares held in his KSOP, 12,075 shares held by self-directed IRAs of which Mr. Lipkin and his wife are beneficiaries and 21,987 shares held by a family charitable foundation of which Mr. Lipkin is a co-trustee. This total also includes Mr. Lipkin's 39,990 restricted shares and 115,920 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006, but not the 47,745 shares potentially available in

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the future by exercise of his stock options not exercisable within 60 days of December 31, 2006.

- (15) This total includes 4,236 shares owned by Mr. Markel's wife, 25,263 shares held by his wife in trust for his children, 70,091 shares owned by Mr. Markel in his self-directed IRA and 214,353 shares owned by his sister, which Mr. Markel has power to vote. Mr. Markel disclaims beneficial ownership of the shares held by his wife, the shares held by his wife in trust for his children and shares owned by his sister.
  
- (16) This total includes 46,183 shares held in the name of Mr. McEntee's wife, 540 shares held jointly with his wife, 9,263 shares held by Mr. McEntee in a self-directed Keogh Plan and 8,091 restricted shares pursuant to the director restricted stock plan.

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- (17) This total includes Mr. Meyer's 23,245 restricted shares, 143,609 shares held jointly with his wife, 2,286 shares held in his KSOP and 118,924 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006, but not the 45,093 shares potentially available in the future by exercise of his stock options not exercisable within 60 days of December 31, 2006.
- (18) This total includes 22,421 shares held in Mr. Miller's self-directed IRA, 27,023 shares held jointly with his wife, 2,033 shares held by a corporation for which Mr. Miller is a 17.4% shareholder and 6,720 shares held by his wife. This total also includes 2,688 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006. Mr. Miller had no other stock options as of December 31, 2006. Mr. Miller disclaims beneficial ownership of the 6,720 shares held by his wife and all shares held by the corporation except 348 shares.
- (19) This total includes 19,931 shares held by Mr. Rukin's wife, as custodian and Mr. Rukin, as trustee, in various accounts for their children, 4,220 shares held by a private foundation of which Mr. Rukin is an officer and 8,091 restricted shares pursuant to the director stock plan.
- (20) This total includes 1,299,865 shares owned by twelve executive officers who are not directors or named executive officers, which total includes 63,144 restricted shares and 326,114 shares purchasable pursuant to stock options exercisable within 60 days of December 31, 2006, but not the 206,988 shares potentially available in the future by exercise of their stock options not exercisable within 60 days of December 31, 2006. The total does not include shares held by the Bank's trust department.

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## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION & ANALYSIS (CD & A)

#### Overview

We compensate our named executive officers (NEO<sup>1</sup>) at levels intended to encourage their continued service to us and at an increased level of performance. Performance level includes improving our financial performance as well as maintaining asset quality, growing our loan portfolio and expanding our retail branch banking network. The salary and incentive components of our compensation program are intended to reward these improvements, both short- and long-term, because a higher performance level generally leads to increased shareholder value.

The elements of NEO compensation are:

Performance-based:

Salary

Non-equity incentive awards,

Long-term stock incentive compensation

Non-performance based

Pension benefits

Other benefits

Perquisites

The main factors that affect NEO compensation are the operating results of Valley, the individual's job performance, and peer group compensation comparisons. Also, we have deliberately kept compensation of NEOs other than our CEO (and Mr. Lawrence, whose compensation is governed by an employment agreement as discussed below) within a narrow range, as indicated in the accompanying tables. We follow this policy because we want our key executives to perform as a team, assisting each other as required without being concerned that doing so will affect their compensation. We review this policy annually.

#### Compensation Elements

##### Performance-Based Elements

##### Salary

We pay NEO salaries in order to fairly compensate our key executives for their day-to-day efforts in managing our business activities. The Compensation and Human Resources Committee of our Board of Directors (which we will refer to as our Committee for the rest of this

discussion and analysis) reviews salaries annually in November, and adjustments for the following year are related to performance during the year being reviewed, overall company performance, peer group analysis and cost-of-living considerations.

**Non-equity incentive awards**

Under our Executive Incentive Plan, we pay NEO non-equity incentive awards towards the end of each fiscal year, based on our estimated performance for the year. Annual non-equity incentive awards, paid in cash, recognize and reward NEO efforts in helping us meet or exceed performance targets that we set at the beginning of each year. These awards are determined taking into account several measures of our operating results. Before or during the

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<sup>1</sup> Those officers identified by name in the compensation tables that follow this discussion. CEO refers to our chief executive officer.

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first calendar quarter each year, the Committee adopts performance goals for executives, including NEOs, who participate in the plan. These goals are based on elements of our business such as revenues, pre-tax profits, market price of our stock, earnings per share (EPS), return on assets (ROA) and return on equity (ROE). Typically the Committee adopts two or three of these elements each year that will be used to determine awards under the plan for that year. For fiscal 2006, we used EPS, ROA and ROE to determine awards under the plan.

The targets are multi-level, meaning that there is one target below which no award is earned, then successively higher targets that result in an increased award, up to a maximum award. The incentive awards are expressed as a percentage of base salary earned at each target level.

We set the targets for non-equity incentive awards at levels that are reasonably likely to be achieved by NEOs. In each of the past three years, the NEOs have succeeded in meeting at least the lowest target entitling them to a non-equity incentive award.

In November of each year, our Committee reviews recommendations by our CEO as to award amounts to be paid to plan participants on account of the current fiscal year. As it does so, the Committee may consider additional matters such as a participant's salary level, level of executive or managerial responsibility and job performance. The Committee then determines if any adjustments in the CEO's recommendation should be made, and sets the actual award. These award determinations are made at the same time as salary levels are reviewed.

Our Committee has discretion to make limited adjustments (up to 20%) above or below the amount calculated under the target formula, in cases where circumstances not under NEO control have affected (positively or negatively) their ability to meet performance targets. Also, our Committee has discretion to make the minimum non-equity incentive award even though the lowest target was not reached, if it determines that, despite high levels of job performance by the NEOs, performance targets were not met owing to causes beyond their control. Our Committee has never exercised its discretion in these areas.

Our Committee intends to consider the adoption, during the current fiscal year, of a policy that allows us to recapture any part of a non-equity incentive award if our operating results on which it was based are later restated.

Our Committee compares our non-equity award levels with those of a peer group that consists entirely of domestic financial institutions whose size, measured by total assets, is similar to ours. Peer group members include: Cullen/Frost Bankers, Inc., FirstMerit Corp; Fulton Financial Corporation; Mercantile Bankshares Corp; Sky Financial Group, Inc; Susquehanna Bancshares Inc; Webster Financial Corp; and Wilmington Trust Corporation. In setting the performance targets, we may take into account, in addition to the elements of our business mentioned above, changes in the peer group's historical earnings per share, return on assets and return on equity as compared to our own.

Under the terms of an employment agreement with a company with whom Valley merged in 2001, Mr. Lawrence receives, in addition to his participation in the Executive Incentive Plan, an annual cash bonus equal to 12.5% of his base salary. The agreement expires March 1, 2008.

### **Long-Term Stock Incentive Compensation**

Our 1999 Long-Term Stock Incentive Plan, as approved by our shareholders, permits us to issue four types of non-cash awards based on our common stock: Restricted stock grants, incentive stock options, non-qualified stock options, and stock appreciation rights. Except as noted below, all awards we make are either incentive stock options or restricted stock awards.

The purpose of long-term incentive awards is to retain the services of the NEOs and other Valley employees, and encourage them to improve our operating results and to become our shareholders, all of which we expect will result in increased shareholder value.

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### Incentive Stock Options

Incentive stock options are income tax-advantaged options to purchase shares of our common stock at an exercise price which is no less than the closing market price of the stock on the date the option is granted. Incentive option recipients pay no income tax when they exercise the option and obtain the stock. When they sell the stock, tax is paid at capital gain rates (long- or short-term depending how long the stock is held) on the entire spread between the exercise price and the price at which the stock is sold.

Options typically become exercisable in installments on anniversaries of the date the option is granted; our Committee has the authority to set the vesting schedule. We grant stock options annually in connection with compensation reviews, because we believe that doing this keeps NEOs and other executives focused on growth of share values.

When an NEO leaves our employ, except for retirement or death, options that have not yet vested are forfeited, and options that have vested may be exercised for a period ranging from 90 days to one year, or may expire on the date of termination, depending on the reason for employment termination. Upon retirement of an NEO, all options becomes vested, except for awards granted on or after November 2006, for which immediate vesting will apply only to awards which are scheduled to vest in the calendar year of retirement and the calendar year thereafter. Upon death of an NEO, the options are exercisable for a period of one year by the estate or beneficiaries of the NEO.

Federal income tax rules impose a limit to the favorable tax treatment for incentive options. The limit is that no employee may hold incentive options that become exercisable in a single calendar year whose total value exceeds \$100,000. If this limit is exceeded, the excess above \$100,000 becomes a non-qualified stock option and does not receive the favorable tax treatment described above. Some of the options we have granted to NEOs exceeded the \$100,000 limit and to that extent automatically became non-qualified options.

### Restricted Stock Awards

Restricted stock grants are awards of actual shares of our common stock, without any initial cost to the NEO, but subject to a vesting restriction. The shares cannot be sold or transferred until the restriction ends and the shares become vested. Shares not vested are forfeited back to us if it becomes impossible to meet the condition for ending the restriction.

Generally, restricted stock grants are not tax-advantaged; the grantee pays tax on the fair market value of the stock as the shares vest. Dividends on shares subject to restricted stock grants are accumulated and earn a market-rate of interest. Accumulated dividends and interest are paid (on a proportionate basis) on each anniversary of the grant date when a portion of the restriction ends, assuming that employment continues at least through the anniversary date. Restricted stock grants offer the opportunity to obtain shares of our common stock without payment to us, provided the condition to ending the restriction is met.

We award restricted stock grants because we believe that they aid in retaining our key executives. We encourage our NEOs to become shareholders, and the recipient of a restricted stock grant effectively becomes a stockholder, having the right to vote the shares subject to the grant and potentially benefiting from an increase in share value.

### Non-Qualified Options and Stock Appreciation Rights

As noted earlier, our Long-Term Stock Incentive Plan also permits us to issue stock appreciation rights, which are cash awards based on the increase in value of our stock over a measurement period. Except for excess incentive options, which automatically become non-qualified options as mentioned above, we have no outstanding non-qualified options, (except those that were acquired from banks that were acquired by Valley), and only 7,254 stock appreciation rights, issued during 1998 and which expire in 2008.

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### **Performance-Based Elements Process and Timing**

Our process for determining performance-based elements of NEO compensation (salary, long-term incentive awards and non-equity incentive awards) during 2006 was as follows:

#### **Salary and Long-Term Incentive Awards**

Our CEO prepares written recommendations for salaries and long-term incentive awards for each NEO, excluding himself, in the final quarter of each fiscal year. In November 2006, our Committee met with our CEO to review and discuss these recommendations, which are measured against previously established goals. The Committee then met in executive session without our CEO or any NEOs present, and determined what, if any, adjustments in the CEO's recommendation should be made. In its executive session, the Committee also determined the CEO's compensation. The Committee's determinations are the final step in the annual compensation review process and finalize all NEO salary adjustments and long-term incentive awards.

Options and restricted stock award grants to officers, including NEOs other than our CEO, were made at the Committee's November meeting. The Committee set the exercise price of the Incentive Options at the closing market price of our common stock on the NYSE on the date of that meeting. For purely historical reasons, our committee meets to consider grants to our CEO for options and restricted stock awards in the first quarter of each year, and the exercise price of his Options is set at the closing market price of our common stock on the date of his grant.

The principal factors considered by our CEO in making, and by our Committee in reviewing, recommendations for salary and long-term stock incentive compensation recommendations, are the operating results of the Company and the job performance of the individual NEO during the year being reviewed, including whether any specific goals that may have been discussed with individual NEOs at the previous year's review were achieved.

Also, we compare current NEO salaries to those paid by the peer group of financial institutions mentioned earlier, because we try to maintain our salaries in the same range as those paid by the peer group. If the peer group comparison shows that NEO salaries are below this range, we will consider appropriate salary increases, provided they are merited by NEO performance.

#### **Long-Term Incentive Awards - Additional Considerations**

Our Committee generally limits the number of shares granted as restricted stock awards to be equal to or less than the number of options being granted at the same time. In fixing the amounts of these grants to NEOs, we take into account amounts accumulated from prior year grants, in addition to the performance factors discussed above.

Our policy is not to backdate option grants, and not to coordinate option grants with release dates of material information not previously disclosed to the public. We set the exercise price of our annual grants to NEOs of options at the closing market price of our common stock as quoted on the NYSE on the date of the Committee meeting that concludes the granting process, as mentioned earlier.

#### **Non-Performance Based Compensation Elements**

##### **Pension Benefits**

Our NEOs may participate in two pension plans. The purpose of these plans is to provide income security to NEOs and their immediate families after their retirement. We believe that pension benefits are an integral part of NEO, and other employee, compensation. We provide these benefits in order to make available to the recipients an income stream that will assist in meeting post-retirement expenses.

We have a defined-benefit tax-qualified pension plan that covers all employees, including NEOs. Benefits under that plan are a percentage of highest average annual compensation. The average includes the employee's five highest consecutive years of base pay excluding the year of termination. The benefit is (i) 0.85% of the highest





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average annual compensation to the extent it does not exceed the average maximum (over the same five-year period) of compensation subject to social security taxes, multiplied by total years of credited employment, plus (ii) 1.15% of the highest average annual compensation to the extent it does exceed the average amount subject to social security taxes, again multiplied by the total years of credited employment.

Certain NEOs also participate in a supplemental, non-tax qualified, pension plan known as the Benefit Equalization Plan or BEP. The BEP was adopted January 1, 1989. Generally, each NEO who participates in the tax-qualified plan described above, and whose annual compensation exceeds the maximum amount (\$220,000 in 2006) that can be recognized in calculating benefits under a tax-qualified plan, is eligible to become a BEP participant. Actual participation is determined by the Committee in its discretion. The Committee has determined that the following eligible NEOs are BEP participants: Messrs. Lipkin, Crocitto, Eskow and Meyer.

Before 2006, BEP participants received an additional pension benefit equal to (a) the benefit calculated under the tax-qualified plan formula as in effect prior to January 1, 1989 (when the BEP was adopted) taking all salary (but not annual non-equity incentive awards) into account, even that part of salary that exceeded the limits for a tax-qualified plan, minus (b) the BEP participant's benefit under the tax-qualified plan as in effect since January 1, 1989.

In 2006, our Committee engaged independent compensation consultant Frederick W. Cook & Co. to review our executive compensation. The report prepared by that firm indicated that comparable employers generally use a higher percentage of senior management employee cash compensation in the calculation of their pension benefits. Based on the information in that firm's report, the Committee recommended amending the BEP to include in the benefit calculation, for all service periods covered by the tax-qualified plan, not only salary, but also all annual non-equity incentive payments to participants who were employed on August 15, 2006.

At the same time, in connection with the Committee's recommendation of the BEP amendment and our CEO's agreement to postpone his retirement from age 67 to age 70, the Committee raised his minimum combined benefit under the tax-qualified plan plus the BEP from \$300,000 to \$600,000. This higher minimum payment should not significantly increase payments we would already be obligated to make under the BEP as amended (estimated to be \$585,000) if our CEO serves until age 70 at his present compensation levels.

The terms of Mr. Lawrence's employment agreement, described above under "Non-Equity Incentive Awards," include a special retirement benefit of \$100,000 per year which had been awarded by a company with whom Valley merged in 2001 plus \$19,600 per year under the directors pension plan of the merged company, each payable for 15 years after he retires. Mr. Lawrence also participates in our tax-qualified pension plan, but does not participate in the BEP.

#### **Other Benefits**

Our NEOs are eligible to participate (as are all our employees who meet service requirements under the several plans) in their selection of components of the benefit package listed below:

401(k) plan. We match individual plan contributions for participating employees, including NEOs, on a dollar-for-dollar basis, up to 2% of annual salary (limited to the maximum amount of salary that can be taken into account under a tax-qualified plan, which was \$220,000 in 2006.)

Medical and dental health insurance plans.

Life insurance plan (benefit equal to two times annual salary) and long-term disability insurance plan. The 401(k) plan and the medical and dental plans require a contributory amount to be paid by all participants. While no participant contribution is required for the life insurance plan, we do include the cost of those benefits that exceed \$50,000 in participants' reported income to the Internal Revenue Service. We provide a long-term disability insurance plan under which we pay the insurance premiums. In some cases, NEOs and other participants have requested, and been permitted, to pay the premiums themselves, so that any benefits paid upon disability would not be taxable

to the participant.

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We believe that the several insurance plans we offer are important components of our comprehensive benefit package, which should induce employees to remain with us. We believe that a 401(k) plan induces our employees to save for future retirement needs, and we encourage this by matching individual plan contributions up to 2% of annual salary, as described above, by participating employees.

### **Perquisites**

We offer our NEOs the use of a company-owned automobile (except Mr. Lawrence who is reimbursed for his lease of an automobile). The automobile facilitates NEO travel between our offices, to business meetings with customers and vendors and to investor presentations. NEOs may use the automobile for personal transportation. Personal use of the automobile results in taxable income to the NEO, and we include this in the amounts of income we report to the NEO and the Internal Revenue Service. We also support and encourage our NEOs to hold a membership in one local country club (our CEO holds memberships in two clubs) for which we pay admission costs, dues and other business related expenses. We find that the club membership is an effective means of obtaining business as it allows NEOs to interact with present and prospective customers in a relaxed, informal environment. We require that any personal use of the country club facilities for golf or food be paid directly by the NEO. Because the club memberships are used at our expense only for business entertainment, we do not consider these memberships to be perquisites in our Summary Compensation Table below.

### **Severance and Change-in-Control Agreements**

We have written severance agreements with our NEOs (other than Mr. Lawrence as explained under **Potential Payments on Termination of Employment or Change-in-Control** below.) We recognize that the uncertainty arising from not having severance arrangements may have a negative impact on NEO performance. This uncertainty could induce our NEOs to seek employment elsewhere. We think that the security of a defined severance arrangement helps us retain the services of these key employees.

We also have written change-in-control agreements with each NEO, in order to be able to retain their services in case a change-in-control becomes a realistic possibility. Often when this happens, executives become distracted by personal concerns about how they will be affected by the change. Our change-in-control agreements provide financial security in the face of a possible major event requiring our NEOs' concentrated efforts.

### **Potential Payments on Termination of Employment or Change-in-Control**

#### **Severance Agreements**

As mentioned above, we have a written severance agreement with each of the NEOs other than Mr. Lawrence. The terms of Mr. Lawrence's employment are governed by the employment agreement with a company with whom Valley merged in 2001 described above under **Non-Equity Incentive Compensation** and do not include any severance arrangements. For that reason, this **Severance Agreements** discussion does not apply to Mr. Lawrence.

The severance agreements with the NEOs provide for a lump sum payment on termination of employment for any reason than for cause ( **cause** means, for our CEO, gross misconduct in connection with our business or otherwise, and for the other NEOs, failure to perform employment duties, misconduct in office, a criminal conviction (other than a traffic violation), drug or alcohol abuse or excessive absence for reasons other than illness.)

The lump sum severance payment is equal to twelve months of base salary as in effect on the date of termination, plus a fraction of the NEO's most recent annual non-equity incentive award, equal to the fraction of the calendar year elapsed from January 1 to the termination date. No lump sum severance payment is made under the agreement if the NEO receives severance under a change-in-control agreement (described below).

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The severance agreements with NEOs other than our CEO expire when the NEO reaches age 65. The severance agreement with our CEO expires when he reaches age 70, consistent with his agreement, referred to earlier, to continue serving as CEO until he reaches that age.

Also, under the severance agreements, we provide Messrs. Crocitto, Eskow and Meyer health, dental benefits, life insurance and disability plan continuance for three years after termination of employment less payments normally made by the NEO. For Mr. Lipkin, we provide him with a lump sum cash payment in place of hospital, health, dental and medical benefits, also net of contributions normally made by Mr. Lipkin. This payment is 125% of total monthly premium payments under COBRA (COBRA provides temporary continuation of health coverage at group rates after termination of employment) for the health-related benefits Mr. Lipkin was receiving at termination of employment, multiplied by a factor which is the number of months from his termination date to the date on which he reaches age 70. The amount of insurance coverage is the same as the coverage the NEO was receiving under our insurance plans at the time of termination.

The severance agreement requires the NEO to keep confidential all confidential information that he or she obtained in the course of his or her employment with us. The agreement also restricts the NEO from competing with us during and for one year after termination of his or her employment with us.

#### **Change-in-Control Agreements**

Our change-in-control agreement with each NEO provides for a lump sum payment and other benefits if two triggering events take place. These triggering events are, first, a change-in-control, and second, a termination of employment by us without cause, or by the NEO for good reason, before the third anniversary of the change-in-control or before reaching retirement age, whichever happens first.

Also, under the terms of our Long-Term Stock Incentive Plan, occurrence of a change-in-control results in immediate acceleration of vesting and exercisability of nonvested stock options, and accelerated vesting of restricted stock awards, even if termination of employment has not occurred. This single trigger acceleration assures the NEOs that all their stock-based awards will be available to them despite a subsequent termination of their employment without cause or attempt by new management to force them to quit, either of which would otherwise result in forfeiture of unvested options.

With this in mind, we have structured the first of the two triggering events — occurrence of a change-in-control — using a very broad definition of that term. The events defined, in the agreements, as changes of control are:

Outsider stock accumulation. We learn, or one of our subsidiaries learns, that a person or business entity has acquired 25% or more of our common stock, and that person or entity is neither our affiliate (meaning someone who already has a control relationship with us or one of our subsidiary companies) nor one of our employee benefit plans.

Outsider tender/exchange offer. The first purchase of our common stock is made under a tender offer or exchange offer by a person or entity that is neither our affiliate nor one of our employee benefit plans.

Outsider subsidiary stock accumulation. Enough of the Bank's common stock is sold to a person or entity that is neither our affiliate nor one of our employee benefit plans, to give that person or entity ownership of more than half of its common stock.

Business combination transaction. We complete a merger or consolidation with another company, or we become another company's subsidiary (meaning that the other company owns at least half of our common stock), unless, after either event happens, 60% or more of the directors of the merged company, or of our new parent company, are people who were serving as our directors on the day before the first public announcement about the event.

Asset sale. We sell or otherwise dispose of all or substantially all of our assets, or those of the Bank.

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Dissolution/Liquidation. We adopt a plan of dissolution or liquidation.

Board turnover. We experience a substantial and rapid turnover in the membership of our Board of Directors. This means that changes in board membership occurring within any period of 2 consecutive years result in 40% or more of our board members not being continuing directors. A continuing director is a board member who was serving as such at the beginning of the 2-year period, or one who was nominated or elected by the vote of at least 2/3 of the continuing directors who were serving at the time of his/her nomination or election.

The second triggering event is the NEO's leaving our employment. Two conditions have to be met: First, the NEO must have left before the end of the contract period which, under the change-in-control agreement, begins the day before the change-in-control and continues through the earlier of (a) the third anniversary of the change-in-control and (b) the NEO's reaching age 65 (age 70 for our CEO.) Second, the NEO must have left either because we terminated him or her without cause, or he or she voluntarily quit for good reason. We selected this trigger because the NEO becomes entitled to substantial compensation if both triggers happen, and should be not entitled to it if he or she was terminated for cause, or voluntarily quit without good reason.

Cause for our termination of an NEO's employment means his or her failure to perform employment duties, misconduct in office, a criminal conviction, drug or alcohol abuse or excessive absence. Good reason for a NEO's voluntary termination of employment means any of the following actions by us or any successor:

We change the NEO's employment duties to include duties not in keeping with his or her position within the Company as it stood before the change-in-control.

We demote the NEO or reduce his or her authority.

We reduce the NEO's annual base compensation.

We terminate the NEO's participation in any non-equity incentive plan in which the NEO participated before the change-in-control, or we terminate any employee benefit plan in which the NEO participated before the change-in-control without providing another plan that confers a benefit similar to the terminated plan.

We relocate the NEO to a new employment location that is more than 25 miles away from the former location.

We fail to get the person or entity who took control of the Company to assume our obligations under the NEO's change-in-control agreement.

We terminate the NEO's employment before the end of the contract period, without complying with all the provisions in the NEO's change-in-control agreement.

The benefits to which our NEOs, other than Mr. Lawrence, become entitled if they are terminated without cause, or quit for good reason, within three years after a change-in-control, consists of the five items discussed below. Mr. Lawrence's benefit consists of only two of those items, a reduced lump sum severance payment and the same lump sum payment in place of health and medical benefits that the other NEOs receive, as explained below.





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The reduced benefit Mr. Lawrence receives in the event of a change-in-control was negotiated with him in 2004. Under an agreement with a company with whom Valley merged in 2001 described above under Non-Equity Incentive Compensation, his regular compensation has for several years been significantly higher than the NEOs other than Mr. Lipkin. We are required to pay for a seven-year period from January, 2001, when we acquired the company with whom Valley merged in 2001 and took over his employment agreement, to March 1, 2008, when that agreement expires.

The change-in-control benefits are as follows:

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