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

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	**22-2477875**
(State or other jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
1455 Valley Road Wayne, NJ	**07470**
(Address of principal executive office)	**(Zip code)**

973-305-8800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, no par value	New York Stock Exchange
VNB Capital Trust I 7.75% Trust Preferred Securities (and the Guarantee by Valley National Bancorp with respect thereto)	New York Stock Exchange
Warrants to purchase Common Stock	New York Stock Exchange
Warrants to purchase Common Stock	NASDAQ Capital Market

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

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

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

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

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

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

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

Large accelerated filer ☑ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $2.2 billion on June 30, 2011.

There were 187,587,473 shares of Common Stock outstanding at February 23, 2012.

Documents incorporated by reference:

Certain portions of the registrant's Definitive Proxy Statement (the "2012 Proxy Statement") for the 2012 Annual Meeting of Shareholders

to be held April 18, 2012 will be incorporated by reference in Part III. The 2012 proxy statement will be filed within 120 days of December 31, 2011.

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PART I

Item 1. *Business*

The disclosures set forth in this item are qualified by Item 1A—Risk Factors and the section captioned "Cautionary Statement Concerning Forward-Looking Statements" in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended ("Holding Company Act"). The words "Valley," "the Company," "we," "our" and "us" refer to Valley National Bancorp and its wholly owned subsidiaries, unless we indicate otherwise. At December 31, 2011, Valley had consolidated total assets of $14.2 billion, total loans of $9.8 billion, total deposits of $9.7 billion and total shareholders' equity of $1.3 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the "Bank" in this report), Valley owns all of the voting and common shares of VNB Capital Trust I and GCB Capital Trust III, through which trust preferred securities were issued. VNB Capital Trust I and GCB Capital Trust III are not consolidated subsidiaries. See Note 12 to the consolidated financial statements.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 211 branches in 147 communities serving 16 counties throughout northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. The Bank provides a full range of commercial, retail and wealth management financial services products. The Bank provides a variety of banking services including automated teller machines, telephone and internet banking, overdraft facilities, drive-in and night deposit services, and safe deposit facilities. The Bank also provides certain international banking services to customers including standby letters of credit, documentary letters of credit and related products, and certain ancillary services such as foreign exchange, documentary collections, foreign wire transfers and the maintenance of foreign bank accounts.

Valley National Bank's wholly-owned subsidiaries are all included in the consolidated financial statements of Valley (See Exhibit 21 at Part IV, Item 15 for a complete list of subsidiaries). These subsidiaries include:

- an all-line insurance agency offering property and casualty, life and health insurance;
- asset management advisors which are Securities and Exchange Commission ("SEC") registered investment advisors;
- a title insurance agency;
- subsidiaries which hold, maintain and manage investment assets for the Bank;
- a subsidiary which owns and services auto loans;
- a subsidiary which specializes in asset-based lending;
- a subsidiary which offers financing for general aviation aircraft and servicing for existing commercial equipment leases;
- a subsidiary which specializes in health care equipment and other commercial equipment leases; and
- a subsidiary which owns and services New York commercial loans.

The Bank's subsidiaries also include real estate investment trust subsidiaries (the "REIT" subsidiaries) which own real estate related investments and a REIT subsidiary, which owns some of the real estate utilized by the Bank and related real estate investments. Except for Valley's REIT subsidiaries, all subsidiaries mentioned above are directly or indirectly wholly owned by the Bank. Because each REIT must have 100 or more

shareholders to qualify as a REIT, each REIT has issued less than 20 percent of their outstanding non-voting preferred stock to individuals, most of whom are non-senior management Bank employees. The Bank owns the remaining preferred stock and all the common stock of the REITs.

Recent Acquisitions

Valley has grown significantly in the past five years primarily through both de novo branch expansion and bank acquisitions, including the following recent bank transactions:

In July 2008, we acquired Greater Community Bancorp, the holding company of Greater Community Bank, a commercial bank with approximately $1.0 billion in assets, $812 million in loans (mostly commercial real estate loans), $715 million in deposits and 16 branches in northern New Jersey. The purchase price of $167.8 million was paid through a combination of Valley's common stock (10.1 million shares) and 918 thousand warrants. Each warrant is entitled to 1.1576 Valley common shares issuable upon exercise at $16.42 per share. The warrants have an expiration date of June 30, 2015, and to date, all of the warrants issued remain outstanding.

In March 2010, the Bank acquired $688.1 million in certain assets, including loans totaling $412.3 million (primarily commercial and commercial real estate loans), and assumed all of the deposits totaling $654.2 million, excluding certain brokered deposits and borrowings, of The Park Avenue Bank and LibertyPointe Bank, both New York State chartered banks, from the Federal Deposit Insurance Corporation ("FDIC"). The deposits from both FDIC-assisted transactions were acquired at a 0.15 percent premium. In addition, as part of the consideration for The Park Avenue Bank FDIC-assisted transaction, the Bank agreed to issue a cash-settled equity appreciation instrument to the FDIC. The valuation and settlement of the equity appreciation instrument did not significantly impact Valley's consolidated financial statements.

In connection with both of the FDIC-assisted transactions, the Bank entered into loss-share agreements with the FDIC. Under the terms of the loss-sharing agreements, the Bank will share in the losses on assets and other real estate owned (referred to as "covered loans" and "covered OREO", together "covered assets"). The Bank may sell the acquired loans (with or without recourse) but in such case, the FDIC loss-sharing agreements will cease to be effective for any losses incurred on such loans. Additionally, any related FDIC loss-share receivable would be uncollectable and written-off upon settlement of the sale. The commercial and single family (residential) loan loss-sharing agreements with the FDIC expire in March of 2015 and 2020, respectively. The Company expects approximately 75 percent of the covered loans to mature, substantially paydown under contractual loan terms or work through our collection process on or before the expiration of the related loss-sharing agreements. See Note 2 to the consolidated financial statements for further details regarding these transactions. As of December 31, 2011, the Company had approximately $272 million in covered loans, which comprised 2.8 percent of its total loan portfolio.

Acquisition of State Bancorp, Inc.

On January 1, 2012, Valley acquired State Bancorp. Inc. ("State Bancorp"), the holding company for State Bank of Long Island, a commercial bank with approximately $1.6 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. The acquired branch offices located mostly in Long Island and Queens are expected to complement Valley's other New York City locations, including five branches in Queens, and lay a foundation for future expansion efforts into these attractive markets. The shareholders of State Bancorp received a fixed one- for- one exchange ratio for Valley National Bancorp common stock. The total consideration for the acquisition totaled $208 million. As a condition to the closing of the merger, State Bancorp redeemed $36.8 million of its outstanding Fixed Rate Cumulative Series A Preferred Stock from the U.S. Treasury. The stock redemption was funded by a $37.0 million short-term loan from Valley to State Bancorp. The outstanding loan, included in Valley's consolidated financial statements at December 31, 2011, was subsequently eliminated as of the acquisition date.

In connection with the acquisition, Valley acquired all of the voting and common shares of State Capital Trust I and State Capital Trust II, which are wholly-owned subsidiaries established for the sole purpose of issuing trust preferred securities and related trust common securities. These capital trusts, similar to our aforementioned capital trust subsidiaries, are not consolidated for financial statement purposes.

Additionally, a warrant issued by State Bancorp (in connection with its preferred stock issuance) to the U.S. Treasury in December 2008 was assumed by Valley as of the acquisition date. The ten-year warrant to purchase up to 466 thousand of Valley common shares has an exercise price of $11.87 per share, and is exercisable on a net exercise basis. Valley has calculated an internal value for the warrants, and may negotiate their redemption with the U.S. Treasury. However, if Valley elects not to negotiate or an agreement cannot be reached with the U.S. Treasury, the warrants will be sold at public auction and remain outstanding. See further details regarding the acquisition of State Bancorp in Note 2 to the consolidated financial statements.

Business Segments

Valley National Bank reports the results of its operations and manages its business through four business segments: commercial lending, consumer lending, investment management, and corporate and other adjustments. Valley's Wealth Management Division comprised of trust, asset management and insurance services, is included in the consumer lending segment. See Note 21 to the consolidated financial statements for details of the financial performance of our business segments. We offer a variety of products and services within the commercial and consumer lending segments as described below.

Commercial Lending Segment

Commercial and Industrial Loans. Commercial and industrial loans, including $83.7 million of covered loans, totaled approximately $2.0 billion and represented 20.0 percent of the total loan portfolio at December 31, 2011. We make commercial loans to small and middle market businesses most often located in the New Jersey and New York area. Our borrowers tend to be companies and individuals with credit histories that demonstrate a historic ability to repay current and proposed future debts. Our loan decisions will include consideration of a borrower's standing in the community, willingness to repay debts, collateral coverage and other forms of support. Strong consideration is given to long-term existing customers that have maintained a favorable relationship. Commercial loan products offered consist of term loans for equipment purchases, working capital lines of credit that assist our customer's financing of accounts receivable and inventory, and commercial mortgages for owner occupied properties. Working capital advances are generally used to finance seasonal requirements and are repaid at the end of the cycle by the conversion of short-term assets into cash. Short-term commercial business loans may be collateralized by a lien on accounts receivable, inventory, equipment and/or partly collateralized by real estate. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. At December 31, 2011, unsecured commercial and industrial loans totaled approximately $338 million. In addition, through our subsidiaries we make aviation loans, provide financing to the diamond and jewelry industry, the medical equipment leasing market, and engage in asset-based accounts receivable and inventory financing.

Commercial Real Estate Loans. Commercial real estate loans and construction loans, including $167.6 million of covered loans, totaled $4.2 billion and represented 42.4 percent of the total loan portfolio at December 31, 2011. We originate commercial real estate loans that are secured by multi-unit residential property and non-owner occupied commercial, industrial, and retail property within New Jersey, New York and Pennsylvania. Loans are generally written on an adjustable basis with rates tied to a specifically identified market rate index. Adjustment periods generally range between five to ten years and repayment is structured on a fully amortizing basis for terms up to thirty years. When underwriting a commercial real estate loan, primary consideration is given to the financial strength and ability of the borrower to service the debt, and the experience and qualifications of the borrower's management and/or guarantors. The underlying collateral value of the mortgaged property and/or financial strength of the guarantors are considered secondary sources of repayment. With respect to construction loans to developers and builders, we originate and manage such loans structured on

either a revolving or non-revolving basis, depending on the nature of the underlying development project. Our construction loans totaling $411.0 million at December 31, 2011 are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single family residential construction) are controlled with loan advances dependent upon the presale of housing units financed.

Consumer Lending Segment

Residential Mortgage Loans. Residential mortgage loans, including $15.5 million of covered loans, totaled $2.3 billion and represented 23.5 percent of the total loan portfolio at December 31, 2011. We offer a full range of residential mortgage loans for the purpose of purchasing or refinancing one-to-four family residential properties. Residential mortgage loans are secured by 1-4 family properties generally located in counties where we have a branch presence and contiguous counties (including the State of Pennsylvania). We occasionally make mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Underwriting policies that are based on Fannie Mae and Freddie Mac guidelines are generally adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2011 was 54 percent while FICO ® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 768. Terms of first mortgages range from 10 years for interest only loans (which totaled approximately $24.5 million at December 31, 2011) to 30 years for fully amortizing loans. In deciding whether to make a residential real estate loan, we consider the qualifications of the borrower as well as the value of the underlying property. See “Credit Risk Management and Underwriting Approach” section below for further details **.**

Other Consumer Loans . Other consumer loans, including $4.9 million of covered loans, totaled $1.4 billion and represented 14.1 percent of the total loan portfolio at December 31, 2011. Our other consumer loan portfolio is primarily comprised of direct and indirect automobile loans, home equity loans and lines of credit, credit card loans, and to a lesser extent, secured and unsecured other consumer loans. Valley is an auto lender in New Jersey, New York, Pennsylvania, and Connecticut offering indirect auto loans secured by either new or used automobiles. Auto loans may be originated directly with the purchasers of the automobile and indirect auto loans are purchased from approved automobile dealers. Home equity lines of credit are secured by 1 to 4 family residential properties. Although we offer home equity loans to all qualified homeowners, these loans are generally provided as a convenience to our new and existing residential mortgage borrowers. Home equity loans and home equity lines of credit may have a variety of terms, interest rates and amortization features. Other consumer loans include direct consumer term loans, both secured and unsecured. From time to time, the Bank will also purchase prime consumer loans originated by and serviced by other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. At December 31, 2011, unsecured consumer loans totaled approximately $66.5 million, including $9.1 million of credit card loans.

Wealth Management. Our Wealth Management Division provides coordinated and integrated delivery of asset management advisory, trust, general insurance, title insurance, asset management advisory, and asset-based lending support services. Trust services include living and testamentary trusts, investment management, custodial and escrow services, and estate administration, primarily to individuals. Asset management advisory services include investment services for individuals and small to medium sized businesses, trusts and custom tailored investment strategies designed for various types of retirement plans.

Investment Management Segment

Although we are primarily focused on our lending and wealth management services, a large portion of our income is generated through investments in various types of securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York), as part of our asset/liability management strategies. As of December 31, 2011, our total investment securities and interest bearing deposits with banks were $2.5 billion and $6.5 million, respectively. See the "Investment Securities Portfolio" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) and Note 4 to the consolidated financial statements for additional information concerning our investment securities.

Changes in Loan Portfolio Composition

Approximately 69 percent of Valley's $9.8 billion total loan portfolio consists of non-covered (i.e., loans which are not subject to loss-sharing agreements with the FDIC) commercial real estate, including construction loans, residential mortgage, and home equity loans at December 31, 2011. Of the remaining 31 percent, approximately 28 percent consists of different categories of non-covered loans and approximately 3 percent consists of loans covered by the FDIC loss-sharing agreements. Valley has no internally planned changes that will significantly impact the current composition of our loan portfolio by loan type. However, many external factors outlined in "Item 1A. Risk Factors", the "Executive Summary" section of our MD&A, and elsewhere in this report may impact our ability to maintain the current composition of our loan portfolio. See the "Loan Portfolio" section of our MD&A in this report for further discussion of our loan composition and concentration risks.

The following table presents the loan portfolio segments by state as an approximate percentage of each applicable segment and our percentage of total loans by state at December 31, 2011.

	December 31, 2011				
	Percentage of Loan Portfilo Segment:				
	Commercial and Industrial	Commercial Real Estate	Residential	Consumer	% of Total Loans
New Jersey	51%	64%	83%	61%	65%
New York	34	30	9	17	24
Pennsylvania	2	1	4	19	4
Florida	2	1	1	1	1
California	2	—	—	—	—
Other*	9	4	3	2	6
Total	100%	100%	100%	100%	100%

* Includes states with less than 1 percent of loans in each loan portfolio segment.

Credit Risk Management and Underwriting Approach

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

Our historical and current loan underwriting practice prohibits the origination of payment option ARMs which allow for negative interest amortization and subprime loans. At December 31, 2011, our residential loan portfolio included approximately $22 million of loans that could be identified by us as non-conforming loans commonly referred to as either “alt-A,” “stated income,” or “no doc” loans. These loans were mostly originated prior to 2008 and had a weighted average loan-to-value ratio of 70 percent at the date of origination. Virtually all of our loan originations in recent years have conformed to rules requiring documentation of income, assets sufficient to close the transactions and debt to income ratios that support the borrower’s ability to repay under the loan’s proposed terms and conditions. These rules are applied to all loans originated for retention in our portfolio or for sale in the secondary market.

Loan documentation . Loans are well documented in accordance with specific and detailed underwriting policies and verification procedures. General underwriting guidance is consistent across all loan types with variations in procedures and due diligence is dictated by the specifics of each loan request. Due diligence standards require acquisition and verification of sufficient financial information to determine a borrower’s or guarantor’s credit worthiness, capital support, capacity to repay, collateral support, and character. Credit worthiness is generally verified using personal or business credit reports from independent credit reporting agencies. Capital support is determined by acquisition of independent verifications of deposits, investments or other assets. Capacity to repay the loan is based on verifiable liquidity and earnings capacity as shown on financial statements and/or tax returns, banking activity levels, operating statements, rent rolls or independent verification of employment. Finally, collateral valuation is determined via appraisals from independent, bank-approved, certified or licensed property appraisers or readily available market resources.

Types of collateral. Loan collateral, when required, may consist of any one or a combination of the following asset types depending upon the loan type and intended purpose: commercial or residential real estate; general business assets including working assets such as accounts receivable, inventory, or fixed assets such as equipment or rolling stock; marketable securities or other forms of liquid assets such as bank deposits or cash surrender value of life insurance; automobiles; or other assets wherein adequate protective value can be established and/or verified by reliable outside independent appraisers. In addition to these types of collateral, we, in many cases, will obtain the personal guarantee of the borrower’s principals to mitigate the risk of certain commercial and industrial loans and commercial real estate loans.

Many times, we will underwrite loans to legal entities formed for the limited purpose of the business which is being financed. Credit granted to these entities and the ultimate repayment of such loans is primarily based on the cash flow generated from the property securing the loan or the business that occupies the property. The underlying real property securing the loans is considered a secondary source of repayment, and normally such loans are also supported by guarantees of the legal entity members. Absent such guarantees or approval by our credit committee, our policy requires that the loan to value ratio (at origination) be 50 percent or less of the estimated market value of the property as established by an independent licensed appraiser.

Reevaluation of collateral values. Commercial loan renewals, refinancing and other subsequent transactions that include the advancement of new funds or result in the extension of the amortization period beyond the original term, require a new or updated appraisal. Renewals, refinancing and other subsequent transactions that do not include the advancement of new funds (other than for reasonable closing costs) or, in the case of commercial loans, the extension of the amortization period beyond the original term, do not require a new appraisal unless management believes there has been a material change in market conditions or the physical aspects of the property which may negatively impact collectability of our loan. In general, the period of time an appraisal continues to be relevant will vary depending upon the circumstances affecting the property and the marketplace. Examples of factors that could cause material changes to reported values include the passage of time, the volatility of the local market, the availability of financing, the inventory of competing properties, new improvements to, or lack of maintenance of, the subject or competing surrounding properties, changes in zoning and environmental contamination.

Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values for such loans are typically estimated using individual appraisals performed, on average, every 12 months. Between scheduled appraisals, property values are monitored within the commercial portfolio by reference to recent trends in commercial property sales as published by leading industry sources. Property values are monitored within the residential mortgage portfolio by reference to available market indicators, including real estate price indices within Valley's primary lending areas.

All refinanced residential mortgage loans require new appraisals for loans held in our loan portfolio and loans originated for sale. Additionally, all loan types are assessed for full or partial charge-off when they are between 90 and 120 days past due based upon their estimated net realizable value.

See Note 5 to our consolidated financial statements for additional information concerning our loan portfolio risk elements, credit risk management and our loan charge-off policy.

Loan Renewals and Modifications

In the normal course of our lending business, we may renew loans to existing customers upon maturity of the existing loan. These renewals are granted provided that the new loan meets our standard underwriting criteria for such loan type. While our traditional underwriting approach has always been conservative, the underwriting criteria for certain loan types are stricter in light of the current economic environment.

Additionally, on a case-by-case basis, we may extend, restructure, or otherwise modify the terms of existing loans from time to time to remain competitive and retain certain profitable customers, as well as assist customers who may be experiencing financial difficulties. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan. Substantially all of our loan modifications related to customers experiencing financial difficulties that are considered troubled debt restructured loans involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications rarely result in the forgiveness of principal or accrued interest. In addition, we frequently obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible. For restructured or modified loans for profitable customers, we generally take these actions based on numerous factors, including the quality and longevity of the customer relationship, the creditworthiness of the customer and the nature of the loan.

Extension of Credit to Past Due Borrowers

Loans are placed on non-accrual status generally when they become 90 days past due and the full and timely collection of principal and interest becomes uncertain. Valley's historic and current policy prohibits the advancement of additional funds on non-accrual and other impaired loans (i.e., troubled debt restructured loans), except under certain workout plans if such extension of credit is intended to mitigate losses.

Loans Originated by Third Parties

From time to time, the Bank purchases residential mortgage and automobile loans originated by, and sometimes serviced by, other financial institutions based on several factors, including current secondary market rates, excess liquidity and other asset/liability management strategies. Purchased residential mortgage loans and automobile loans (excluding covered loans purchased from the FDIC in March 2010) totaled approximately

$233.7 million and $72.1 million, respectively, at December 31, 2011 representing 10.2 percent and 9.3 percent of our total residential mortgage and automobile loan portfolios, respectively. Of the $233.7 million in purchased residential mortgage loans, $174.1 million were originated by board-approved independent mortgage bankers. The underwriting documentation for such loans is carefully reviewed on an individual loan-by-loan basis by Valley prior to purchase to ensure each loan meets Valley's normal credit underwriting standards. All of the purchased automobile loans are also selected using Valley's normal underwriting criteria at the time of purchase. At December 31, 2011, the independent mortgage banker originated mortgage loans had loans past due 30 days or more totaling 2.6 percent of these loans as compared to 1.8 percent for our total residential mortgage portfolio, including all delinquencies. Overall, the purchased residential mortgage and automobile portfolios had loans past due 30 days or more totaling 5.4 percent and 0.4 percent of the total loans within each respective portfolio at December 31, 2011.

Competition

Valley National Bank is one of the largest commercial banks headquartered in New Jersey, with its primary markets located in northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. Valley ranked 16th in competitive ranking and market share based on the deposits reported by 239 FDIC-insured financial institutions in the New York, Northern New Jersey and Long Island deposit market as of June 30, 2011. The FDIC also ranked Valley eighth in the state of New Jersey based on deposits as of June 30, 2011. Despite our favorable FDIC rankings, the market for banking and bank-related services is highly competitive and we face substantial competition in all phases of our operations. In addition to the FDIC-insured commercial banks in our principal metropolitan markets, we also compete with other providers of financial services such as savings institutions, credit unions, mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national institutions which offer financial services. Many of these competitors may have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures.

De novo branching by several national financial institutions and mergers between financial institutions within New Jersey and New York City, as well as other neighboring states has heightened the level of competitive pressure in our primary markets over the last several years. In addition, competition has further intensified as a result of recent changes in regulation, advances in technology and product delivery systems, and bank failures. Web-based and other internet companies are providing non-traditional, but increasingly strong, competition for our borrowers, depositors, and other customers. Within our New Jersey and the New York metropolitan markets, we compete with some of the largest financial institutions in the world that are able to offer a large range of products and services at competitive rates and prices. Nevertheless, we believe we can compete effectively as a result of utilizing various strategies including our long history of local customer service and convenience as part of a relationship management culture, in conjunction with the pricing of loans and deposits. Our customers are influenced by the convenience, quality of service from our knowledgeable staff, personal contacts and attention to customer needs, as well as availability of products and services and related pricing. We provide such convenience through our banking network of 211 branches in 147 communities, an extensive ATM network, and our 24-hour telephone and on-line banking systems.

We continually review our pricing, products, locations, alternative delivery channels and various acquisition prospects and periodically engage in discussions regarding possible acquisitions to maintain and enhance our competitive position.

Personnel

At December 31, 2011, Valley National Bank and its subsidiaries employed 2,754 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

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Executive Officers

Names	Age at December 31, 2011	Executive Officer Since	Office
Gerald H. Lipkin	70	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	54	1991	Director, Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	63	1993	Director, Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	63	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	65	1990	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	68	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	65	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	53	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	64	1991	Executive Vice President of Valley and Valley National Bank
Elizabeth E. De Laney	47	2007	First Senior Vice President of Valley National Bank
Kermit R. Dyke	64	2001	First Senior Vice President of Valley National Bank
Eric W. Gould	43	2001	First Senior Vice President of Valley National Bank
Russell C. Murawski	62	2007	First Senior Vice President of Valley National Bank
John H. Noonan	65	2006	First Senior Vice President of Valley National Bank
Ira D. Robbins	37	2009	First Senior Vice President of Valley National Bank
Stephen P. Davey	56	2002	Senior Vice President of Valley National Bank
Robert A. Ewing	57	2007	Senior Vice President of Valley National Bank

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

Available Information

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

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

SUPERVISION AND REGULATION

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

Bank Holding Company Regulation

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

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

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

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

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

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

- Gave the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as Valley National Bank. In June 2011, the FRB adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per

transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements certain fraud-prevention standards;

- After a three-year phase-in period which begins January 1, 2013, removes trust preferred securities as a permitted component of Tier 1 capital for bank holding companies with assets of $15 billion or more, however, bank holding companies with assets of less than $15 billion (including Valley) at the enactment date will be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital;
- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more (such as Valley), increases the minimum reserve ratio for the deposit insurance fund from 1.15 percent to 1.35 percent and changes the basis for determining FDIC premiums from deposits to assets (See “Insurance of Deposit Accounts” section below);
- Creates a new Consumer Financial Protection Bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws (See “Consumer Financial Protection Bureau Supervision” section below);
- Requires public companies to give shareholders a non-binding vote on executive compensation at their first annual meeting following enactment and at least every three years thereafter and on “golden parachute” payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders;
- Directs federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion, regardless of whether the company is publicly traded or not;
- Prohibits a depository institution from converting from a state to a federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days;
- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;
- Provides mortgage reform provisions regarding a customer’s ability to repay, requiring the ability to repay for variable-rate loans to be determined by using the maximum rate that will apply during the first five years of the loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;
- Creates a Financial Stability Oversight Council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- Makes permanent the $250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions;
- Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts; and
- Authorizes de novo interstate branching, subject to non-discriminatory state rules, such as home office protection.

The Dodd-Frank Act also authorized the SEC to promulgate rules that would allow shareholders to nominate and solicit votes for their own candidates using a company’s proxy materials. However, on July 21, 2011, the United States Court of Appeals for the District of Columbia Circuit struck down the SEC’s proposed proxy access rules.

The Dodd-Frank Act authorized the FRB to adopt enhanced supervision and prudential standards for, among others, bank holding companies with total consolidated assets of $50 billion or more (often referred to as "systemically important financial institutions" or "SIFI"), and authorized the FRB to establish such standards either on its own or upon the recommendations of the Financial Stability Oversight Council ("FSOC"), a new systemic risk oversight body created by the Dodd-Frank Act. In December 2011, the FRB issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for (i) risk-based capital requirements and leverage limits, (ii) stress testing of capital, (iii) liquidity requirements (iv) overall risk management requirements (v) resolution plan and credit exposure reporting and (vi) concentration/credit exposure limits. Comments on these proposed rules (the "Proposed SIFI Rules"), are due by March 31, 2012. The Proposed SIFI Rules address a wide, diverse array of regulatory areas, each of which is highly complex. Most of the Proposed SIFI Rules will not apply to Valley for so long as its total consolidated assets remain below $50 billion. However, two aspects of the Proposed SIFI Rules - requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each bank holding company establish a risk committee of its board of directors and that that committee include a "risk expert" - apply to bank holding companies with total consolidated assets of $10 billion or more, including Valley.

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

Consumer Financial Protection Bureau Supervision

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

Troubled Asset Relief Capital Purchase Program

The Emergency Economic Stabilization Act of 2008 ("EESA") was signed into law on October 3, 2008 and authorized the U.S. Treasury to provide funds to be used to restore liquidity and stability to the U.S. financial system. Under the authority of EESA, Treasury instituted the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program") to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy.

In November 2008, we decided to enter into a Securities Purchase Agreement with the U.S. Treasury that provided for our participation in the TARP Capital Purchase Program. On November 14, 2008, Valley issued and sold to the U.S. Treasury 300,000 shares of Valley Fixed Rate Cumulative Perpetual Preferred Stock, with a liquidation preference of $1 thousand per share, and a ten-year warrant to purchase up to approximately 2.5 million shares of Valley common shares.

During 2009, we incrementally repurchased all 300,000 preferred shares from the U.S. Treasury for an aggregate purchase price of $300 million (excluding accrued and unpaid dividends paid at the date of redemption). After negotiation with the U.S. Treasury, we could not agree on a redemption price for the warrants with the U.S. Treasury. As a result, the U.S. Treasury sold the warrants through a public auction completed on May 24, 2010. The warrants are currently traded on the New York Stock Exchange under the ticker symbol "VLY WS". Valley did not receive any of the proceeds of the warrant offering and is no longer a participant in the TARP program. See additional information regarding the warrants at Note 17 to the consolidated financial statements.

Regulation of Bank Subsidiary

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

Dividend Limitations

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

Loans to Related Parties

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

Community Reinvestment

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

Sarbanes-Oxley Act of 2002

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

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

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

USA PATRIOT Act

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

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

Gramm-Leach-Bliley Act

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

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was previously permissible, including insurance underwriting;
- allows insurers and other financial services companies to acquire banks;

- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

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

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

Insurance of Deposit Accounts

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

In 2009, the FDIC imposed a special emergency assessment on all insured institutions in order to cover losses to the Deposit Insurance Fund resulting from bank failures. Valley National Bank recorded an expense of $6.5 million during the quarter ended June 30, 2009, to reflect the special assessment. In addition, in lieu of further special assessments, the FDIC required all insured depository institutions to prepay on December 30, 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. Estimated assessments for the fourth quarter of 2009 and for all of 2010 were based upon the assessment rate in effect on September 30, 2009, with three basis points added for the 2011 and 2012 assessment rates. In addition, a 5 percent annual growth in the assessment base was assumed. Prepaid assessments are to be applied against the actual quarterly assessments until exhausted, and may not be applied to any special assessments that may occur in the future. Any unused prepayments will be returned to the institution on June 30, 2013. On December 30, 2009, Valley National Bank prepaid approximately $45.5 million in estimated assessment fees. Because the prepaid assessments represent the prepayment of future expense, they do not affect Valley National Bank's capital (the prepaid asset will have a risk-weighting of zero percent) or tax obligations. The balance of prepaid FDIC assessment fees at December 31, 2011 was $21.6 million.

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

As previously noted above, the Dodd-Frank Act makes permanent the $250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions. On January 18, 2011, the FDIC issued a final rule to include Interest on Lawyer Trust Accounts ("IOLTAs") in the temporary unlimited deposit coverage for non-interest bearing demand transactions accounts.

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

Temporary Liquidity Guarantee Program

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

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

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

FDICIA

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

The OCC's regulations implementing these provisions of FDICIA provide that an institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent or (b) at least 3.0 percent if the institution was rated 1 in its most recent examination, and (iv) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent or (b) less than 3.0 percent if the institution was rated 1 in its most recent examination. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets

ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. Valley National Bank's capital ratios were all above the minimum levels required for it to be considered a "well capitalized" financial institution at December 31, 2011.

In addition, significant provisions of FDICIA required federal banking regulators to impose standards in a number of other important areas to assure bank safety and soundness, including internal controls, information systems and internal audit systems, credit underwriting, asset growth, compensation, loan documentation and interest rate exposure.

Basel III

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

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

When fully phased in on January 1, 2019, Basel III requires banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

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

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios: 3.5% CET1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

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

The U.S. banking agencies have yet to propose regulations implementing Basel III. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, Dodd-Frank requires or permits the Federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact our net income and return on equity.

Item 1A. *Risk Factors*

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

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

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

Further downgrades of the U.S. credit rating and uncertain political, credit and financial market conditions may affect the stability of our $1.6 billion in securities issued or guaranteed by the federal government, which may affect the liquidity or valuation of our investment securities portfolio and may increase our future borrowing costs.

As a result of the uncertain domestic political, credit and financial market conditions, investments in financial instruments issued or guaranteed by the federal government pose liquidity and credit risks. Given that future deterioration in the United States credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our investments will not occur. At December 31, 2011, we had approximately $100.0 million, $90.7 million and $1.4 billion invested in U.S. Treasury securities, U.S. government agency securities, and residential mortgage-backed securities issued or guaranteed by Ginnie Mae and government-sponsored enterprises, respectively. On August 5, 2011, Standard and Poor's downgraded the

United States credit rating from its AAA rating to AA+. Further downgrades in the future could affect the stability of securities issued or guaranteed by the federal government. These factors could affect the liquidity or valuation of our portfolio of such investment securities, and could result in our counterparties requiring additional collateral for our borrowings. Further, unless and until the current United States political, credit and financial market conditions have been sufficiently resolved, it may increase our future borrowing costs.

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

As of December 31, 2011, we had approximately $2.0 billion and $566.5 million in held to maturity and available for sale securities, respectively. We may be required to record impairment charges in earnings related to credit losses on these investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, (a) if we intend to sell a security or (b) it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we will be required to recognize an other-than-temporary impairment charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

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

Among other securities, our investment portfolio includes private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled securities), perpetual preferred securities issued by banks, and bank issued corporate bonds. These investments pose a risk of future impairment charges by us as a result of the slow recovery in the U.S. economy and its negative effect on the performance of these issuers and/or the underlying mortgage loan collateral. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon requirements or recommendations by bank regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley's investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. We recognized other-than-temporary impairment charges on securities of $20.0 million, $4.6 million, and $6.4 million in 2011, 2010, and 2009, respectively, attributable to credit as a reduction of non-interest income on the consolidated statements of income mainly due to impaired trust preferred and private label mortgage-backed securities. See the "Investment Securities" section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.

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

Our common cash dividend payout per common share was approximately 87 percent of our earnings per share for the year ended December 31, 2011. Our low retention rate resulted from earnings being negatively impacted by several factors, including, but not limited to higher net impairment losses on certain investment securities, the sustained low level of market interest rates for interest earning assets, and higher operating costs and lower fee income caused by increased banking regulation. A prolonged economic recovery or a downturn in the economy, an increase in our costs to comply with current and future changes in banking laws and regulations, and other factors may negatively impact our future earnings and ability to maintain our dividend at current levels.

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

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

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2011, over 70 percent of our total loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and could deteriorate in value during the time the credit is extended. A continued weakening of the real estate market in our primary market areas could continue to result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and shareholders' equity could be adversely affected. The declines in home prices in the New Jersey and New York metropolitan markets we serve, along with the reduced availability of mortgage credit, also may result in increases in delinquencies and losses in our loan portfolios. Further declines in home prices coupled with a prolonged economic recovery and elevated levels of unemployment could drive losses beyond that which is provided for in our allowance for loan losses. In that event, our earnings could be adversely affected.

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

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

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

earnings would be negatively impacted by additional provisions for loan losses. Any increase in our allowance for loan losses or loan charge-offs as required by the OCC or otherwise could have an adverse effect on our results of operations or financial condition.

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

As a result of the prolonged economic downturn, we are facing historically high levels of delinquencies on our loans. Our non-accrual loans increased from 0.33 percent at December 31, 2008 to 0.98 percent, 1.12 percent, 1.27 percent of total loans at December 31, 2009, 2010 and 2011, respectively. Until economic and market conditions improve at a more rapid pace, we expect to incur charge-offs to our allowance for loan losses and lost interest income relating to an increase in non-performing loans. Non-performing assets (including non-accrual loans, other real estate owned, other repossessed assets, and non-accrual debt securities) totaled $167.4 million at December 31, 2011. These non-performing assets can adversely affect our net income mainly through increased operating expenses incurred to maintain such assets or loss charges related to subsequent declines in the estimated fair value of foreclosed assets. Adverse changes in the value of our non-performing assets, or the underlying collateral, or in the borrowers' performance or financial conditions could adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience further increases in non-performing loans in the future, or that our non-performing assets will not result in lower financial returns in the future.

Changes in interest rates could reduce our net interest income and earnings.

Valley's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond Valley's control, including general economic conditions, competition, and policies of various governmental and regulatory agencies and, in particular, the policies of the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest Valley receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Valley's ability to originate loans and obtain deposits, (ii) the fair value of Valley's financial assets and liabilities, including the held to maturity, available for sale, and trading securities portfolios, and (iii) the average duration of Valley's interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk). Any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on Valley's financial condition and results of operations.

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by the President of the United States. The Dodd-Frank Act implements significant changes in financial regulation and will impact all financial institutions, including Valley and the Bank. Among the Dodd-Frank Act's significant regulatory changes, it created a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the "Bureau"), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The Bureau has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of certain federal consumer protection laws. The Bureau also has exclusive supervision over examinations of our compliance with

those specific laws, and implementing rules and regulations, supplementing the compliance examinations that will be made by the Comptroller of the Currency. Moreover, the Dodd-Frank Act authorizes states' attorneys general to enforce consumer protection rules issued by the Bureau. The Dodd-Frank Act also restricts the authority of the Comptroller of the Currency to preempt state consumer protection laws applicable to national banks, such as the Bank, and may affect the preemption of state laws as they affect subsidiaries and agents of national banks, changes the scope of federal deposit insurance coverage, and potentially increases the FDIC assessment payable by the Bank. We expect that the Bureau and certain other provisions in the Dodd-Frank Act may significantly increase our regulatory compliance burden and costs and may introduce additional restrictions on the financial products and services we offer to our customers.

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

The Dodd-Frank Act also amended the Electronic Fund Transfer Act to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers, such as Valley National Bank. In June 2011, the Federal Reserve issued a final rule that establishes standards for determining whether an interchange fee received or charged by an issuer with respect to an electronic debit transaction is reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Effective October 1, 2011, these new standards imposed debit card interchange fee limits which were largely responsible for a $880 thousand reduction in our debit card interchange fees recognized in other non-interest income for the fourth quarter of 2011 as compared to the third quarter of 2011. Although debit card interchange fees vary based on our customer activity levels, we have estimated the new regulation will reduce such fees by $3.0 million to $3.5 million on an annual basis before the impact of any potential mitigating actions by us in the future.

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

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

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

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

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

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

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

Effective January 1, 2007, we elected to carry the junior subordinated debentures issued to VNB Capital Trust I at fair value. We measure the fair value of these junior subordinated debentures using exchange quoted prices in active markets for similar assets, specifically the trust preferred securities issued by VNB Capital Trust I, which contain identical terms as our junior subordinated debentures (see Note 12 to the consolidated financial statements). As a result, any increase in the market quoted price, or fair market value, of our trust preferred securities will result in a commensurate increase in the liability required to be recorded for the junior subordinated debentures with an offsetting non-cash charge against our earnings. Conversely, a decrease in the market quoted price of such securities will result in a decrease in the liability recorded for the debentures with an offsetting non-cash gain recognized in earnings. We recognized non-cash gains of $1.3 million ($816 thousand after taxes) during 2011 as compared to non-cash charges totaling $5.8 million ($3.8 million after taxes) and $15.8 million ($10.3 million after taxes) during 2010 and 2009, respectively, due to the change in the fair value of the junior subordinated debentures determined by the market price of the trust preferred securities. The non-cash gains and charges against our earnings do not impact our liquidity or our regulatory capital. We cannot predict whether or to what extent we would be required to take a non-cash charge against earnings related to the change in fair value of our junior subordinated debentures in future periods. Furthermore, changes in the law and regulations or other factors could require us to redeem the junior subordinated debentures at par value. If we are carrying the junior subordinated debentures at a fair value below par value when such redemption occurs, we will be required to record a charge against earnings in the period in which the redemption occurred.

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

The economic downturn since 2008 has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund.

As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $6.5 million. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012 in December 2009. We prepaid estimated assessment fees totaling $45.5 million in December 2009. Notwithstanding this prepayment, the FDIC may impose additional special assessments for future quarters or may increase the FDIC standard assessments. Furthermore, the Dodd-Frank Act changed the FDIC assessment standards which may cause our assessments to increase. We cannot provide you with any assurances that we will not be required to pay additional FDIC insurance assessments, which could have an adverse effect on our results of operations.

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

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

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

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

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

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

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

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

Checking and savings, NOW, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market or money

market or fixed income mutual funds, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, Valley could lose a comparatively lower cost source of funds, increasing its funding costs and reducing Valley's net interest income and net income.

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

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

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

Valley faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than Valley. Valley competes with other providers of financial services such as commercial and savings banks, savings and loan associations, credit unions, money market and mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a large list of other local, regional and national institutions which offer financial services. Mergers between financial institutions within New Jersey and in neighboring states have added competitive pressure. If Valley is unable to compete effectively, it may lose market share and its income generated from loans, deposits, and other financial products may decline.

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

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

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

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

- Potential exposure to asset quality issues or unknown contingent liabilities of the banks, businesses, assets and liabilities we acquire;

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

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

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

In connection with the acquisitions of certain assets and liabilities of LibertyPointe Bank and The Park Avenue Bank, we entered into loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreement with the FDIC in the LibertyPointe Bank transaction, the FDIC is obligated to reimburse us for: (i) 80 percent of any future losses on loans covered by the loss-sharing agreement up to $55.0 million, after we absorb such losses up to the first loss tranche of $11.7 million; and (ii) 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement with the FDIC in The Park Avenue Bank transaction, the FDIC is obligated to reimburse us for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. At December 31, 2011, our FDIC loss-share receivable totaled $74.4 million. Although the FDIC has agreed to reimburse us for the substantial portion of losses on covered loans, the FDIC has the right to refuse or delay payment for loan losses if the loss-sharing agreements are not managed in accordance with their terms. In addition, reimbursable losses are based on the book value of the relevant loans as determined by the FDIC as of the effective dates of the transactions. The amount that we realize on these loans could differ materially from the carrying value that will be reflected in our financial statements, based upon the timing and amount of collections on the covered loans in future periods.

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

Although our de novo branching activities were insignificant in 2011, over the past several years we have implemented a conservative de novo branch strategy to expand our physical presence in Brooklyn and Queens, as well as add locations within our New Jersey and Manhattan markets. We may also expand our branch network into markets outside of these areas. Effective January 1, 2012, we acquired State Bancorp headquartered in Long Island, New York (See Note 2 to the consolidated financial statements). Valley has opened a combined total of 13 branch locations within Brooklyn and Queens since starting its initiative in these new markets during 2007. Additionally, the 2012 acquisition of State Bancorp added 16 branches in Nassau, Suffolk, Queens, and Manhattan. Valley's ability to successfully execute in these markets depends upon a variety of factors, including its ability to attract and retain experienced personnel, the continued availability of desirable business

opportunities and locations, the competitive responses from other financial institutions in the new market areas, and the ability to manage growth. These initiatives, specifically non-acquisition related de novo branch activity, could cause Valley's expenses to increase faster than revenues. Valley can provide no assurances that it will successfully implement or continue these initiatives.

There are considerable initial and on-going costs related to de novo branches, growing loans in new markets, and attracting new deposit relationships. These expenses could negatively impact future earnings. For example, it takes time for new branches and relationships to achieve profitability. Expenses could be further increased if there are delays in the opening of new branches or if attraction strategies are more costly than expected. Delays in opening new branches can be caused by a number of factors such as the inability to find suitable locations, zoning and construction delays, and the inability to attract qualified personnel to staff the new branch. In addition, there is no assurance that a new branch will be successful even after it has been established.

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

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

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

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

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

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

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

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

A significant portion of our primary markets is located near coastal waters which could generate naturally occurring severe weather, or in response to climate change, that could have a significant impact on our ability to conduct business. Many areas in Northern New Jersey in which our branches operate are subject to severe flooding and significant weather related disruptions may become common events in the future. Additionally, New York City and New Jersey remain central targets for potential acts of terrorism against the United States. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although we have established and regularly test disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

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

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell

the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review prior to originating certain commercial real estate loans, as well as before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. The substantial decline in residential real estate values and the standards used by some originators has resulted in more repurchase requests to many secondary market participants from secondary market purchasers. Since January 1, 2006, we have originated and sold over 8,200 individual residential mortgages totaling approximately $1.5 billion. During this same period, we have received only 11 loan repurchase requests. The majority of the repurchases occurred during 2011 with several loans being subsequently re-sold at a premium. As of December 31, 2011, no reserves pertaining to loans sold were established on our financial statements. While we currently believe our repurchase risk remains low based upon our careful loan underwriting and documentation standards, it is possible that requests to repurchase loans could occur in the future and such requests may have a negative financial impact on us.

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

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

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

We conduct our business at 211 retail banking centers locations, with 167 in northern and central New Jersey and 44 in the New York City metropolitan area. We own 96 of our banking center facilities. The other facilities are leased for various terms. Additionally, we have two other properties located in New Jersey and New York City that were either owned or under contract to purchase or lease. We intend to develop these properties into new retail branch locations during 2012.

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

	Number of banking centers	% of Total
New Jersey:		
Northern	74	35%
Central	93	44
New York:		
Manhattan	16	8
Brooklyn	8	4
Queens	7	3
Long Island	13	6
Total	211	100%

Our principal business office is located at 1455 Valley Road, Wayne, New Jersey. Including our principal business office, we own four office buildings in Wayne, New Jersey and one building in Chestnut Ridge, New York, which are used for various operations of Valley National Bank and its subsidiaries. We also lease a residential mortgage loan production office in Bethlehem, Pennsylvania.

The total net book value of our premises and equipment (including land, buildings, leasehold improvements and furniture and equipment) was $265.5 million at December 31, 2011. We believe that all of our properties and equipment are well maintained, in good condition and adequate for all of our present and anticipated needs.

Item 3. ***Legal Proceedings***

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

PART II

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

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

	Year 2011			Year 2010		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$14.22	$12.50	$ 0.17	$14.38	$11.70	$ 0.17
Second Quarter	13.96	12.79	0.17	15.42	12.88	0.17
Third Quarter	14.13	9.57	0.17	14.29	11.74	0.17
Fourth Quarter	12.83	10.00	0.17	13.86	11.87	0.17

There were 8,516 shareholders of record as of December 31, 2011.

Restrictions on Dividends

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

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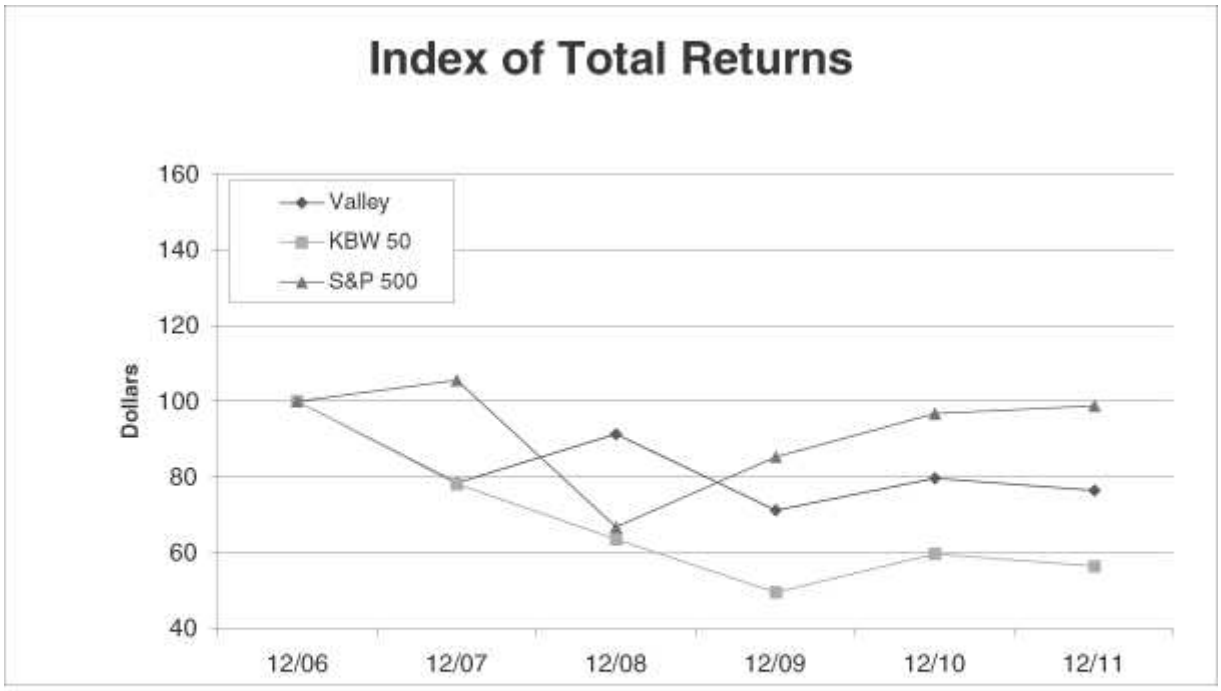
Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2006 in: (a) Valley's common stock; (b) the Standard and Poor's ("S&P") 500 Stock Index; and (c) the Keefe, Bruyette & Woods' KBW50 Bank Index. The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time based on dividends (stock or cash) and increases or decreases in the market price of the stock.



	12/06	12/07	12/08	12/09	12/10	12/11
Valley	$ 100.00	$ 78.43	$ 91.32	$ 71.17	$ 79.64	$ 76.46
KBW 50	100.00	78.05	63.56	49.53	59.63	56.55
S&P 500	100.00	105.49	66.47	84.06	96.74	98.76

Issuer Repurchase of Equity Securities

The following table presents the purchases of equity securities by the issuer and affiliated purchasers during the three months ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans [1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans [1]
October 1, 2011 to October 31, 2011	—	$ —	—	3,916,633
November 1, 2011 to November 30, 2011	36,963[2]	11.84	—	3,916,633
December 1, 2011 to December 31, 2011	549[2]	11.82	—	3,916,633
Total	37,512		—	

(1) On January 17, 2007, Valley publicly announced its intention to repurchase up to 4.5 million outstanding common shares in the open market or in privately negotiated transactions. The repurchase plan has no stated expiration date. No repurchase plans or programs expired or terminated during the three months ended December 31, 2011.

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

Equity Compensation Plan Information

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

Item 6. *Selected Financial Data*

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

	As of or for the Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except for share data)				
Summary of Operations:					
Interest income—tax equivalent basis [1]	$ 679,901	$ 682,402	$ 717,411	$ 735,153	$ 731,188
Interest expense	199,013	214,060	262,870	308,895	343,322
Net interest income—tax equivalent basis [1]	480,888	468,342	454,541	426,258	387,866
Less: tax equivalent adjustment	6,077	5,590	5,227	5,459	6,181
Net interest income	474,811	462,752	449,314	420,799	381,685
Provision for credit losses	53,335	49,456	47,992	28,282	11,875
Net interest income after provisions for credit losses	421,476	413,296	401,322	392,517	369,810
Non-interest income:					
Net impairment losses on securities recognized in earnings	(19,968)	(4,642)	(6,352)	(84,835)	(17,949)
Trading gains (losses), net	2,271	(6,897)	(10,434)	3,166	7,399
Gains on sale of assets, net	426	619	605	518	16,051
Other non-interest income	129,568	102,247	88,432	84,407	83,527
Total non-interest income	112,297	91,327	72,251	3,256	89,028
Non-interest expense:					
FDIC insurance assessment	12,759	13,719	20,128	1,985	1,003
Goodwill impairment	—	—	—	—	2,310
Other non-interest expense	323,829	303,963	285,900	283,263	250,599
Total non-interest expense	336,588	317,682	306,028	285,248	253,912
Income before income taxes	197,185	186,941	167,545	110,525	204,926
Income tax expense	63,532	55,771	51,484	16,934	51,698
Net income	133,653	131,170	116,061	93,591	153,228
Dividends on preferred stock and accretion	—	—	19,524	2,090	—
Net income available to common stockholders	$ 133,653	$ 131,170	$ 96,537	$ 91,501	$ 153,228
Per Common Share [2] :					
Earnings per share:					
Basic	$ 0.79	$ 0.78	$ 0.61	$ 0.61	$ 1.05
Diluted	0.79	0.78	0.61	0.61	1.05
Dividends declared	0.69	0.69	0.72	0.70	0.68
Book value	7.44	7.64	7.43	6.86	6.51
Tangible book value [3]	5.45	5.61	5.53	4.80	5.11
Weighted average shares outstanding:					
Basic	169,928,460	169,112,901	159,259,476	150,995,804	146,176,683
Diluted	169,929,590	169,121,584	159,260,230	151,078,917	146,609,570
Ratios:					
Return on average assets	0.94%	0.93%	0.81%	0.69%	1.25%
Return on average shareholders' equity	10.20	10.32	8.64	8.74	16.43
Return on average tangible shareholders' equity [4]	13.80	13.97	11.34	11.57	21.17
Average shareholders' equity to average assets	9.19	9.00	9.40	7.94	7.58
Tangible common equity to tangible assets [5]	6.67	6.90	6.68	5.22	5.94
Efficiency ratio [6]	57.33	57.34	58.67	67.27	53.94
Dividend payout	87.34	88.89	113.43	114.29	65.35
Risk-based capital:					
Tier 1 capital	10.92%	10.94%	10.64%	11.44%	9.55%
Total capital	12.75	12.91	12.54	13.18	11.35
Leverage capital	8.07	8.31	8.14	9.10	7.62
Financial Condition:					
Assets	$ 14,244,507	$ 14,143,826	$ 14,284,153	$ 14,718,129	$ 12,748,959
Net loans	9,665,839	9,241,091	9,268,081	10,050,446	8,423,557
Deposits	9,673,102	9,363,614	9,547,285	9,232,923	8,091,004
Shareholders' equity	1,266,248	1,295,205	1,252,854	1,363,609	949,060

See Notes to the Selected Financial Data that follow.

Notes to Selected Financial Data

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

(2) All per common share amounts reflect a five percent common stock dividend issued May 20, 2011, and all prior stock splits and dividends.

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

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

	At December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except for share data)				
Common shares outstanding	170,174,314	169,533,626	168,669,163	156,307,194	145,680,247
Shareholders' equity	$ 1,266,248	$ 1,295,205	$ 1,252,854	$ 1,363,609	$ 949,060
Less: Preferred stock	—	—	—	291,539	—
Less: Goodwill and other intangible assets	338,780	343,541	320,729	321,100	204,547
Tangible common shareholders' equity	$ 927,468	$ 951,664	$ 932,125	$ 750,970	$ 744,513
Tangible book value per common share	$ 5.45	$ 5.61	$ 5.53	$ 4.80	$ 5.11

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

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	($ in thousands)				
Net income	$ 133,653	$ 131,170	$ 116,061	$ 93,591	$153,228
Average shareholders' equity	1,310,939	1,270,778	1,342,790	1,071,358	932,637
Less: Average goodwill and other intangible assets	342,122	331,667	319,756	262,613	208,797
Average tangible shareholders' equity	$ 968,817	$ 939,111	$1,023,034	$ 808,745	$723,840
Return on average tangible shareholders' equity	13.80%	13.97%	11.34%	11.57%	21.17%

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

	At December 31,				
	2011	2010	2009	2008	2007
			($ in thousands)		
Tangible common shareholders' equity	$ 927,468	$ 951,664	$ 932,125	$ 750,970	$ 744,513
Total assets	14,244,507	14,143,826	14,284,153	14,718,129	12,748,959
Less: Goodwill and other intangible assets	338,780	343,541	320,729	321,100	204,547
Tangible assets	$13,905,727	$13,800,285	$13,963,424	$14,397,029	$12,544,412
Tangible common shareholders' equity to tangible assets	6.67%	6.90%	6.68%	5.22%	5.94%

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

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

- A severe decline in the general economic conditions of New Jersey and the New York Metropolitan area;
- declines in value in our investment portfolio, including additional other-than-temporary impairment charges on our investment securities;
- higher than expected increases in our allowance for loan losses;
- higher than expected increases in loan losses or in the level of nonperforming loans;
- unexpected changes in interest rates;
- higher than expected tax rates, including increases resulting from changes in tax laws, regulations and case law;
- a continued or unexpected decline in real estate values within our market areas;
- charges against earnings related to the change in fair value of our junior subordinated debentures;
- higher than expected FDIC insurance assessments;
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships;
- lack of liquidity to fund our various cash obligations;
- unanticipated reduction in our deposit base;
- potential acquisitions that may disrupt our business;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations) subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- changes in accounting policies or accounting standards;

- our inability to promptly adapt to technological changes;
- our internal controls and procedures may not be adequate to prevent losses;
- claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters;
- the inability to realize expected cost savings and revenue synergies from the merger of State Bancorp with Valley in the amounts or in the timeframe anticipated;
- costs or difficulties relating to the integration of State Bancorp's systems might be greater than expected;
- inability to retain State Bancorp's customers and employees;
- lower than expected cash flows from covered loan pools acquired in FDIC-assisted transactions; and
- other unexpected material adverse changes in our operations or earnings.

Critical Accounting Policies and Estimates

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

Valley's accounting policies are fundamental to understanding management's discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements. We identified our policies for the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and could be subject to revision as new information becomes available. Management has reviewed the application of these policies with the Audit and Risk Committee of Valley's Board of Directors.

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

Allowance for Loan Losses . The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio and is the largest component of the allowance for credit losses which also includes management's estimated reserve for unfunded commercial letters of credit. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Various banking regulators, as an integral part of their examination process, also review the allowance for loan losses. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. Additionally, the allowance for loan losses is determined, in part, by the composition and size of the loan portfolio which represents the largest asset type on the consolidated statements of financial condition.

Allowance for Loan Losses on Non-Covered Loans

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

- specific reserves for individually impaired loans;
- reserves for adversely classified loans, and higher risk rated loans that are not impaired loans; and
- reserves for other loans that are not impaired.

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

Allowance for Loan Losses on Covered Loans

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

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

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

Changes in Our Allowance for Loan Losses

Valley considers it difficult to quantify the impact of changes in forecast on its allowance for loan losses. However, management believes the following discussion may enable investors to better understand the variables that drive the allowance for loan losses, which amounted to $133.8 million at December 31, 2011.

For impaired credits, if the fair value of the collateral (for collateral dependent loans) or the present value of expected cash flows (for other impaired loans) were ten percent higher or lower, the allowance would have decreased $9.4 million and increased $10.6 million, respectively, at December 31, 2011.

If classified loan balances were ten percent higher or lower, the allowance would have increased or decreased by approximately $2.8 million, respectively, at December 31, 2011.

The credit rating assigned to each non-classified credit is an important variable in determining the allowance. If each non-classified credit were rated one grade worse, the allowance would have increased by approximately $2.1 million, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2011. Additionally, if the historical loss factors used to calculate the allowance for non-classified loans were ten percent higher or lower, the allowance would have increased or decreased by approximately $6.4 million, respectively, at December 31, 2011.

A key variable in determining the allowance is management's judgment in determining the size of the allowances attributable to general economic conditions and other qualitative risk factors. At December 31, 2011, such allowances were 5.7 percent of the total allowance. If such allowances were ten percent higher or lower, the total allowance would have increased or decreased by $772 thousand, respectively, at December 31, 2011.

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

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

We recognized other-than-temporary impairment charges on securities of $20.0 million, $4.6 million, and $6.4 million, in 2011, 2010, and 2009, respectively, as a reduction of non-interest income on the consolidated statements of income. See the "Investment Securities" section of this MD&A and Note 4 to the consolidated financial statements for additional analysis and discussion of our other-than-temporary impairment charges.

Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, "Business Combinations." Goodwill totaling $318.0 million at December 31, 2011 is not amortized but is subject to annual tests for impairment or more often, if events or circumstances indicate it may be impaired. Other intangible assets totaling $20.8 million at December 31, 2011 are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Such

evaluation of other intangible assets is based on undiscounted cash flow projections. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities.

The goodwill impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses is not permitted.

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

To assist in assessing the impact of potential goodwill or other intangible asset impairment charges at December 31, 2011, the impact of a five percent impairment charge would result in a reduction in net income of approximately $16.9 million. See Note 9 to consolidated financial statements for additional information regarding goodwill and other intangible assets.

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

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

The provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. We perform regular reviews to ascertain the realizability of our deferred tax assets. These reviews include management's estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies. In connection with these reviews, if we determine that a portion of the deferred tax asset is not realizable, a valuation allowance is established. As of December 31, 2011, management has determined it is more likely than not that Valley will realize its net deferred tax assets and therefore valuation allowance was not established.

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

See Notes 1 and 14 to the consolidated financial statements and the "Income Taxes" section in this MD&A for an additional discussion on the accounting for income taxes.

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

Executive Summary

Annual Results. Net income totaled $133.7 million, or $0.79 per diluted common share, for the year ended December 31, 2011 compared to $131.2 million in 2010, or $0.78 per diluted common share. (All common share data is adjusted to reflect a five percent common stock dividend issued on May 20, 2011). The increase in net income was largely due to: (i) higher net interest income, resulting from a widening of the net interest margin on an annual basis mainly caused by our interest bearing liabilities repricing quicker than our earning assets in a prolonged low interest rate environment, (ii) a 23 percent increase in non-interest income resulting primarily from increased gains on sales of investment securities, post-acquisition date increases in our FDIC loss-share receivable, and an increase in net trading gains mainly due to higher non-cash mark to market gains on our junior subordinated debentures carried at fair value, partially offset by (iii) an increase in other-than-temporary impairment charges mainly due to the impairment of securities related to one trust preferred security issuer, higher advertising expense related to the successful promotion of our low one-price residential mortgage refinance program, as well as increases in professional and legal fees and other non-interest expense due, in part, to additional expenses related to our acquisition of State Bancorp (completed on January 1, 2012) and OREO and other expenses related to assets acquired in the FDIC-assisted acquisitions. See the "Net Interest Income," "Non-Interest Income," and "Non-Interest Expense" sections below for more details on the items above impacting our 2011 annual results.

Recent Development. In January 2012, we completed our acquisition of State Bancorp, Inc. and its principal subsidiary, State Bank of Long Island, a commercial bank with approximately $1.6 billion in assets and 16 branches located in Nassau, Suffolk, Queens and Manhattan. We believe our expansion into this attractive area of the Long Island market should provide many additional lending, retail, and wealth management service opportunities to further strengthen our New York Metropolitan operations and grow the Valley Brand in 2012. State Bank of Long Island was immediately merged into Valley National Bank with full integration of its systems completed during the first quarter of 2012. See additional details in Note 2 to the consolidated financial statements.

Economic Overview and Indicators. The 2011 economy reflected sluggish growth and low consumer confidence for most of the year due to several factors, including, but not limited to, persistently high U.S. unemployment, U.S. budget deficit and credit downgrading concerns (including Standard and Poor's downgrade of the U.S. credit rating in August 2011), the impact of Japan's tsunami and nuclear disaster on the automobile sector during the second quarter of 2011, the continual slide in existing home prices and the European Union's sovereign debt crisis threatening the future health of the global markets. Unemployment, one of the primary economic deterrents to our ability to sustain loan growth and asset quality, ranged from a high of 9.0 percent in January 2011 to a low of 8.1 percent in April 2011 for the majority of our primary markets (including northern New Jersey and the New York City Metropolitan area), and remained at an elevated level of 8.2 percent in December 2011. From a national perspective, U.S. unemployment fell to 8.3 percent in January 2012, the lowest level since early 2009.

Despite the promising decrease reflected in U.S. unemployment figure released in January 2012, various other indicators make it more difficult to assess the overall state of the economic recovery and where it may be headed in 2012. It should be noted that the number of individuals who are underemployed (only work part-time, but would prefer full-time work) or have stopped looking for employment remains at a very high level. Many economists believe the economy is fundamentally weak, as personal incomes did not grow in most regions of the U.S. during 2011 and consumer spending was still restrained through year end. The percentage of consumers with new bankruptcies and foreclosures in New Jersey and New York also remained at historically high levels as last reported during the fourth quarter of 2011, but were moderately better compared to one year ago. Additionally, the Federal Reserve maintained, and continues to support, a target range of zero to 0.25 percent for the federal funds rates due to current economic conditions. In January 2012, the Federal Reserve indicated that the anticipated economic conditions will likely warrant these exceptionally low levels for the federal funds rate through late 2014. We believe a low-rate, high unemployment environment, which is reflective of our current operating environment, will continue to challenge our business operations and results in many ways during 2012 and the foreseeable future, as highlighted throughout the remaining MD&A discussion below.

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

	For the Month Ended				
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Key Economic Indicators:					
Unemployment rate:					
U.S.	8.50%	9.10%	9.20%	8.80%	9.40%
New York Metro Region*	8.20%	8.30%	8.60%	8.40%	8.10%
New Jersey	9.00%	9.20%	9.50%	9.30%	9.10%
New York	8.00%	8.00%	8.00%	8.00%	8.20%

	Three Months Ended				
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
			($ in millions)		
Personal income:					
New Jersey	NA	$468,039	$467,394	$463,495	$453,049
New York	NA	$975,882	$974,882	$972,127	$946,566
New consumer bankruptcies:					
New Jersey	NA	0.10%	0.17%	0.17%	0.18%
New York	NA	0.09%	0.12%	0.10%	0.11%
Change in home prices:					
U.S.	NA	0.10%	3.60%	-4.20%	-3.60%
New York Metro Region*	NA	0.72%	0.01%	-2.10%	-2.80%
New consumer foreclosures:					
New Jersey	NA	0.07%	0.06%	0.12%	0.20%
New York	NA	0.06%	0.06%	0.07%	0.09%
Rental vacancy rates:					
New Jersey	10.80%	9.50%	7.90%	6.70%	8.10%
New York	6.30%	7.40%	6.40%	5.90%	7.00%

NA—available not

* As reported by the Bureau of Labor Statistics for the NY-NJ-PA Metropolitan Statistical Area.

Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of New York, S&P Indices, and the U.S. Census Bureau.

Loans. Non-covered loans (i.e., loans not subject to loss-sharing agreements with the FDIC) increased $518.7 million, or 5.8 percent, to approximately $9.5 billion at December 31, 2011 as compared December 31, 2010. The residential mortgage loan portfolio contributed $360.2 million to the increase from 2010 mainly because of our mortgage refinance program fueled, in part, by the low level of market interest rates throughout 2011, and our reduction of the amount of mortgage loans originated for sale during the year. During 2011, we originated approximately $1.2 billion in new and refinanced residential mortgage loans and retained 69 percent of these loans in our loan portfolio as compared to $977 million and 62 percent, respectively, in 2010. A significant portion of the mortgage loans retained for investment in 2011 were used to offset a $234.6 million decline in our holdings of certain residential mortgage-backed securities, mainly issued by Freddie Mac and Fannie Mae, as we sold many securities which we believed had an increase in prepayment risk during 2011. The commercial real estate loan portfolio, exclusive of construction loans, was another bright spot for Valley during 2011, as the portfolio grew by $195.8 million, or 5.8 percent, to $3.6 billion at December 31, 2011 compared to one year ago primarily due to our stronger business emphasis on co-op and multifamily loan lending in our primary markets. Commercial and industrial loans totaling $1.9 billion at December 31, 2011 were relatively flat as compared to December 31, 2010, exclusive of a $37.0 million short-term loan to State Bancorp (used to repurchase all of State's Series A Preferred Stock issued under the Treasury's Capital Purchase Program prior to being acquired by Valley in 2012). Soft loan demand caused by the slow economic recovery coupled with strong competition for quality credits continued to challenge our ability to achieve significant commercial loan growth during 2011. Automobile, home equity and construction loans declined throughout 2011 due to several factors, including the challenging economic environment and the level of our credit underwriting standards. These factors may continue to constrain the levels of our loan originations within these categories during the first quarter of 2012 and the foreseeable future.

Total covered loans (i.e., loans subject to our loss-sharing agreements with the FDIC) decreased to $271.8 million, or 2.8 percent of our total loans, at December 31, 2011 as compared to $356.7 million, or 3.8 percent of total loans, at December 31, 2010 mainly due to normal payment activity. See further details on our loan activities, including the covered loan portfolio, under the "Loan Portfolio" section below.

Asset Quality. Given the current weakened economy, unemployment and the higher delinquency rates reported throughout the banking industry, we believe our loan portfolio's credit performance remained at an acceptable level at December 31, 2011. Total loans past due in excess of 30 days decreased 0.08 percent to 1.69 percent of our total loan portfolio of $9.8 billion as of December 31, 2011 compared to 1.77 percent of total loans at December 31, 2010 mainly due to loan growth during 2011 and a slight decline in past due loans as compared to 2010 caused by a decrease in the 30 to 89 days past due loan category for all loan types. However, non-accrual loans increased $19.2 million to $124.3 million, or 1.27 percent of total loans at December 31, 2011 as compared to $105.1 million, or 1.12 percent of total loans at December 31, 2010. The increase was mostly due to a higher level of non-accrual commercial and industrial loans and commercial real estate loans caused, in part, by two loan relationships totaling $15.4 million added to non-accrual status during the fourth quarter of 2011. Although the timing of collection is uncertain, we believe most of our non-accrual loans are well secured and, ultimately, collectible. Our lending strategy is based on underwriting standards designed to maintain high credit quality and we remain optimistic regarding the overall future performance of our loan portfolio. However, due to the potential for future credit deterioration caused by the unpredictable direction of the economy and high levels of unemployment, management cannot provide assurance that our non-performing assets will remain at the levels reported as of December 31, 2011. See the "Non-performing Assets" section below for further analysis of our credit quality.

Investments . During the year ended December 31, 2011, we recognized net gains on securities transactions of $32.1 million as compared to $11.6 million in 2010 mainly due to the sale of $578.1 million in certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises classified as available for sale. As previously noted, we reduced our holdings of many residential mortgage-backed securities with increased prepayment risk, as well as reduced our credit risk related to these issuers. Other-than-temporary impairment charges attributable to credit totaled $20.0 million in 2011. Of the $20.0 million impairment charge,

$19.1 million was recognized in earnings during the fourth quarter of 2011 mostly due to the impairment of trust preferred securities issued by one bank holding company deferring interest on such securities. After the credit impairment charges, the trust preferred securities had a combined adjusted amortized cost of $46.4 million and a fair value of $23.5 million at December 31, 2011. Subsequent to the impairment analysis, we no longer had a positive intent to hold these securities to their maturity due to the significant deterioration in the securities' value caused by the credit of the issuer. However, we do plan on holding these securities until they recover in value above their present value. Accordingly, we transferred the securities from held to maturity to the available for sale portfolio at December 31, 2011. See further details regarding these impaired securities in the "Investment Securities Portfolio" section below and Note 4 to the consolidated financial statements.

Deposits and Other Borrowings. The mix of total deposits continued to shift away from time deposits to the other deposit categories during 2011 due to the low level of rates that we offered on certificates of deposit during the year and the maturity of higher cost time deposits. See further discussion of our average interest bearing liabilities under the "Net Interest Income" section below. In November and December 2011, we modified the terms of $435 million in FHLB advances within our long-term borrowings at December 31, 2011. The modifications resulted in a reduction of the interest rate on these funds, an extension of their maturity dates to 10 years from the date of modification, and a conversion of the advances to non-callable for periods ranging from 3 to 4 years. We similarly modified the terms of an additional $150 million in FHLB advances during January 2012. After the modifications, the weighted average interest rate on these borrowings declined by 0.86 percent to 3.99 percent. There were no gains, losses, penalties, or fees incurred in the modification transactions.

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

Net Interest Income

Net interest income consists of interest income and dividends earned on interest earning assets less interest expense paid on interest bearing liabilities and represents the main source of income for Valley. The net interest margin on a fully tax equivalent basis is calculated by dividing tax equivalent net interest income by average interest earning assets and is a key measurement used in the banking industry to measure income from interest earning assets.

Annual Period 2011. The net interest margin was 3.75 percent, for the year ended December 31, 2011, an increase of 6 basis points compared to 2010. As a continuation of 2010, our 2011 efforts to control our funding costs coupled with a low interest rate environment allowed us to decrease the interest rates paid on savings, NOW, and money market accounts, while maturing high cost certificates of deposit, if renewed, also repriced at lower interest rates. Additionally, lower rates on customer repos balances mostly contributed to a 9 basis point decline in the cost of short-term borrowings during 2011. A $134.5 million increase in average earning assets, mainly caused by residential mortgage and commercial real estate loan growth, contributed to the increase in net interest income during 2011. Offsetting some of the positive impact of the lower costs of funds and higher loan averages, the yield on average earning assets decreased by 7 basis points to 5.31 percent for 2011 as compared to the prior year. The decline in yield continued during all of 2011 as new assets repriced at lower market interest rates. The level of interest rates remained low during 2011 due to, in part, the Federal Reserve's continued efforts to support the U.S. economic recovery and maintain the target federal funds rate at a historical low rate range of between zero to 0.25 percent since the fourth quarter of 2008. Additionally, our fourth quarter of 2011 net interest income and net interest margin declined from the third quarter of 2011 mainly driven by lower yields on

average taxable investments and loans, as well as a decline in average taxable investment balances in the fourth quarter. See further discussion in the "Fourth Quarter 2011" section below of our net interest margin and certain measures taken by Valley at year-end and the first quarter of 2012 to help counteract the negative impact of the prolonged low level of interest rates.

Net interest income on a tax equivalent basis increased $12.5 million to $480.9 million for 2011 compared with $468.3 million for 2010. During 2011, a 13 basis point decline in interest rates paid on average interest bearing liabilities, lower average interest bearing liabilities, and higher average loan balances positively impacted our net interest income, but were partially offset by a 22 basis point decline in the yield on average total investments and a 3 basis point decline in the yield on average loans as compared to 2010. Market interest rates on interest bearing deposits continued to trend lower in 2011 as a result of the Federal Reserve's commitment to its monetary policy and the excess liquidity in the marketplace. Additionally, many of our higher cost time deposits continued to mature and, if renewed, repriced at lower interest rates in 2011. Additionally, average non-interest bearing deposit balances increased $183.1 million to $2.6 billion for 2011 as compared to 2010 as many borrowers shifted balances from interest bearing accounts or were less apt to move these deposits to other investment alternatives due to the low level of interest rates. Our cost of total deposits declined to 0.70 percent for 2011 as compared to 0.79 percent for 2010.

Our earning asset portfolio is comprised of both fixed-rate and adjustable-rate loans and investments. Many of our earning assets are priced based upon the prevailing treasury rates, the Valley prime rate (set by Valley management based on various internal and external factors) or on the U.S. prime interest rate as published in The Wall Street Journal. On average, the 10 year treasury rate decreased from 3.20 percent in 2010 to 2.76 percent in 2011, negatively impacting our yield on average loans as new and renewed fixed-rate loans were originated at lower interest rates in 2011. However, Valley's prime rate and the U.S. prime rate have remained at 4.50 percent and 3.25 percent, respectively, since the fourth quarter of 2008. Our U.S. prime rate based loan portfolio should have an immediate positive impact on the yield of our average earning assets, in the unlikely event that the prime rate begins to move upward in 2012, while an increase in treasury rates should also have a positive, but more gradual, effect on our interest income based on our ability to originate new and renewed fixed rate loans. We do not expect our Valley prime rate portfolio to have an immediate benefit to our interest income in a rising interest rate environment due to its current level above the U.S. prime rate. Additionally, interest income on approximately $1.0 billion of our residential mortgage-backed securities with unamortized purchase premiums totaling $42.9 million could improve if and when interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. Conversely, increases in the prepayment speeds due to declining interest rates will increase the amount of premium amortization expense recognized against interest income related to these securities (as we experienced during the fourth quarter of 2011).

Average loans totaling $9.6 billion for the year ended December 31, 2011 increased $133.5 million as compared to 2010 mainly due to increases in our residential mortgage and commercial real estate loan portfolios. The increase in average loan balances during 2011, partially offset by a 3 basis point decline in yield on such loans, contributed to a $4.4 million increase in interest income on a tax equivalent basis for loans for the year ended December 31, 2011 compared with 2010. Average investment securities decreased only $3.5 million in 2011. However, principal repayments on higher yielding securities and securities sold totaled $1.4 billion during 2011 and were mostly reinvested in residential mortgage-backed securities issued by Ginnie Mae and municipal securities classified as held to maturity. The 2011 reinvestments in the mortgage-backed securities and other taxable securities at low current market rates partially offset by higher yielding municipal security purchases, primarily lead to a $6.8 million decrease in interest income on a tax equivalent basis for investment securities as compared to 2010.

Average interest bearing liabilities decreased $79.6 million to $10.3 billion for the year ended December 31, 2011 from the same period in 2010 mainly due to the maturity of higher cost time deposits and long-term FHLB advances. Partially offsetting these decreases was an increase in average savings, NOW, and money market

account balances as compared to 2010 mainly due to additional retail deposits generated from our 21 de novo branches opened over the last four year period and other existing branches as household savings appeared to remain strong during 2011. The cost of time deposits, and short-term borrowings and long-term borrowings decreased 16, 9, and 7 basis points, respectively, during 2011 due to the low level of market interest rates throughout the year and, as applicable, the aforementioned maturity of higher cost funds. Additionally, we expect that maturing higher cost time deposits will continue to have some benefit to our interest margin in the first quarter of 2012.

The net interest margin on a tax equivalent basis was 3.75 percent for the year ended December 31, 2011 compared with 3.69 percent for the year ended December 31, 2010. The change was mainly attributable to a decrease in interest rates paid on all interest bearing liabilities, run-off of higher cost time deposits and higher average loan balances, partially offset by lower yields on average investments and loans. The yield on average interest earning assets decreased 7 basis points while average interest rates paid on interest bearing liabilities decreased 13 basis points causing a 6 basis point increase in our net interest margin as compared to the year ended December 31, 2010.

Fourth Quarter 2011. Net interest income on a tax equivalent basis was $120.1 million for the fourth quarter of 2011, a $3.6 million decrease from the third quarter of 2011. The linked quarter decrease was mainly driven by lower yields on average taxable investments and loans caused by the historically low interest rate environment, as well as a $130.2 million decline in average taxable investment balances for the fourth quarter of 2011. Average taxable investment balances declined due to normal repayment activity on higher yielding securities (including accelerated premium amortization on certain mortgage-backed securities) and lower reinvestment in new securities. Alternatively, we used the security repayments to fund higher yielding loan growth and maintained additional excess balances in overnight interest bearing deposits with correspondent banks, primarily the Federal Reserve Bank of New York. Interest income on loans declined during the fourth quarter mainly due to lower rates on refinanced loans and a decrease in both loan prepayment fees and interest recoveries on non-accrual loans.

The net interest margin on a tax equivalent basis was 3.74 percent for the fourth quarter of 2011, a decrease of 12 basis points from 3.86 percent in the linked third quarter of 2011. The yield on average interest earning assets decreased by 17 basis points on a linked quarter basis mainly as a result of lower yields on both average taxable investments and loans caused by the activity described above. The cost of average interest bearing liabilities declined three basis points from the third quarter of 2011 mainly due to a $197.3 million decline in average time deposits caused principally by maturing deposits that were not renewed by customers due to lower rates offered on most of our certificates of deposit products. The maturing deposits contributed to a seven basis point decrease in the cost of the average time deposits during the fourth quarter of 2011. During the fourth quarter of 2011, net interest income on a tax equivalent basis decreased $3.6 million and the net interest margin declined 12 basis points when compared with the third quarter of 2011.

We believe our margin may continue to face the risk of compression into the foreseeable future due to the current low level of interest rates on most interest earning asset alternatives combined with the repricing risk related to large percentage of our interest earning assets with short durations (see the “Interest Rate Sensitivity Analysis” table below). Additionally, our interest income on loans may increase or decrease each period due to prospective yield adjustments resulting from unexpected changes in the actual cash flows from covered loans pools (see discussion under the “Covered Loans” section below). However, we continue to tightly manage our balance sheet and our cost of funds to optimize our returns. During the fourth quarter of 2011, we continued to reduce the interest rates on many of our deposit products, including time deposits, and we were able to lower the interest rates paid on certain modified long-term FHLB borrowings as previously discussed in the “Executive Summary” section above. We have yet to fully realize the benefits of these recent reductions. Although we cannot make any guarantees as to the potential future benefits to our net interest margin, we believe these actions and other asset/liability strategies will partially temper the negative impact of the current interest rate environment. The acquisition and assumption of financial assets and liabilities in connection with the acquisition of State Bancorp on January 1, 2012 is expected to have a positive, but immaterial impact on our net interest margin for the first quarter of 2012.

The following table reflects the components of net interest income for each of the three years ended December 31, 2011, 2010 and 2009:

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY AND NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	2011			2010			2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
					($ in thousands)				
Assets									
Interest earning assets:									
Loans [1][2]	$ 9,608,480	$547,371	5.70%	$ 9,474,994	$543,017	5.73%	$ 9,705,909	$561,265	5.78%
Taxable investments [3]	2,615,140	114,784	4.39	2,641,869	123,021	4.66	2,700,744	140,305	5.20
Tax-exempt investments [1][3]	429,004	17,344	4.04	405,730	15,948	3.93	272,520	14,896	5.47
Federal funds sold and other interest bearing deposits	161,612	402	0.25	157,163	416	0.26	352,473	945	0.27
Total interest earning assets	12,814,236	679,901	5.31	12,679,756	682,402	5.38	13,031,646	717,411	5.51
Allowance for loan losses	(136,432)			(110,776)			(99,716)		
Cash and due from banks	366,159			310,908			249,877		
Other assets	1,209,732			1,225,837			1,113,420		
Unrealized gains (losses) on securities available for sale, net	16,594			13,505			(17,270)		
Total assets	$14,270,289			$14,119,230			$14,277,957		
Liabilities and Shareholders' Equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$ 4,399,031	$ 19,876	0.45%	$ 4,171,782	$ 19,126	0.46%	$ 3,836,709	$ 24,894	0.65%
Time deposits	2,728,354	48,291	1.77	2,897,793	55,798	1.93	3,325,800	93,403	2.81
Total interest bearing deposits	7,127,385	68,167	0.96	7,069,575	74,924	1.06	7,162,509	118,297	1.65
Short-term borrowings	192,392	1,154	0.60	194,587	1,345	0.69	270,776	4,026	1.49
Long-term borrowings [4]	2,964,555	129,692	4.37	3,099,807	137,791	4.45	3,152,515	140,547	4.46
Total interest bearing liabilities	10,284,332	199,013	1.94	10,363,969	214,060	2.07	10,585,800	262,870	2.48
Non-interest bearing deposits	2,611,207			2,428,089			2,251,784		
Other liabilities	63,811			56,394			97,583		
Shareholders' equity	1,310,939			1,270,778			1,342,790		
Total liabilities and shareholders' equity	$14,270,289			$14,119,230			$14,277,957		
Net interest income/interest rate spread [5]		480,888	3.37%		468,342	3.31%		454,541	3.03%
Tax equivalent adjustment		(6,077)			(5,590)			(5,227)	
Net interest income, as reported		$474,811			$462,752			$449,314	
Net interest margin [6]			3.71%			3.65%			3.45%
Tax equivalent effect			0.04			0.04			0.04
Net interest margin on a fully tax equivalent basis [6]			3.75%			3.69%			3.49%

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

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

CHANGE IN NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	Years Ended December 31,					
	2011 Compared to 2010			2010 Compared to 2009		
	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate	Total Change
	(in thousands)					
Interest income:						
Loans*	$ 7,618	$(3,264)	$ 4,354	$(13,266)	$ (4,982)	$(18,248)
Taxable investments	(1,234)	(7,003)	(8,237)	(3,003)	(14,281)	(17,284)
Tax-exempt investments*	932	464	1,396	5,982	(4,930)	1,052
Federal funds sold and other interest bearing deposits	12	(26)	(14)	(517)	(12)	(529)
Total increase (decrease) in interest income	7,328	(9,829)	(2,501)	(10,804)	(24,205)	(35,009)
Interest expense:						
Savings, NOW and money market deposits	1,030	(280)	750	2,028	(7,796)	(5,768)
Time deposits	(3,152)	(4,355)	(7,507)	(10,923)	(26,682)	(37,605)
Short-term borrowings	(15)	(176)	(191)	(924)	(1,757)	(2,681)
Long-term borrowings and junior subordinated debentures	(5,942)	(2,157)	(8,099)	(2,344)	(412)	(2,756)
Total decrease in interest expense	(8,079)	(6,968)	(15,047)	(12,163)	(36,647)	(48,810)
Increase (decrease) in net interest income	$15,407	$(2,861)	$ 12,546	$ 1,359	$ 12,442	$ 13,801

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

Non-Interest Income

The following table presents the components of non-interest income for the years ended December 31, 2011, 2010, and 2009:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Trust and investment services	$ 7,523	$ 7,665	$ 6,906
Insurance commissions	15,627	11,334	10,224
Service charges on deposit accounts	22,610	25,691	26,778
Gains on securities transactions, net	32,068	11,598	8,005
Net impairment losses on securities recognized in earnings	(19,968)	(4,642)	(6,352)
Trading gains (losses), net:			
Trading securities	1,015	(1,056)	5,394
Junior subordinated debentures carried at fair value	1,256	(5,841)	(15,828)
Total trading gains (losses), net	2,271	(6,897)	(10,434)
Fees from loan servicing	4,337	4,919	4,839
Gains on sales of loans, net	10,699	12,591	8,937
Gains on sales of assets, net	426	619	605
Bank owned life insurance	7,380	6,166	5,700
Change in FDIC loss-share receivable	13,403	6,268	—
Other	15,921	16,015	17,043
Total non-interest income	$112,297	$91,327	$ 72,251

Non-interest income represented 14 percent and 12 percent of total interest income plus non-interest income for 2011 and 2010, respectively. For the year ended December 31, 2011, non-interest income increased $21.0 million compared with 2010 mainly due to increases in the net gains on securities transactions, net trading gains and other income recognized for the change in the FDIC loss-share receivable due to post-acquisition items, partially offset by an increase in other-than-temporary impairment charges recognized in earnings during 2011.

Insurance commissions increased $4.3 million for the year ended December 31, 2011 as compared to 2010 mainly due to additional commissions generated from our subsidiary's insurance agency asset acquisition during December 2010. See Note 2 to the consolidated financial statements for more details on this business combination.

Service charges on deposit accounts decreased $3.1 million to $22.6 million for 2011 as compared to 2010 mainly due to a decrease in non-sufficient funds charges and overdraft protection fees. The decline in these fees reflects both better account management by our customers caused, in part, by economic uncertainty and higher savings rates, and new regulatory restrictions on overdraft charges enacted by the Federal Reserve in July 2010. The new regulations prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one time debit card transactions, unless a consumer consents to the overdraft service for those types of transactions. Many of our customers did "opt in" to our standard overdraft practice since the rule took effect, which helped partially mitigate the negative impact of this rule change on our service charge fees. However, we can provide no assurance that the change in regulation will not reduce our ability to generate these fees in future periods.

Net gains on securities transactions increased $20.5 million to $32.1 million for the year ended December 31, 2011 as compared to $11.6 million for 2010. The increase was mainly due to gains on the sale of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises totaling $320.7 million and $257.4 million, respectively, classified as available for sale during 2011. We elected to sell these securities based on a total rate of return analysis for each security based on their increased risk of

accelerated prepayment due to the low level of market interest rates and the U.S. Government's modification and extension of the Home Affordable Refinance Program ("HARP") program designed to allow certain qualifying borrowers with low home values to refinance their mortgages. Additionally, the sales of the Freddie Mac and Fannie Mae residential mortgage-backed securities reduced our exposure to these government sponsored enterprises, and allowed us to reinvest the net proceeds mainly in Ginnie Mae mortgage-backed securities, which are fully guaranteed by the U.S. Government and do not require related regulatory capital to be held by our bank subsidiary.

Net impairment losses on securities increased $15.3 million to $20.0 million for the year ended December 31, 2011 as compared to $4.6 million in 2010 primarily due to the impairment of trust preferred securities issued by one bank holding company during the fourth quarter of 2011. See the "Investment Securities Portfolio" section of this MD&A and Note 4 to the consolidated financial statements for further details on our investment securities impairment analysis and the other than temporarily impaired securities impacting the net impairment losses on securities reflected in the table above.

Net trading gains and losses primarily represent the non-cash mark to market valuations of a small number of single-issuer trust preferred securities held in our trading securities portfolio and the non-cash mark to market valuation of our junior subordinated debentures (issued by VNB Capital Trust I) carried at fair value. Net trading gains increased $9.2 million to a gain of $2.3 million for the year ended December 31, 2011 as compared to a $6.9 million loss for 2010 mainly due to the non-cash mark to market adjustments on our trust preferred debentures carried at fair value. See Note 3 to the consolidated financial statements for a full description of the valuation techniques that were used to mark to market our trading securities and debentures carried at fair value.

Net gains on sales of loans decreased $1.9 million to $10.7 million during the year ended December 31, 2011 as compared to $12.6 million in gains recognized during 2010. The decrease was primarily due to a total gain of $3.9 million recognized on the sale of approximately $83 million of conforming residential mortgage loans transferred from our loan portfolio to loans held for sale during the third quarter of 2010. The decision to sell these loans was based on the likelihood that such loans would prepay in the short-term due to the low level of market interest rates. Additionally, we elected to hold a greater percentage of our mortgage loan originations for investment purposes rather than selling them in the secondary market during 2011, reducing our ability to generate gains on sales of loans during the period. See further discussion of our 2011 residential mortgage loan origination activity under "Loans" in the executive summary section of this MD&A above.

The Bank and the FDIC share in the losses on loans and real estate owned as part of the loss-sharing agreements entered into on both of our FDIC-assisted transactions completed in March 2010. The asset arising from the loss-sharing agreements is referred to as the "FDIC loss-share receivable" on our consolidated statements of financial condition. Within the non-interest income category, we may recognize income or expense related to the change in the FDIC loss-share receivable resulting from (i) a change in the estimated credit losses on the pools of covered loans, (ii) income from reimbursable expenses incurred during the period, (iii) accretion of the discount resulting from the present value of the receivable recorded at the acquisition dates, and (iv) prospective recognition of decreases in the receivable attributable to better than originally expected cash flows on certain covered loan pools. Valley recognized approximately $13.4 million and $6.3 million in non-interest income for the years ended December 31, 2011 and 2010, respectively, largely due to additional estimated credit losses on the covered loan pools during both periods. See "FDIC Loss-Share Receivable Related to Covered Loans and Foreclosed Assets" section below in this MD&A and Note 5 to the consolidated financial statements for further details.

In June 2011, the FRB approved a final debit card interchange rule that caps an issuer's base fee at 21 cents per transaction and allows an additional 5 basis point charge per transaction to help cover fraud losses. The FRB also approved an interim final rule that allows a fraud prevention adjustment of 1 cent per transaction conditioned upon an issuer adopting effective fraud prevention policies and procedures. The final and interim final rules on the pricing and routing restrictions, commonly referred to as the "Durbin Amendment," became

effective on October 1, 2011. Other non-interest income includes debit card interchange fees of approximately $5.1 million for the year ended December 31, 2011 as compared to $5.8 million for 2010. During the fourth quarter of 2011, our debit card interchange fees declined $880 thousand as compared to the third quarter of 2011 mainly due to the implementation of the Durbin Amendment rules. Although debit card interchange fees vary based on our customer activity levels, we expect the new regulation to reduce such fees by $3.0 million to $3.5 million on an annual basis.

See the "Results of Operations—2010 Compared to 2009" section later in this MD&A for the discussion and analysis of changes in our non-interest income from 2009 to 2010.

Non-Interest Expense

The following table presents the components of non-interest expense for the years ended December 31, 2011, 2010, and 2009:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Salary and employee benefits expense	$176,307	$176,106	$163,746
Net occupancy and equipment expense	64,364	61,765	58,974
FDIC insurance assessment	12,759	13,719	20,128
Amortization of other intangible assets	9,315	7,721	6,887
Professional and legal fees	15,312	10,137	7,907
Advertising	8,373	4,052	3,372
Other	50,158	44,182	45,014
Total non-interest expense	$336,588	$317,682	$306,028

Non-interest expense increased $18.9 million to $336.6 million for the year ended December 31, 2011 from $317.7 million for 2010. The increase in 2011 was mainly attributable to increases in professional and legal fees, other non-interest expense, advertising expense, and net occupancy and equipment expense.

Net occupancy and equipment expense increased $2.6 million to $64.4 million for the year ended December 31, 2011 as compared to $61.8 million for 2010. The increase was mainly due to higher seasonal maintenance and building repairs mostly during the first quarter of 2011, higher depreciation expense and additional expenses related to one de novo branch opened in 2011, partially offset by the expense reductions related to the closure of five branch offices located in New Jersey during 2011 and the full year cost savings related to the closure of five of seven branches acquired in FDIC-assisted transactions in the second quarter of 2010. The customer service for the closed branches was transferred to existing Valley branches within very close proximity of each location.

Amortization of other intangible assets primarily consists of amortization related to loan servicing rights (largely generated from loan servicing that we retained on residential mortgage loan originations sold to Freddie Mac and Fannie Mae); amortization of core deposits, customer lists and covenants not to compete obtained through acquisitions; and net impairment charges or recoveries related to valuation allowances established for certain stratified groups of loan servicing rights (See Notes 1, 8 and 9 to the consolidated financial statements for more information). Amortization of other intangible assets increased by $1.6 million in 2011 largely due to the recognition of $1.5 million in impairment charges, net of recoveries, on certain loan servicing rights during 2011 as compared to $551 thousand during 2010. Additionally, the 2011 period includes $416 thousand of additional amortization mainly related to customer lists and covenants not to compete acquired by the Bank's insurance subsidiary in an agency asset acquisition during December 2010. See Note 2 to the consolidated financial statements for more details on this 2010 acquisition.

Professional and legal fees increased $5.2 million during 2011 as compared to 2010. This increase was mainly due to general increases in legal expenses related to assets acquired in the two FDIC-assisted transactions in March 2010, $1.6 million in fees related to our acquisition of State Bancorp completed on January 1, 2012, as well as increases from other general corporate matters during 2011.

Advertising expense increased $4.3 million to $8.4 million for the year ended December 31, 2011 as compared to $4.1 million in 2010 mainly due to our expanded use of television and radio ad campaigns to promote better name recognition throughout our primary markets, as well as our residential mortgage refinance programs by state. We expect advertising expense to remain elevated in the future periods as we continue to promote Valley and our lending operations, including our one price residential mortgage refinance programs in New Jersey, New York and Pennsylvania.

Other non-interest expense increased $6.0 million for the year ended December 31, 2011 from $44.2 million in 2010 partly due to general increases in several items within this category and a $1.5 million increase in other real estate owned ("OREO") expenses and other expenses related to assets acquired in the two FDIC-assisted transactions. The increase was also related to the valuation write downs of $479 thousand and $838 thousand relating to a repossessed aircraft and an OREO commercial property, respectively, in 2011.

Over the last several years, we have maintained a branch expansion plan which focuses on expanding our presence in the New Jersey counties and towns neighboring our current office locations, as well as in New York City boroughs of Manhattan, Brooklyn and Queens. We opened three de novo branches during the past two years, excluding the branches acquired in the FDIC-assisted transactions. Also in 2010, we opened our first residential mortgage loan production office in eastern Pennsylvania, in an effort to expand outside of our normal markets within New Jersey and New York City. Generally, new branches and loan production offices add future franchise value; however, for new branches the additional operating costs and capital requirements normally have a negative impact on non-interest expense and net income for several years until such operations become individually profitable.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus non-interest income. Our efficiency ratio for the year ended December 31, 2011 was 57.33 percent and remained relatively unchanged as compared to 2010. We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. We believe this non-GAAP measure provides a meaningful comparison of our operational performance, and facilitates investors' assessments of business performance and trends in comparison to our peers in the banking industry.

See the "Results of Operations—2010 Compared to 2009" section below for the discussion and analysis of changes in our non-interest expense from 2009 to 2010.

Income Taxes

Income tax expense was $63.5 million for the year ended December 31, 2011, reflecting an effective tax rate of 32.2 percent, compared with $55.8 million for the year ended December 31, 2010, reflecting an effective tax rate of 29.8 percent. The effective tax rate increased by 2.4 percent as compared to 2010 largely due to a one-time tax provision of $8.5 million related to a change in state tax law during the second quarter of 2011, partially offset by our increased investment in additional tax credits during 2011.

U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the quarter in which it occurs, rather than being recognized as a change in effective tax rate for the current year. Our adherence to these tax guidelines may result in volatile effective income tax rates in future quarterly and annual periods. Factors that could impact management's judgment include changes in income, tax laws and regulations, and tax planning strategies. For 2012, we anticipate that our effective tax rate will approximate 32 percent.

Business Segments

We have four business segments that we monitor and report on to manage our business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Our reportable segments have been determined based upon Valley's internal structure of operations and lines of business. Each business segment is reviewed routinely for its asset growth, contribution to income before income taxes and return on average interest earning assets and impairment (if events or circumstances indicate a possible inability to realize the carrying amount). Expenses related to the branch network, all other components of retail banking, along with the back office departments of our subsidiary bank are allocated from the corporate and other adjustments segment to each of the other three business segments. Interest expense and internal transfer expense (for general corporate expenses) are allocated to each business segment utilizing a "pool funding" methodology, whereas each segment is allocated a uniform funding cost based on each segments' average earning assets outstanding for the period. The financial reporting for each segment contains allocations and reporting in line with our operations, which may not necessarily be comparable to any other financial institution. The accounting for each segment includes internal accounting policies designed to measure consistent and reasonable financial reporting, and may not necessarily conform to U.S. GAAP. Furthermore, changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial data. See Note 21 to the consolidated financial statements for segments' financial data.

Consumer lending . This segment is mainly comprised of residential mortgage loans, home equity loans and automobile loans. The duration of the residential mortgage loan portfolio, which including covered loans represented 23.5 percent of our loan portfolio at December 31, 2011, is subject to movements in the market level of interest rates and forecasted prepayment speeds. The weighted average life of the automobile loans (representing 7.9 percent of total loans at December 31, 2011) is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles.

Average interest earning assets in this segment increased $73.0 million to approximately $3.4 billion for the year ended December 31, 2011 as compared to 2010. The increase was mainly due to the strong growth in our non-covered residential mortgage loans caused by the sustained low level of market interest rates during 2011, our aggressive promotion of our mortgage refinance programs, and our decision to hold for investment many of our new loan originations rather than sell them into the secondary market based on the current yields available on other investment alternatives and the composition of our balance sheet. The increase in residential mortgage loans was partially offset by lower automobile and home equity loan balances which have declined throughout most of the past two years for several reasons, including the weak economy, high unemployment, and strong competition for quality loan credits.

Income before income taxes generated by the consumer lending segment decreased $13.1 million to $51.2 million for the year ended December 31, 2011 as compared to 2010. The decrease was mainly a result of declines totaling $6.7 million and $5.1 million in non-interest income and net interest income, respectively, in 2011. Net interest income decreased due to the negative impact of the lower yields on new and renewed loans during 2011 despite being partially offset by the positive impact of higher average loan balances and a decrease in our cost of funds. Additionally, non-interest expense and internal transfer expense increased $7.1 million and $2.0 million, respectively, during 2011 as compared to 2010. The negative impact of these items was partially offset by a $7.8 million decline in the provision for loan losses as compared to year ended December 31, 2010 due, in part, to lower levels of loan charge-offs caused by our high underwriting standards, as well a strong used car market in 2011 supporting repossessed auto valuations coupled with the aforementioned declines in automobile and home equity loan portfolios.

The net interest margin for the segment decreased 23 basis points to 3.66 percent for 2011 as a result of a 36 basis point decrease in interest yield on average loans due to the sustained low level of market interest rates, partially offset by a 13 basis point decrease in cost associated with our funding sources. The decrease in our cost

of funds was mainly due to the maturity of higher cost time deposits and long-term FHLB advances, and lower interest rates on all renewed time deposits and other interest bearing deposits outstanding during 2011.

Commercial lending. The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio's interest rate characteristics, commercial lending is Valley's business segment that is most sensitive to movements in market interest rates. Commercial and industrial loans, including $83.7 million of covered loans, totaled approximately $2.0 billion and represented 20.0 percent of the total loan portfolio at December 31, 2011. Commercial real estate loans and construction loans, including $167.6 million of covered loans, totaled $4.2 billion and represented 42.4 percent of the total loan portfolio at December 31, 2011.

Average interest earning assets in this segment increased $60.5 million to $6.2 billion for the year ended December 31, 2011 as compared to 2010. This increase mainly reflects higher commercial real estate loan volumes due to our increased emphasis on co-op and multifamily loan lending in our markets, as well as a moderate increase in loan demand from our existing commercial customers as compared to year ended December 31, 2010.

For the year ended December 31, 2011, income before income taxes for the commercial lending segment increased $16.2 million to $110.1 million compared to 2010 primarily due to increases in net interest income and non-interest income, partially offset by an increase in the provision for loan losses and non-interest expense. Higher average loan balances, increased yields on loans, and a lower cost of funds all contributed to a $27.7 million increase in net interest income as compared to the 2010 period. The provision for loan losses increased $11.7 million during 2011 largely due to a $15.1 million increase in the provision for covered loans caused by additional estimated credit losses on certain covered loan pools acquired in the FDIC-assisted transactions during March 2010, as well as higher loan charge-offs primarily in the non-covered commercial real estate portfolio. Non-interest income increased approximately $9.1 million to $17.0 million for 2011 as compared to $7.9 million for 2010 mainly due to an $8.0 million increase in income related to post acquisition adjustments to our FDIC loss-share receivable based on the experience of our covered loan pools. See additional information in Note 5 to the consolidated financial statements.

The net interest margin for this segment increased 40 basis points to 4.64 percent during 2011 mainly as a result of a 27 basis point increase in the yield on average loans and a 13 basis point decrease in the cost of our funding sources as compared to 2010. The return on average interest earning assets before income taxes was 1.77 percent for 2011 compared to 1.53 percent for the prior year period.

Investment management. The investment management segment generates a large portion of our income through investments in various types of securities. These securities are mainly comprised of fixed rate investments, trading securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York), as part of our asset/liability management strategies.

The fixed rate investments are one of Valley's assets that are least sensitive assets to changes in market interest rates. However, a sizeable portion of the investment portfolio is invested in shorter-duration securities to maintain the overall asset sensitivity of our balance sheet (see the "Asset/Liability Management" section below for further analysis). Net gains and losses on the change in fair value of trading securities and net impairment losses on securities are reflected in the corporate and other adjustments segment.

Average investments remained relatively unchanged during 2011 as compared with the same period one year ago. Principal repayments on higher yielding securities and securities sold during 2011 were mostly reinvested in residential mortgage-backed securities issued by Ginnie Mae and municipal securities classified as held to maturity.

For the year ended December 31, 2011, income before income taxes for the investment management segment decreased $9.2 million to $42.1 million compared to $51.3 million for the same period of 2010 primarily due to a $10.1 million decline in net interest income, partially offset by a $1.2 million increase in non-interest income. The segment's net interest income was negatively impacted by normal principal paydowns and sales of certain higher yielding securities mostly replaced with lower yielding residential mortgage-backed securities and other taxable securities which were only partially offset by higher yielding municipal security purchases.

The net interest margin for the segment decreased 32 basis points to 2.72 percent during the year ended December 31, 2011 as compared to the same period one year ago as a result of a 45 basis point decrease in the yield on investments, partially offset by a 13 basis point decrease in the cost associated with our funding sources. The return on average interest earning assets before income taxes was 1.31 percent for 2011 compared to 1.60 percent for the prior year period.

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

The pre-tax net loss for the corporate segment decreased $16.5 million to $6.1 million for the year ended December 31, 2011 from a $22.6 million for the same period one year ago driven by a $17.4 million increase in non-interest income. The increase in non-interest income was mainly due to an increase in net gains on securities transactions and net trading gains. Net gains on securities transactions increased $20.5 million largely due to the sale of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises with increased prepayment risk during 2011. Net trading gains increased approximately $9.2 million primarily due to the effect of the mark to market valuation of our junior subordinated debentures carried at fair value and our small portfolio of trading securities. The positive effect of these items was partially negated by a $15.3 million increase in net impairment losses on securities primarily related to other-than-temporary impairment charges on trust preferred securities issued by one bank holding company. See the "Investment Securities Portfolio" section of this MD&A and Note 4 to the consolidated financial statements for further details.

ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

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

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of December 31, 2011. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of December 31, 2011. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of December 31, 2011. Although the size of Valley's balance sheet is forecasted to remain static as of December 31, 2011 in our model, the composition is adjusted to reflect new interest earning assets and funding originations coupled with rate spreads utilizing our actual originations during 2011. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2011.

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

	Estimated Change in Future Net Interest Income		
Changes in Interest Rates (in basis points)	Dollar Change	($ in thousands)	Percentage Change
+200	$ 11,463		2.65%
+100	3,758		0.87
-100	(774)		(0.18)

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

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

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

As noted in the table above, we are more susceptible to an increase in interest rates under a scenario with an immediate parallel change in the level of market interest rates than a decrease in interest rates under the same assumptions. A 100 basis point immediate increase in interest rates is projected to moderately increase net interest income over the next twelve months by 0.87 percent. Our lack of balance sheet sensitivity to such a move in interest rates, is slightly lower due, in part, to the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management), which currently exceeds the U.S. prime rate by 125 basis points. Due to its current level above the U.S. prime rate, the Valley prime rate is not projected to increase under the 100 basis points immediate increase scenario in our simulation. Additional information regarding our use of these prime rates is located under the “Net Interest Income” section above. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

Although we do not expect our Valley prime rate loan portfolio to have an immediate benefit to our interest income in a rising interest rate environment, we have positioned a large portion of our investment portfolio in short-duration securities and residential mortgage-backed securities that will allow us to benefit from a potential rise in interest rates. Specifically, we expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period.

Our interest rate caps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits and short-term borrowings based on the prime and effective federal funds rates. Our interest rate swaps designated as cash flow hedging relationships are designed to protect us from upward movements in interest rates on certain deposits based on the prime rate. We have cash flow hedge interest rate caps with a $300 million notional value, which protect us from upward increases in interest rates on certain deposits and short-term borrowings. During the third quarter of 2011, two of the cash flow hedge interest rate swaps with a notional amount of $200 million began to pay fixed and receive floating rates. The other two swaps totaling $100 million will begin to pay fixed and receive floating rates in July 2012. The floating rate leg of the transaction is indexed to the U.S. prime rate as reported by The Wall Street Journal. Additionally, we utilize interest rate swaps at times to effectively convert fixed rate loans and deposits to floating rate instruments. Most of these actions are expected to benefit our net interest income in a rising interest rate environment. However, due to the current low level of interest rates, the strike rate of these instruments, and the forward effective date applicable to the swaps, the cash flow hedge interest rate caps and swaps are expected to have little immediate impact over the next twelve month period on our net interest income. See Note 15 to the consolidated financial statements for further details on our derivative transactions.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities that were outstanding at December 31, 2011 and their associated fair values. The expected cash flows are categorized based on each financial instrument’s anticipated maturity or interest rate reset date in each of the future periods presented.

INTEREST RATE SENSITIVITY ANALYSIS

	Rate	2012	2013	2014	2015	2016	Thereafter	Total Balance	Fair Value
					($ in thousands)				
Interest sensitive assets:									
Interest bearing deposits with banks	0.25%	$ 6,483	$ —	$ —	$ —	$ —	$ —	$ 6,483	$ 6,483
Investment securities held to maturity	3.89	705,072	285,720	171,346	99,661	53,644	643,473	1,958,916	2,027,197
Investment securities available for sale	4.34	242,103	75,291	50,222	29,071	14,202	155,631	566,520	566,520
Trading securities	8.23	—	—	—	—	—	21,938	21,938	21,938
Loans held for sale	3.83	25,169	—	—	—	—	—	25,169	25,169
Loans	5.21	4,178,972	1,573,448	1,097,059	801,697	644,984	1,503,481	9,799,641	9,779,319
Total interest sensitive assets	4.35%	$5,157,799	$1,934,459	$1,318,627	$930,429	$712,830	$2,324,523	$ 12,378,667	$12,426,626
Interest sensitive liabilities:									
Deposits:									
Savings, NOW and money market	0.29%	$1,497,456	$ 845,008	$ 845,008	$400,883	$200,441	$ 601,325	$ 4,390,121	$ 4,390,121
Time	1.68	1,470,791	256,536	261,530	154,307	166,276	191,944	2,501,384	2,557,119
Short-term borrowings	0.25	212,849	—	—	—	—	—	212,849	215,179
Long-term borrowings	4.00	28,000	26,000	—	400,000	414,500	1,857,599	2,726,099	3,154,150
Junior subordinated debentures	7.65	—	—	—	—	—	185,598	185,598	186,098
Total interest sensitive liabilities	1.78%	$3,209,096	$1,127,544	$1,106,538	$955,190	$781,217	$2,836,466	$ 10,016,051	$10,502,667
Interest sensitivity gap		$1,948,703	$ 806,915	$ 212,089	$ (24,761)	$ (68,387)	$ (511,943)	$ 2,362,616	$ 1,923,959
Ratio of interest sensitive assets to interest sensitive liabilities		1.61:1	1.72:1	1.19:1	0.97:1	0.91:1	0.82:1	1.24:1	1.18:1

The above table provides an approximation of the projected re-pricing of assets and liabilities at December 31, 2011 on the basis of contractual maturities, adjusted for anticipated prepayments of principal (including anticipated call dates on long-term borrowings and junior subordinated debentures), and scheduled rate adjustments. The prepayment experience reflected herein is based on historical experience combined with market consensus expectations derived from independent external sources. The actual maturities of these instruments could vary substantially if future prepayments differ from historical experience or current market expectations. For non-maturity deposit liabilities, in accordance with standard industry practice and our historical experience, we used prepayment and decay rates to estimate deposit runoff.

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

The total gap re-pricing within one year as of December 31, 2011 was a positive $1.9 billion, representing a ratio of interest sensitive assets to interest sensitive liabilities of 1.61:1. Current market prepayment speeds and balance sheet management strategies implemented throughout 2011 have allowed us to maintain our asset sensitivity level reported in the table above comparable to December 31, 2010. The total gap re-pricing position, as reported in the table above, reflects the projected interest rate sensitivity of our principal cash flows based on market conditions as of December 31, 2011. As the market level of interest rates and associated prepayment speeds move, the total gap re-pricing position will change accordingly, but not likely in a linear relationship. Management does not view our one year gap position as of December 31, 2011 as presenting an unusually high risk potential, although no assurances can be given that we are not at risk from interest rate increases or decreases.

Liquidity

Bank Liquidity . Liquidity measures the ability to satisfy current and future cash flow needs as they become due. A bank’s liquidity reflects its ability to meet loan demand, to accommodate possible outflows in deposits

and to take advantage of interest rate opportunities in the marketplace. Liquidity management is monitored by our Asset/Liability Management Committee and the Investment Committee of the Board of Directors of Valley National Bank (the "Bank"), which review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments. Our goal is to maintain sufficient asset-based liquidity to cover potential funding requirements in order to minimize our dependence on volatile and potentially unstable funding markets.

The Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposit $100 thousand and over, federal funds purchased, repurchase agreements and FHLB advances) greater than 50 percent of total assets. The Bank was in compliance with the foregoing policies at December 31, 2011.

On the asset side of the balance sheet, the Bank has numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity that are maturing within 90 days or would otherwise qualify as maturities if sold (i.e., 85 percent of original cost basis has been repaid), investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold and receivables related to unsettled securities transactions. These liquid assets totaled approximately $1.2 billion, representing 9.80 percent of earning assets, at December 31, 2011 and $1.6 billion, representing 12.6 percent of earning assets, at December 31, 2010. The decrease in liquid assets in 2011 is largely due to the reduction in the investment securities available for sale portfolio during 2011. Of the $1.2 billion of liquid assets at December 31, 2011, approximately $389 million of various investment securities were pledged to counterparties to support our earning asset funding strategies. We anticipate the receipt of approximately $687 million in principal from securities in the total investment portfolio during 2012 due to normally scheduled principal repayments and expected prepayments of certain securities, primarily residential mortgage-backed securities.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments (including loans held for sale at December 31, 2011) are projected to be approximately $3.5 billion over the next twelve months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $8.6 billion and $8.3 billion for the years ended December 31, 2011 and 2010, respectively, representing 67.0 percent and 65.8 percent of average earning assets at December 31, 2011 and 2010, respectively. The level of interest bearing deposits is affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities.

The following table lists, by maturity, all certificates of deposit of $100 thousand and over at December 31, 2011:

	2011 (in thousands)
Less than three months	$ 226,835
Three to six months	155,267
Six to twelve months	211,947
More than twelve months	479,674
Total	$1,073,723

Additional funding may be provided from short-term liquidity borrowings through deposit gathering networks and in the form of federal funds purchased obtained through our well established relationships with several correspondent banks. While there are no firm lending commitments currently in place, management believes that we could borrow approximately $1.0 billion for a short time from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. Furthermore, we are able to obtain overnight borrowings from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. At December 31, 2011, our borrowing capacity under the Fed's discount window was approximately $880 million.

We also have access to other short-term and long-term borrowing sources to support our asset base, such as securities sold under agreements to repurchase ("repos"). Our short-term borrowings increased $20.5 million to $212.8 million at December 31, 2011 as compared to $192.3 million at December 31, 2010 mainly as a result of an increase in repos. At December 31, 2011, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

The following table sets forth information regarding Valley's short-term repos at the dates and for the years ended December 31, 2011, 2010, and 2009:

	2011	2010 ($ in thousands)	2009
Securities sold under agreements to repurchase:			
Average balance outstanding	$177,232	$184,021	$203,585
Maximum outstanding at any month-end during the period	212,849	186,633	215,182
Balance outstanding at end of period	212,849	183,295	206,542
Weighted average interest rate during the period	0.45%	0.72%	0.91%
Weighted average interest rate at the end of the period	0.25	0.47	0.67

Corporation Liquidity. Valley's recurring cash requirements primarily consist of dividends to common shareholders and interest expense on junior subordinated debentures issued to capital trusts. These cash needs are routinely satisfied by dividends collected from the Bank, along with cash flows from investment securities held at the holding company. Projected cash flows from these sources are expected to be adequate to pay common dividends, if declared, and interest expense payable to capital trusts, given the current capital levels and current profitable operations of the bank subsidiary. In addition to dividends received from the Bank, Valley can satisfy its cash requirements by utilizing its own funds, cash and sale of investments, as well as potential borrowed funds from outside sources. In the event Valley would exercise the right to defer payments on the junior subordinated debentures, and therefore distributions on its trust preferred securities, Valley would be unable to pay dividends on its common stock until the deferred payments are made.

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

Investment Securities Portfolio

Securities are classified as held to maturity and carried at amortized cost when Valley has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity, and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss, net of tax. Available for sale securities are not considered trading account securities, but rather

are securities which may be sold on a non-routine basis. Securities classified as trading are held primarily for sale in the short term or as part of our balance sheet management strategies and are carried at fair value, with unrealized gains and losses included immediately in the net trading gains and losses category of non-interest income. Valley determines the appropriate classification of securities at the time of purchase. The decision to purchase or sell securities is based upon the current assessment of long and short-term economic and financial conditions, including the interest rate environment and other statement of financial condition components. Securities with limited marketability and/or restrictions, such as Federal Home Loan Bank and Federal Reserve Bank stocks, are carried at cost and are included in other assets.

At December 31, 2011, our investment portfolio was comprised of U.S Treasury securities, U.S. government agencies, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 17 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (including 3 pooled securities), corporate bonds (most of which were purchased prior to the financial crisis in 2008 and 2009) primarily issued by banks, and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders' equity, except for residential mortgage-backed securities issued by Ginnie Mae.

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

Investment securities at December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
		(in thousands)	
Held to maturity			
U.S. Treasury securities	$ 100,018	$ 100,161	$ —
Obligations of states and political subdivisions	433,284	387,280	313,360
Residential mortgage-backed securities	1,180,104	1,114,469	936,385
Trust preferred securities	193,312	269,368	281,836
Corporate and other debt securities	52,198	52,715	52,807
Total investment securities held to maturity (amortized cost)	$1,958,916	$1,923,993	$1,584,388
Available for sale			
U.S. Treasury securities	$ —	$ 163,810	$ 276,285
U.S. government agency securities	90,748	88,800	—
Obligations of states and political subdivisions	20,214	29,462	33,411
Residential mortgage-backed securities	310,137	610,358	940,505
Trust preferred securities	63,858	41,083	36,412
Corporate and other debt securities	39,610	53,961	19,042
Total debt securities	524,567	987,474	1,305,655
Equity securities	41,953	47,808	46,826
Total investment securities available for sale (fair value)	$ 566,520	$1,035,282	$1,352,481
Trading			
Trust preferred securities	$ 21,938	$ 31,894	$ 32,950
Total trading securities (fair value)	$ 21,938	$ 31,894	$ 32,950
Total investment securities	$2,547,374	$2,991,169	$2,969,819

As of December 31, 2011, our investment securities classified as available for sale decreased $468.8 million to $566.5 million as compared to December 31, 2010. The decrease was mainly driven by sales of certain residential mortgage-backed securities issued by Ginnie Mae and government sponsored enterprises totaling $320.7 million and $257.4 million, respectively, as well as maturities and sales of all U.S Treasury securities classified as available for sale that were previously held at December 31, 2010. During 2011, many of the residential mortgage-backed securities were sold due to increased prepayment risk that may result from the low level of mortgage interest rates and the U.S. Government's modification and extension of the HARP program through December 31, 2013. The HARP program is designed to allow many homeowners to refinance into low mortgage interest rates even if their property has decreased in value, and to help bolster the economic recovery. The HARP program was also extended until December 31, 2013. Additionally, we continued to lower our exposure to Freddie Mac and Fannie Mae during 2011, as it is an asset class we are currently not interested in maintaining, and increased our holdings of residential mortgage-backed securities issued by Ginnie Mae, which are fully guaranteed by the U.S. Government.

At December 31, 2011, we had $1.2 billion and $310.1 million of residential mortgage-backed securities classified as held to maturity and available for sale securities, respectively. Approximately 97 percent and 57 percent of these residential mortgage-backed securities, respectively, were issued and guaranteed by Ginnie Mae. The residential mortgage-backed securities also include $2.6 million and $72.7 million of private label mortgage-backed securities classified as held to maturity and available for sale, respectively. The remainder of our outstanding residential mortgage-backed security balances at December 31, 2011 was issued by either Freddie Mac or Fannie Mae.

Our trading securities portfolio consisted of 3 and 4 single-issuer bank trust preferred securities at December 31, 2011 and 2010, respectively. During 2011, one trading security was called for early redemption.

The following table presents the maturity distribution schedule with its corresponding weighted-average yields of held to maturity and available for sale debt securities at December 31, 2011:

	0-1 year		1-5 years		5-10 years		over 10 years		Total	
	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)
					($ in thousands)					
Held to maturity (1)										
U.S. Treasury securities	$ —	— %	$ —	— %	$ 66,597	3.25%	$ 33,421	3.70%	$ 100,018	3.40%
Obligations of states and political subdivisions (3)	129,498	2.12	16,555	5.27	107,653	5.30	179,578	5.26	433,284	4.33
Residential mortgage-backed securities (4)	—	—	12	10.50	10,157	4.62	1,169,935	3.12	1,180,104	3.13
Trust preferred securities	—	—	—	—	—	—	193,312	6.94	193,312	6.94
Corporate and other debt securities	25	6.55	28,191	5.87	15,000	8.50	8,982	7.39	52,198	6.88
Total	$129,523	2.12%	$ 44,758	5.65%	$199,407	4.82%	$1,585,228	3.86%	$1,958,916	3.89%
Available for sale										
U.S. government agency securities	$ —	— %	$ —	— %	$ 55,681	1.43%	$ 35,067	3.34%	$ 90,748	2.17%
Obligations of states and political subdivisions (3)	455	5.59	1,748	7.45	15,371	2.08	2,640	13.71	20,214	4.14
Residential mortgage-backed securities (4)	105	6.97	4,132	6.08	45,165	5.11	260,735	4.17	310,137	4.34
Trust preferred securities	—	—	—	—	—	—	63,858	1.84	63,858	1.84
Corporate and other debt securities	—	—	802	2.72	26,209	4.83	12,599	4.68	39,610	4.74
Total (5)	$ 560	5.85%	$ 6,682	6.03%	$142,426	3.29%	$ 374,899	3.78%	$ 524,567	3.68%

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

The residential mortgage-backed securities portfolio is a significant source of our liquidity through the monthly cash flow of principal and interest. Mortgage-backed securities, like all securities, are sensitive to change in the interest rate environment, increasing and decreasing in value as interest rates fall and rise. As interest rates fall, the potential increase in prepayments can reduce the yield on the mortgage-backed securities portfolio, and reinvestment of the proceeds will be at lower yields. Conversely, rising interest rates may reduce

cash flows from prepayments and extend anticipated duration of these assets. We monitor the changes in interest rates, cash flows and duration, in accordance with our investment policies. Management seeks out investment securities with an attractive spread over our cost of funds.

Other-Than-Temporary Impairment Analysis

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

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

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

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

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

The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at December 31, 2011:

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity				
Investment grades*				
AAA Rated	$1,406,207	$ 71,324	$ (161)	$1,477,370
AA Rated	160,572	11,690	(1)	172,261
A Rated	49,212	1,226	(99)	50,339
BBB Rated	148,969	7,868	(3,144)	153,693
Non-investment grade	19,464	—	(6,362)	13,102
Not rated	174,492	812	(14,872)	160,432
Total investment securities held to maturity	$1,958,916	$ 92,920	$(24,639)	$2,027,197
Available for sale				
Investment grades*				
AAA Rated	$ 319,374	$ 12,777	$ (243)	$ 331,908
AA Rated	12,303	1,183	(1)	13,485
A Rated	43,425	1,141	(9,770)	34,796
BBB Rated	74,103	666	(11,297)	63,472
Non-investment grade	80,823	1,185	(5,465)	76,543
Not rated	68,809	476	(22,969)	46,316
Total investment securities available for sale	$ 598,837	$ 17,428	$(49,745)	$ 566,520

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

The held to maturity portfolio includes investments with non-investment grade ratings with amortized costs and unrealized losses totaling $19.5 million and $6.4 million, respectively, at December 31, 2011. The unrealized losses for this category mostly relate to one single-issuer trust preferred security and one corporate debt security. The held to maturity portfolio also includes $174.5 million in investments not rated by the rating agencies with aggregate unrealized losses of $14.9 million at December 31, 2011. The unrealized losses for this category relate mainly to 5 single-issuer bank trust preferred securities with a combined amortized cost of $45.9 million. All single-issuer bank trust preferred and corporate debt securities classified as held to maturity, including the aforementioned seven securities, are paying in accordance with their terms, have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer's most recent bank regulatory report to assess the company's credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review at December 31, 2011, all of the issuers appear to meet the regulatory capital minimum requirements to be considered a "well-capitalized" financial institution and/or have maintained performance levels adequate to support the contractual cash flows of the security.

The available for sale portfolio includes investments with non-investment grade ratings with amortized costs and fair values totaling $80.8 million and $76.5 million, respectively, at December 31, 2011. The $5.5 million in unrealized losses for this category mainly relate to 5 private label mortgage-backed securities and 2 pooled trust preferred securities. Six of the seven securities were initially found to be other-than-temporarily impaired prior to 2011, while one of the private label mortgage-backed securities was impaired for the first time at December 31, 2011. The available for sale portfolio also includes investments not rated by the rating agencies totaling $68.8 million with aggregate unrealized losses of $23.0 million at December 31, 2011. The unrealized losses for this category almost entirely are attributable to trust preferred securities issued by one bank holding company that were other-than-temporarily impaired and transferred from the held to maturity portfolio to available for sale portfolio at December 31, 2011. See the "Other-than-Temporarily Impaired Securities" section below and Note 4 to the consolidated financial statements for further details.

Other-than-Temporarily Impaired Securities

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

The following table provides information regarding our other-than-temporary impairment losses on securities recognized in earnings for the years ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
		(in thousands)	
Held to maturity			
Trust preferred securities	$18,314	$ —	$ —
Available for sale			
Residential mortgage-backed securities	829	2,265	5,735
Trust preferred securities	825	2,377	183
Equity securities	—	—	434
Net impairment losses on securities recognized in earnings	$19,968	$4,642	$6,352

Impaired Trust Preferred Securities. During the fourth quarter of 2011, Valley recognized credit impairment charges totaling $18.3 million related to the trust preferred securities of two issuances by one bank holding company, which were classified as held to maturity. In August and October of 2009, the issuer was required to defer its scheduled interest payments on each respective security issuance based upon an operating agreement with its bank regulators. From the dates of deferral up to and including the bank holding company's most recent regulatory filing, the bank issuer continued to accrue and capitalize the interest owed, but not remitted to its trust preferred security holders, and at the holding company level it reported cash and cash equivalents in excess of the cumulative amount of accrued but unpaid interest owed on all of its junior subordinated debentures related to trust preferred securities. Additionally, the issuer reported that it raised new common capital and increased all its bank regulatory risk ratios, and that it has consistently met the minimum well-capitalized requirements (each quarter) since the date of the interest deferral on both issuances. However, in assessing whether a credit loss exists for the securities of the deferring issuer, Valley considers numerous other factors, including but not limited to, such factors highlighted in the "Other-Than-Temporary Impairment Analysis" section above. While the issuer has reported reasonably consistent financial performance in its recent regulatory filings, Valley lengthened its estimate of the timeframe over which it could reasonably anticipate receiving the expected cash flows and, as a result, concluded that the securities were other-than-temporarily impaired at December 31, 2011. The total impairment loss of $41.2 million on these securities consisted of the aforementioned $18.3 million attributable to credit and $22.9 million attributable to factors other than credit.

After recognition of the credit impairment charges, the trust preferred securities had a combined amortized cost of $46.4 million and a fair value of $23.5 million at December 31, 2011. In connection with its impairment analysis at year end 2011, Valley determined that it no longer had a positive intent to hold these securities to their maturity due to the significant decline in the securities' fair value caused by the deterioration in the creditworthiness of the issuer. As a result, these securities were transferred from the held to maturity portfolio to the available for sale portfolio at December 31, 2011. However, Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

The other-than-temporary impairment charges on trust preferred securities classified as available for sale reported in the table above all relate to two pooled trust preferred securities with a combined amortized cost and fair value of $5.4 million and $3.7 million, respectively, at December 31, 2011, after recognition of all credit impairments. These securities were initially found to be other-than-temporarily impaired in 2008, as each of Valley's tranches in the securities had projected cash flows below their future contractual principal and interest payments. Additional estimated credit losses were recognized on one or both of these securities during 2009 through 2011, as higher default rates decreased the expected cash flows from the securities.

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

Impaired Residential Mortgage-Backed Securities. During 2011, Valley recognized an initial impairment charge of $829 thousand on one of the 17 individual private label mortgage-backed securities classified as available for sale at December 31, 2011. Five other private label mortgage-backed securities were impaired during 2010. Of the five securities impaired during 2010, four were also impaired during 2009 and responsible for the total other-than-temporary impairment losses on residential mortgage-backed securities for 2009 in the table above. At December 31, 2011, the six impaired private label mortgage-backed securities had a combined amortized cost of $52.3 million and fair value of $50.2 million, respectively. Although Valley recognized other-than-temporary impairment charges on the securities, each security is currently performing in accordance with its contractual obligations. See the "Other-Than-Temporary Impairment Analysis" section above for further details regarding the impairment analysis of residential mortgage-backed securities.

Impaired Equity Securities. During the year ended December 31, 2009, Valley recognized other-than-temporary impairment charges of $434 thousand on equity securities classified as available for sale, which relates to one common equity security issued by a bank. The impairment was recognized based on the length of time and the severity of the difference between the security's book value and its observable market price and the security's near term prospects for recovery. At December 31, 2011, the security had a carrying value of $940 thousand and an unrealized gain of $217 thousand.

Loan Portfolio

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

	At December 31,				
	2011	2010	2009	2008	2007
			($ in thousands)		
Non-covered loans					
Commercial and industrial	$1,878,387	$1,825,066	$1,801,251	$ 1,965,372	$1,563,150
Commercial real estate:					
Commercial real estate	3,574,089	3,378,252	3,500,419	3,324,082	2,370,345
Construction	411,003	428,232	440,046	510,519	402,806
Total commercial real estate	3,985,092	3,806,484	3,940,465	3,834,601	2,773,151
Residential mortgage	2,285,590	1,925,430	1,943,249	2,269,935	2,063,242
Consumer:					
Home equity	469,604	512,745	566,303	607,700	554,830
Automobile	772,490	850,801	1,029,958	1,364,343	1,447,838
Other consumer	136,634	88,614	88,845	101,739	94,010
Total consumer loans	1,378,728	1,452,160	1,685,106	2,073,782	2,096,678
Total non-covered loans	9,527,797	9,009,140	9,370,071	10,143,690	8,496,221
Covered loans [1]	271,844	356,655	—	—	—
Total loans [2]	$9,799,641	$9,365,795	$9,370,071	$10,143,690	$8,496,221
As a percent of total loans:					
Commercial and industrial	19.2%	19.5%	19.2%	19.4%	18.4%
Commercial real estate	40.6	40.6	42.1	37.8	32.6
Residential mortgage	23.3	20.6	20.7	22.4	24.3
Consumer loans	14.1	15.5	18.0	20.4	24.7
Covered loans	2.8	3.8	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

(2) Total loans are net of unearned discount and deferred loan fees totaling $7.5 million, $9.3 million, $8.7 million, $4.8 million, and $3.5 million at December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

Non-covered Loans

Non-covered loans (loans not subject to loss-sharing agreements with the FDIC) increased $518.7 million to $9.5 billion at December 31, 2011 from December 31, 2010. The increase was mainly attributable to growth in residential mortgage, commercial real estate (including construction), commercial and industrial, and other consumer loans of $360.2 million, $178.6 million, $53.3 million, and $48.0 million respectively, partially offset by decreases of $78.3 million and $43.1 million in automobile and home equity loans, respectively.

Commercial and industrial loans increased from December 31, 2010 largely due to a $37.0 million short-term loan to State Bancorp. The funds were used by State Bancorp to repurchase all of its Series A Preferred Stock issued under the Treasury's Capital Purchase Program prior to being acquired by Valley effective January 1, 2012. The loan was subsequently eliminated at the acquisition date. Exclusive of the merger related loan, soft loan demand for most of the year coupled with strong competition for quality credits challenged our ability to achieve significant loan growth in this category during 2011. Additionally, many of our stronger borrowers used their liquidity to prepay loans rather than earn nominal interest on their excess funds in the current low interest rate environment. Although, we have seen pockets of loan growth opportunities in our primary markets, the low level of interest rates and strong competition for quality credits may continue to challenge the level of our organic commercial loan growth into the foreseeable future.

Total commercial real estate loans, including construction loans, increased from December 31, 2010 to $4.0 billion at December 31, 2011. The increase was primarily caused by our stronger focus on co-op and multifamily loan lending in our primary markets during 2011, coupled with a slight increase in non-construction loan demand mainly from existing borrowers. However, our construction loans continued to paydown during the year, as loan demand has remained tepid due to the slow economic recovery and slumping new housing markets.

The increase in residential mortgage loans during 2011 was mainly due to the success of our affordable one low price refinance program in New Jersey, as well as New York and eastern Pennsylvania. The programs' success during the year was partly due to the low level of market interest rates and our television and radio ad campaigns. We originated approximately $1.2 billion in new and refinanced residential mortgage loans and retained 69 percent of these loans in our loan portfolio. A significant portion of the mortgage loans retained for investment in 2011 were used, in part, to offset the decline in our holdings of residential mortgage-backed securities, as we sold many securities which we believed had an increase in prepayment risk during the year. Our decision to retain certain mortgage originations is based on credit criteria and loan to value levels, the overall composition of our interest earning assets and interest bearing liabilities and our ability to manage the interest rate risk associated with certain levels of these instruments.

Our total consumer loan portfolio declined $73.4 million from December 31, 2010 primarily due to the persistent decrease in automobile and home equity loans during each quarter of 2011. The decrease in auto loans is attributable to several factors, including our tight underwriting standards, and the high level of unemployment. Additionally, in an attempt to build market share, some large competitors have continued to offer rates and terms that we have elected not to match for most of 2011. The sustained decline in home equity loans was driven by continued refinancing of first mortgages at low rates and the borrowers' rollover of many home equity loan balances into the new first mortgages. Additionally, home equity line of credit usage remained low during 2011 mainly due to the low level of consumer confidence in the economic recovery. The factors listed above may continue to constrain the levels of our auto and home equity loan originations during the first quarter of 2012 and the foreseeable future.

Despite the overall loan growth in 2011, we may not experience significant organic loan growth in many of our loan categories during the first quarter of 2012 and beyond due to the slow economic recovery, elevated unemployment levels, increased competition for new and existing borrowers, or a change in asset/liability management strategy. Additionally, an unexpected increase in market interest rates (particularly on residential mortgage loans) could impact our ability to generate the same volume of new loans.

Much of our lending is in northern and central New Jersey, New York City and Long Island, with the exception of smaller auto and residential mortgage loan portfolios derived mainly from the neighboring state of Pennsylvania, which could present a geographic and credit risk if there was another significant broad based economic downturn or a prolonged economic recovery within the region. To mitigate these risks, we make efforts to maintain a diversified portfolio as to type of borrower and loan to guard against a potential downward turn in any one economic sector. The impact of the slow economic recovery, sustained elevated unemployment levels in our region during 2011, and low interest rate environment has limited the number of new quality loan opportunities in our primary markets and impacted the performance of our loan portfolio (see the "Non-performing Assets" section below). We can provide no assurance that our markets will not deteriorate beyond their current levels in the future and cause an increase in the credit risk of our loan portfolio.

The following table reflects the contractual maturity distribution of the commercial and industrial, and construction loans within our non-covered loan portfolio as of December 31, 2011:

	One Year or Less	One to Five Years	Over Five Years	Total
		(in thousands)		
Commercial and industrial - fixed-rate	$ 517,018	$267,812	$43,614	$ 828,444
Commercial and industrial - adjustable-rate	655,251	339,416	55,276	1,049,943
Construction - fixed-rate	53,014	86,757	—	139,771
Construction - adjustable-rate	102,876	168,356	—	271,232
	$1,328,159	$862,341	$98,890	$2,289,390

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

Covered Loans

Loans for which the Bank will share losses with the FDIC are referred to as "covered loans," and consist of loans acquired from LibertyPointe Bank and The Park Avenue Bank as a part of two FDIC-assisted transactions during the first quarter of 2010. Our covered loans consist primarily of commercial real estate loans and commercial and industrial loans and totaled $271.8 million at December 31, 2011 as compared to $356.7 million at December 31, 2010. Under ASC Subtopic 310-30, the covered loans were aggregated and accounted for as pools of loans based on common risk characteristics. A pool is accounted for as one asset with a single composite interest rate, an aggregate fair value and expected cash flows.

For loan pools accounted for under ASC Subtopic 310-30, the difference between the contractually required payments due and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the non-accretable difference. The contractually required payments due represent the total undiscounted amount of all uncollected principal and interest payments. Contractually required payments due may increase or decrease for a variety of reasons, e.g. when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. The Bank estimates the undiscounted cash flows expected to be collected by incorporating several key assumptions including probability of default, loss given default, and the amount of actual prepayments after the acquisition dates. The non-accretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses and uncollectable contractual interest expected to be incurred over the life of the loans. The excess of the undiscounted cash flows expected at the acquisition date over the carrying amount (fair value) of the covered loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the loans, or pool of loans, using the level yield method. The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment assumptions, and changes in expected principal and interest payments over the estimated lives of the loans. Prepayments affect the estimated life of covered loans and could change the amount of interest income, and possibly principal, expected to be collected.

At both acquisition and subsequent quarterly reporting dates Valley uses a third party service provider to assist with determining the contractual and estimated cash flows. Valley provides the third party with updated loan-level information derived from Valley's main operating system, contractually required loan payments and expected cash flows for each loan pool individually reviewed by Valley. Using this information, the third party provider determines both the contractual cash flows and cash flows expected to be collected. The loan-level information used to reforecast the cash flows is subsequently aggregated on a pool basis. The expected payment

data, discount rates, impairment data and changes to the accretable yield received back from the third party are reviewed by Valley to determine whether this information is accurate and the resulting financial statement effects are reasonable.

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

At the time of acquisition, the estimated cash flows on our covered loans were derived based on observable market information, as well as Valley's own specific assumptions regarding each loan. Valley performed credit due diligence on approximately 75 percent of the loans acquired in our FDIC-assisted transactions. In addition, Valley engaged a third party to perform credit valuations and expected cash flow forecasts on the acquired loans. The initial expected cash flows for loans accounted for under ASC Subtopic 310-30 were prepared on a loan-level basis utilizing the assumptions developed by Valley in conjunction with the third party. In accordance with ASC Subtopic 310-30, the individual loan-level cash flow assumptions were then aggregated on the basis of pools of loans with similar risk characteristics. Thereafter, on a quarterly basis, Valley analyzes the actual cash flow versus the forecasts at the loan pool level and variances are reviewed to determine their cause. In reforecasting future estimated cash flow, Valley will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default. For periods in which Valley does not reforecast estimated cash flows, the prior reporting period's estimated cash flows are adjusted to reflect the actual cash received and credit events which transpired during the current reporting period.

The following table summarizes the changes in the carrying amount of covered loans, net of the allowance for losses on covered loans, and accretable yield on those loans for the years ended December 31, 2011 and 2010.

	2011		2010	
	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield
	(in thousands)			
Balance beginning of year	$ 350,277	$101,052	$ —	$ —
Addition from FDIC-assisted transactions	—	—	412,331	69,659
Accretion	40,345	(40,345)	20,547	(20,547)
Payments received	(108,157)	—	(69,929)	—
Net increase in expected cash flows	—	6,017	—	51,940
Transfers to other real estate owned	(2,639)	—	(6,294)	—
Provision for losses on covered loans	(21,510)	—	(6,378)	—
Balance end of year	$ 258,316	$ 66,724	$ 350,277	$101,052

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

Although we recognized credit impairment for certain pools, on an aggregate basis the acquired pools of covered loans are performing better than originally expected. Based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on these loan pools over future periods. Decrease in the FDIC loss-share receivable due to the increase in expected cash flows for these loan pools is recognized on a prospective basis over the shorter period of the lives of the loan pools and the loss-share agreements accordingly. The prospective adjustments for FDIC loss-share receivable amounted to $10.6 million during 2011.

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

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

The following table presents changes in the FDIC loss-share receivable for the years ended December 31, 2011and 2010:

	2011	2010
	(in thousands)	
Balance, beginning of the period	$ 89,359	$ —
Acquisitions	—	108,000
Discount accretion of the present value at the acquisition dates	582	1,166
Effect of additional cash flows on covered loans (prospective recognition)	(10,592)	—
Increase due to impairment on covered loans	19,520	5,102
Other reimbursable expenses	3,893	2,561
Reimbursements from the FDIC	(28,372)	(27,470)
Balance, end of the period	$ 74,390	$ 89,359

Valley recognized approximately $13.4 million and $6.3 million in non-interest income for the years ended December 31, 2011 and 2010, respectively, related to discount accretion and the post-acquisition adjustments to the FDIC loss-share receivable included in the table above.

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

Non-performing Assets

Non-performing assets (not including covered loans) include non-accrual loans, OREO, non-accrual debt securities, and other repossessed assets, which consist of automobiles, as well as one aircraft at December 31, 2011. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is well collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value, less cost to sell at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. See Note 1 to the consolidated financial statements for details about our impaired and non-accrual loan, and non-accrual debt securities accounting policies. Given the state of the economic recovery, and relative to many of our peers, the level of non-performing assets remained relatively low at December 31, 2011 even though it has increased significantly since 2008 as shown in the table below.

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

	At December 31,				
	2011	2010	2009	2008	2007
			($ in thousands)		
Accruing past due loans [1]					
30 to 89 days past due					
Commercial and industrial	$ 4,347	$ 13,852	$11,949	$13,299	$ 5,839
Commercial real estate	13,115	14,563	4,539	5,005	5,233
Construction	2,652	2,804	1,834	5,456	12,047
Residential mortgage	8,496	12,682	12,462	12,189	6,486
Consumer	8,975	14,638	22,835	23,275	16,210
Total 30 to 89 days past due	37,585	58,539	53,619	59,224	45,815
90 or more days past due					
Commercial and industrial	$ 657	$ 12	$ 2,191	$ 864	$ 814
Commercial real estate	422	—	250	4,257	1,407
Construction	1,823	196	—	3,156	3,154
Residential mortgage	763	1,556	1,421	5,323	1,592
Consumer	351	723	1,263	1,957	1,495
Total 90 or more days past due	4,016	2,487	5,125	15,557	8,462
Total accruing past due loans	$ 41,601	$ 61,026	$58,744	$74,781	$54,277
Non-accrual loans [1]					
Commercial and industrial	$ 26,648	$ 13,721	$17,424	$10,511	$10,931
Commercial real estate	42,186	32,981	29,844	14,895	15,940
Construction	19,874	27,312	19,905	877	833
Residential mortgage	31,646	28,494	22,922	6,195	2,693
Consumer	3,910	2,547	1,869	595	226
Total non-accrual loans	124,264	105,055	91,964	33,073	30,623
Other real estate owned ("OREO") [2]	15,227	10,498	3,869	8,278	609
Other repossessed assets	796	1,707	2,565	4,317	1,466
Non-accrual debt securities [3]	27,151	—	—	—	—
Total non-performing assets ("NPAs")	$167,438	$117,260	$98,398	$45,668	$32,698
Performing troubled debt restructured loans	$100,992	$ 89,696	$19,072	$ 7,628	$ 8,363
Total non-accrual loans as a % of loans	1.27%	1.12%	0.98%	0.33%	0.36%
Total accruing past due and non-accrual loans as a % of loans	1.69	1.77	1.61	1.06	1.00
Allowance for losses on non-covered loans as a % of non-accrual loans	96.79	112.63	110.90	281.93	237.29

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

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

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

Total NPAs increased $50.2 million to $167.4 million at December 31, 2011 compared to $117.3 million at December 31, 2010. The increase is mainly due to an increase in non-accrual loans and $27.2 million related to non-accrual debt securities (consisting of other than temporarily impaired trust preferred securities classified as available for sale—see additional information at the "Investment Securities Portfolio" section of this MD&A). Approximately 75 percent of the total non-accrual loans are comprised of commercial real estate, construction and residential mortgage loans. Although loan charge-offs related to these loan categories increased in 2011, Valley continues to have very low loss rates on such loans due to its conservative underwriting standards, including conservative loan to value ratios.

Loans 90 days or more past due and still accruing, which were not included in the non-performing category, are presented in the above table. These loans increased $1.5 million to $4.0 million at December 31, 2011 compared to $2.5 million one year ago primarily due to larger loan balances on a small number of loans in the commercial and industrial loan, commercial real estate, and construction loan categories for 2011. All of the loans past due 90 days or more and still accruing are considered to be well secured and in the process of collection.

Non-accrual loans increased $19.2 million to $124.3 million at December 31, 2011 as compared to $105.1 million at December 31, 2010. Non-accrual commercial and industrial loans increased $12.9 million from December 31, 2010 due, in part, to one additional loan collateralized by an aircraft totaling $8.0 million in 2011 as well as several smaller borrowers impacted by the current economic conditions. Non-accrual commercial real estate and construction loans, consisting of 76 and 16 credit relationships, respectively, totaled a combined $62.1 million at December 31, 2011 and relate to customers negatively impacted by the slow economic recovery and the slumping real estate markets. Non-accrual residential mortgage loans were 1.38 percent of the residential mortgage loan portfolio at December 31, 2011. Although this percentage declined 0.10 percent from 1.48 percent at December 31, 2010 and is relatively low compared to the delinquencies recently reported by many financial institutions, the loans in this category remain relatively high for us due to certain borrowers' inability to sell homes quickly in the soft real estate markets, the high levels of unemployment, as well as the time necessary for us to foreclose on loans collateralized by properties primarily in the State of New Jersey.

Although the timing of collection is uncertain, management believes that most of the non-accrual loans are well secured and largely collectible based on, in part, our quarterly review of impaired loans. Our impaired loans (mainly consisting of non-accrual and troubled debt restructured commercial and industrial loans and commercial real estate loans) totaled $184.1 million at December 31, 2011 and had $23.2 million in related specific reserves included in our total allowance for loan losses.

If interest on non-accrual loans had been accrued in accordance with the original contractual terms, such interest income would have amounted to approximately $6.9 million, $7.9 million and $6.5 million for the years ended December 31, 2011, 2010, and 2009, respectively; none of these amounts were included in interest income during these periods. Interest income recognized on a cash basis for loans classified as non-accrual totaled $1.6 million (including $1.1 million in interest income on impaired loans) for the year ended December 31, 2011. See Note 5 to the consolidated financial statements for further analysis of our impaired loans.

OREO (which consists of 17 commercial and residential properties) and other repossessed assets, excluding OREO subject to loss-sharing agreements with the FDIC, totaled a combined $16.0 million at December 31, 2011 as compared to $12.2 million at December 31, 2010. The increase during 2011 was largely due to one commercial property with a carrying value of $3.5 million transferred to OREO during the third quarter of 2011.

Our residential mortgage loan foreclosure activity remains low due to the nominal amount of individual loan delinquencies within the residential mortgage and home equity portfolios. These portfolios totaling over 23,000 individual loans had only 272 loans past due 30 days or more at December 31, 2011.

In the first quarter of 2011, we evaluated our foreclosure documentation procedures, given the announcements made by other financial institutions regarding their foreclosure activities. The results of our review, and our foreclosure experience subsequent to the review, indicate that our procedures for reviewing and validating the information in our documentation are sound and we believe our foreclosure affidavits are accurate.

Troubled debt restructured loans ("TDRs") represent loan modifications for customers experiencing financial difficulties where a concession has been granted. Performing TDRs (i.e., TDRs not reported as non-accrual loans) totaled $101.0 million at December 31, 2011 and consisted of 60 loans (primarily in the commercial and industrial loan and commercial real estate portfolios) as compared to 44 loans totaling $89.7 million at December 31, 2010. On an aggregate basis, the $101.0 million in performing TDRs at December 31, 2011 had a modified weighted average interest rate of approximately 4.93 percent as compared to a pre-modification weighted average interest rate of 6.11 percent. There were no loans past due 90 days or more and still accruing classified as TDRs as of December 31, 2011.

During the third quarter of 2011, we adopted the provisions of ASU No. 2011-02, "Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." As a result of this adoption, we reassessed all loan restructurings that occurred on or after January 1, 2011 for identification as TDRs. This reassessment and the adoption of ASU No. 2011-02 did not materially impact the number of TDRs identified by us, or the specific reserves for such loans included in our allowance for loan losses at December 31, 2011. See Note 5 to the consolidated financial statements for additional disclosures regarding our TDRs.

Although we believe that substantially all risk elements at December 31, 2011 have been disclosed in the categories presented above, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans. As part of the analysis of the loan portfolio, management determined that there were approximately $105.6 million and $47.9 million in potential problem loans at December 31, 2011 and 2010, respectively, which were not classified as non-accrual loans in the non-performing asset table above. Potential problem loans are defined as performing loans for which management has concerns about the ability of such borrowers to comply with the loan repayment terms and which may result in a non-performing loan. Our decision to include performing loans in potential problem loans does not necessarily mean that management expects losses to occur, but that management recognizes potential problem loans carry a higher probability of default. At December 31, 2011, the potential problem loans consist of various types of performing commercial credits internally risk rated substandard because the loans exhibit well-defined weaknesses and require additional attention by management. See further discussion regarding our internal loan classification system at Note 4 to the consolidated financial statements. There can be no assurance that Valley has identified all of its potential problem loans at December 31, 2011.

Asset Quality and Risk Elements

Lending is one of the most important functions performed by Valley and, by its very nature, lending is also the most complicated, risky and profitable part of our business. For our commercial loan portfolio, comprised of commercial and industrial loans, commercial real estate loans, and construction loans, a separate credit department is responsible for risk assessment and periodically evaluating overall creditworthiness of a borrower. Additionally, efforts are made to limit concentrations of credit so as to minimize the impact of a downturn in any one economic sector. Our loan portfolio is diversified as to type of borrower and loan. However, loans collateralized by real estate, including $183.2 million of covered loans, represent over 70 percent of total loans at December 31, 2011. Most of the loans collateralized by real estate are in northern and central New Jersey and New York City, presenting a geographical and credit risk if there was a further significant broad-based deterioration in economic conditions within the region.

Consumer loans are comprised of residential mortgage loans, home equity loans, automobile loans and other consumer loans. Residential mortgage loans are secured by 1-4 family properties generally located in counties

where we have branch presence and counties contiguous thereto (including Pennsylvania). We do provide mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Residential mortgage loan underwriting policies that are based on Fannie Mae and Freddie Mac guidelines are adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2011 was 54 percent while FICO ® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 768. Home equity and automobile loans are secured loans and are made based on an evaluation of the collateral and the borrower's creditworthiness. In addition to New Jersey, automobile loans are primarily originated in several other states. Due to the level of our underwriting standards applied to all loans, management believes the out of state loans generally present no more risk than those made within New Jersey. However, each loan or group of loans made outside of our primary markets poses different geographic risks based upon the economy of that particular region.

Management realizes that some degree of risk must be expected in the normal course of lending activities. Allowances are maintained to absorb such loan losses inherent in the portfolio. The allowance for credit losses and related provision are an expression of management's evaluation of the credit portfolio and economic climate.

The following table summarizes the relationship among loans, loans charged-off, loan recoveries, the provision for credit losses and the allowance for credit losses for the years indicated:

	Years Ended December 31,				
	2011	2010	2009	2008	2007
			($ in thousands)		
Average loans outstanding	$9,608,480	$9,474,994	$9,705,909	$9,386,987	$8,261,111
Beginning balance—Allowance for credit losses	$ 126,504	$ 103,655	$ 94,738	$ 74,935	$ 74,718
Loans charged-off:					
Commercial and industrial [1]	(29,229)	(15,475)	(16,981)	(6,760)	(5,808)
Commercial real estate	(6,305)	(1,823)	(3,110)	(500)	(1,596)
Construction	(4,053)	(1,738)	(1,197)	—	—
Residential mortgage	(3,222)	(3,741)	(3,488)	(501)	(103)
Consumer	(5,906)	(10,882)	(17,689)	(14,902)	(7,628)
	(48,715)	(33,659)	(42,465)	(22,663)	(15,135)
Charged-off loans recovered:					
Commercial and industrial	2,365	4,121	449	627	1,427
Commercial real estate	134	156	75	6	254
Construction	197	—	—	—	—
Residential mortgage	129	97	36	—	17
Consumer	2,236	2,678	2,830	2,141	1,779
	5,061	7,052	3,390	2,774	3,477
Net charge-offs	(43,654)	(26,607)	(39,075)	(19,889)	(11,658)
Provision charged for credit losses	53,335	49,456	47,992	28,282	11,875
Additions from acquisitions	—	—	—	11,410	—
Ending balance—Allowance for credit losses	$ 136,185	$ 126,504	$ 103,655	$ 94,738	$ 74,935
Components of allowance for credit losses:					
Allowance for non-covered loans	$ 120,274	$ 118,326	$ 101,990	$ 93,244	$ 72,664
Allowance for covered loans	13,528	6,378	—	—	—
Allowance for loan losses	133,802	124,704	101,990	93,244	72,664
Allowance for unfunded letters of credit	2,383	1,800	1,665	1,494	2,271
Allowance for credit losses	$ 136,185	$ 126,504	$ 103,655	$ 94,738	$ 74,935
Components of provision for credit losses:					
Provision for losses on non-covered loans	$ 31,242	$ 42,943	$ 47,821	$ 29,059	$ 12,751
Provision for losses on covered loans	21,510	6,378	—	—	—
Provision for loan losses	52,752	49,321	47,821	29,059	12,751
Provision for unfunded letters of credit	583	135	171	(777)	(876)
Provision for credit losses	$ 53,335	$ 49,456	$ 47,992	$ 28,282	$ 11,875
Ratio of net charge-offs of non-covered loans to average loans outstanding	0.30%	0.28%	0.40%	0.21%	0.14%
Ratio of net charge-offs during the period to average loans outstanding	0.45	0.28	0.40	0.21	0.14
Allowance for non-covered loan losses as a % of non-covered loans	1.26	1.31	1.09	0.92	0.86
Allowance for credit losses as a % of total loans	1.39	1.35	1.11	0.93	0.88

(1) Includes covered loan charge-offs totaling $14.4 million during 2011. There were no charge-offs of covered loans during 2010.

The allowance for credit losses consists of the allowance for losses on non-covered loans, the allowance for unfunded letters of credit, and the allowance for losses on covered loans related to credit impairment of certain covered loan pools subsequent to acquisition. Management maintains the allowance for credit losses at a level estimated to absorb probable losses inherent in the loan portfolio and unfunded letter of credit commitments at the balance sheet dates, based on ongoing evaluations of the loan portfolio. Our methodology for evaluating the appropriateness of the allowance for non-covered loans includes:

- segmentation of the loan portfolio based on the major loan categories, which consist of commercial, commercial real estate (including construction), residential mortgage and other consumer loans;
- tracking the historical levels of classified loans and delinquencies;
- assessing the nature and trend of loan charge-offs;
- providing specific reserves on impaired loans; and
- applying economic outlook factors, assigning specific incremental reserves where necessary.

Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration when evaluating the adequacy of the allowance for credit losses.

The allowance for loan losses consists of five elements: (i) specific reserves for individually impaired credits, (ii) reserves for adversely classified, or higher risk rated, loans that are not impaired, (iii) reserves for other loans based on historical loss factors, (iv) reserves based on general economic conditions and other qualitative risk factors both internal and external to Valley, including changes in loan portfolio volume, the composition and concentrations of credit, new market initiatives, and the impact of competition on loan structuring and pricing, and (v) an allowance for impaired covered loan pools.

The Credit Risk Management Department individually evaluates non-accrual (non-homogeneous) loans within the commercial and industrial loan and commercial real estate loan portfolio segments over $250 thousand and troubled debt restructured loans within all the loan portfolio segments for impairment based on the underlying anticipated method of payment consisting of either the expected future cash flows or the related collateral. If payment is expected solely based on the underlying collateral, an appraisal is completed to assess the fair value of the collateral. Collateral dependent impaired loan balances are written down to the current fair value of each loan's underlying collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank's collection process. (See the "Assets and Liabilities Measured on Non-recurring Basis" section of Note 3 to the consolidated financial statements for further details). If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan's original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for credit losses. At December 31, 2011, a $23.2 million specific valuation allowance was included in the allowance for credit losses related to $184.1 million in impaired loans that had such an allowance. See Note 5 to the consolidated financial statements for more details regarding impaired loans.

The allowance allocations for non-classified loans within all of our loan portfolio segments are calculated by applying historical loss factors by specific loan types to the applicable outstanding loans and unfunded commitments. Loss factors are based on the Bank's historical loss experience and may be adjusted for significant changes in the current loan portfolio quality that, in management's judgment, affect the collectability of the portfolio as of the evaluation date.

The allowance contains reserves identified as the unallocated portion in the table below to cover inherent losses within a given loan category which have not been otherwise reviewed or measured on an individual basis.

Such reserves include management's evaluation of the national and local economy, loan portfolio volumes, the composition and concentrations of credit, credit quality and delinquency trends. These reserves reflect management's attempt to ensure that the overall allowance reflects a margin for imprecision and the uncertainty that is inherent in estimates of probable credit losses.

Net charge-offs have remained relatively low in the last five years as compared to most of our peers despite the 2008 economic recession and the economy's slow paced recovery since 2010. During this five-year period, our net charge-offs were at a high of 0.45 percent of average loans during 2011 and a low of 0.14 percent in 2007. During 2011, our net charge-offs increased $17.0 million to $43.7 million as compared to 2010 mainly due to $14.3 million of charge-offs on impaired covered loans (included in the commercial and industrial loan category in the table above). The charge-offs on impaired covered loans are substantially covered by loss-sharing agreements with the FDIC. The remaining increase was mainly due to higher charge-offs on our impaired non-covered commercial and industrial loans and commercial real estate loans. Despite the recent signals of improving economy, there can be no assurance that our levels of net-charge-offs will improve during 2012, and not deteriorate in the future.

The provision for credit losses was $53.3 million in 2011 compared to $49.5 million in 2010. For the year ended December 31, 2011, the provision for credit losses included provisions for losses on non-covered loans (i.e., loans which are not subject to our loss-sharing agreements with the FDIC) and unfunded letters of credit which totaled a combined $31.8 million, as well as a provision for covered loan losses of $21.5 million due to credit impairment within certain pools of covered loans acquired in FDIC-assisted transactions. The decrease of $11.7 million in provision for non-covered loans reflects, among other factors, lower loss factors applied to most loan categories due, in part, to stabilization of our credit quality indicators and loan delinquencies as well as improved economic outlook during 2011.

The following table summarizes the allocation of the allowance for credit losses to specific loan portfolio categories for the past five years:

	2011		2010		2009		2008		2007	
	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans	Allowance Allocation	Percent of Loan Category to total loans
	($ in thousands)									
Loan Category:										
Commercial and industrial*	$ 65,076	19.2%	$ 58,229	19.5%	$ 50,932	19.2%	$ 44,163	19.4%	$ 31,638	18.4%
Commercial real estate:										
Commercial real estate	19,222	36.4	15,755	36.0	10,253	37.4	10,035	32.8	8,788	27.9
Construction	12,905	4.2	14,162	4.6	15,263	4.7	15,885	5.0	11,748	4.7
Residential mortgage	9,058	23.3	9,128	20.6	5,397	20.7	4,434	22.4	3,124	24.3
Consumer	8,677	14.1	14,499	15.5	15,480	18.0	14,318	20.4	10,815	24.7
Unallocated	7,719	—	8,353	—	6,330	—	5,903	—	8,822	—
Allowance for non-covered loans	122,657		120,126		103,655		94,738		74,935	
Allowance for covered loans	13,528	2.8	6,378	3.8	—	—	—	—	—	—
Total allowance for credit losses	$ 136,185	100.0%	$ 126,504	100.0%	$ 103,655	100.0%	$ 94,738	100.0%	$ 74,935	100.0%

* Includes the allowance for unfunded letters of credit.

The allowance for credit losses on non-covered loans (including the reserve for unfunded letters of credit) amounted to $122.7 million or 1.28 percent of non-covered loans at December 31, 2011 as compared to 1.33 at December 31, 2010. During 2011, loss experience and the outlook for the automobile portfolio continued to improve within consumer loans but was mostly negated by increased reserves for commercial and industrial loans and commercial real estate loans on a few large customers. Our allocated reserves for the commercial and

industrial and commercial real estate loan portfolios increased $9.1 million from December 31, 2010 mainly due to higher specific reserves for impaired loans driven by higher levels of non-accrual commercial real estate and construction loans and performing troubled debt restructured loans caused in part, by the impact of the slow economic recovery and high unemployment. The average balance of impaired loans during 2011, 2010, and 2009 was approximately $170.7 million, $104.1 million, and $49.8 million, respectively. Management believes that the unallocated allowance is appropriate given the uncertain economic outlook, the size of the loan portfolio and level of loan delinquencies at December 31, 2011. See Note 6 to the consolidated financial statements for additional information regarding our allowance for loan losses.

We engage in the origination of residential mortgages for sale into the secondary market. In connection with such sales, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. No reserves pertaining to loans sold were established on our financial statements at December 31, 2011 and 2010. See "Item 1A. Risk Factors – We may incur future losses in connection with repurchases and indemnification payments related to mortgages that we have sold into the secondary market" of this Annual Report for additional information.

Capital Adequacy

A significant measure of the strength of a financial institution is its shareholders' equity. At December 31, 2011 and December 31, 2010, shareholders' equity totaled approximately $1.3 billion, or 8.9 percent and 9.2 percent of total assets, respectively. During the year ended December 31, 2011, total shareholders' equity decreased by approximately $29.0 million. This net decrease was related to cash dividends declared on common stock totaling $117.1 million and a $56.7 million increase in our accumulated other comprehensive loss, partially offset by net income of $133.7 million, net proceeds of $8.2 million from the reissuance of treasury stock or authorized common shares issued under our dividend reinvestment plan, and a $3.0 million increase attributable to the effect of our stock incentive plan. See Note 18 to the consolidated financial statements for more information regarding the changes in our accumulated other comprehensive loss during 2011.

In 2009, Valley filed a shelf registration statement on Form S-3 with the SEC, which was declared effective immediately. This shelf registration statement allowed Valley to periodically offer and sell in one or more offerings, individually or in any combination, an unlimited aggregate amount of Valley's common stock, preferred stock, or warrants to purchase common stock or preferred stock or units of the two. The shelf registration statement provided Valley with capital raising flexibility and enabled Valley to promptly access the capital markets in order to pursue growth opportunities that may become available in the future or permit Valley to comply with any changes in the regulatory environment that call for increased capital requirements. Valley's ability, and any decision to issue and sell securities pursuant to the shelf registration statement, is subject to market conditions and Valley's capital needs at such time. Although the shelf registration statement expired in February 2012, Valley intends to file a new immediately effective shelf registration statement shortly after filing this Annual Report on Form 10-K. Additional equity offerings, including shares issued under Valley's dividend reinvestment plan ("DRIP") may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Such offerings may be necessary in the future due to several factors beyond management's control, including potential increases to the regulatory minimum levels of capital required to be considered a well capitalized bank and the negative impact of the slow moving U.S. economic recovery. See Note 17 to the consolidated financial statements for additional information on Valley's stock issuances, DRIP, and repurchase plan.

Risk-based capital guidelines define a two-tier capital framework. Tier 1 capital consists of common shareholders' equity and eligible long-term borrowing related to VNB Capital Trust I and GCB Capital Trust III, less disallowed intangibles and deferred tax assets, and adjusted to exclude unrealized gains and losses, net of deferred tax. Total risk-based capital consists of Tier 1 capital, Valley National Bank's subordinated borrowings and the allowance for credit losses up to 1.25 percent of risk-adjusted assets. Risk-adjusted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet activities. Valley's Tier 1 capital position included $176.3 million of its outstanding trust preferred securities issued by capital trusts as of December 31, 2011 and 2010. In compliance with U.S. GAAP, Valley does not consolidate its capital trusts. See Note 12 to the consolidated financial statements for additional information.

Valley's capital position under risk-based capital guidelines was $1.1 billion, or 10.9 percent of risk-weighted assets for Tier 1 capital and $1.3 billion or 12.8 percent for total risk-based capital at December 31, 2011. The comparable ratios at December 31, 2010 were 10.9 percent for Tier 1 capital and 12.9 percent for total risk-based capital. At December 31, 2011 and 2010, Valley was in compliance with the leverage requirement having Tier 1 leverage ratios of 8.1 percent and 8.3 percent, respectively. The Bank's ratios at December 31, 2011 were all above the minimum levels required for Valley to be considered "well capitalized", which require Tier 1 capital to risk-adjusted assets of at least 6 percent, total risk-based capital to risk-adjusted assets of 10 percent and a minimum leverage ratio of 5 percent.

Typically, our primary source of capital growth is through retention of earnings. Our rate of earnings retention is derived by dividing undistributed earnings per common share by earnings (or net income) per common share. Our retention ratio was approximately 12.66 percent and 11.11 percent for the years ended December 31, 2011 and 2010, respectively. During 2011, the retention ratio was positively impacted by net gains on securities transactions and net trading gains (mainly consisting of non-cash mark to market gains on the fair value of junior subordinated debentures), and the change in our FDIC loss-share receivable, largely offset by net impairment losses recognized in earnings and higher income tax expense caused by a one-time tax provision related to a change in tax law during 2011. While we expect that our rate of earnings retention to remain at acceptable levels in future periods, potential future mark to market losses on our junior subordinated debentures, net impairment losses on securities, and other deterioration in earnings and our balance sheet resulting from the weak economic conditions may negatively impact our future earnings and ability to maintain our dividend at current levels.

Cash dividends declared amounted to $0.69 per common share for both the years ended December 31, 2011 and 2010. The Board continued the cash dividend, which remained unchanged for 2011 but, consistent with its conservative philosophy, the Board is committed to examine and weigh relevant facts and considerations, including its commitment to shareholder value, each time it makes a cash dividend decision in this economic environment. Under Bank Interagency Guidance, the Office of the Comptroller of the Currency has cautioned banks to carefully consider the dividend payout ratio to ensure they maintain sufficient capital to be able to lend to credit worthy borrowers.

Off-Balance Sheet Arrangements

Contractual Obligations and Commitments. In the ordinary course of operations, Valley enters into various financial obligations, including contractual obligations that may require future cash payments. As a financial services provider, we routinely enter into commitments to extend credit, including loan commitments, standby and commercial letters of credit. Such commitments are subject to the same credit policies and approval process accorded to loans made by the Bank. For additional information, see Note 15 of the consolidated financial statements.

The following table summarizes the Valley's contractual obligations and other commitments to make future payments as of December 31, 2011. Payments for deposits, borrowings and debentures do not include interest. Payments related to leases, capital expenditures, other purchase obligations and commitments to sell loans are based on actual payments specified in the underlying contracts. Commitments to extend credit and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used based upon our historical experience, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Note to Financial Statements	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
				(in thousands)		
Contractual obligations:						
Time deposits	10	$1,489,692	$ 250,636	$ 258,768	$ 502,288	$2,501,384
Long-term borrowings	11	28,554	26,674	724,839	1,946,032	2,726,099
Junior subordinated debentures issued to capital trusts [1]	12	—	—	—	181,767	181,767
Operating leases	15	18,318	37,565	36,837	258,052	350,772
Capital expenditures		2,036	—	—	—	2,036
Other purchase obligations [2]		11,251	642	—	—	11,893
Total		$1,549,851	$ 315,517	$1,020,444	$2,888,139	$5,773,951
Other commitments:						
Commitments to extend credit	15	$1,574,715	$1,279,011	$ 6,731	$ 76,884	$2,937,341
Standby letters of credit	15	108,897	14,824	113,483	75	237,279
Commitments to sell loans	15	85,000	—	—	—	85,000
Total		$1,768,612	$1,293,835	$ 120,214	$ 76,959	$3,259,620

(1) Amounts presented consists of the contractual principal balances. Carrying values and call dates are set forth in Note 12 to the consolidated financial statements.

(2) This category primarily consists of contractual obligations for communication and technology costs.

Valley also has obligations under its pension benefit plans, not included in the above table, as further described in Note 13 of the consolidated financial statements.

Derivative Instruments and Hedging Activities. We are exposed to certain risks arising from both its business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of its core business activities. We manage economic risks, including interest rate and liquidity risks, primarily by managing the amount, sources, and duration of its assets and liabilities and, from time to time, the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments mainly related to certain variable-rate borrowings and fixed-rate loan assets. See Note 15 to the consolidated financial statements for quantitative information on our derivative financial instruments and hedging activities.

Trust Preferred Securities. In addition to the commitments and derivative financial instruments of the types described above, our off balance sheet arrangements include a $5.5 million ownership interest in the common securities of our statutory trusts to issue trust preferred securities. See "Capital Adequacy" section above in this Item 7 and Note 12 of the consolidated financial statements.

Results of Operations—2010 Compared to 2009

Net interest income on a tax equivalent basis increased $13.8 million to $468.3 million for 2010 compared with $454.5 million for 2009. During 2010, a 41 basis point decline in interest rates paid on average interest bearing liabilities and lower average interest bearing liabilities positively impacted our net interest income, but were partially offset by a 66 basis point decline in the yield on average investments, a 5 basis point decline in the yield on average loans, and lower average loan balances as compared to 2009. Market interest rates on interest bearing deposits trended lower in 2010 as a result of the Federal Reserve's commitment to its monetary policy and the excess liquidity in the marketplace. Additionally, many of our higher cost time deposits continued to mature and, if renewed, re-priced at lower interest rates in 2010.

Average loans totaling $9.5 billion for the year ended December 31, 2010 decreased $230.9 million as compared to 2009 mainly due to declines in our commercial real estate and automobile loan portfolios. Average investment securities increased $74.3 million, or 2.5 percent in 2010 as compared to the year ended December 31, 2009 due to reinvestment of excess liquidity from the decline in loan demand. The decline in average loan balances during 2010 and a 5 basis point decline in yield on such loans contributed to an $18.2 million decrease in interest income on a tax equivalent basis for loans for the year ended December 31, 2010 compared with 2009. Interest income on a tax equivalent basis for investment securities also decreased $16.2 million due to a 66 basis point decline in yield caused by normal principal paydowns and sales of higher yield securities which were mainly reinvested in shorter term and lower yield securities as we continued to reduce our repricing risk during 2010 and maintain an acceptable level of asset sensitivity on our balance sheet in the event of a rise in market interest rates. The decline in yield on investment securities was partially mitigated by the increase in average investment securities during 2010 as we reallocated some of our excess liquidity from loan principal paydowns and interest bearing cash balances at the Federal Reserve.

Average interest bearing liabilities decreased $221.8 million to $10.4 billion for the year ended December 31, 2010 from the same period in 2009 mainly due to the maturity of high cost time deposits and lower average short-term borrowings caused by higher levels of short-term FHLB advances outstanding during the first half of 2009 due to liquidity concerns caused by the financial crisis. Average long-term borrowings (including junior subordinated debentures issued to capital trusts) also decreased $52.7 million from 2009 mainly due to the maturity of certain long-term positions in FHLB advances that we entered into during the second quarter of 2008. Partially offsetting these decreases, was an increase in average savings, NOW, and money market account balances as compared to 2009 mainly due to additional retail deposits generated from our 19 de novo branches opened over the last three year period and other existing branches as household savings appeared to remain strong due to the current economic conditions. The cost of time deposits, and short-term borrowings and savings, NOW, and money market accounts decreased 88, 80, and 19 basis points, respectively, during 2010 due to the low level of market interest rates throughout 2010.

Non-interest income represented 12.0 percent and 9.2 percent of total interest income plus non-interest income for 2010 and 2009, respectively. For the year ended December 31, 2010, non-interest income increased $19.1 million, compared with 2009, due to the change in the carrying value of the FDIC loss-share receivable, higher gains on sales of residential mortgage loans, partially offset by decreases in net trading losses, net impairment losses on securities and service charges.

During 2010, the $6.3 million in non-interest income recognized on the change in FDIC loss-share receivable represents a $5.1 million increase in the FDIC loss-share receivable due to additional estimated credit losses and discount accretion totaling $1.2 million.

Service charges on deposit accounts decreased $1.1 million, or 4.1 percent to $25.7 million for the year ended December 31, 2010 as compared to 2009 mainly due to a decrease in non-sufficient funds charges and overdraft protection fees. The decline in these fees reflects both better account management by our customers caused, in part, by economic uncertainty and higher savings rates, and new regulatory restrictions on overdraft charges enacted during the third quarter of 2010.

Net gains on securities transactions increased $3.6 million to $11.6 million for the year ended December 31, 2010, as compared to $8.0 million for 2009. The majority of the net gains were recognized during the fourth quarter of 2010 primarily due to the sale of certain residential mortgage-backed securities classified as available for sale, as well as gains realized on $15 million in trust preferred securities that were called for early redemption.

Net impairment losses on securities also declined $1.7 million to $4.6 million for the year ended December 31, 2010 as compared to $6.4 million for 2009 mainly due to a $3.5 million decrease in non-cash credit impairment charges on private label mortgage-backed securities classified as available for sale as compared to 2009, partially offset by a $2.2 million increase in credit impairment charges on two previously impaired pooled trust preferred securities.

Net trading losses decreased $3.5 million to $6.9 million for the year ended December 31, 2010, as compared to $10.4 million for 2009. The decrease was primarily caused by a $10.0 million decrease in non-cash mark to market losses on our junior subordinated debentures carried at fair value. This decrease was partially offset by a $6.5 million decline in net gains on trading securities to a net loss of $1.1 million in 2010 as compared to a net gain of 5.4 million in 2009 mainly caused by non-cash mark to market losses recognized on trading securities in 2010 and $3.2 million in gains realized on the sale of trading securities in 2009.

Net gains on sales of loans increased $3.7 million during the year ended December 31, 2010 as compared to 2009. The increase was mainly the result of a $3.9 million gain recognized on sale of approximately $83 million of conforming residential mortgage loans to Fannie Mae during the fourth quarter of 2010. These loans were transferred from our loan portfolio to loans held for sale during the third quarter of 2010. The decision to sell these loans was based on the likelihood that such loans would prepay in the short-term due to the current low level of interest rates.

Non-interest expense increased $11.7 million to $317.7 million for the year ended December 31, 2010 from $306.0 million for 2009. The increase in 2010 was mainly attributable to increases in salary and employee benefits expense of $12.4 million to $176.1 million in 2010 as compared to $163.8 million in 2009. The increase was due to several factors, including the resumption of cash incentive compensation accruals during 2010 (as no non-contractual bonuses were accrued or awarded to employees for the 2009 period), normal annual employee salary increases in 2010, additional staffing costs related to the two FDIC-assisted transactions in March 2010, as well as increases in both pension and medical insurance costs during 2010. In addition, the net occupancy and equipment expense, and professional and legal fees increased $2.8 million and $2.3 million, respectively. These increases were partially offset by a $6.4 million decrease in the FDIC insurance assessment. Our FDIC insurance assessment decreased as a result of a special assessment totaling $6.5 million during the second quarter of 2009. The special assessment was imposed on all insured depository institutions during 2009 due to the depletion of the Federal Deposit Insurance Fund caused by the costs associated with numerous bank failures resulting from the financial crisis.

Income tax expense was $55.8 million and $51.5 million for the years ended December 31, 2010 and 2009, respectively. However, the effective tax rate decreased to 29.8 percent for the 2010 annual period from 30.7 percent for 2009. The decrease in the effective tax rate from the 2009 period is mainly due to an increase in our investment in tax credits.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

For information regarding Quantitative and Qualitative Disclosures About Market Risk, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity.”

Item 8. ***Financial Statements and Supplementary Data***

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2011	December 31, 2010
	(in thousands except for share data)	
Assets		
Cash and due from banks	$ 372,566	$ 302,629
Interest bearing deposits with banks	6,483	63,657
Investment securities:		
Held to maturity, fair value of $2,027,197 at December 31, 2011 and $1,898,872 at December 31, 2010	1,958,916	1,923,993
Available for sale	566,520	1,035,282
Trading securities	21,938	31,894
Total investment securities	2,547,374	2,991,169
Loans held for sale, at fair value	25,169	58,958
Non-covered loans	9,527,797	9,009,140
Covered loans	271,844	356,655
Less: Allowance for loan losses	(133,802)	(124,704)
Net loans	9,665,839	9,241,091
Premises and equipment, net	265,475	265,570
Bank owned life insurance	303,867	304,956
Accrued interest receivable	52,527	59,126
Due from customers on acceptances outstanding	5,903	6,028
FDIC loss-share receivable	74,390	89,359
Goodwill	317,962	317,891
Other intangible assets, net	20,818	25,650
Other assets	586,134	417,742
Total Assets	$14,244,507	$14,143,826
Liabilities		
Deposits:		
Non-interest bearing	$ 2,781,597	$ 2,524,299
Interest bearing:		
Savings, NOW and money market	4,390,121	4,106,464
Time	2,501,384	2,732,851
Total deposits	9,673,102	9,363,614
Short-term borrowings	212,849	192,318
Long-term borrowings	2,726,099	2,933,858
Junior subordinated debentures issued to capital trusts (includes fair value of $160,478 at December 31, 2011 and $161,734 at December 31, 2010 for VNB Capital Trust I)	185,598	186,922
Bank acceptances outstanding	5,903	6,028
Accrued expenses and other liabilities	174,708	165,881
Total Liabilities	12,978,259	12,848,621
Shareholders' Equity		
Preferred stock, no par value, authorized 30,000,000 shares; none issued	—	—
Common stock, no par value, authorized 220,974,508 shares; issued 170,209,090 shares at December 31, 2011 and 170,131,085 shares at December 31, 2010	59,955	57,041
Surplus	1,179,135	1,178,325
Retained earnings	90,011	79,803
Accumulated other comprehensive loss	(62,441)	(5,719)
Treasury stock, at cost (34,776 common shares at December 31, 2011 and 597,459 common shares at December 31, 2010)	(412)	(14,245)
Total Shareholders' Equity	1,266,248	1,295,205
Total Liabilities and Shareholders' Equity	$14,244,507	$14,143,826

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2011	2010	2009
	(in thousands, except for share data)		
Interest Income			
Interest and fees on loans	$ 547,365	$ 543,009	$ 561,252
Interest and dividends on investment securities:			
Taxable	108,129	115,593	131,792
Tax-exempt	11,273	10,366	9,682
Dividends	6,655	7,428	8,513
Interest on federal funds sold and other short-term investments	402	416	945
Total interest income	673,824	676,812	712,184
Interest Expense			
Interest on deposits:			
Savings, NOW and money market	19,876	19,126	24,894
Time	48,291	55,798	93,403
Interest on short-term borrowings	1,154	1,345	4,026
Interest on long-term borrowings and junior subordinated debentures	129,692	137,791	140,547
Total interest expense	199,013	214,060	262,870
Net Interest Income	474,811	462,752	449,314
Provision for credit losses	53,335	49,456	47,992
Net Interest Income After Provision for Credit Losses	421,476	413,296	401,322
Non-Interest Income			
Trust and investment services	7,523	7,665	6,906
Insurance commissions	15,627	11,334	10,224
Service charges on deposit accounts	22,610	25,691	26,778
Gains on securities transactions, net	32,068	11,598	8,005
Other-than-temporary impairment losses on securities	(42,775)	(1,393)	(6,339)
Portion recognized in other comprehensive (loss) income (before taxes)	22,807	(3,249)	(13)
Net impairment losses on securities recognized in earnings	(19,968)	(4,642)	(6,352)
Trading gains (losses), net	2,271	(6,897)	(10,434)
Fees from loan servicing	4,337	4,919	4,839
Gains on sales of loans, net	10,699	12,591	8,937
Gains on sales of assets, net	426	619	605
Bank owned life insurance	7,380	6,166	5,700
Change in FDIC loss-share receivable	13,403	6,268	—
Other	15,921	16,015	17,043
Total non-interest income	112,297	91,327	72,251
Non-Interest Expense			
Salary and employee benefits expense	176,307	176,106	163,746
Net occupancy and equipment expense	64,364	61,765	58,974
FDIC insurance assessment	12,759	13,719	20,128
Amortization of other intangible assets	9,315	7,721	6,887
Professional and legal fees	15,312	10,137	7,907
Advertising	8,373	4,052	3,372
Other	50,158	44,182	45,014
Total non-interest expense	336,588	317,682	306,028
Income Before Income Taxes	197,185	186,941	167,545
Income tax expense	63,532	55,771	51,484
Net Income	133,653	131,170	116,061
Dividends on preferred stock and accretion	—	—	19,524
Net Income Available to Common Stockholders	$ 133,653	$ 131,170	$ 96,537
Earnings Per Common Share:			
Basic	$ 0.79	$ 0.78	$ 0.61
Diluted	0.79	0.78	0.61
Cash Dividends Declared Per Common Share	0.69	0.69	0.69
Weighted Average Number of Common Shares Outstanding:			
Basic	169,928,460	169,112,901	159,259,476
Diluted	169,929,590	169,121,584	159,260,229

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Net income	$133,653	$ 131,170	$116,061
Other comprehensive (loss) income, net of tax:			
Unrealized gains and losses on securities available for sale			
Net gains arising during the period	1,513	12,637	47,351
Less reclassification adjustment for gains included in net income	(19,674)	(7,330)	(5,003)
Total	(18,161)	5,307	42,348
Non-credit impairment losses on availabl e for sale and held to maturity securities			
Net change in non-credit impairment losses on securities	(26,656)	3,328	(2,774)
Less reclassification adjustment for credit impairment losses included in net income	11,633	2,741	3,767
Total	(15,023)	6,069	993
Unrealized gains and losses on derivatives (cash flow hedges)			
Net (losses) gains on derivatives arising during the period	(14,157)	866	2,017
Less reclassification adjustment for losses included in net income	1,780	1,142	267
Total	(12,377)	2,008	2,284
Pension benefit adjustment	(11,161)	713	4,095
Total other comprehensive (loss) income	(56,722)	14,097	49,720
Total comprehensive income	$ 76,931	$ 145,267	$165,781

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
				(in thousands)				
Balance - December 31, 2008	156,307	$ 291,539	$ 48,228	$1,047,085	$ 85,234	$ (60,931)	$ (47,546)	$ 1,363,609
Cumulative effect of adoption of a new accounting principle (ASC Topic 320)	—	—	—	—	8,605	(8,605)	—	—
Balance - January 1, 2009	156,307	291,539	48,228	1,047,085	93,839	(69,536)	(47,546)	1,363,609
Net income	—	—	—	—	116,061	—	—	116,061
Other comprehensive income, net of tax	—	—	—	—	—	49,720	—	49,720
Preferred stock redemption	—	(300,000)	—	—	—	—	—	(300,000)
Accretion of discount on preferred stock	—	8,461	—	—	(8,461)	—	—	—
Cash dividends declared on preferred stock	—	—	—	—	(11,063)	—	—	(11,063)
Cash dividends declared on common stock	—	—	—	—	(110,101)	—	—	(110,101)
Effect of stock incentive plan, net	191	—	(32)	1,725	(2,121)	—	4,319	3,891
Common stock dividend declared	—	—	—	(101,051)	—	—	—	(101,051)
Common stock dividend paid	—	—	2,363	98,650	—	—	—	101,013
Common stock issued	12,171	—	3,734	131,562	(4,562)	—	9,020	139,754
Fair value of stock options granted	—	—	—	1,021	—	—	—	1,021
Balance - December 31, 2009	168,669	$ —	$ 54,293	$1,178,992	$ 73,592	$ (19,816)	$ (34,207)	$ 1,252,854
Net income	—	—	—	—	131,170	—	—	131,170
Other comprehensive income, net of tax						14,097		14,097
Cash dividends declared on common stock	—	—	—	—	(116,137)	—	—	(116,137)
Effect of stock incentive plan, net	216	—	65	1,322	(2,603)	—	5,313	4,097
Common stock dividend declared	—	—	—	(110,848)	—		—	(110,848)
Common stock dividend paid	—	—	2,683	108,015	—	—	—	110,698
Common stock issued	649	—	—	—	(6,219)		14,649	8,430
Fair value of stock options granted	—	—	—	844	—	—	—	844
Balance - December 31, 2010	169,534	$ —	$ 57,041	$1,178,325	$ 79,803	$ (5,719)	$ (14,245)	$ 1,295,205
Net income	—	—	—	—	133,653	—	—	133,653
Other comprehensive loss, net of tax	—	—	—	—	—	(56,722)	—	(56,722)
Cash dividends declared on common stock	—	—	—	—	(117,071)	—	—	(117,071)
Effect of stock incentive plan, net	(39)	—	61	3,095	(396)	—	210	2,970
Common stock dividend declared	—	—	—	(109,675)	—	—	—	(109,675)
Common stock dividend paid	—	—	2,831	106,844	—	—	—	109,675
Common stock issued	679	—	22	546	(5,978)	—	13,623	8,213
Balance - December 31, 2011	170,174	$ —	$ 59,955	$1,179,135	$ 90,011	$ (62,441)	$ (412)	$ 1,266,248

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2011	2010	2009
		(in thousands)	
Cash flows from operating activities:			
Net income	$ 133,653	$ 131,170	$ 116,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,380	15,850	15,316
Stock-based compensation	3,156	4,830	5,049
Provision for credit losses	53,335	49,456	47,992
Net amortization of premiums and accretion of discounts on securities and borrowings	11,871	12,443	9,592
Amortization of other intangible assets	9,315	7,721	6,887
Gains on securities transactions, net	(32,068)	(11,598)	(8,005)
Net impairment losses on securities recognized in earnings	19,968	4,642	6,352
Proceeds from sales of loans held for sale	366,769	385,997	369,917
Gains on sales of loans, net	(10,699)	(12,591)	(8,937)
Originations of loans held for sale	(322,281)	(323,710)	(381,930)
Gains on sales of assets, net	(426)	(619)	(605)
Change in the FDIC loss-share receivable (excluding reimbursements)	(13,403)	(6,268)	—
Net deferred income tax expense (benefit)	(15,285)	20,176	(10,898)
Net change in:			
Trading securities	9,956	1,056	1,286
Fair value of borrowings carried at fair value	(1,256)	5,841	15,828
Cash surrender value of bank owned life insurance	(7,380)	(6,166)	(5,700)
Accrued interest receivable	(3,069)	93	1,472
Other assets	(34,977)	9,569	91,644
Accrued expenses and other liabilities	7,778	(8,878)	(166,768)
Net cash provided by operating activities	191,337	279,014	104,553
Cash flows from investing activities:			
Net loan (originations) repayments	(444,207)	359,117	734,544
Loans purchased	(33,293)	(52,279)	—
Investment securities held to maturity:			
Purchases	(683,056)	(993,407)	(967,904)
Maturities, calls and principal repayments	582,999	644,810	526,637
Investment securities available for sale:			
Purchases	(473,119)	(321,318)	(503,483)
Sales	552,486	425,473	326,096
Maturities, calls and principal repayments	280,046	327,316	333,041
Death benefit proceeds from bank owned life insurance	8,469	5,241	1,727
Proceeds from sales of real estate property and equipment	4,864	4,601	3,713
Purchases of real estate property and equipment	(16,402)	(14,599)	(25,282)
Reimbursements from the FDIC	28,372	—	—
Cash and cash equivalents acquired (paid) in acquisitions	—	44,228	(285)
Net cash (used in) provided by investing activities	(192,841)	429,183	428,804
Cash flows from financing activities:			
Net change in deposits	309,488	(837,871)	314,362
Net change in short-term borrowings	20,531	(36,517)	(424,157)
Advances of long-term borrowings	—	50,681	—
Repayments of long-term borrowings	(207,000)	(72,742)	(60,755)
Redemption of preferred stock	—	—	(300,000)
Dividends paid to preferred shareholders	—	—	(12,980)
Dividends paid to common shareholders	(116,779)	(115,190)	(109,005)
Common stock issued, net	8,027	8,391	140,008
Net cash provided by (used in) financing activities	14,267	(1,003,248)	(452,527)
Net change in cash and cash equivalents	12,763	(295,051)	80,830
Cash and cash equivalents at beginning of year	366,286	661,337	580,507
Cash and cash equivalents at end of year	$ 379,049	$ 366,286	$ 661,337

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Years ended December 31,		
	2011	2010	2009
		(in thousands)	
Supplemental disclosures of cash flow information:			
Cash payments for:			
Interest on deposits and borrowings	$199,565	$ 217,102	$288,858
Federal and state income taxes	60,186	50,636	63,021
Supplemental schedule of non-cash investing activities:			
Transfer of investment securities held to maturity to available for sale	23,452	—	—
Loans transferred to loans held for sale	—	83,162	—
Acquisitions:			
Non-cash assets acquired:			
Investment securities available for sale	—	73,743	—
Loans	—	412,331	—
Premises and equipment, net	—	133	—
Accrued interest receivable	—	2,788	—
Goodwill	—	21,413	726
Other intangible assets, net	—	4,884	224
FDIC loss-share receivable	—	108,000	—
Other assets	—	22,558	—
Total non-cash assets acquired	—	645,850	950
Liabilities assumed:			
Deposits	—	654,200	—
Short-term borrowings	—	12,688	—
Long-term borrowings	—	10,559	—
Junior subordinated debentures issued to capital trusts	—	—	—
Accrued expenses and other liabilities	—	12,631	665
Total liabilities assumed	—	690,078	665
Net non-cash (liabilities) assets acquired	$ —	$ (44,228)	$ 285
Cash and cash equivalents acquired (paid) in acquisitions	$ —	$ 44,228	$ (285)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Note 1)

Business

Valley National Bancorp, a New Jersey Corporation ("Valley"), is a bank holding company whose principal wholly-owned subsidiary is Valley National Bank (the "Bank"), a national banking association providing a full range of commercial, retail and trust and investment services through its branch and ATM network throughout northern and central New Jersey, the New York City boroughs of Manhattan, Brooklyn and Queens, as well as Long Island, New York. The Bank also lends to borrowers outside its branch network. The Bank is subject to intense competition from other financial services companies and is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by certain regulatory authorities.

Valley National Bank's subsidiaries are all included in the consolidated financial statements of Valley. These subsidiaries include:

- an all-line insurance agency offering property and casualty, life and health insurance;
- asset management advisors which are Securities and Exchange Commission ("SEC") registered investment advisors;
- a title insurance agency;
- subsidiaries which hold, maintain and manage investment assets for the Bank;
- a subsidiary which owns and services auto loans;
- a subsidiary which specializes in asset-based lending;
- a subsidiary which offers financing for general aviation aircraft and servicing for existing commercial equipment leases;
- a subsidiary which specializes in health care equipment and other commercial equipment leases; and
- a subsidiary which owns and services New York commercial loans.

The Bank's subsidiaries also include real estate investment trust subsidiaries (the "REIT" subsidiaries) which own real estate related investments and a REIT subsidiary which owns some of the real estate utilized by the Bank and related real estate investments. Except for Valley's REIT subsidiaries, all subsidiaries mentioned above are directly or indirectly wholly-owned by the Bank. Because each REIT subsidiary must have 100 or more shareholders to qualify as a REIT, each REIT subsidiary has issued less than 20 percent of its outstanding non-voting preferred stock to individuals, most of whom are non-senior management Bank employees. The Bank owns the remaining preferred stock and all the common stock of the REITs.

Basis of Presentation

The consolidated financial statements of Valley include the accounts of its commercial bank subsidiary, Valley National Bank and all of Valley's direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles ("U.S. GAAP") and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities. See Note 12 below for more detail. Certain prior period amounts have been reclassified to conform to the current presentation.

In preparing the consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Effective January 1, 2012, Valley acquired State Bancorp, Inc. ("State Bancorp"), the holding company for State Bank of Long Island, a commercial bank. See Note 2 for further details regarding this acquisition.

On May 20, 2011, Valley issued a five percent common stock dividend to shareholders of record on May 6, 2011. All common share and per common share data presented in the consolidated financial statements and the accompanying notes below were adjusted to reflect the dividend.

In March 2010, the Bank assumed all of the deposits, excluding brokered deposits, and acquired loans, other real estate owned ("covered loans" and "covered OREO", together "covered assets") and certain other assets of The Park Avenue Bank and LibertyPointe Bank, from the Federal Deposit Insurance Corporation (the "FDIC"), as receiver (the "FDIC-assisted transactions"). See Note 2 for further details regarding these transactions.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other banks (including the Federal Reserve Bank of New York) and, from time to time, overnight federal funds sold.

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. These reserve balances totaled $19.2 million and $16.8 million at December 31, 2011 and 2010, respectively.

Investment Securities

At the time of purchase, management elects to classify investment securities into one of three categories: held to maturity, available for sale or trading. Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold to maturity. Investment securities to be held for indefinite periods are classified as available for sale and carried at fair value, with unrealized holding gains and losses reported as a component of other comprehensive income or loss, net of tax. Securities that may be sold and reinvested over short durations as part of management's asset/liability management strategies are classified as trading and are carried at fair value, with changes in unrealized holding gains and losses included in non-interest income in the accompanying consolidated statements of income as a component of trading gains (losses), net. Realized gains or losses on the sale of securities are recognized by the specific identification method and are included in net gains (losses) on securities transactions and net trading gains (losses) for available for sale and trading securities, respectively. Investments in Federal Home Loan Bank and Federal Reserve Bank stock, which have limited marketability, are carried at cost in other assets.

Quarterly, Valley evaluates its investment securities classified as held to maturity or available for sale for other-than-temporary impairment. Other-than-temporary impairment means Valley believes the security's impairment is due to factors that could include the issuer's inability to pay interest or dividends, the potential for default, and/or other factors. As a result of Valley's adoption of new authoritative guidance under ASC Topic 320, "Investments—Debt and Equity Securities" on January 1, 2009, when a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, Valley has to first consider (a) whether it intends to sell the security, and (b) whether it is more likely than not that Valley will be required to sell the security prior to recovery of its amortized cost basis. If neither of these circumstances applies to a security, but Valley does not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, Valley compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the portion related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income or loss. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

To determine whether a security's impairment is other-than-temporary, Valley considers factors that include, among others, the causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility; the severity and duration of the decline; Valley's ability and intent to hold equity security investments until they recover in value (as well as the likelihood of such a recovery in the near term); Valley's intent to sell security investments; and whether it is more likely than not that Valley will be required to sell such securities before recovery of their individual amortized cost basis. For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not it is probable that current and/or future contractual cash flows have been or may be impaired. See the "Other-Than-Temporary Impairment Analysis" section of Note 4 for further discussion.

Interest income on investments includes amortization of purchase premiums and discounts. Realized gains and losses are derived based on the amortized cost of the security sold. Valley discontinues the recognition of interest on debt securities if the securities meet both of the following criteria: (i) regularly scheduled interest payments have not been paid or have been deferred by the issuer, and (ii) full collection of all contractual principal and interest payments is not deemed to be the most likely outcome, resulting in the recognition of other-than-temporary impairment of the security.

Loans Held for Sale

Loans held for sale consist of conforming residential mortgage loans originated and intended for sale in the secondary market and are carried at their estimated fair value on an instrument-by-instrument basis as permitted by the fair value option election under U.S. GAAP. Changes in fair value are recognized in earnings as a component of gains on sales of loans, net. Origination fees and costs related to loans held for sale are recognized as earned and as incurred. Loans held for sale are generally sold with loan servicing rights retained by Valley. Gains recognized on loan sales include the value assigned to the rights to service the loan. See "Loan Servicing Rights" section below.

Loans and Loan Fees

Loans are reported at their outstanding principal balance net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans and premium or discounts on purchased loans, except for covered loans. Loan origination and commitment fees, net of related costs are deferred and amortized as an adjustment of loan yield over the estimated life of the loans approximating the effective interest method.

Loans are deemed to be past due when the contractually required principal and interest payments have not been received as they become due. Loans are placed on non-accrual status generally when they become 90 days past due and the full and timely collection of principal and interest becomes uncertain. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on nonaccrual loans are applied against principal. A loan may be restored to an accruing basis when it becomes well secured and is in the process of collection, or all past due amounts become current under the loan agreement and collectability is no longer doubtful.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Loans Acquired Through Transfer (Including Covered Loans)

Loans acquired through the completion of a transfer, including loans acquired in a business combination (see Note 2), are initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. Beginning in 2010, Valley accounts for interest income on all loans acquired at a discount (that is due, in part, to credit quality) based on the acquired loans' expected cash flows. The acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flow.

The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or an allowance for loan losses. Increases in expected cash flows subsequent to the acquisition are recognized prospectively through adjustment of the yield on the pool over its remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Therefore, the allowance for loan losses on these impaired pools reflect only losses incurred after the acquisition (representing the present value of all cash flows that were expected at acquisition but currently are not expected to be received). The allowance for loan losses on covered loans (acquired through two FDIC-assisted transactions) is determined without consideration of the amounts recoverable through the FDIC loss-share agreements (see "FDIC Loss-Share Receivable" below).

Covered loans that may have been classified as non-performing loans by an acquired bank are no longer classified as non-performing because these loans are accounted for on a pooled basis. Management's judgment is required in classifying loans in pools as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the pool cash flows to be collected, even if certain loans within the pool are contractually past due.

Allowance for Credit Losses

The allowance for credit losses (the "allowance") is increased through provisions charged against current earnings and additionally by crediting amounts of recoveries received, if any, on previously charged-off loans. The allowance is reduced by charge-offs on loans or unfunded letters of credit which are determined to be a loss, in accordance with established policies, when all efforts of collection have been exhausted.

The allowance is maintained at a level estimated to absorb probable credit losses inherent in the loan portfolio as well as other credit risk related charge-offs. The allowance is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio and off balance sheet unfunded letters of credits, as well as reserves for impairment of covered loans subsequent to their acquisition date. As discussed under the "Loans Acquired Through Transfer" section above, the allowance for credit losses includes reserves for impairment of covered loans subsequent to their acquisition date. The Bank's methodology for evaluating the appropriateness of the allowance includes grouping the non-covered loan portfolio into loan segments based on common risk characteristics, tracking the historical levels of classified loans and delinquencies, applying economic outlook factors, assigning specific incremental reserves where necessary, providing specific reserves on impaired loans, and assessing the nature and trend of loan charge-offs. Additionally, the volume of non-performing loans, concentration risks by size, type, and geography, new markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, loan review and economic conditions are taken into consideration.

The allowance for loan losses consists of five elements: (i) specific reserves for individually impaired credits, (ii) reserves for adversely classified, or higher risk rated, loans that are not impaired, (iii) reserves for other loans based on historical loss factors, (iv) reserves based on general economic conditions and other

qualitative risk factors both internal and external to Valley, including changes in loan portfolio volume, the composition and concentrations of credit, new market initiatives, and the impact of competition on loan structuring and pricing, and (v) an allowance for impaired covered loan pools.

The Credit Risk Management Department individually evaluates non-accrual (non-homogeneous) commercial and industrial loans and commercial real estate loans over $250 thousand and all troubled debt restructured loans are individually evaluated for impairment. The value of an impaired loan is measured based upon the underlying anticipated method of payment consisting of either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, if the loan is collateral dependent, and its payment is expected solely based on the underlying collateral. If the value of an impaired loan is less than its carrying amount, impairment is recognized through a provision to the allowance for loan losses. Collateral dependent impaired loan balances are written down to the current fair value, less costs to sell, of each loan's underlying collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank's collection process. If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan's original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for loan losses. Accrual of interest is discontinued on an impaired loan when management believes, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are generally credited to the loan balance, and no interest income is recognized on these loans until the principal balance has been determined to be fully collectible. Residential mortgage loans and consumer loans usually consist of smaller balance homogeneous loans that are collectively evaluated for impairment, and are specifically excluded from the impaired loan portfolio, except where the loan is classified as a troubled debt restructured loan.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of the loans. Loans are evaluated based on an internal credit risk rating system for the commercial and industrial loan and commercial real estate loan portfolio segments and non-performing loan status for the residential and consumer loan portfolio segments. Loans are risk-rated based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship manager level for all commercial and industrial loans and commercial real estate loans, and evaluated by the Loan Review Department on a test basis. Loans with a grade that is below "Pass" grade are adversely classified. See Note 5 for details. Any change in the credit risk grade of performing and/or non-performing loans affects the amount of the related allowance. Once a loan is adversely classified, the assigned relationship manager and/or a special assets officer in conjunction with the Credit Risk Management Department analyze the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. Loans identified as losses by management are charged-off. Loans are assessed for full or partial charge-off when they are between 90 and 120 days past due or sooner if deemed uncollectible. Furthermore, residential mortgage and consumer loan accounts are charged-off in accordance with regulatory requirements.

The allowance allocations for other loans (i.e.; risk rated loans that are not adversely classified and loans that are not risk rated) are calculated by applying historical loss factors for each loan portfolio segment to the applicable outstanding loan portfolio balances. Loss factors are calculated using statistical analysis supplemented by management judgment. The statistical analysis considers historical default rates and historical loss severity in the event of default. The management analysis includes an evaluation of loan portfolio volumes, the composition and concentrations of credit, credit quality and current delinquency trends.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The allowance also contains reserves to cover inherent losses within each of Valley's loan portfolio segments, which have not been otherwise reviewed or measured on an individual basis. Such reserves include management's evaluation of national and local economic and business conditions, loan portfolio volumes, the composition and concentrations of credit, credit quality and delinquency trends. These reserves reflect management's attempt to ensure that the overall allowance reflects a margin for imprecision and the uncertainty that is inherent in estimates of probable credit losses.

See Notes 5 and 6 for Valley's loan credit quality and additional allowance disclosures.

Premises and Equipment, Net

Premises and equipment are stated at cost less accumulated depreciation computed using the straight-line method over the estimated useful lives of the related assets. Generally, these useful lives range from three to forty years. Leasehold improvements are amortized over the term of the lease or estimated useful life of the asset, whichever is shorter. Major improvements are capitalized, while repairs and maintenance costs are charged to operations as incurred. Upon retirement or disposition, any gain or loss is credited or charged to operations.

Bank Owned Life Insurance

Valley owns bank owned life insurance ("BOLI") to help offset the cost of employee benefits. BOLI is recorded at its cash surrender value. Valley's BOLI is invested primarily in U.S. Treasury securities and residential mortgage-backed securities issued by government sponsored enterprises, and Ginnie Mae. The majority of the underlying investment portfolio is managed by one independent investment firm. The change in the cash surrender value is included as a component of non-interest income and is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals.

Other Real Estate Owned

Other real estate owned ("OREO"), acquired through foreclosure on loans secured by real estate, is reported at the lower of cost or fair value, as established by a current appraisal, less estimated costs to sell, and is included in other assets. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain these properties, unrealized losses resulting from write-downs after the date of foreclosure, and realized gains and losses upon sale of the properties are included in other non-interest expense and other non-interest income, as appropriate. OREO and other repossessed assets totaled $22.4 million and $12.2 million (including $6.4 million and $7.8 million of OREO related to the FDIC-assisted transactions, which is subject to the loss-sharing agreements) at December 31, 2011 and 2010, respectively.

FDIC Loss-Share Receivable

The receivable arising from the loss sharing agreements (referred to as the "FDIC loss-share receivable" on our consolidated statements of financial condition) is measured separately from the covered loan pools because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. Although this asset represents a contractual receivable from the FDIC, there is no contractual interest rate associated with the asset. At the date of acquisition, the FDIC loss-share receivable was measured at its fair value based on expected future cash flows covered by the loss share agreements. In addition, the asset is based on the credit adjustments estimated for each loan pool and the loss-share percentages. See Note 2 for further details.

The difference between the present value at acquisition date and the undiscounted cash flow expected to be collected from the FDIC is accreted into non-interest income over the life of the FDIC loss-share receivable. The FDIC loss-share receivable is reduced as loss-sharing payments are received from the FDIC for realized losses on covered loans and other real estate owned. Actual or expected losses in excess of the acquisition date estimates result in an increase in the FDIC loss-share receivable. However, a reduction in the FDIC loss-share receivable due to actual or expected losses that are less than the acquisition date estimates is recognized prospectively over

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the shorter of (i) the estimated life of the respective pools of covered loans or (ii) the term of the loss-sharing agreements with the FDIC. The increases and decreases to the FDIC loss-share receivable are recorded as a component of non-interest income. The amount ultimately collected for the FDIC loss-share receivable is dependent upon the performance of the underlying covered assets, the passage of time, and claims submitted to the FDIC. See Note 5 for further details.

Goodwill

Intangible assets resulting from acquisitions under the purchase method of accounting consist of goodwill and other intangible assets (see "Other Intangible Assets" section below). Goodwill is not amortized and is subject to an annual assessment for impairment by applying a fair value based test. Goodwill is allocated to Valley's reporting unit, which is a business segment or one level below, at the date goodwill is actually recorded. If the carrying value of a reporting unit exceeds its estimated fair value, a second step in the analysis is performed to determine the amount of impairment, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying value of a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded equal to the excess amount in the current period earnings. Valley reviews goodwill annually or more frequently if a triggering event indicates impairment may have occurred, to determine potential impairment by determining if the fair value of the reporting unit has fallen below the carrying value.

Other Intangible Assets

Other intangible assets primarily consist of loan servicing rights (largely generated from loan servicing retained by the Bank on residential mortgage loan originations sold in the secondary market to government sponsored enterprises), core deposits, customer lists and covenants not to compete obtained through acquisitions. Other intangible assets are amortized using various methods over their estimated lives and are periodically evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impairment is deemed to exist, an adjustment is recorded to earnings in the current period for the difference between the fair value of the asset and its carrying amount. See further details regarding loan servicing rights below.

Loan Servicing Rights

Loan servicing rights are recorded when purchased or when originated mortgage loans are sold, with servicing rights retained. Valley initially records the loan servicing rights at fair value. Subsequently, the loan servicing rights are carried at the lower of unamortized cost or market (i.e., fair value). The fair values of the loan servicing rights are determined using a method which utilizes servicing income, discount rates, prepayment speeds and default rates specifically relative to Valley's portfolio for originated mortgage servicing rights.

The unamortized costs associated with acquiring loan servicing rights, net of any valuation allowances, are included in other intangible assets in the consolidated statements of financial condition and are accounted for using the amortization method. Under this method, Valley amortizes the loan servicing assets in proportion to and over the period of estimated net servicing revenues. On a quarterly basis, Valley stratifies its loan servicing assets into groupings based on risk characteristics and assesses each group for impairment based on fair value. A valuation allowance is established through an impairment charge to earnings to the extent the unamortized cost of a stratified group of loan servicing rights exceeds its estimated fair value. Increases in the fair value of impaired loan servicing rights are recognized as a reduction of the valuation allowance, but not in excess of such allowance.

Stock-Based Compensation

Compensation expense for stock options and restricted stock awards (i.e., non-vested stock awards) is based on the fair value of the award on the date of the grant and is recognized ratably over the service period of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

award. Under Valley's long-term incentive compensation plans, award grantees that are eligible for retirement do not have a service period requirement. Compensation expense for these awards is recognized immediately in earnings. The fair value of each option granted is estimated using a binomial option pricing model. The fair value of restricted stock awards is the market price of Valley's stock on the date of grant.

Fair Value Measurements

In general, fair values of financial instruments are based upon quoted market prices, where available. When observable market prices and parameters are not fully available, management uses valuation techniques based upon internal and third party models requiring more management judgment to estimate the appropriate fair value measurements. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, including adjustments based on internal cash flow model projections that utilize assumptions similar to those incorporated by market participants. Other adjustments may include amounts to reflect counterparty credit quality and Valley's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. See Note 3 for additional information.

Income Taxes

Valley uses the asset and liability method to provide income taxes on all transactions recorded in the consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the enacted tax rates that will be in effect when the underlying items of income and expense are expected to be realized.

Valley's expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount we expect to realize. Deferred income tax expense (benefit) results from differences between assets and liabilities measured for financial reporting versus income-tax return purposes. The effect on deferred taxes of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

Valley maintains a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. Periodically, Valley evaluates each of its tax positions and strategies to determine whether the reserve continues to be appropriate. See Note 14 for further analysis of Valley's accounting for income taxes.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business entity during a period due to transactions and other events and circumstances, excluding those resulting from investments by and distributions to shareholders. Comprehensive income consists of net income and other comprehensive income or loss. Valley's components of other comprehensive (loss) income, net of deferred tax, include: (i) unrealized gains and losses on securities available for sale (including the non-credit portion of other-than-temporary impairment charges relating to these securities); (ii) unrealized gains and losses on derivatives used in cash flow hedging relationships; and (iii) the unfunded portion of its various employee, officer, and director pension plans. Upon early adoption of Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income", as amended, at December 31, 2011, Valley presents comprehensive income and its components in the consolidated statements of comprehensive income on a retrospective basis for all periods presented. See Note 18 for additional disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Earnings Per Common Share

For Valley, the numerator of both the basic and diluted earnings per common share is net income available to common stockholders (which is equal to net income less dividends on preferred stock and related discount accretion). The weighted average number of common shares outstanding used in the denominator for basic earnings per common share is increased to determine the denominator used for diluted earnings per common share by the effect of potentially dilutive common stock equivalents utilizing the treasury stock method. For Valley, common stock equivalents are outstanding common stock options and warrants to purchase Valley's common shares.

The following table shows the calculation of both basic and diluted earnings per common share for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
	(in thousands, except for share data)		
Net income	$ 133,653	$ 131,170	$ 116,061
Less: dividends on preferred stock and accretion	—	—	19,524
Net income available to common stockholders	$ 133,653	$ 131,170	$ 96,537
Basic weighted-average number of common shares outstanding	169,928,460	169,112,901	159,259,476
Plus: Common stock equivalents	1,130	8,683	753
Diluted weighted-average number of common shares outstanding	169,929,590	169,121,584	159,260,229
Earnings per common share:			
Basic	$ 0.79	$ 0.78	$ 0.61
Diluted	$ 0.79	$ 0.78	$ 0.61

Common stock equivalents, in the table above, represent the effect of outstanding common stock options and warrants to purchase Valley's common shares, excluding those with exercise prices that exceed the average market price of Valley's common stock during the periods presented and therefore, would have an anti-dilutive effect on the diluted earnings per common share calculation. Anti-dilutive common stock options and warrants equaled approximately 6.4 million, 6.9 million, and 7.2 million common shares for the years ended December 31, 2011, 2010, and 2009, respectively.

Preferred and Common Dividends

On November 14, 2008, Valley issued 300,000 shares of fixed rate cumulative perpetual preferred stock (the "senior preferred shares"), with a liquidation preference of one thousand dollars per share, to the U.S. Department of Treasury. Subsequently, Valley incrementally repurchased all 300,000 shares back from the U.S. Treasury during 2009 and effectively ended its participation in the TARP Capital Purchase Program on December 23, 2009. While the senior preferred shares were outstanding to the U.S. Treasury, the shares paid dividends at a rate of five percent per annum. Valley accrued the obligation for the preferred dividends as earned over the period the senior preferred shares were outstanding.

Cash dividends to common stockholders are payable and accrued when declared by Valley's Board of Directors.

Treasury Stock

Treasury stock is recorded using the cost method and accordingly is presented as a reduction of shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivative Instruments and Hedging Activities

As part of its asset/liability management strategies and to accommodate commercial borrowers, Valley has used interest rate swaps and caps to hedge variability in future fair values or cash flows caused by changes in interest rates. Valley also uses derivatives not designated as hedges for non-speculative purposes to manage its exposure to interest rate movements related to a service for certain customers. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Valley records all derivatives as assets or liabilities at fair value on the consolidated statements of financial condition.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income or loss and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. On a quarterly basis, Valley assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. If a hedging relationship is terminated due to ineffectiveness, and the derivative instrument is not re-designated to a new hedging relationship, the change in fair value of such instrument is charged directly to earnings. Derivatives not designated as hedges do not meet the hedge accounting requirements under U.S. GAAP. Changes in fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

New Authoritative Accounting Guidance

ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements,” requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurements for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy became effective for Valley on January 1, 2011. The other disclosure requirements and clarifications made by ASU No. 2010-06 became effective for Valley on January 1, 2010. All of the applicable new disclosures have been included in Note 3.

ASU No. 2010-20, “Receivables (Topic 310)—Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users’ understanding of (i) the nature of an entity’s credit risk associated with its financing receivables and (ii) the entity’s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures should be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio’s risk and performance. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 became effective for Valley’s financial statements as of December 31, 2010, as it relates to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period generally became effective for Valley's financial statements beginning on January 1, 2011. The effective date for disclosures related to troubled debt restructurings was deferred to coincide with the July 1, 2011 effective date of ASU No. 2011-02, "Receivables (Topic 310)—A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," which is further discussed below. Since the provisions of ASU No. 2010-20 are only disclosure related, Valley's adoption of this guidance changed its disclosures but did not have a significant impact on its consolidated financial statements. See Notes 5 and 6 for the related disclosures.

ASU No. 2010-29, "Business Combinations (Topic 805)—Disclosure of Supplementary Pro Forma Information for Business Combinations," relates to disclosure of pro forma information for business combinations that have occurred in the current reporting period. It requires that an entity presenting comparative financial statements include revenue and earnings of the combined entity as though the combination had occurred as of the beginning of the comparable prior annual period only. This guidance was effective prospectively for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance did not have an impact on Valley's consolidated financial statements.

ASU No. 2011-02, "Receivables (Topic 310)—A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," provides clarifying guidance intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (i) the restructuring constitutes a concession to the debtor; and (ii) the debtor is experiencing financial difficulties. ASU No. 2011-02 was adopted in 2011 and it applies retrospectively to restructurings occurring on or after January 1, 2011. The adoption of ASU No. 2011-02 did not have a significant impact on Valley's consolidated financial statements.

ASU No. 2011-04, "Fair Value Measurements (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," was issued as a result of the effort to develop common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). While ASU No. 2011-04 is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands the existing disclosure requirements for fair value measurements and clarifies the existing guidance or wording changes to align with IFRS No. 13. Many of the requirements for the amendments in ASU No. 2011-04 do not result in a change in the application of the requirements in Topic 820. ASU No. 2011-04 will be effective for Valley for all interim and annual periods beginning after December 15, 2011. Valley's adoption of ASU No. 2011-04 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2011-05, "Comprehensive Income (Topic 220)—Presentation of Comprehensive Income," requires an entity to present components of comprehensive income either in a single continuous statement of comprehensive income or in two separate consecutive statements. These amendments will make the financial statement presentation of other comprehensive income more prominent by eliminating the alternative to present comprehensive income within the statement of equity. As originally issued, ASU 2011-05 required entities to present reclassification adjustments out of accumulated other comprehensive income by component in the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). This requirement was deferred by ASU 2011-12, "Comprehensive Income (Topic 220)—Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards". ASU No. 2011-05 is effective for all interim and annual periods beginning on or after December 15, 2011 with early adoption permitted, and must be applied retrospectively. Valley has early adopted ASU No. 2011-05 and presented comprehensive income in a separate consolidated statement of comprehensive income for the years 2011, 2010, and 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ASU No. 2011-08, "Intangibles—Goodwill and Other (Topic 350) Testing Goodwill for Impairment," provides the option of performing a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, before applying the current two-step goodwill impairment test. If the conclusion is that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to conduct the current two-step goodwill impairment test. Otherwise, the entity would not need to apply the two-step test. ASU No. 2011-08 will be effective for Valley for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. ASU No. 2011-08 is not expected to have a significant impact on Valley's consolidated financial statements.

BUSINESS COMBINATIONS AND DISPOSITIONS (Note 2)

Acquisition of State Bancorp, Inc.

On January 1, 2012, Valley acquired State Bancorp, Inc. ("State Bancorp"), the holding company for State Bank of Long Island, a commercial bank with approximately $1.6 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits and 16 branches in Nassau, Suffolk, Queens, and Manhattan at December 31, 2011. The shareholders of State Bancorp received a fixed one- for- one exchange ratio for Valley National Bancorp common stock. This fixed exchange ratio was determined after consideration of Valley's five percent stock dividend, paid on May 20, 2011. The total consideration for the acquisition was $208 million. As a condition to the closing of the merger, State Bancorp redeemed $36.8 million of its outstanding Fixed Rate Cumulative Series A Preferred Stock from the U.S. Treasury. The stock redemption was funded by a $37.0 million short-term loan from Valley to State Bancorp. The outstanding loan, included in Valley's consolidated financial statements at December 31, 2011, was subsequently eliminated as of the acquisition date. Valley also assumed junior subordinated debentures issued to capital trusts with combined contractual principal balances totaling $20.6 million.

Additionally, a warrant issued by State Bancorp (in connection with its preferred stock issuance) to the U.S. Treasury in December 2008 was assumed by Valley as of the acquisition date. The ten-year warrant to purchase up to 466 thousand of Valley common shares has an exercise price of $11.87 per share, and is exercisable on a net exercise basis. Valley has calculated an internal value for the warrants, and may negotiate their redemption with the U.S. Treasury. However, if Valley elects not to negotiate or an agreement cannot be reached with the U.S. Treasury, the warrants will be sold at public auction and remain outstanding.

Professional and legal fees, salary and employee benefits expense, and other non-interest expense include $1.7 million, $640 thousand, and $290 thousand, respectively, of State Bancorp merger related expenses for the year ended December 31, 2011.

FDIC-Assisted Transactions

On March 11, 2010, the Bank assumed all of the deposits, and acquired certain assets of LibertyPointe Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed $198.3 million in customer deposits and acquired $207.7 million in assets, including $140.6 million in loans. The loans acquired by the Bank principally consist of commercial real estate loans. This transaction resulted in $11.6 million of goodwill and generated $370 thousand in core deposit intangibles.

On March 12, 2010, the Bank assumed all of the deposits, excluding brokered deposits, and borrowings, and acquired certain assets of The Park Avenue Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed $455.9 million in customer deposits and acquired $480.5 million in assets,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

including $271.8 million in loans. The loans acquired by the Bank principally consist of commercial and industrial loans, and commercial real estate loans. This transaction resulted in $7.9 million of goodwill and generated $1.2 million in core deposit intangibles.

The Bank and the FDIC will share in the losses on loans and real estate owned as a part of the loss-sharing agreements entered into by the Bank with the FDIC for both transactions. Under the terms of the loss-sharing agreement for the LibertyPointe Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets up to $55.0 million, after the Bank absorbs such losses up to the first loss tranche of $11.7 million, and 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement for The Park Avenue Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. The Bank will reimburse the FDIC for 80 percent of recoveries with respect to losses for which the FDIC paid the Bank 80 percent reimbursement under the loss-sharing agreements, and for 95 percent of recoveries with respect to losses for which the FDIC paid the Bank 95 percent reimbursement under the loss-sharing agreements.

In the event the losses under the loss-sharing agreements fail to reach expected levels, the Bank has agreed to make a cash payment to the FDIC, on approximately the tenth anniversary following the transactions' closings, pursuant to each loss-sharing agreement. There was no payable to the FDIC recorded at December 31, 2011.

In addition, as part of the consideration for The Park Avenue Bank FDIC-assisted transaction, the Bank issued a cash-settled equity appreciation instrument to the FDIC. The equity appreciation instrument was initially recorded as a liability in the first quarter of 2010 and was settled in cash after the FDIC exercised the instrument on April 1, 2010. The valuation and settlement of the equity appreciation instrument did not significantly impact Valley's financial condition or results of operations.

Other Acquisitions

On December 14, 2010, Masters Coverage Corp., an all-line insurance agency that is a wholly-owned subsidiary of the Bank, acquired certain assets of S&M Klein Co. Inc., an independent insurance agency located in Queens, New York. The purchase price totaled $5.3 million, consisting of $3.3 million in cash and earn-out payments totaling $2.0 million that are payable over a four year period, subject to certain customer retention and earnings performance. The transaction generated goodwill and other intangible assets totaling $1.9 million and $3.3 million, respectively. Other intangible assets consist of a customer list, covenants not to compete, and a trade name with a weighted average amortization period of 16 years.

On November 30, 2009, Masters Coverage Corp. acquired the assets of Samuel M. Berman Company, Inc., an independent retail insurance agency offering property and casualty, and health insurance. The purchase price totaled $950 thousand, consisting of $285 thousand in cash and a $665 thousand note payable, subject to certain customer retention levels and payable over the next four years. The transaction generated approximately $726 thousand in goodwill and $224 thousand in other intangible assets. Other intangible assets consist of a customer list and covenants not to compete with a weighted average amortization period of seven years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES (Note 3)

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

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
Level 2	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at December 31, 2011 and 2010. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value Measurements at Reporting Date Using:			
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Investment securities:				
Available for sale:				
U.S. government agency securities	$ 90,748	$ —	$ 90,748	$ —
Obligations of states and political subdivisions	20,214	—	20,214	—
Residential mortgage-backed securities	310,137	—	259,977	50,160
Trust preferred securities	63,858	19,576	17,131	27,151
Corporate and other debt securities	39,610	30,603	9,007	—
Equity securities	41,953	23,506	18,447	—
Total available for sale	566,520	73,685	415,524	77,311
Trading securities	21,938	—	21,938	—
Loans held for sale [1]	25,169	—	25,169	—
Other assets [2]	5,211	—	5,211	—
Total assets	$ 618,838	$ 73,685	$ 467,842	$ 77,311
Liabilities				
Junior subordinated debentures issued to VNB Capital Trust I [3]	$ 160,478	$ 160,478	$ —	$ —
Other liabilities [2]	21,854	—	21,854	—
Total liabilities	$ 182,332	$ 160,478	$ 21,854	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	December 31, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$ 163,810	$ 163,810	$ —	$ —
U.S. government agency securities	88,800	—	88,800	—
Obligations of states and political subdivisions	29,462	—	29,462	—
Residential mortgage-backed securities	610,358	—	514,711	95,647
Trust preferred securities	41,083	20,343	—	20,740
Corporate and other debt securities	53,961	41,046	—	12,915
Equity securities	47,808	28,227	10,228	9,353
Total available for sale	1,035,282	253,426	643,201	138,655
Trading securities	31,894	9,991	—	21,903
Loans held for sale [1]	58,958	—	58,958	—
Other assets [2]	8,414	—	8,414	—
Total assets	$1,134,548	$ 263,417	$ 710,573	$ 160,558
Liabilities				
Junior subordinated debentures issued to VNB Capital Trust I [3]	$ 161,734	$ 161,734	$ —	$ —
Other liabilities [2]	1,379	—	1,379	—
Total liabilities	$ 163,113	$ 161,734	$ 1,379	$ —

[1] Loans held for sale (which consists of residential mortgages) are carried at fair value and had contractual unpaid principal balances totaling approximately $24.3 million and $58.4 million at December 31, 2011 and 2010, respectively.

[2] Derivative financial instruments are included in this category.

[3] The junior subordinated debentures had contractual unpaid principal obligations totaling $157.0 million at both December 31, 2011 and 2010.

The changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2011 and 2010 are summarized below:

	2011		2010	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
		(in thousands)		
Balance, beginning of the period	$ 21,903	$138,655	$ 32,950	$156,612
Transfers into Level 3:				
Residential mortgage-backed securities	—	8,798	—	—
Transfers out of Level 3:				
Residential mortgage-backed securities	—	(44,771)	—	—
Trust preferred securities	(21,903)	(17,397)	(10,567)	(532)
Corporate and other debt securities	—	(12,914)	—	(852)
Equity securities	—	(9,353)	—	—
Transfers from held-to-maturity [1]	—	23,452	—	—
Total net (losses) gains for the period included in:				
Net income	—	(1,654)	(480)	—
Other comprehensive income	—	765	—	9,626
Purchases	—	—	—	3,517
Settlements	—	(8,270)	—	(29,716)
Balance, end of the period	$ —	$ 77,311	$ 21,903	$138,655
Net losses included in net income for the period relating to assets held at year end [2]	$ —	$ (19,968) [4]	$ (480) [3]	$ (4,642) [4]

Represents impaired trust preferred securities issued by one bank holding company transferred at fair value from held-to-maturity to available-for-sale at December 31, 2011.

(2) Represents net losses that are due to changes in economic conditions and management's estimates of fair value.

(3) Included in trading gains (losses), net within the non-interest income category on the consolidated statements of income.

(4) Represents the net impairment losses on securities recognized in earnings for the period, including $18.3 million related to trust preferred securities transferred from held-to-maturity at December 31, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Transfers into and out of Level 3 assets are generally made in response to a decrease or an increase, respectively, in the availability of observable market data used in the securities' pricing obtained primarily through independent pricing services or dealer market participants. See further details regarding the valuation techniques used for the fair value measurement of the financial instruments below.

During 2011, there were no transfers of assets between Level 1 and Level 2.

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

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair values utilizing Level 1 inputs. The majority of the other accruing investment securities in which Valley has not previously recognized an other-than-temporary impairment charges are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service, may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley's own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best information that is both reasonable and available without undue cost and effort.

In calculating the fair value for the available for sale securities under Level 3, Valley prepared present value cash flow models for trust preferred securities, and certain private label mortgage-backed securities. The cash flows for trust preferred securities reflected the contractual cash flow, adjusted if necessary for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer. The cash flows for the residential mortgage-backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security.

For the two available for sale pooled trust preferred securities, the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculations for both securities are received from an independent valuation advisor. In validating the fair value calculation from an independent valuation advisor, Valley reviews accuracy of the inputs and the appropriateness of the unobservable inputs utilized in the valuation to ensure the fair value calculation is reasonable from a market participant perspective.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For certain available for sale private label mortgage-backed securities, cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

The fair value of corporate debt securities under Level 3 at December 31, 2010 was calculated based on the estimated future cash flows discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The quoted prices received from either market participants or independent pricing services were weighted with the internal price estimate to determine the fair value of each instrument.

For the fair value of certain trading securities, consisting of trust preferred securities, under Level 3 at December 31, 2010, Valley prepared present value cash flow models incorporating the contractual cash flow of each security adjusted, if necessary, for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer. The resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate of each mortgage. The market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at December 31, 2011 and 2010 based on the short duration these assets were held, and the high credit quality of these loans.

Junior subordinated debentures issued to capital trusts . The junior subordinated debentures issued to VNB Capital Trust I are reported at fair value using Level 1 inputs. The fair value was estimated using quoted prices in active markets for similar assets, specifically the quoted price of the VNB Capital Trust I preferred stock traded under ticker symbol “VLYPRA” on the New York Stock Exchange. The preferred stock and Valley’s junior subordinated debentures issued to the Trust have identical financial terms (see Note 12 for details) and therefore, the preferred stock’s quoted price moves in a similar manner to the estimated fair value and current settlement price of the junior subordinated debentures. The preferred stock’s quoted price includes market considerations for Valley’s credit and non-performance risk and is deemed to represent the transfer price that would be used if the junior subordinated debenture were assumed by a third party. Valley’s potential credit risk and changes in such risk did not materially impact the fair value measurement of the junior subordinated debentures at December 31, 2011 and 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analyses using observed market interest rate curves and volatilities. The fair values of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at December 31, 2011 and 2010.

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

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when an impairment loss is recognized). Certain non-financial assets and non-financial liabilities are measured at fair value on a nonrecurring basis, including other real estate owned and other repossessed assets (upon initial recognition or subsequent impairment), goodwill measured at fair value in the second step of a goodwill impairment test, and loan servicing rights, core deposits, other intangible assets, and other long-lived assets measured at fair value for impairment assessment.

The following table summarizes assets measured at fair value on a non-recurring basis in 2011 and 2010 that were still held in the balance sheet at each respective year end:

	Significant Unobservable Inputs (Level 3) As of December 31,	
	2011	2010
	(in thousands)	
Collateral dependent impaired loans*	$66,854	$53,330
Loan servicing rights	9,078	11,328
Foreclosed assets	15,874	19,986

* Excludes pooled covered loans acquired in the FDIC-assisted transactions.

Impaired loans . Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on customized discounting criteria. During the years ended December 31, 2011 and 2010, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The direct loan charge-offs to the allowance for loan losses totaled $16.9 million and $8.3 million for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, collateral dependent impaired loans (mainly consisting of commercial and industrial, commercial real estate, and construction loans) with a recorded investment of $74.3 million were reduced by specific valuation allowance allocations totaling $7.4 million to a reported net carrying amount of $66.9 million. At December 31, 2010, collateral dependent impaired loans with a recorded investment of $54.4 million were reduced by specific valuation allowance allocations totaling $1.1 million to a reported net carrying amount of $53.3 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, servicing cost, prepayment speed, internal rate of return, ancillary income, float rate, tax rate, and inflation. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. For the years ended December 31, 2011 and 2010, Valley recognized net impairment charges of $1.5 million and $551 thousand, respectively, on loan servicing rights.

Foreclosed assets . Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on customized discounting criteria. During the years ended December 31, 2011 and 2010, foreclosed assets measured at fair value upon initial recognition and subsequent re-measurement totaled $15.9 million and $20.0 million, respectively. In connection with the measurement and initial recognition of the aforementioned foreclosed assets, Valley recognized charge-offs to the allowance for loan losses totaling $3.9 million and $8.1 million during 2011 and 2010, respectively. During 2011, the re-measurement of foreclosed assets at fair value subsequent to initial recognition resulted in losses of $1.3 million included in non-interest expense.

Other Fair Value Disclosures

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the years ended December 31, 2011, 2010 and 2009:

Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	Gains (Losses) on Change in Fair Value		
		2011	2010	2009
			(in thousands)	
Assets:				
Available for sale securities	Net impairment losses on securities	$ (19,968)*	$ (4,642)	$ (6,352)
Trading securities	Trading gains (losses), net	1,015	(1,056)	5,394
Loans held for sale	Gains on sales of loans, net	10,699	12,591	8,937
Liabilities:				
Junior subordinated debentures issued to capital trusts	Trading gains (losses), net	1,256	(5,841)	(15,828)
		$ (6,998)	$ 1,052	$ (7,849)

* Includes $18.3 million related to impaired trust preferred securities transferred from held-to-maturity to available for sale at December 31, 2011.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

The carrying amounts and estimated fair values of financial instruments were as follows at December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets				
Cash and due from banks	$ 372,566	$ 372,566	$ 302,629	$ 302,629
Interest bearing deposits with banks	6,483	6,483	63,657	63,657
Investment securities held to maturity	1,958,916	2,027,197	1,923,993	1,898,872
Investment securities available for sale	566,520	566,520	1,035,282	1,035,282
Trading securities	21,938	21,938	31,894	31,894
Loans held for sale	25,169	25,169	58,958	58,958
Net loans	9,665,839	9,645,517	9,241,091	9,035,066
Accrued interest receivable	52,527	52,527	59,126	59,126
Federal Reserve Bank and Federal Home Loan Bank stock [1]	129,669	129,669	139,778	139,778
Derivatives [1]	5,211	5,211	8,414	8,414
Financial liabilities				
Deposits without stated maturities	7,171,718	7,171,718	6,630,763	6,630,763
Deposits with stated maturities	2,501,384	2,557,119	2,732,851	2,783,680
Short-term borrowings	212,849	215,179	192,318	195,360
Long-term borrowings	2,726,099	3,154,150	2,933,858	3,201,090
Junior subordinated debentures issued to capital trusts (carrying amount includes fair value of $160,478 at December 31, 2011 and $161,734 at December 31, 2010 for VNB Capital Trust I)	185,598	186,098	186,922	187,480
Accrued interest payable [2]	3,798	3,798	4,344	4,344
Derivatives [2]	21,854	21,854	1,379	1,379

(1) Included in other assets.
(2) Included in accrued expenses and other liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Financial instruments with off-balance sheet risk, consisting of loan commitments and standby letters of credit, had immaterial estimated fair values at December 31, 2011 and 2010.

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not measured and reported at fair value on a recurring basis or a non-recurring basis:

Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value because of the short maturity of these items.

Investment securities held to maturity . Fair values are based on prices obtained through an independent pricing service or dealer market participants with which Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. For certain securities, for which the inputs used by either dealer market participants or independent pricing service were derived from unobservable market information, Valley evaluates the appropriateness and quality of each price. Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts to identify transactions, which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value based on Level 3 inputs. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans . Fair values of non-covered and covered loans are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loan. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value due to the short-term nature of these items.

Federal Reserve Bank and Federal Home Loan Bank stock. The redeemable carrying amount of these securities with limited marketability approximates their fair value.

Deposits. Current carrying amounts approximate estimated fair value of demand deposits and savings accounts. The fair value of time deposits is based on the discounted value of contractual cash flows using estimated rates currently offered for alternative funding sources of similar remaining maturity.

Short-term and long-term borrowings . The fair value is estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When these quoted prices are unavailable, the fair value of borrowings is estimated by discounting the estimated future cash flows using market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Junior subordinated debentures issued to GCB Capital Trust III. There is no active market for the trust preferred securities issued by GCB Capital Trust III. Therefore, the fair value is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley's credit spread over the current yield on a similar maturity U.S. Treasury security. Valley's credit spread was calculated based on Valley's trust preferred securities issued by VNB Capital Trust I, which are publicly traded in an active market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

INVESTMENT SECURITIES (Note 4)

As of December 31, 2011, Valley had approximately $2.0 billion, $566.5 million, and $21.9 million in held to maturity, available for sale, and trading investment securities, respectively. Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; prolonged decline in value of equity investments; or unanticipated changes in the competitive environment could have a negative effect on Valley's investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley's investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including three pooled trust preferred securities), corporate bonds primarily issued by banks, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the unpredictable nature of the U.S. economy and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security.

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at December 31, 2011 and 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
December 31, 2011				
U.S. Treasury securities	$ 100,018	$ 13,841	$ —	$ 113,859
Obligations of states and political subdivisions	433,284	19,931	(14)	453,201
Residential mortgage-backed securities	1,180,104	51,041	(152)	1,230,993
Trust preferred securities	193,312	4,308	(22,867)	174,753
Corporate and other debt securities	52,198	3,799	(1,606)	54,391
Total investment securities held to maturity	$1,958,916	$ 92,920	$(24,639)	$2,027,197
December 31, 2010				
U.S. Treasury securities	$ 100,161	$ 251	$ (909)	$ 99,503
Obligations of states and political subdivisions	387,280	2,146	(3,467)	385,959
Residential mortgage-backed securities	1,114,469	30,728	(3,081)	1,142,116
Trust preferred securities	269,368	5,891	(59,365)	215,894
Corporate and other debt securities	52,715	2,911	(226)	55,400
Total investment securities held to maturity	$1,923,993	$ 41,927	$(67,048)	$1,898,872

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The age of unrealized losses and fair value of related securities held to maturity at December 31, 2011 and 2010 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2011						
Obligations of states and political subdivisions	$ 1,854	$ (13)	$ 50	$ (1)	$ 1,904	$ (14)
Residential mortgage-backed securities	33,520	(152)	—	—	33,520	(152)
Trust preferred securities	35,527	(730)	55,612	(22,137)	91,139	(22,867)
Corporate and other debt securities	14,756	(192)	7,560	(1,414)	22,316	(1,606)
Total	$ 85,657	$ (1,087)	$63,222	$(23,552)	$148,879	$(24,639)
December 31, 2010						
U.S. Treasury securities	$ 57,027	$ (909)	$ —	$ —	$ 57,027	$ (909)
Obligations of states and political subdivisions	123,399	(3,467)	50	—	123,449	(3,467)
Residential mortgage-backed securities	226,135	(3,081)	—	—	226,135	(3,081)
Trust preferred securities	14,152	(250)	75,477	(59,115)	89,629	(59,365)
Corporate and other debt securities	7,971	(13)	8,761	(213)	16,732	(226)
Total	$428,684	$ (7,720)	$84,288	$(59,328)	$512,972	$(67,048)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at December 31, 2011 was 28 as compared to 153 at December 31, 2010.

At December 31, 2011, the unrealized losses reported for trust preferred securities mostly related to 12 single-issuer securities, issued by bank holding companies. Of the 12 trust preferred securities, 5 were investment grade, 2 were non-investment grade, and 5 were not rated.

At December 31, 2011, Valley recorded $18.3 million of other-than-temporary impairment charges attributable to credit factors on trust preferred securities issued by one bank holding company. After the credit impairment charges, the trust preferred securities had a combined adjusted amortized cost of $46.4 million and a fair value of $23.5 million at December 31, 2011. In connection with its impairment analysis at year end 2011, Valley determined that it no longer had a positive intent to hold these securities to their maturity due to the significant decline in the securities' fair value caused by the deterioration in creditworthiness of the issuer. As a result, and in accordance with ASC 320, management transferred the securities from the held to maturity portfolio to the available for sale portfolio at December 31, 2011. See "Other-Than-Temporarily Impaired Securities" section below for further details.

All single-issuer bank trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered "well-capitalized institutions" at December 31, 2011.

Management does not believe that any individual unrealized loss as of December 31, 2011 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates, widening credit spreads, and lack of liquidity in the market place, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2011, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.1 billion.

The contractual maturities of investments in debt securities held to maturity at December 31, 2011 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	December 31, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 129,523	$ 129,775
Due after one year through five years	44,746	45,839
Due after five years through ten years	189,250	210,535
Due after ten years	415,293	410,055
Residential mortgage-backed securities	1,180,104	1,230,993
Total investment securities held to maturity	$1,958,916	$2,027,197

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

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 3.6 years at December 31, 2011.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at December 31, 2011 and 2010 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
December 31, 2011				
U.S. government agency securities	$ 89,787	$ 1,204	$ (243)	$ 90,748
Obligations of states and political subdivisions	18,893	1,322	(1)	20,214
Residential mortgage-backed securities	304,631	10,950	(5,444)	310,137
Trust preferred securities*	96,956	78	(33,176)	63,858
Corporate and other debt securities	40,638	2,554	(3,582)	39,610
Equity securities	47,932	1,320	(7,299)	41,953
Total investment securities available for sale	$ 598,837	$ 17,428	$(49,745)	$ 566,520
December 31, 2010				
U.S. Treasury securities	$ 162,404	$ 1,406	$ —	$ 163,810
U.S. government agency securities	88,926	26	(152)	88,800
Obligations of states and political subdivisions	28,231	1,234	(3)	29,462
Residential mortgage-backed securities	578,282	35,016	(2,940)	610,358
Trust preferred securities*	54,060	1,142	(14,119)	41,083
Corporate and other debt securities	53,379	2,612	(2,030)	53,961
Equity securities	48,724	812	(1,728)	47,808
Total investment securities available for sale	$1,014,006	$ 42,248	$(20,972)	$1,035,282

* Includes three pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The age of unrealized losses and fair value of related securities available for sale at December 31, 2011 and 2010 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2011						
U.S. government agency securities	$ 7,980	$ (243)	$ —	$ —	$ 7,980	$ (243)
Obligations of states and political subdivisions	141	(1)	—	—	141	(1)
Residential mortgage-backed securities	41,673	(1,655)	22,639	(3,789)	64,312	(5,444)
Trust preferred securities	23,962	(1,061)	38,191	(32,115)	62,153	(33,176)
Corporate and other debt securities	3,243	(173)	6,567	(3,409)	9,810	(3,582)
Equity securities	20,570	(4,430)	12,551	(2,869)	33,121	(7,299)
Total	$97,569	$ (7,563)	$ 79,948	$(42,182)	$177,517	$(49,745)
December 31, 2010						
U.S. government agency securities	$66,157	$ (152)	$ —	$ —	$ 66,157	$ (152)
Obligations of states and political subdivisions	1,146	(3)	—	—	1,146	(3)
Residential mortgage-backed securities	11,439	(350)	46,206	(2,590)	57,645	(2,940)
Trust preferred securities	1,262	(153)	33,831	(13,966)	35,093	(14,119)
Corporate and other debt securities	—	—	7,944	(2,030)	7,944	(2,030)
Equity securities	1,538	(243)	13,736	(1,485)	15,274	(1,728)
Total	$81,542	$ (901)	$101,717	$(20,071)	$183,259	$(20,972)

The total number of security positions in the securities available for sale portfolio in an unrealized loss position at both December 31, 2011 and 2010 was 43.

Within the residential mortgage-backed securities category of the available for sale portfolio at December 31, 2011, of the total $5.4 million unrealized losses, $2.3 million relate to five private label mortgage-backed securities that were other-than-temporarily impaired prior to 2011, with the exception of one, which was found to be other-than-temporarily impaired during the fourth quarter of 2011. See the “Other-Than-Temporarily Impaired Securities” section below for further details. The remaining $3.1 million of unrealized losses relate mainly to one investment grade private label mortgage-backed security.

The unrealized losses for trust preferred securities at December 31, 2011, in the table above relate to 3 pooled trust preferred and 15 single-issuer bank issued trust preferred securities. The unrealized losses include $22.9 million attributable to trust preferred securities issued by one bank holding company with an amortized cost of $46.4 million and a fair value of $23.5 million, and $8.2 million attributable to 3 pooled trust preferred securities with an amortized cost of $20.0 million and a fair value of $11.8 million. The two trust preferred issuances by one bank holding company, previously classified as a held to maturity, were found be other-than-temporarily impaired during the fourth quarter of 2011 and subsequently transferred to the available for sale portfolio. The three pooled trust preferred securities included one security with an unrealized loss of $6.6 million and an investment grade rating at December 31, 2011. The other two pooled trust preferred securities had non-investment grade ratings and were initially other-than-temporarily impaired in 2008 with additional estimated credit losses recognized during the period 2009 through 2011. See “Other-Than-Temporarily Impaired

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Securities" section below for more details. All of the remaining single-issuer trust preferred securities are all paying in accordance with their terms and have no deferrals of interest or defaults.

Unrealized losses existing for more than twelve months reported for corporate and other debt securities at December 31, 2011 relate almost entirely to one investment grade bank-issued corporate bond with a $10.0 million amortized cost and a $3.4 million unrealized loss that is paying in accordance with its contractual terms.

The unrealized losses on equity securities, including those existing for more than twelve months, are related primarily to three perpetual preferred security positions with a combined $35.0 million amortized cost and a $7.2 million unrealized loss. At December 31, 2011, these perpetual preferred securities had investment grade ratings and are currently performing and paying quarterly dividends.

Management does not believe that any individual unrealized loss as of December 31, 2011 represents an other-than-temporary impairment, except for the previously impaired securities discussed above, as management mainly attributes the declines in value to changes in interest rates and recent market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

As of December 31, 2011, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $385 million.

The contractual maturities of investments securities available for sale at December 31, 2011, are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	December 31, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 452	$ 455
Due after one year through five years	2,599	2,550
Due after five years through ten years	94,440	97,261
Due after ten years	148,783	114,164
Residential mortgage-backed securities	304,631	310,137
Equity securities	47,932	41,953
Total investment securities available for sale	$598,837	$566,520

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

The weighted-average remaining expected life for residential mortgage-backed securities available for sale at December 31, 2011 was 3.6 years.

Other-Than-Temporary Impairment Analysis

To determine whether a security's impairment is other-than-temporary, Valley considers several factors that include, but are not limited to the following:

- The severity and duration of the decline, including the causes of the decline in fair value, such as an issuer's credit problems, interest rate fluctuations, or market volatility;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not we expect to collect all contractual cash flows.

In assessing the level of other-than-temporary impairment attributable to credit loss for debt securities, Valley compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the consolidated statements of income, less the portion recognized in other comprehensive income or loss. Subsequent assessments may result in additional estimated credit losses on previously impaired securities. These additional estimated credit losses are recorded as reclassifications from the portion of other-than-temporary impairment previously recognized in other comprehensive income or loss to earnings in the period of such assessments. The amortized cost basis of an impaired debt security is reduced by the portion of the total impairment related to credit loss.

For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the cash flows from the individual loans collateralizing the security using expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows is identified to determine whether other-than-temporary impairment exists.

For the single-issuer trust preferred securities and corporate and other debt securities, Valley reviews each portfolio to determine if all the securities are paying in accordance with their terms and have no deferrals of interest or defaults. Over the past several years, an increasing number of banking institutions have been required to defer trust preferred payments and various banking institutions have been put in receivership by the FDIC. A deferral event by a bank holding company for which Valley holds trust preferred securities may require the recognition of an other-than-temporary impairment charge if Valley determines that it is more likely than not that all contractual interest and principal cash flows may not be collected. Among other factors, the probability of the collection of all interest and principal determined by Valley in its impairment analysis declines if there is an increase in the estimated deferral period of the issuer. Additionally, a FDIC receivership for any single-issuer would result in an impairment and significant loss. Including the other factors outlined above, Valley analyzes the performance of the issuers on a quarterly basis, including a review of performance data from the issuers' most recent bank regulatory report, if applicable, to assess their credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon management's quarterly review, all of the issuers' had capital ratios at December 31, 2011 that were at or above the minimum amounts to be considered a "well-capitalized" financial institution, if applicable, and/or have maintained performance levels adequate to support the contractual cash flows of the trust preferred securities. However, Valley lengthened the estimate of the timeframe over which it could reasonably anticipate receiving the expected cash flows from one deferring

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

bank holding company issuer at December 31, 2011 resulting in the $18.3 million credit impairment charge noted in the "Held to Maturity" section above. See "Other-Than-Temporarily Impaired Securities" section below for further details.

For the three pooled trust preferred securities, Valley evaluates the projected cash flows from each of its tranches in the three securities to determine if they are adequate to support their future contractual principal and interest payments. Valley assesses the credit risk and probability of impairment of the contractual cash flows by projecting the default rates over the life of the security. Higher projected default rates will decrease the expected future cash flows from each security. If the projected decrease in cash flows affects the cash flows projected for the tranche held by Valley, the security would be considered to be other-than-temporarily impaired. Two of the pooled trust preferred securities were initially impaired in 2008 with additional estimated credit losses recognized during 2009 and 2010. One of the two pooled trust preferred securities had additional estimated credit losses recognized during the first quarter of 2011. See "Other-Than-Temporarily Impaired Securities" section below for further details.

The perpetual preferred securities, reported in equity securities, are hybrid investments that are assessed for impairment by Valley as if they were debt securities. Therefore, Valley assessed the creditworthiness of each security issuer, as well as any potential change in the anticipated cash flows of the securities as of December 31, 2011. Based on this analysis, management believes the declines in fair value of these securities are attributable to a lack of liquidity in the marketplace and are not reflective of any deterioration in the creditworthiness of the issuers.

Other-Than-Temporarily Impaired Securities

The following table provides information regarding our other-than-temporary impairment losses on securities recognized in earnings for the years ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
		(in thousands)	
Held to maturity:			
Trust preferred securities	$18,314	$ —	$ —
Available for sale:			
Residential mortgage-backed securities	829	2,265	5,735
Trust preferred securities	825	2,377	183
Equity securities	—	—	434
Net impairment losses on securities recognized in earnings	$19,968	$4,642	$6,352

Impaired Trust Preferred Securities. During the fourth quarter of 2011, Valley recognized credit impairment charges totaling $18.3 million related to the trust preferred securities of two issuances by one bank holding company, which were classified as held to maturity. In August and October of 2009, the issuer was required to defer its scheduled interest payments on each respective security issuance based upon an operating agreement with its bank regulators. From the dates of deferral up to and including the bank holding company's most recent regulatory filing, the bank issuer continued to accrue and capitalize the interest owed, but not remitted to its trust preferred security holders, and at the holding company level it reported cash and cash equivalents in excess of the cumulative amount of accrued but unpaid interest owed on all of its junior subordinated debentures related to trust preferred securities. Additionally, the issuer reported that it raised new common capital and increased all its bank regulatory risk ratios, and that it has consistently met the minimum well-capitalized requirements (each quarter) since the date of the interest deferral on both issuances. However, in assessing whether a credit loss exists for the securities of the deferring issuer, Valley considers numerous other factors, including but not limited to, such factors highlighted in the "Other-Than-Temporary Impairment Analysis" section above. While the issuer has reported reasonably consistent financial performance in its recent

regulatory filings, Valley lengthened its estimate of the timeframe over which it could reasonably anticipate receiving the expected cash flows and, as a result, concluded that the securities were other-than-temporarily impaired at December 31, 2011. The total impairment loss of $41.2 million on these securities consisted of the aforementioned $18.3 million attributable to credit and $22.9 million attributable to factors other than credit. After recognition of the credit impairment charges, the trust preferred securities had a combined amortized cost of $46.4 million and a fair value of $23.5 million at December 31, 2011. In connection with its impairment analysis at year end 2011, Valley determined that it no longer had a positive intent to hold these securities to their maturity due to the significant decline in the securities' fair value caused by the deterioration in the creditworthiness of the issuer. As a result, these securities were transferred from the held to maturity portfolio to the available for sale portfolio at December 31, 2011. However, Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

The other-than-temporary impairment charges on trust preferred securities classified as available for sale reported in the table above all relate to two pooled trust preferred securities with a combined amortized cost and fair value of $5.4 million and $3.7 million, respectively, at December 31, 2011, after recognition of all credit impairments. These securities were initially found to be other-than-temporarily impaired in 2008, as each of Valley's tranches in the securities had projected cash flows below their future contractual principal and interest payments. Additional estimated credit losses were recognized on one or both of these securities during 2009 through 2011, as higher default rates decreased the expected cash flows from the securities.

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

Impaired Residential Mortgage-Backed Securities. During 2011, Valley recognized an initial impairment charge of $829 thousand on one of the 17 individual private label mortgage-backed securities classified as available for sale at December 31, 2011. Five other private label mortgage-backed securities were impaired during 2010. Of the five securities impaired during 2010, four were also impaired during 2009 and responsible for the total other-than-temporary impairment losses on residential mortgage-backed securities for 2009 in the table above. At December 31, 2011, the six impaired private label mortgage-backed securities had a combined amortized cost of $52.3 million and fair value of $50.2 million, respectively. Although Valley recognized other-than-temporary impairment charges on the securities, each security is currently performing in accordance with its contractual obligations. See the "Other-Than-Temporary Impairment Analysis" section above for further details regarding the impairment analysis of residential mortgage-backed securities.

Impaired Equity Securities. During the year ended December 31, 2009, Valley recognized other-than-temporary impairment charges of $434 thousand on equity securities classified as available for sale, which relates to one common equity security issued by a bank. The impairment was recognized based on the length of time and the severity of the difference between the security's book value and its observable market price and the security's near term prospects for recovery. At December 31, 2011, the security had a carrying value of $940 thousand and an unrealized gain of $217 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions included in earnings for the years ended December 31, 2011, 2010 and 2009 were as follows:

	2011	2010	2009
		(in thousands)	
Sales transactions:			
Gross gains	$31,456	$ 8,615	$8,006
Gross losses	—	(96)	(36)
	$31,456	$ 8,519	$7,970
Maturities and other securities transactions:			
Gross gains	$ 623	$ 3,158	$ 79
Gross losses	(11)	(79)	(44)
	$ 612	$ 3,079	$ 35
Gains on securities transactions, net	$32,068	$11,598	$8,005

During year ended December 31, 2011, Valley recognized $31.5 million of gross gains on sales transactions mainly due to the sales of certain residential mortgage-backed securities classified as available for sale issued by Ginnie Mae and government sponsored enterprises totaling $651.7 million. Valley recorded trade date receivables of approximately $141.1 million for unsettled sales of securities classified as available for sale, which are included in other assets at December 31, 2011.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income or loss for the years ended December 31, 2011, 2010, and 2009:

	2011	2010	2009
		(in thousands)	
Balance, beginning of period	$10,500	$ 6,119	$ 549
Additions:			
Initial credit impairments	19,143	124	2,171
Subsequent credit impairments	825	4,518	3,747
Reductions:			
Accretion of credit loss impairment due to anincrease in expected cash flows	(1,398)	(261)	(348)
Balance, end of period	$29,070	$10,500	$6,119

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to each period presented. Other-than-temporary impairments recognized in earnings for credit impaired debt securities are presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairment). The credit loss component is reduced if Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) Valley receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Trading Securities

The fair value of trading securities (consisting of 3 and 4 single-issuer bank trust preferred securities at December 31, 2011 and 2010, respectively) was $21.9 million and $31.9 million at December 31, 2011 and 2010, respectively. Interest income on trading securities totaled $2.1 million, $2.6 million, and $3.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

LOANS (Note 5)

The detail of the loan portfolio as of December 31, 2011 and 2010 was as follows:

	2011	2010
	(in thousands)	
Non-covered loans:		
Commercial and industrial	$1,878,387	$1,825,066
Commercial real estate:		
Commercial real estate	3,574,089	3,378,252
Construction	411,003	428,232
Total commercial real estate loans	3,985,092	3,806,484
Residential mortgage	2,285,590	1,925,430
Consumer:		
Home equity	469,604	512,745
Automobile	772,490	850,801
Other consumer	136,634	88,614
Total consumer loans	1,378,728	1,452,160
Total non-covered loans	9,527,797	9,009,140
Covered loans:		
Commercial and industrial	$ 83,742	$ 121,151
Commercial real estate	160,651	195,646
Construction	6,974	16,153
Residential mortgage	15,546	17,026
Consumer	4,931	6,679
Total covered loans	271,844	356,655
Total loans	$9,799,641	$9,365,795

Total non-covered loans are net of unearned discount and deferred loan fees totaling $7.5 million and $9.3 million at December 31, 2011 and 2010, respectively. Covered loans had outstanding contractual principal balances totaling approximately $398.2 million and $497.0 million at December 31, 2011 and 2010, respectively.

Valley purchased approximately $33 million of loans almost entirely consisting of automobile loans during the year ended December 31, 2011. There were no sales of loans, other than from the held for sale loan portfolio, or transfers from loans held for investment to loans held for sale during the year ended December 31, 2011.

Covered Loans

Covered loans acquired through the FDIC-assisted transactions are accounted for in accordance with ASC Subtopic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” since all of these loans were acquired at a discount attributable, at least in part, to credit quality and are not subsequently accounted for at fair value. Covered loans were initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the covered loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. See the "Loans Acquired Through Transfer (Including Covered Loans)" section of Note 1 for further details regarding accounting policies for covered loans.

The Bank periodically evaluates the remaining contractual required payments due and estimates of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Changes in the contractual required payments due and estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications between accretable yield and the non-accretable difference. During 2011, on an aggregate basis the acquired pools of covered loans performed better than originally expected, and based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the pools with better than expected cash flows, the forecasted increase is recorded as an additional accretable yield that is recognized as a prospective increase to our interest income on loans. Additionally, the FDIC loss-share receivable is prospectively reduced by the guaranteed portion of the additional cash flows expected to be received, with a corresponding reduction to non-interest income.

Changes in the accretable yield for covered loans were as follows for the year ended December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Balance, beginning of period	$101,052	$ —
Acquisitions	—	69,659
Accretion	(40,345)	(20,547)
Net reclassification from non-accretable difference	6,017	51,940
Balance, end of period	$ 66,724	$101,052

Valley reclassified $6.0 million and $51.9 million during 2011 and 2010, respectively, from the non-accretable difference for covered loans due to increases in expected cash flows for certain pools of covered loans. This amount is recognized prospectively as an adjustment to yield over the life of the individual pools.

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements (referred to as the "FDIC loss-share receivable" on our consolidated statements of financial condition) is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

Changes in FDIC loss-share receivable for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
	(in thousands)	
Balance, beginning of the period	$ 89,359	$ —
Acquisitions	—	108,000
Discount accretion of the present value at the acquisition dates	582	1,166
Effect of additional cash flows on covered loans (prospective recognition)	(10,592)	—
Increase due to impairment on covered loans	19,520	5,102
Other reimbursable expenses	3,893	2,561
Reimbursements from the FDIC	(28,372)	(27,470)
Balance, end of the period	$ 74,390	$ 89,359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Valley recognized approximately $13.4 million and $6.3 million in non-interest income for the years ended December 31, 2011 and 2010, respectively, related to discount accretion and the post-acquisition adjustments to the FDIC loss-share receivable included in the table above.

Related Party Loans

In the ordinary course of business, Valley has granted loans to certain directors, executive officers and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability.

The following table summarizes the changes in the total amounts of loans and advances to the related parties during the year ended December 31, 2011:

	2011 (in thousands)
Outstanding at beginning of year	$ 198,750
New loans and advances	18,012
Repayments	(23,190)
Sales	(230)
Outstanding at end of year	$ 193,342

All loans to related parties are performing as of December 31, 2011.

Loan Portfolio Risk Elements and Credit Risk Management

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

Commercial and industrial loans. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. Unsecured commercial and industrial loans totaled $337.7 million and $451.7 million at December 31, 2011 and 2010, respectively.

Commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash

flow loans and secondarily as loans secured by real property. Loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as, stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley's primary markets.

Construction loans . With respect to loans to developers and builders, Valley originates and manages construction loans structured on either a revolving or non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single family residential construction) are controlled with loan advances dependent upon the presale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential mortgages. Valley originates residential, first mortgage loans based on underwriting standards that comply with Fannie Mae and/or Freddie Mac requirements. Appraisals of real estate collateral are contracted directly with independent appraisers and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with regulatory requirements and guidance issued by the Bank's primary regulator. Credit scoring, using FICO ® and other proprietary, credit scoring models, is employed in the ultimate, judgmental credit decision by Valley's underwriting staff. Valley does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one to four family homes generally located in northern and central New Jersey, the New York City metropolitan area, and eastern Pennsylvania. Valley's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property.

Home equity loans . Home equity lending consists of both fixed and variable interest rate products. Valley mainly provides home equity loans to its residential mortgage customers within the footprint of its primary lending territory. Valley generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 70 percent when originating a home equity loan.

Automobile loans. Valley uses both judgmental and scoring systems in the credit decision process for automobile loans. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Additionally, automobile charge-offs will vary based on strength or weakness in the used vehicle market, original advance rate, when in the life cycle of a loan a default occurs and the condition of the collateral being liquidated. Where permitted by law, and subject to the limitations of the bankruptcy code, deficiency judgments are sought and acted upon to ultimately collect all money owed, even when a default resulted in a loss at collateral liquidation. Valley uses a third party to actively track collision and comprehensive risk insurance required of the borrower on the automobile and this third party provides coverage to Valley in the event of an uninsured collateral loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other consumer loans . Valley's other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes minor exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit was not significant at December 31, 2011. Unsecured consumer loans totaled approximately $66.5 million and $30.7 million including $9.1 million and $9.7 million of credit card loans at December 31, 2011 and 2010, respectively.

Credit Quality

The following tables present past due, non-accrual and current non-covered loans by loan portfolio class at December 31, 2011 and 2010:

	Past Due and Non-Accrual Loans*					
	30-89 Days Past Due Loans	Accruing Loans 90 Days Or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-Covered Loans	Total Non-Covered Loans
	(in thousands)					
December 31, 2011						
Commercial and industrial	$ 4,347	$ 657	$ 26,648	$ 31,652	$1,846,735	$1,878,387
Commercial real estate:						
Commercial real estate	13,115	422	42,186	55,723	3,518,366	3,574,089
Construction	2,652	1,823	19,874	24,349	386,654	411,003
Total commercial real estate loans	15,767	2,245	62,060	80,072	3,905,020	3,985,092
Residential mortgage	8,496	763	31,646	40,905	2,244,685	2,285,590
Consumer loans:						
Home equity	989	13	2,700	3,702	465,902	469,604
Automobile	7,794	303	461	8,558	763,932	772,490
Other consumer	192	35	749	976	135,658	136,634
Total consumer loans	8,975	351	3,910	13,236	1,365,492	1,378,728
Total	$37,585	$ 4,016	$124,264	$165,865	$9,361,932	$9,527,797
December 31, 2010						
Commercial and industrial	$13,852	$ 12	$ 13,721	$ 27,585	$1,797,481	$1,825,066
Commercial real estate:						
Commercial real estate	14,563	—	32,981	47,544	3,330,708	3,378,252
Construction	2,804	196	27,312	30,312	397,920	428,232
Total commercial real estate loans	17,367	196	60,293	77,856	3,728,628	3,806,484
Residential mortgage	12,682	1,556	28,494	42,732	1,882,698	1,925,430
Consumer loans:						
Home equity	1,045	—	1,955	3,000	509,745	512,745
Automobile	13,328	686	539	14,553	836,248	850,801
Other consumer	265	37	53	355	88,259	88,614
Total consumer loans	14,638	723	2,547	17,908	1,434,252	1,452,160
Total	$58,539	$ 2,487	$105,055	$166,081	$8,843,059	$9,009,140

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

If interest on non-accrual loans had been accrued in accordance with the original contractual terms, such interest income would have amounted to approximately $6.9 million, $7.9 million and $6.5 million for the years ended December 31, 2011, 2010, and 2009, respectively; none of these amounts were included in interest income during these periods. Interest income recognized on a cash basis for loans classified as non-accrual totaled $1.6 million (including $1.1 million of interest income on impaired loans) for the year ended December 31, 2011. Interest income recognized on cash basis was immaterial for the years ended December 31, 2010, and 2009.

Impaired loans. Impaired loans consisting of non-accrual commercial and industrial loans and commercial real estate loans over $250 thousand and all troubled debt restructured loans are individually evaluated for impairment. See the "Allowance for Credit Losses" section of Note 1 for details regarding the accounting policy for impaired loans.

The following table presents the information about impaired loans by loan portfolio class at December 31, 2011 and 2010:

	Recorded Investment With No Related Allowance	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
			(in thousands)		
December 31, 2011					
Commercial and industrial	$ 6,193	$ 48,665	$ 54,858	$ 71,111	$11,105
Commercial real estate:					
Commercial real estate	26,741	56,978	83,719	91,448	7,108
Construction	4,253	19,998	24,251	28,066	1,408
Total commercial real estate loans	30,994	76,976	107,970	119,514	8,516
Residential mortgage	998	20,007	21,005	22,032	3,577
Consumer loans:					
Home equity	—	242	242	242	45
Total consumer loans	—	242	242	242	45
Total	$ 38,185	$ 145,890	$184,075	$ 212,899	$23,243
December 31, 2010					
Commercial and industrial	$ 3,707	$ 28,590	$ 32,297	$ 42,940	$ 6,397
Commercial real estate:					
Commercial real estate	19,860	43,393	63,253	66,869	3,991
Construction	24,215	15,854	40,069	40,867	2,150
Total commercial real estate loans	44,075	59,247	103,322	107,736	6,141
Residential mortgage	788	17,797	18,585	18,864	2,683
Consumer loans:					
Home equity	—	83	83	83	5
Total consumer loans	—	83	83	83	5
Total	$ 48,570	$ 105,717	$154,287	$ 169,623	$15,226

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents, by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the year ended December 31, 2011:

	December 31, 2011	
	Average Recorded Investment	Interest Income Recognized
	(in thousands)	
Commercial and industrial	$ 43,095	$ 1,457
Commercial real estate:		
Commercial real estate	76,542	3,043
Construction	31,897	1,141
Total commercial real estate loans	108,439	4,184
Residential mortgage	19,015	706
Consumer loans:		
Home equity	109	3
Total consumer loans	109	3
Total	$170,658	$ 6,350

The average balance of impaired loans was approximately $104.1 million and $49.8 million for the years ended December 31, 2010, and 2009, respectively. Interest income recognized on total impaired loans during the years ended December 31, 2010 and 2009 was immaterial.

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

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

As a result of the adoption of ASU 2011-02 during the third quarter of 2011, Valley reassessed all loan restructurings that occurred on or after January 1, 2011 for potential identification as TDRs and concluded that the adoption did not materially impact the number of TDRs identified by Valley, or the specific reserves for such loans included in our allowance for loan losses.

Performing TDRs (not reported as non-accrual loans) totaled $101.0 million and $89.7 million as of December 31, 2011 and 2010, respectively. Non-performing TDRs totaled $15.5 million and $9.4 million as of December 31, 2011 and 2010, respectively. All TDRs are classified as impaired loans and are included in the impaired loans section above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents non-covered loans by loan class modified as TDRs during the year ended December 31, 2011. The pre-modification and post-modification outstanding recorded investments disclosed in the table below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at December 31, 2011, respectively.

		December 31, 2011	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstading Recorded Investment
		($ in thousands)	
Commercial and industrial*	27	$ 29,142	$ 28,866
Commercial real estate:			
Commercial real estate	7	12,890	12,777
Construction	2	3,422	3,422
Total commercial real estate	9	16,312	16,199
Residential mortgage	5	1,237	1,223
Consumer	1	58	58
Total	42	$ 46,749	$ 46,346

* Includes 9 finance leases with pre and post-modification outstanding recorded investments totaling $372 thousand and $294 thousand, respectively.

The majority of the TDR concessions made during the year ended December 31, 2011 involved an extension of the loan term and/or an interest rate reduction. The TDRs presented in the table above had allocated specific reserves for loan losses totaling $9.0 million at December 31, 2011. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in Note 6. There were no charge-offs resulting from loans modified as TDRs during the year ended December 31, 2011.

Non-covered loans modified as TDRs within the 12 months previous to December 31, 2011, for which there was a subsequent default (90 days or more past due) consisted of one commercial loan and two residential mortgages with recorded investments of $1.9 million and $399 thousand at December 31, 2011, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the risk category of loans by class of loans based on the most recent analysis performed at December 31, 2011 and 2010.

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		
December 31, 2011					
Commercial and industrial	$1,669,943	$ 95,726	$ 112,186	$ 532	$1,878,387
Commercial real estate	3,350,475	82,612	141,002	—	3,574,089
Construction	329,848	42,845	38,114	196	411,003
Total	$5,350,266	$221,183	$ 291,302	$ 728	$5,863,479
December 31, 2010					
Commercial and industrial	$1,638,939	$ 92,131	$ 93,920	$ 76	$1,825,066
Commercial real estate	3,175,333	77,186	125,733	—	3,378,252
Construction	324,292	48,442	55,498	—	428,232
Total	$5,138,564	$217,759	$ 275,151	$ 76	$5,631,550

For residential mortgages, automobile, home equity, and other consumer loan portfolio classes, Valley also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of December 31, 2011 and 2010:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total Loans
		(in thousands)	
December 31, 2011			
Residential mortgage	$2,253,944	$ 31,646	$2,285,590
Home equity	466,904	2,700	469,604
Automobile	772,029	461	772,490
Other consumer	135,885	749	136,634
Total	3,628,762	35,556	3,664,318
December 31, 2010			
Residential mortgage	$1,896,936	$ 28,494	$1,925,430
Home equity	510,790	1,955	512,745
Automobile	850,262	539	850,801
Other consumer	88,561	53	88,614
Total	$3,346,549	$ 31,041	$3,377,590

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Valley evaluates the credit quality of its covered loan pools based on the expectation of the underlying cash flows, derived from the aging status and by payment activity. The following table presents the recorded investment in covered loans by class based on individual loan payment activity as of December 31, 2011 and 2010.

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total Loans
		(in thousands)	
December 31, 2011			
Commercial and industrial	$ 67,424	$ 16,318	$ 83,742
Commercial real estate	112,047	48,604	160,651
Construction	623	6,351	6,974
Residential mortgage	10,118	5,428	15,546
Consumer	4,931	—	4,931
Total	195,143	76,701	271,844
December 31, 2010			
Commercial and industrial	$ 97,319	$ 23,832	$121,151
Commercial real estate	149,817	45,829	195,646
Construction	6,411	9,742	16,153
Residential mortgage	13,894	3,132	17,026
Consumer	6,679	—	6,679
Total	$274,120	$ 82,535	$356,655

ALLOWANCE FOR CREDIT LOSSES (Note 6)

The allowance for credit losses consists of the allowance for losses on non-covered loans and allowance for losses on covered loans related to credit impairment of certain covered loan pools subsequent to acquisition, as well as the allowance for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for losses on non-covered loans is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio.

The following table summarizes the allowance for credit losses for the years ended December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Components of allowance for credit losses:		
Allowance for non-covered loans	$120,274	$118,326
Allowance for covered loans	13,528	6,378
Total allowance for loan losses	133,802	124,704
Allowance for unfunded letters of credit	2,383	1,800
Total allowance for credit losses	$136,185	$126,504

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2011	2010	2009
		(in thousands)	
Components of provision for credit losses:			
Provision for non-covered loans	$31,242	$42,943	$47,821
Provision for covered loans	21,510	6,378	—
Total provision for loan losses	52,752	49,321	47,821
Provision for unfunded letters of credit	583	135	171
Total provision for credit losses	$53,335	$49,456	$47,992

The following table details the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2011 and 2010, including both covered and non-covered loans:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
			(in thousands)			
December 31, 2011						
Allowance for loan losses:						
Beginning balance	$ 61,967	$ 30,409	$ 9,476	$ 14,499	$ 8,353	$124,704
Loans charged-off [1]	(29,229)	(10,358)	(3,222)	(5,906)	—	(48,715)
Charged-off loans recovered	2,365	331	129	2,236	—	5,061
Net charge-offs	(26,864)	(10,027)	(3,093)	(3,670)	—	(43,654)
Provision for loan losses [2]	38,546	14,255	2,737	(2,152)	(634)	52,752
Ending balance	$ 73,649	$ 34,637	$ 9,120	$ 8,677	$ 7,719	$133,802
December 31, 2010						
Allowance for loan losses:						
Beginning balance	$ 49,267	$ 25,516	$ 5,397	$ 15,480	$ 6,330	$101,990
Loans charged-off	(15,475)	(3,561)	(3,741)	(10,882)	—	(33,659)
Charged-off loans recovered	4,121	156	97	2,678	—	7,052
Net charge-offs	(11,354)	(3,405)	(3,644)	(8,204)	—	(26,607)
Provision for loan losses [2]	24,054	8,298	7,723	7,223	2,023	49,321
Ending balance	$ 61,967	$ 30,409	$ 9,476	$ 14,499	$ 8,353	$124,704

(1) The allowance for covered loans was reduced by loan charge-offs totaling $14.4 million during 2011. There were no charge-offs of covered loans during 2010. See Note 1 for Valley's loan charge-off policies for covered and non-covered loans.

(2) The provision for covered loan losses totaled $21.5 million and $6.4 million for the years ended December 31, 2011 and 2010, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology for the years ended December 31, 2011 and 2010. Loans individually evaluated for impairment represent Valley's impaired loans. Loans acquired with discounts related to credit quality represent Valley's covered loans.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Unallocated	Total
			(in thousands)			
December 31, 2011						
Allowance for loan losses:						
Individually evaluated for impairment	$ 11,105	$ 8,516	$ 3,577	$ 45	$ —	$ 23,243
Collectively evaluated for impairment	51,588	23,611	5,481	8,632	7,719	97,031
Loans acquired with discounts related to credit quality	10,956	2,510	62	—	—	13,528
Total	$ 73,649	$ 34,637	$ 9,120	$ 8,677	$ 7,719	$ 133,802
Loans:						
Individually evaluated for impairment	$ 54,858	$ 107,970	$ 21,005	$ 242	$ —	$ 184,075
Collectively evaluated for impairment	1,823,529	3,877,122	2,264,585	1,378,486	—	9,343,722
Loans acquired with discounts related to credit quality	83,742	167,625	15,546	4,931	—	271,844
Total	$ 1,962,129	$ 4,152,717	$ 2,301,136	$1,383,659	$ —	$9,799,641
December 31, 2010						
Allowance for loan losses:						
Individually evaluated for impairment	$ 6,397	$ 6,141	$ 2,683	$ 5	$ —	$ 15,226
Collectively evaluated for impairment	50,032	23,776	6,445	14,494	8,353	103,100
Loans acquired with discounts related to credit quality	5,538	492	348	—	—	6,378
Total	$ 61,967	$ 30,409	$ 9,476	$ 14,499	$ 8,353	$ 124,704
Loans:						
Individually evaluated for impairment	$ 32,297	$ 103,322	$ 18,585	$ 83	$ —	$ 154,287
Collectively evaluated for impairment	1,792,769	3,703,162	1,906,845	1,452,077	—	8,854,853
Loans acquired with discounts related to credit quality	121,151	211,799	17,026	6,679	—	356,655
Total	$ 1,946,217	$ 4,018,283	$ 1,942,456	$1,458,839	$ —	$9,365,795

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

PREMISES AND EQUIPMENT, NET (Note 7)

At December 31, 2011 and 2010, premises and equipment, net consisted of:

	2011	2010
	(in thousands)	
Land	$ 57,630	$ 56,837
Buildings	189,782	184,404
Leasehold improvements	64,191	62,050
Furniture and equipment	176,801	169,963
	488,404	473,254
Accumulated depreciation and amortization	(222,929)	(207,684)
Total premises and equipment, net	$ 265,475	$ 265,570

Depreciation and amortization of premises and equipment included in non-interest expense for the years ended December 31, 2011, 2010 and 2009 amounted to approximately $16.4 million, $15.8 million, and $15.3 million, respectively.

LOAN SERVICING (Note 8)

The Bank is a servicer of residential mortgage and SBA loan portfolios, and it is compensated for loan administrative services performed for mortgage servicing rights purchased in the secondary market and loans originated and sold by the Bank. The aggregate principal balances of residential mortgage loans serviced by the Bank for others approximated $1.3 billion at each of December 31, 2011, 2010 and 2009. The SBA loans serviced by the Bank for third-party investors totaled $33.1 million, $38.4 million, and $37.8 million at December 31, 2011, 2010 and 2009, respectively. The outstanding balance of all loans serviced for others is not included in the consolidated statements of financial condition.

The unamortized costs associated with acquiring loan servicing rights are included in other intangible assets in the consolidated statements of financial condition. The following table summarizes the change in loan servicing rights during the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(in thousands)	
Loan servicing rights			
Balance at beginning of year	$12,491	$11,722	$ 9,824
Origination of loan servicing rights	4,483	4,182	5,012
Amortization expense	(4,074)	(3,413)	(3,114)
Balance at end of year	$12,900	$12,491	$11,722
Valuation allowance			
Balance at beginning of year	$ (1,163)	$ (612)	$ (532)
Impairment adjustment	(1,507)	(551)	(80)
Balance at end of year	$ (2,670)	$ (1,163)	$ (612)
Balance at end of year net of valuation allowance	$10,230	$11,328	$11,110

Loan servicing rights are accounted for using the amortization method. See Note 9 for further details about the amortization expense related to loan servicing rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

GOODWILL AND OTHER INTANGIBLE ASSETS (Note 9)

The changes in the carrying amount of goodwill as allocated to our business segments, or reporting units thereof, for goodwill impairment analysis were:

	Business Segment / Reporting Unit*				
	Wealth Management	Consumer Lending	Commercial Lending	Investment Management	Total
			(in thousands)		
Balance at December 31, 2009	$ 18,978	$93,805	$ 107,969	$ 75,672	$296,424
Goodwill from business combinations	1,468	5,194	9,720	5,085	21,467
Balance at December 31, 2010	20,446	98,999	117,689	80,757	317,891
Goodwill from business combinations	71	—	—	—	71
Balance at December 31, 2011	$ 20,517	$98,999	$ 117,689	$ 80,757	$317,962

* Valley's Wealth Management Division is comprised of trust, asset management, and insurance services. This reporting unit is included in the Consumer Lending segment for financial reporting purposes.

In addition to goodwill from business combinations during 2010 shown in the above table and disclosed in Note 2 to the consolidated financial statements, Valley recorded $71 thousand in goodwill from a final earn-out payment related to an acquisition by Valley in 2006. This earn-out payment was based upon predetermined profitability targets in accordance with the merger agreement. There was no impairment of goodwill during the years ended December 31, 2011, 2010, and 2009.

The following tables summarize other intangible assets as of December 31, 2011 and 2010:

	Gross Intangible Assets	Accumulated Amortization	Valuation Allowance	Net Intangible Assets
		(in thousands)		
December 31, 2011				
Loan servicing rights	$52,046	$ (39,146)	$ (2,670)	$10,230
Core deposits	27,144	(20,363)	—	6,781
Other	6,121	(2,314)	—	3,807
Total other intangible assets	$85,311	$ (61,823)	$ (2,670)	$20,818
December 31, 2010				
Loan servicing rights	$65,701	$ (53,210)	$ (1,163)	$11,328
Core deposits	27,144	(17,312)	—	9,832
Other	6,121	(1,631)	—	4,490
Total other intangible assets	$98,966	$ (72,153)	$ (1,163)	$25,650

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 10 years. The line item labeled "Other" included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of 16 years.

Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the years ended December 31, 2011, 2010 and 2009.

Valley recognized amortization expense on other intangible assets, including net impairment charges on loan servicing rights, of $9.3 million, $7.7 million, and $6.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following presents the estimated amortization expense of other intangible assets over the next five year period:

	Loan Servicing Rights	Core Deposits	Other
		(in thousands)	
2012	$ 2,695	$2,455	$656
2013	2,131	1,858	541
2014	1,593	1,262	466
2015	1,113	782	434
2016	825	342	233

DEPOSITS (Note 10)

Included in time deposits at December 31, 2011 and 2010 are certificates of deposit over $100 thousand of $1.1 billion and $1.2 billion, respectively. Interest expense on time deposits of $100 thousand or more totaled approximately $8.5 million, $8.8 million, and $15.3 million in 2011, 2010 and 2009, respectively.

The scheduled maturities of time deposits as of December 31, 2011 are as follows:

Year	Amount (in thousands)
2012	$1,489,692
2013	250,636
2014	258,768
2015	150,553
2016	165,122
Thereafter	186,613
Total time deposits	$2,501,384

Deposits from certain directors, executive officers and their affiliates totaled $54.5 million and $54.0 million at December 31, 2011 and 2010, respectively.

BORROWED FUNDS (Note 11)

Short-term borrowings at December 31, 2011 and 2010 consisted of the following:

	2011	2010
	(in thousands)	
Securities sold under agreements to repurchase	$212,849	$183,295
Treasury tax and loan	—	9,023
Total short-term borrowings	$212,849	$192,318

The weighted average interest rate for short-term borrowings was 0.25 percent and 0.45 percent at December 31, 2011 and 2010, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-term borrowings at December 31, 2011 and 2010 consisted of the following:

	2011	2010
	(in thousands)	
FHLB advances	$2,036,690	$2,176,665
Securities sold under agreements to repurchase	587,500	655,000
Subordinated debt	100,000	100,000
Other	1,909	2,193
Total long-term borrowings	$2,726,099	$2,933,858

The long-term FHLB advances had a weighted average interest rate of 3.91 percent and 4.15 percent at December 31, 2011 and 2010, respectively. These FHLB advances are secured by pledges of certain eligible collateral, including but not limited to U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgage and commercial real estate loans. Interest expense recorded on FHLB advances totaled $86.6 million, $91.5 million, and $93.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The long-term FHLB advances at December 31, 2011 are scheduled for repayment as follows:

Year	Amount
	(in thousands)
2012	$ 28,319
2013	26,102
2014	102
2015	175,102
2016	182,101
Thereafter	1,624,964
Total long-term FHLB advances	$2,036,690

The majority of the long-term advances are callable by FHLB for redemption prior to their scheduled maturity date. Advances with scheduled maturities beyond 2016 reported in the table above include $1.1 billion in advances which are callable during 2012 and have interest rates ranging from 2.27 percent to 4.76 percent.

During the fourth quarter of 2011, Valley modified the terms of $435 million in FHLB advances within its long-term borrowings. The modifications resulted in a reduction of the interest rates on these funds, an extension of their maturity dates to 10 years from the date of modification, and a conversion of the advances to non-callable for periods ranging from 3 to 4 years. Valley similarly modified the terms of an additional $150 million in FHLB advances during January 2012. After the modifications, the weighted average interest rate on these borrowings declined by 0.86 percent to 3.99 percent. There were no gains, losses, penalties or fees incurred in the modification transactions.

The long-term borrowings for securities sold under repurchase agreements to FHLB and other counterparties totaled $587.5 million and $655 million at December 31, 2011 and 2010, respectively. The weighted average interest rate of these long-term borrowings was 4.18 percent and 4.27 percent at December 31, 2011 and 2010, respectively. Interest expense on long-term securities sold under repurchase agreements amounted to $25.0 million, $28.3 million, and $28.9 million during the years ended December 31, 2011, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The long-term borrowings for securities sold under agreements to repurchase at December 31, 2011 are scheduled for repayment as follows:

Year	Amount (in thousands)
2015	$ 125,000
2016	142,500
Thereafter	320,000
Total long-term borrowings for securities sold under agreements to repurchase	$ 587,500

In 2005, the Bank issued $100 million of 5.0 percent subordinated notes due July 15, 2015 with no call dates or prepayments allowed. Interest on the subordinated notes is payable semi-annually in arrears at an annual rate of 5.0 percent on January 15 and July 15 of each year.

The fair value of securities pledged to secure public deposits, repurchase agreements, lines of credit, FHLB advances and for other purposes required by law approximated $1.5 billion at December 31, 2011 and 2010.

JUNIOR SUBORDINATED DEBENTURES ISSUED TO CAPITAL TRUSTS (Note 12)

Valley established VNB Capital Trust I, a statutory trust, for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trust to purchase an equivalent amount of junior subordinated debentures of Valley. GCB Capital Trust III was established by Greater Community Bancorp (“Greater Community”), prior to Valley’s acquisition of Greater Community on July 1, 2008 and the junior subordinated notes issued by Greater Community to GCB Capital Trust III were assumed by Valley upon completion of the acquisition. The junior subordinated debentures, the sole assets of the trusts, are unsecured obligations of Valley, and are subordinate and junior in right of payment to all present and future senior and subordinated indebtedness and certain other financial obligations of Valley. Valley wholly owns all of the common securities of each trust. The trust preferred securities qualify, and are treated by Valley, as Tier 1 regulatory capital.

Valley elected to measure the junior subordinated debentures issued to VNB Capital Trust I at fair value beginning in 2007, with changes in fair value recognized as charges or credits to current earnings. Net trading gains and losses included non-cash credits of $1.3 million for the year ended December 31, 2011 and non-cash charges of $5.8 million and a $15.8 million for the years ended December 31, 2010 and 2009, respectively, for the change in the fair value of the junior subordinated debentures issued to VNB Capital Trust I.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes the outstanding junior subordinated debentures and the related trust preferred securities issued by each trust as of December 31, 2011:

	December 31, 2011	
	VNB Capital Trust I	GCB Capital Trust III
	($ in thousands)	
Junior Subordinated Debentures:		
Carrying value [1]	$ 160,478	$ 25,120
Contractual principal balance	$ 157,024	$ 24,743
Annual interest rate [2]	7.75%	6.96%
Stated maturity date	December 15, 2031	July 30, 2037
Initial call date	November 7, 2006	July 30, 2017
Trust Preferred Securities:		
Face value	$ 152,313	$ 24,000
Annual distribution rate [2]	7.75%	6.96%
Issuance date	November 2001	July 2007
Distribution dates [3]	Quarterly	Quarterly

(1) The carrying value for GCB Capital Trust III includes an unamortized purchase accounting premium of $377 thousand.

(2) Interest on GCB Capital Trust III is fixed until July 30, 2017, then resets to 3-month LIBOR plus 1.4 percent. The annual interest rate excludes the effect of the purchase accounting adjustments.

(3) All cash distributions are cumulative.

The junior subordinated debentures issued to VNB Capital Trust I and GCB Capital Trust III had total carrying values of $161.7 million and $25.2 million, respectively, and total contractual principal balances of $157.0 million and $24.7 million, respectively, at December 31, 2010. The trust preferred securities issued by VNB Capital Trust I and GCB Capital Trust III had total face values of $152.3 million and $24.0 million, respectively, at December 31, 2010.

The trusts' ability to pay amounts due on the trust preferred securities is solely dependent upon Valley making payments on the related junior subordinated debentures. Valley's obligation under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitutes a full and unconditional guarantee by Valley of the trusts' obligations under the trust preferred securities issued. Under the junior subordinated debenture agreements, Valley has the right to defer payment of interest on the debentures and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. Currently, Valley has no intention to exercise its right to defer interest payments on the debentures.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at the stated maturity date or upon an earlier call date for redemption at par. The junior subordinated debentures issued to VNB Capital Trust I are currently callable by Valley. In January 2012, Valley redeemed $10.3 million of the principal face amount of its outstanding junior subordinated debentures issued to VNB Capital Trust I and $10.0 million of the face value of the related trust preferred securities included in the table above. No debentures or securities were called for redemption during the years ended December 31, 2010 and 2009.

The trust preferred securities of VNB Capital Trust I and GCB Capital Trust III are included in Valley's consolidated Tier 1 capital and total capital for regulatory purposes at December 31, 2011 and 2010. Under the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which was signed into law on July 21, 2010, Valley's outstanding trust preferred securities will continue to qualify as Tier 1 capital but Valley will be unable to issue replacement or additional trust preferred securities that would qualify as Tier 1 capital.

BENEFIT PLANS (Note 13)

Pension Plan

The Bank has a non-contributory defined benefit plan ("qualified plan") covering most of its employees. Effective July 1, 2011, the Bank closed the qualified plan to new employees hired on or after such date. The Plan will continue to operate and accrue normal benefits for existing participants. In conjunction with the eligibility change for the qualified plan, the Bank amended its 401(k) plan to increase the Bank's matching percentage of employee contributions for non-pension participants, within certain statutory limits.

The qualified plan benefits are based upon years of credited service and the employee's highest average compensation as defined. It is the Bank's funding policy to contribute annually an amount that can be deducted for federal income tax purposes. Additionally, the Bank has a supplemental non-qualified, non-funded retirement plan ("non-qualified plan") which is designed to supplement the pension plan for key officers.

The following table sets forth the change in projected benefit obligation, the change in fair value of plan assets and the funded status and amounts recognized in Valley's consolidated financial statements for the qualified and non-qualified plans at December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$108,146	$ 97,532
Service cost	5,951	5,544
Interest cost	6,147	5,709
Plan amendments	338	13
Actuarial loss	16,678	2,243
Benefits paid	(3,464)	(2,895)
Projected benefit obligation at end of year	$133,796	$108,146
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 83,937	$ 74,005
Actual return on plan assets	2,168	7,731
Employer contributions	13,105	5,096
Benefits paid	(3,464)	(2,895)
Fair value of plan assets at end of year*	$ 95,746	$ 83,937
Funded status of the plan	$ (38,050)	$ (24,209)
Liability recognized	$ (38,050)	$ (24,209)
Accumulated benefit obligation	$120,564	$ 96,360

* Includes accrued interest receivable of $309 thousand and $299 thousand as of December 31, 2011 and 2010, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amounts recognized as a component of accumulated other comprehensive loss as of year-end that have not been recognized as a component of the net periodic pension expense for Valley's qualified and non-qualified plans are presented in the following table. Valley expects to recognize approximately $2.3 million of the net actuarial loss and $707 thousand of prior service cost reported in the following table as of December 31, 2011 as a component of net periodic pension expense during 2012.

	2011	2010
	(in thousands)	
Net actuarial loss	$ 45,487	$ 25,805
Prior service cost	1,982	2,351
Deferred tax benefit	(19,903)	(11,812)
Total	$ 27,566	$ 16,344

The Bank's non-qualified plan had a projected benefit obligation, accumulated benefit obligation, and fair value of plan assets as follows:

	2011	2010
	(in thousands)	
Projected benefit obligation	$12,731	$9,851
Accumulated benefit obligation	12,337	9,583
Fair value of plan assets	—	—

In determining discount rate assumptions, management looks to current rates on fixed-income corporate debt securities that receive a rating of Aa3 or higher from Moody's with durations equal to the expected benefit payments streams required of each plan. The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of benefit obligations for the qualified and non-qualified plans as of December 31, 2011 and 2010 were as follows:

	2011	2010
Discount rate	4.87%	5.75%
Future compensation increase rate	2.75	3.25

The net periodic pension expense included the following components for the years ended December 31, 2011, 2010, and 2009:

	2011	2010	2009
		(in thousands)	
Service cost	$ 5,951	$ 5,544	$ 5,216
Interest cost	6,147	5,709	5,059
Expected return on plan assets	(6,698)	(6,214)	(6,040)
Amortization of prior service cost	707	643	640
Amortization of actuarial loss	1,525	1,098	858
Total net periodic pension expense	$ 7,632	$ 6,780	$ 5,733

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other changes in plan assets and benefit obligations recognized in other comprehensive income or loss for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
	(in thousands)	
Net loss	$21,208	$ 726
Prior service cost	338	13
Amortization of prior service cost	(707)	(643)
Amortization of actuarial loss	(1,525)	(1,098)
Total recognized in other comprehensive income or loss	$19,314	$(1,002)
Total recognized in net periodic pension expense and other comprehensive income or loss (before tax)	$26,946	$ 5,778

The benefit payments, which reflect expected future service, as appropriate, expected to be paid in future years are presented in the following table:

Year	Amount (in thousands)
2012	$ 5,208
2013	5,455
2014	6,088
2015	6,420
2016	6,742
2017 to 2021	39,836

The weighted average discount rate, expected long-term rate of return on assets and rate of compensation increase used in determining Valley's pension expense for the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Discount rate	5.75%	6.00%	5.75%
Expected long-term return on plan assets	8.00	8.00	8.00
Rate of compensation increase	3.25	3.50	3.50

The expected rate of return on plan assets assumption is based on the concept that it is a long-term assumption independent of the current economic environment and changes would be made in the expected return only when long-term inflation expectations change, asset allocations change or when asset class returns are expected to change for the long-term. The expected return was reduced to 7.5 percent on January 1, 2012 due to the prolonged economic recovery and expectations regarding the level of future market rates.

Valley's qualified plan weighted-average asset allocations at December 31, 2011 and 2010, by asset category were as follows:

	2011	2010
Equity securities	49%	49%
U.S. Treasury securities	17	17
Corporate bonds	12	14
Mutual funds	11	11
Cash and money market funds	7	3
U.S. government agency securities	2	4
Trust preferred securities	2	2
Total investments	100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In accordance with Section 402 (c) of ERISA, the qualified plan's investment managers are granted full discretion to buy, sell, invest and reinvest the portions of the portfolio assigned to them consistent with the Bank's Pension Committee's policy and guidelines. The target asset allocation set for the qualified plan are equity securities ranging from 25 percent to 65 percent and fixed income securities ranging from 35 percent to 75 percent. The absolute investment objective for the equity portion is to earn at least 7 percent cumulative annual real return, after adjustment by the Consumer Price Index (CPI), over rolling five-year periods, while the relative objective is to earn returns above the S&P 500 Index over rolling three-year periods. For the fixed income portion, the absolute objective is to earn at least a 3 percent cumulative annual real return, after adjustment by the CPI over rolling five-year periods with a relative objective of earning returns above the Merrill Lynch Intermediate Government/Corporate Index over rolling three-year periods. Cash equivalents will be invested in money market funds or in other high quality instruments approved by the Trustees of the qualified plan.

In general, the plan assets of the qualified plan are investment securities that are well-diversified in terms of industry, capitalization and asset class. The plan assets are a conservative mix of various types of domestic and foreign common equity securities, U.S. Treasury securities, high quality corporate bonds, mutual funds primarily indexed to the performance of Fortune 500 U.S. companies, cash and U.S. Treasury based money market funds, U.S. government agency securities, and trust preferred securities (mainly issued by VNB Capital Trust I – see Note 12).

The qualified plan's exposure to a concentration of credit risk is limited by the Bank's Pension Committee's diversification of the investments into various investment options with multiple asset managers. The Pension Committee engages an investment management advisory firm that regularly monitors the performance of the asset managers and ensures they are within compliance of the policies adopted by the Trustees. If the risk profile and overall return of assets managed are not in line with the risk objectives or expected return benchmarks for the qualified plan, the advisory firm may recommend the termination of an asset manager to the Pension Committee.

The following table presents the qualified plan assets that are measured at fair value on a recurring basis by level within the fair value hierarchy under ASC Topic 820. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Note 3 for further details regarding the fair value hierarchy.

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Investments:				
Equity securities	$ 46,446	$ 46,446	$ —	$ —
U.S. Treasury securities	16,418	16,418	—	—
Corporate bonds	11,743	—	11,743	—
Mutual funds	10,360	10,360	—	—
Cash and money market funds	6,354	6,354	—	—
U.S. government agency securities	2,421	—	2,421	—
Trust preferred securities	1,695	1,695	—	—
Total investments	$ 95,437	$ 81,273	$ 14,164	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	December 31, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Investments:				
Equity securities	$ 41,326	$ 41,326	$ —	$ —
U.S. Treasury securities	14,488	14,488	—	—
Corporate bonds	11,340	—	11,340	—
Mutual funds	9,491	9,491	—	—
Cash and money market funds	2,153	2,153	—	—
U.S. government agency securities	2,958	—	2,958	—
Trust preferred securities	1,882	1,882	—	—
Total investments	$ 83,638	$ 69,340	$ 14,298	$ —

Equity securities, U.S. Treasury securities, cash and money market funds, and trust preferred securities are valued at fair value in the table above utilizing exchange quoted prices in active markets for identical instruments (Level 1 inputs). Mutual funds are measured at their respective net asset values, which represents fair values of the securities held in the funds based on exchange quoted prices available in active markets (Level 1 inputs).

Corporate bonds and U.S. government agency securities are reported at fair value utilizing Level 2 inputs. The prices for these investments are derived from market quotations and matrix pricing obtained through an independent pricing service. Such fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

The qualified plan held 62,752 shares of VNB Capital Trust I preferred securities at December 31, 2011 and 2010. These shares had fair values of approximately $1.6 million at December 31, 2011 and 2010. Dividends received on Valley trust preferred shares were $122 thousand for each of the years ended December 31, 2011 and 2010.

During January 2012, Valley contributed $25.0 million to the qualified plan based upon actuarial estimates. Valley does not expect to make any additional contributions to the qualified plan for the remainder of 2012.

Director Plans

Valley maintains a non-qualified, non-funded directors' retirement plan. The projected benefit obligation and discount rate used to compute the obligation were $1.9 million and 4.87 percent, respectively, at December 31, 2011, and $1.8 million and 5.75 percent, respectively, at December 31, 2010. As of December 31, 2011 and 2010, the entire obligation was included in other liabilities and $468 thousand (net of a $252 thousand tax benefit) and $419 thousand (net of a $226 thousand tax benefit), respectively, were recorded in accumulated other comprehensive loss. Net periodic pension expense of $232 thousand, $228 thousand and $250 thousand was recognized for the directors' retirement plan in the years ended December 31, 2011, 2010 and 2009, respectively.

Valley also maintains non-qualified plans for former directors of banks acquired, as well as a non-qualified plan for former senior management of Merchants Bank of New York acquired in January of 2001. Valley did not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

merge these plans into its existing non-qualified plans. Collectively, at December 31, 2011 and 2010, the remaining obligations under these plans were $6.6 million and $7.5 million, respectively, of which $4.0 million and $4.7 million, respectively, were funded by Valley. As of December 31, 2011 and 2010, the entire obligations were included in other liabilities and $1.5 million (net of a $1.1 million tax benefit) and $1.6 million (net of a $1.2 million tax benefit), respectively, were recorded in accumulated other comprehensive loss. The $1.5 million in accumulated other comprehensive loss will be reclassified to expense on a straight-line basis over the remaining benefit periods of these non-qualified plans.

Bonus Plan

Valley National Bank and its subsidiaries may award incentive and merit bonuses to its officers and employees based upon a percentage of the covered employees' compensation as determined by the achievement of certain performance objectives. Amounts charged to salary expense were $4.0 million, $6.6 million and $2.4 million during 2011, 2010 and 2009, respectively.

Savings and Investment Plan

Valley National Bank maintains a KSOP defined as a 401(k) plan with an employee stock ownership feature. This plan covers eligible employees of the Bank and its subsidiaries and allows employees to contribute a percentage of their salary, with the Bank matching a certain percentage of the employee contribution in cash and invested in accordance with each participant's investment elections. The Bank recorded $2.0 million, $1.9 million and $1.4 million in expense for contributions to the plan for the years ended December 31, 2011, 2010, and 2009, respectively.

Stock-Based Compensation

Valley currently has one active employee stock option plan, the 2009 Long-Term Stock Incentive Plan (the "Employee Stock Incentive Plan"), adopted by Valley's Board of Directors on November 17, 2008 and approved by its shareholders on April 14, 2009. The Employee Stock Incentive Plan is administered by the Compensation and Human Resources Committee (the "Committee") appointed by Valley's Board of Directors. The Committee can grant awards to officers and key employees of Valley. The purpose of the Employee Stock Incentive Plan is to provide additional incentive to officers and key employees of Valley and its subsidiaries, whose substantial contributions are essential to the continued growth and success of Valley, and to attract and retain competent and dedicated officers and other key employees whose efforts will result in the continued and long-term growth of Valley's business.

Under the Employee Stock Incentive Plan, Valley may award shares to its employees for up to 7.1 million shares of common stock in the form of incentive stock options, non-qualified stock options, stock appreciation rights and restricted stock awards. The essential features of each award are described in the award agreement relating to that award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley's common stock on the last sale price reported for Valley's common stock on such date or the last sale price reported preceding such date. An incentive stock option's maximum term to exercise is ten years from the date of grant and is subject to a vesting schedule.

Valley recorded stock-based compensation expense for incentive stock options and restricted stock awards of $3.3 million, $4.8 million and $5.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. These expenses included $1.3 million and $599 thousand in 2010 and 2009, respectively, which was immediately recognized and related to stock awards granted to retirement eligible employees. The fair values of all other stock awards are expensed over the vesting period. As of December 31, 2011, the unrecognized amortization expense for all stock-based compensation totaled approximately $2.0 million and will be recognized over an average remaining vesting period of approximately 2 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Options. The fair value of each option granted on the date of grant is estimated using a binomial option pricing model. The fair values are estimated using assumptions for dividend yield based on the annual dividend rate; stock volatility, based on Valley's historical and implied stock price volatility; risk free interest rates, based on the U.S. Treasury constant maturity bonds, in effect on the actual grant dates, with a remaining term approximating the expected term of the options; and expected exercise term calculated based on Valley's historical exercise experience.

Stock-based employee compensation cost under the fair value method was measured using the following weighted-average assumptions for stock options granted in 2010 and 2009 (there were no stock options granted in 2011):

	2010	2009
Risk-free interest rate	0.29 - 2.92%	1.1 - 4.0%
Dividend yield	5.5%	4.5%
Volatility	35.0%	24.0%
Expected term (in years)	4.4	6.7

A summary of stock options as of December 31, 2011, 2010 and 2009 and changes during the years then ended is presented below:

	2011		2010		2009	
Stock Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,343,974	$ 18	3,486,912	$ 18	3,697,018	$ 17
Granted	—	—	135,183	12	8,352	11
Exercised	—	—	(24,829)	11	(5,513)	11
Forfeited or expired	(486,445)	16	(253,292)	14	(212,945)	15
Outstanding at end of year	2,857,529	18	3,343,974	18	3,486,912	18
Exercisable at year-end	2,607,442	19	2,859,749	18	2,838,014	18
Weighted-average fair value of options granted during the year	N/A		$ 2.13		$ 2.38	

The total intrinsic values of options exercised during the years ended December 31, 2010 and 2009 were immaterial. As of December 31, 2011, there was $169 thousand of total unrecognized compensation cost related to non-vested stock options to be amortized over an average remaining vesting period of approximately one year. Cash received from stock options exercised during the years ended December 31, 2010 and 2009 was $290 thousand and $61 thousand, respectively. Common shares were reissued from Treasury Stock for stock options exercised during 2010 and 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about stock options outstanding at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$10 - 15	234,651	8.1	$13	94,934	$14
15 - 16	371,110	6.0	16	271,367	16
16 - 18	409,277	0.9	17	408,010	17
18 - 19	500,365	3.9	18	500,365	18
19 - 21	1,342,126	3.3	20	1,332,766	20
	2,857,529	3.8	18	2,607,442	19

The aggregate intrinsic value of options outstanding and exercisable was immaterial at December 31, 2011.

Restricted Stock . Restricted stock is awarded to key employees providing for the immediate award of our common stock subject to certain vesting and restrictions under the Employee Stock Incentive Plan. Compensation expense is measured based on the grant-date fair value of the shares and is amortized into salary expense on a straight-line basis over the vesting period.

The following table sets forth the changes in restricted stock awards outstanding for the years ended December 31, 2011, 2010 and 2009:

	Restricted Stock Awards Outstanding		
	2011	2010	2009
Outstanding at beginning of year	512,050	528,915	569,727
Granted	14,158	206,687	174,641
Vested	(221,213)	(219,768)	(203,467)
Forfeited	(3,578)	(3,784)	(11,986)
Outstanding at end of year	301,417	512,050	528,915

The amount of compensation costs related to restricted stock awards included in salary expense amounted to $2.9 million for the year ended December 31, 2011, and $3.9 million for each of the years ended December 31, 2010 and 2009. As of December 31, 2011, there was $1.6 million of total unrecognized compensation cost related to non-vested restricted shares to be amortized over the weighted average remaining vesting period of approximately 1.6 years.

The Director Restricted Stock Plan provides the non-employee members of the Board of Directors with the opportunity to forego some of or their entire annual cash retainer and meeting fees in exchange for shares of Valley restricted stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth the changes in director's restricted stock awards outstanding for the years ended December 31, 2011, 2010 and 2009:

	Restricted Stock Awards Outstanding		
	2011	2010	2009
Outstanding at beginning of year	99,662	113,754	99,106
Granted	23,435	17,516	22,578
Vested	(21,225)	(31,608)	(7,593)
Forfeited	(402)	—	(337)
Outstanding at end of year	101,470	99,662	113,754

INCOME TAXES (Note 14)

Income tax expense for the years ended December 31, 2011, 2010, and 2009 consisted of the following:

	2011	2010	2009
		(in thousands)	
Current expense:			
Federal	$ 52,207	$24,195	$ 49,790
State	26,610	11,400	12,592
	78,817	35,595	62,382
Deferred expense (benefit):			
Federal and State	(15,285)	20,176	(10,898)
Total income tax expense	$ 63,532	$55,771	$ 51,484

The tax effects of temporary differences that gave rise to the significant portions of the deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 54,880	$ 51,118
Depreciation	1,666	5,009
Pension plans	2,771	8,080
Employee benefits	9,102	6,535
Investment securities, including other-than-temporary impairment losses	35,569	3,875
State net operating loss carryforwards	63,806	59,267
Other	21,669	18,413
Total deferred tax assets	189,463	152,297
Deferred tax liabilities:		
Purchase accounting	8,727	20,636
Other	16,778	26,406
Total deferred tax liabilities	25,505	47,042
Net deferred tax asset (included in other assets)	$163,958	$105,255

Valley's state net operating loss carryforwards totaled approximately $1.2 billion at December 31, 2011 and expire during the period from 2012 through 2031.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Based upon taxes paid and projections of future taxable income over the periods in which the net deferred tax assets are deductible, management believes that it is more likely than not that Valley will realize the benefits of these deductible differences and loss carryforwards.

Reconciliation between the reported income tax expense and the amount computed by multiplying consolidated income before taxes by the statutory federal income tax rate of 35 percent for the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
		(in thousands)	
Federal income tax at expected statutory rate	$ 69,015	$65,429	$58,641
(Decrease) increase due to:			
Tax-exempt interest, net of interest incurred to carry tax-exempt securities	(3,736)	(3,451)	(3,257)
Bank owned life insurance	(2,583)	(2,158)	(1,995)
State income tax expense (benefit), net of federal tax effect	12,727	629	(4)
Tax credits	(12,760)	(5,071)	(2,632)
Other, net	869	393	731
Income tax expense	$ 63,532	$55,771	$51,484

A reconciliation of Valley's gross unrecognized tax benefits for 2011, 2010, and 2009 are presented in the table below:

	2011	2010	2009
		(in thousands)	
Beginning balance	$21,142	$21,965	$21,261
Additions based on tax positions related to the current year	—	—	484
Additions based on tax positions related to prior years	13,366	732	762
Reductions due to expiration of statute of limitations	(1,508)	(1,555)	(542)
Ending balance	$33,000	$21,142	$21,965

Valley recorded an incremental state tax provision (expense) of $8.5 million in 2011 to increase its liability for uncertain tax positions due to a change in state tax law. The total amount of net unrecognized tax benefits at December 31, 2011 that, if recognized, would affect the tax provision and the effective income tax rate was $23.6 million.

Valley's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. Valley has accrued approximately $4.9 million and $1.6 million of interest associated with Valley's uncertain tax positions at December 31, 2011 and 2010, respectively.

Valley files income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, Valley is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2007. The statute of limitations could expire for certain tax returns over the next 12 months, which could result in decreases to Valley's unrecognized tax benefits associated with uncertain tax positions. Such adjustments are not expected to have a material impact on Valley's effective tax rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

COMMITMENTS AND CONTINGENCIES (Note 15)

Lease Commitments

Certain bank facilities are occupied under non-cancelable long-term operating leases, which expire at various dates through 2058. Certain lease agreements provide for renewal options and increases in rental payments based upon increases in the consumer price index or the lessors' cost of operating the facility. Minimum aggregate lease payments for the remainder of the lease terms are as follows:

Year	Gross Rents	Sublease Rents	Net Rents
		(in thousands)	
2012	$ 18,318	$ 1,350	$ 16,968
2013	18,857	1,327	17,530
2014	18,708	1,160	17,548
2015	18,566	1,085	17,481
2016	18,271	994	17,277
Thereafter	258,052	4,682	253,370
Total lease commitments	$ 350,772	$10,598	$340,174

Net occupancy expense for years ended December 31, 2011, 2010, and 2009 included net rental expense of approximately $19.2 million, $19.1 million, and $17.6 million, respectively, net of rental income of $1.8 million, $2.1 million and $2.3 million, respectively, for leased bank facilities.

Financial Instruments With Off-balance Sheet Risk

In the ordinary course of business in meeting the financial needs of its customers, Valley, through its subsidiary Valley National Bank, is a party to various financial instruments, which are not reflected in the consolidated financial statements. These financial instruments include standby and commercial letters of credit, unused portions of lines of credit and commitments to extend various types of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated financial statements. The commitment or contract amount of these instruments is an indicator of the Bank's level of involvement in each type of instrument as well as the exposure to credit loss in the event of non-performance by the other party to the financial instrument. The Bank seeks to limit any exposure of credit loss by applying the same credit policies in making commitments, as it does for on-balance sheet lending facilities.

The following table provides a summary of financial instruments with off-balance sheet risk at December 31, 2011 and 2010:

	2011	2010
	(in thousands)	
Commitments under commercial loans and lines of credit	$1,778,837	$1,771,586
Home equity and other revolving lines of credit	570,247	566,301
Outstanding commercial mortgage loan commitments	237,921	189,801
Standby letters of credit	237,279	221,960
Outstanding residential mortgage loan commitments	275,116	264,529
Commitments under unused lines of credit—credit card	64,144	71,188
Commercial letters of credit	11,076	11,882
Commitments to sell loans	85,000	127,950

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Obligations to advance funds under commitments to extend credit, including commitments under unused lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have specified expiration dates, which may be extended upon request, or other termination clauses and generally require payment of a fee. These commitments do not necessarily represent future cash requirements as it is anticipated that many of these commitments will expire without being fully drawn upon. The Bank's lending activity for outstanding loan commitments is primarily to customers within the states of New Jersey, New York and Pennsylvania.

Standby letters of credit represent the guarantee by the Bank of the obligations or performance of the bank customer in the event of the default of payment of nonperformance to a third party beneficiary.

Loan sale commitments represent contracts for the sale of residential mortgage loans to third parties in the ordinary course of the Bank's business. These commitments require the Bank to deliver loans within a specific period to the third party. The risk to the Bank is its non-delivery of loans required by the commitment, which could lead to financial penalties. The Bank has not defaulted on its loan sale commitments.

Derivative Instruments and Hedging Activities

Valley is exposed to certain risks arising from both its business operations and economic conditions. Valley principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Valley manages economic risks, including interest rate and liquidity risks, primarily by managing the amount, sources, and duration of its assets and liabilities and, from time to time, the use of derivative financial instruments. Specifically, Valley enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Valley's derivative financial instruments are used to manage differences in the amount, timing, and duration of Valley's known or expected cash receipts and its known or expected cash payments mainly related to certain variable-rate borrowings and fixed-rate loan assets.

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

At December 31, 2011, Valley had the following cash flow hedge derivatives:

- Four forward starting interest rate swaps with a total notional amount of $300 million to hedge the changes in cash flows associated with certain prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts. Starting in October 2011 and expiring in October 2016, two of the four swaps totaling $200 million require Valley to pay fixed-rate amounts at approximately 4.73 percent, in exchange for the receipt of variable-rate payments at the prime rate. The other two swaps totaling $100 million will require the payment by Valley of fixed-rate amounts at approximately 5.11 percent in exchange for the receipt of variable-rate payments at the prime rate starting in July 2012 and expiring in July 2017.
- Two interest rate caps with a total notional amount of $100 million, strike rates of 2.50 percent and 2.75 percent, and a maturity date of May 1, 2013 used to hedge the variability in cash flows associated with customer repurchase agreements and money market deposit accounts that have variable interest rates based on the federal funds rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- Two interest rate caps with a total notional amount of $100 million, strike rates of 6.00 percent and 6.25 percent, and a maturity date of July 15, 2015 used to hedge the total change in cash flows associated with prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts, which have variable interest rates indexed to the prime rate.

Fair Value Hedges of Fixed Rate Assets and Liabilities . Valley is exposed to changes in the fair value of certain of its fixed rate assets or liabilities due to changes in benchmark interest rates based on one month-LIBOR. From time to time, Valley uses interest rate swaps to manage its exposure to changes in fair value. Interest rate swaps designated as fair value hedges involve the receipt of variable rate payments from a counterparty in exchange for Valley making fixed rate payments over the life of the agreements without the exchange of the underlying notional amount.

At December 31, 2011, Valley had the following fair value hedge derivatives:

- One interest rate swap with a notional amount of approximately $8.9 million used to hedge the change in the fair value of a commercial loan.
- One interest rate swap with a notional amount of $51 million, maturing in March 2014, used to hedge the change in the fair value of certain fixed-rate brokered certificates of deposit entered into during 2011.

For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. Valley includes the gain or loss on the hedged items in the same income statement line item as the loss or gain on the related derivatives.

Non-designated Hedges. Derivatives not designated as hedges may be used to manage Valley's exposure to interest rate movements or to provide service to customers but do not meet the requirements for hedge accounting under U.S. GAAP. Derivatives not designated as hedges are not entered into for speculative purposes. Under a program implemented during the first quarter of 2011, Valley executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Valley executes with a third party, such that Valley minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2011, Valley had four interest rate swaps with an aggregate notional amount of $66.1 million related to this program. During the years ended December 31, 2010 and 2009, Valley had no derivatives that were not designated in hedging relationships.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Balance Sheet Line Item	Fair Value at December 31, 2011	Fair Value at December 31, 2010
		(in thousands)	
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Cash flow hedge interest rate caps and swaps	Other Assets	$ 294	$8,414
Fair value hedge interest rate swaps	Other Assets	852	—
Total derivatives designated as hedging instruments		$ 1,146	$8,414
Derivatives not designated as hedging instruments:			
Interest rate swaps	Other Assets	$ 4,065	$ —
Total derivatives not designated as hedging instruments		$ 4,065	$ —
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Cash flow hedge interest rate caps and swaps	Other Liabilities	$15,649	$ —
Fair value hedge interest rate swaps	Other Liabilities	2,140	1,379
Total derivatives designated as hedging instruments		$17,789	$1,379
Derivatives not designated as hedging instruments:			
Interest rate swaps	Other Liabilities	$ 4,065	$ —
Total derivatives not designated as hedging instruments		$ 4,065	$ —

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

	2011	2010	2009
		(in thousands)	
Interest rate caps on short-term borrowings and deposit accounts:			
Amount of loss reclassified from accumulated other comprehensive income or loss to interest on short-term borrowings	$ (3,067)	$(1,967)	$ (460)
Amount of (loss) gain recognized in other comprehensive (loss) income	(24,393)	1,494	3,475

Valley recognized net losses of $23 thousand and $205 thousand in other expense for hedge ineffectiveness on the cash flow hedge interest rate caps for the years ended December 31, 2011 and 2010, respectively. The accumulated net after-tax losses related to effective cash flow hedges included in accumulated other comprehensive loss was $13.1 million and $708 thousand at December 31, 2011 and 2010, respectively.

Amounts reported in accumulated other comprehensive loss related to cash flow interest rate derivatives are reclassified to interest expense as interest payments are made on the hedged variable interest rate liabilities. During 2012, Valley estimates that $6.6 million will be reclassified as an increase to interest expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2011	2010	2009
		(in thousands)	
Derivative - interest rate swaps:			
Interest income—interest and fees on loans	$(761)	$(361)	$ 991
Interest expense—interest on time deposits	852	—	—
Hedged item—loans and deposits:			
Interest income—interest and fees on loans	$ 761	$ 361	$(991)
Interest expense—interest on time deposits	(884)	—	—

Valley recognized a net loss of $32 thousand in non-interest expense for the year ended December 31, 2011 related to hedge ineffectiveness on the fair value hedge interest rate swaps. Valley also recognized a net reduction to interest expense of $472 thousand for the year ended December 31, 2011 related to Valley's fair value hedges on brokered time deposits, which includes net settlements on the derivatives.

Gains included in the consolidated statements of income related to derivative instruments not designated as hedging instruments for the year ended December 31, 2010 were as follows:

	2010
	(in thousands)
Non-designated hedge interest rate derivatives	
Trading gains, net	$ 1,984
Other non-interest income	369

There were no gains or losses included in the consolidated statements of income related to derivative instruments not designated as hedging instruments for the years ended December 31, 2011 and 2009.

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

Valley has agreements with its derivative counterparties providing that if Valley defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then Valley could also be declared in default on its derivative counterparty agreements. Additionally, Valley has an agreement with several of its derivative counterparties that contains provisions that require Valley's debt to maintain an investment grade credit rating from each of the major credit rating agencies, from which it receives a credit rating. If Valley's credit rating is reduced below investment grade or such rating is withdrawn or suspended, then the counterparty could terminate the derivative positions, and Valley would be required to settle its obligations under the agreements. As of December 31, 2011, Valley was in compliance with the provisions of its derivative counterparty agreements.

As of December 31, 2011, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $21.0 million. Valley has derivative counterparty agreements that require minimum collateral posting thresholds for certain counterparties. No collateral has been assigned or posted by Valley's counterparties under the agreements at December 31, 2011. At December 31, 2011, Valley had $18.3 million in collateral posted with its counterparties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Litigation

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

REGULATORY AND CAPITAL REQUIREMENTS (Note 16)

Valley's primary source of cash is dividends from the Bank. Valley National Bank, a national banking association, is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. In addition, the dividends declared cannot be in excess of the amount, which would cause the subsidiary bank to fall below the minimum required for capital adequacy purposes.

Valley and Valley National Bank are subject to the regulatory capital requirements administered by the Federal Reserve Bank and the Office of the Comptroller of the Currency of the United States ("OCC"). Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct significant impact on Valley's consolidated financial statements. Under capital adequacy guidelines Valley and Valley National Bank must meet specific capital guidelines that involve quantitative measures of Valley's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Valley and Valley National Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, as defined in the regulations. As of December 31, 2011, Valley exceeded all capital adequacy requirements to which it was subject.

At December 31, 2011, all of Valley National Bank's ratios were above the minimum levels required to be considered "well capitalized," under the regulatory framework for prompt corrective action, which require Tier 1 capital to risk adjusted assets of at least 6 percent, total risk based capital to risk adjusted assets of 10 percent and a minimum leverage ratio of 5 percent. To be categorized as well capitalized under the capital adequacy guidelines set by the federal regulators, Valley and Valley National Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

Valley's Tier 1 capital position included $176.3 million of its outstanding trust preferred securities issued by capital trusts as of December 31, 2011 and 2010. Valley does not consolidate its capital trusts based on U.S. GAAP. The junior subordinated debentures issued to the capital trusts were included in Valley's liabilities. See Note 12 for additional information on the debentures and the trust preferred securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Valley's and Valley National Bank's actual capital positions and ratios as of December 31, 2011 and 2010 are presented in the following table:

	Actual		Minimum Capital Requirements		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	($ in thousands)					
As of December 31, 2011						
Total Risk-based Capital						
Valley	$1,312,945	12.8%	$823,705	8.0%	$ N/A	N/A%
Valley National Bank	1,255,714	12.3	819,274	8.0	1,024,092	10.0
Tier 1 Risk-based Capital						
Valley	1,124,833	10.9	411,853	4.0	N/A	N/A
Valley National Bank	1,067,602	10.4	409,637	4.0	614,455	6.0
Tier 1 Leverage Capital						
Valley	1,124,833	8.1	557,210	4.0	N/A	N/A
Valley National Bank	1,067,602	7.7	555,785	4.0	694,731	5.0
As of December 31, 2010						
Total Risk-based Capital						
Valley	$1,349,832	12.9%	$836,268	8.0%	$ N/A	N/A%
Valley National Bank	1,291,928	12.4	834,728	8.0	1,043,410	10.0
Tier 1 Risk-based Capital						
Valley	1,143,328	10.9	418,134	4.0	N/A	N/A
Valley National Bank	1,085,424	10.4	417,364	4.0	626,046	6.0
Tier 1 Leverage Capital						
Valley	1,143,328	8.3	550,665	4.0	N/A	N/A
Valley National Bank	1,085,424	7.9	549,860	4.0	687,325	5.0

COMMON AND PREFERRED STOCK (Note 17)

Common Stock Issuances

Dividend Reinvestment Plan. Effective June 29, 2009, Valley may issue up to 10.0 million authorized and previously unissued or treasury shares of Valley common stock for purchases under Valley's dividend reinvestment plan ("DRIP"). Under the DRIP, a shareholder may choose to have future cash dividends automatically invested in Valley common stock and make voluntary optional cash payments of up to $100 thousand per quarter to purchase shares of Valley common stock. Shares purchased under this plan will be issued directly from Valley or in open market transactions. During 2011, 2010 and 2009, 657 thousand, 649 thousand, and 409 thousand of common shares, respectively, were reissued from treasury stock or issued from authorized common shares under the DRIP for net proceeds totaling $8.3 million, $8.4 million and $4.5 million, respectively.

Common Equity Offerings. During 2009, Valley raised net proceeds of approximately $71.6 million from an "at-the-market" common equity offering of 6.3 million shares of newly issued common stock and net proceeds of $63.7 million through an additional registered direct offering of 5.5 million shares of newly issued common stock to several institutional investors. Valley did not have any common equity offerings during the years ended December 31, 2011 and 2010.

Common Stock Warrants. In July 2008, Valley issued approximately 918 thousand warrants as part of the purchase price for the acquisition of Greater Community Bancorp. Each warrant is entitled to purchase

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

approximately 1.1576 Valley common shares at $16.42 per share and is exercisable through the expiration date of June 30, 2015. The Valley warrants are considered equity instruments and are publicly traded and listed on the NASDAQ Capital Market under the ticker symbol "VLYWW". All of the warrants remained outstanding at December 31, 2011.

In connection with the issuance of senior preferred shares in 2008, Valley issued to the U.S. Treasury a ten year warrant to purchase up to approximately 2.5 million Valley common shares. During 2010, the U.S. Treasury sold the warrants through a public auction, in which Valley did not receive any of the proceeds. The warrants are currently traded on the New York Stock Exchange under the ticker symbol "VLY WS". Each warrant entitles the holder to purchase approximately 1.05 Valley common shares at $16.92 per share and is exercisable through the expiration date of November 14, 2018.

Repurchase Plan

In 2007, Valley's Board of Directors approved the repurchase of up to 4.5 million common shares. Purchases of Valley's common shares may be made from time to time in the open market or in privately negotiated transactions generally not exceeding prevailing market prices. Repurchased shares are held in treasury and are expected to be used for general corporate purposes or issued under the dividend reinvestment plan. Under the repurchase plan, Valley made no purchases of its outstanding shares during the years ended December 31, 2011, 2010 and 2009.

Valley also purchases shares directly from its employees in connection with employee elections to withhold taxes related to the vesting of restricted stock awards. During the years ended December 31, 2011 and 2010, Valley purchased approximately 49 thousand and 31 thousand shares, respectively, of its outstanding common stock at an average price of $12.13 and $12.60, respectively, for such purpose. Valley made no purchases of its outstanding shares from its employees in 2009.

Preferred Stock

On November 14, 2008, Valley issued 300,000 senior preferred shares, with a liquidation preference of $1 thousand per share, to the U.S. Department of Treasury under the TARP Capital Purchase Program. During 2009, we incrementally repurchased all 300,000 shares of our senior preferred shares from the U.S. Treasury for an aggregate purchase price of $300 million (excluding accrued and unpaid dividends paid at the date of redemption). As a result, Valley is no longer a participant in the TARP program.

Valley's senior preferred shares, while outstanding, and the related warrants issued under the TARP Capital Purchase Program qualified and were accounted for as permanent equity on our balance sheet. Of the $300 million in issuance proceeds, $291.4 million and $8.6 million were allocated to the senior preferred shares and the warrant, respectively, based upon their estimated relative fair values as of November 14, 2008. The discount of $8.6 million recorded for the senior preferred shares was initially amortized to retained earnings over a five year estimated life of the securities based on the likelihood of their redemption by Valley within that timeframe. During 2009, the entire remaining unamortized discount of $8.5 million was charged to retained earnings as a result of Valley's redemption of the senior preferred shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

OTHER COMPREHENSIVE (LOSS) INCOME (Note 18)

The following table presents the tax effects allocated to each component of other comprehensive (loss) income for the years ended December 31, 2011, 2010, and 2009. Components of other comprehensive (loss) income include changes in net unrealized gains (losses) on securities available for sale (including the non-credit portion of other-than-temporary impairment charges relating to certain securities during the period); unrealized gains (losses) on derivatives used in cash flow hedging relationships; and the unfunded portion of various employee, officer and director pension plans.

	2011			2010			2009		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
	(in thousands)								
Unrealized gains and losses on AFS securities									
Net gains arising during the period	$ 2,438	$ (925)	$ 1,513	$ 20,376	$(7,739)	$12,637	$70,869	$(23,518)	$47,351
Less reclassification adjustment for gains included in net income	(32,068)	12,394	(19,674)	(11,598)	4,268	(7,330)	(8,005)	3,002	(5,003)
Net change	(29,630)	11,469	(18,161)	8,778	(3,471)	5,307	62,864	(20,516)	42,348
Non-credit impairment losses on securities available for sale and held to maturity									
Net change in non-credit impairment losses on securities	(42,531)	15,875	(26,656)	5,301	(1,973)	3,328	(4,111)	1,337	(2,774)
Less reclassification adjustment for credit impairment losses included in net income	18,570	(6,937)	11,633	4,381	(1,640)	2,741	1,530	2,237	3,767
Net change	(23,961)	8,938	(15,023)	9,682	(3,613)	6,069	(2,581)	3,574	993
Unrealized gains and losses on derivatives (cash flow hedges)									
Net (losses) gains arising during the period	(24,393)	10,236	(14,157)	1,493	(627)	866	3,475	(1,458)	2,017
Less reclassification adjustment for losses included in net income	3,067	(1,287)	1,780	1,967	(825)	1,142	460	(193)	267
Net change	(21,326)	8,949	(12,377)	3,460	(1,452)	2,008	3,935	(1,651)	2,284
Pension benefit adjustment	(19,219)	8,058	(11,161)	1,225	(512)	713	7,052	(2,957)	4,095
Total other comprehensive (loss) income	$(94,136)	$37,414	$(56,722)	$ 23,145	$(9,048)	$14,097	$71,270	$(21,550)	$49,720

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the years ended December 31, 2011, 2010, and 2009:

	Components of Accumulated Other Comprehensive Loss Total				
	Unrealized Gains and Losses on AFS Securities	Non-credit Impairment Losses on Securities	Unrealized Gains and Losses on Derivatives	Pension Benefit Adjustment	Accumulated Other Comprehensive Loss
			(in thousands)		
Balance—December 31, 2008	$ (32,725)	$ —	$ (5,000)	$ (23,206)	$ (60,931)
Cumulative effect of adoption of a new accounting principle (ASC Topic 320)	—	(8,605)	—	—	(8,605)
Balance—January 1, 2009	(32,725)	(8,605)	(5,000)	(23,206)	(69,536)
Net change	42,348	993	2,284	4,095	49,720
Balance—December 31, 2009	9,623	(7,612)	(2,716)	(19,111)	(19,816)
Net change	5,307	6,069	2,008	713	14,097
Balance—December 31, 2010	14,930	(1,543)	(708)	(18,398)	(5,719)
Net change	(18,161)	(15,023)	(12,377)	(11,161)	(56,722)
Balance—December 31, 2011	$ (3,231)	$ (16,566)	$ (13,085)	$ (29,559)	$ (62,441)

CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED) (Note 19)

	Quarters Ended 2011			
	March 31	June 30	Sept 30	Dec 31
	(in thousands, except for share data)			
Interest income	$ 167,819	$ 167,794	$ 171,639	$ 166,572
Interest expense	50,927	50,124	49,704	48,258
Net interest income	116,892	117,670	121,935	118,314
Provision for credit losses	24,162	6,026	7,783	15,364
Non-interest income:				
Gains on securities transactions, net	2,679	16,492	863	12,034
Net impairment losses on securities recognized in earnings	(825)	—	—	(19,143)
Trading gains (losses), net	3,382	(1,048)	776	(839)
Other non-interest income	39,551	18,091	18,564	21,720
Non-interest expense	83,829	83,080	85,302	84,377
Income before income taxes	53,688	62,099	49,053	32,345
Income tax expense	17,103	25,205	13,696	7,528
Net income	36,585	36,894	35,357	24,817
Earnings per common share:				
Basic	$ 0.22	$ 0.22	$ 0.21	$ 0.15
Diluted	0.22	0.22	0.21	0.15
Cash dividends declared per common share	0.17	0.17	0.17	0.17
Average common shares outstanding:				
Basic	169,671,128	169,843,354	170,007,399	170,185,439
Diluted	169,678,846	169,852,912	170,007,983	170,185,880

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Quarters Ended 2010			
	March 31	June 30	Sept 30	Dec 31
	(in thousands, except for share data)			
Interest income	$ 169,949	$ 171,187	$ 170,586	$ 165,090
Interest expense	55,098	54,161	52,852	51,949
Net interest income	114,851	117,026	117,734	113,141
Provision for credit losses	12,611	12,438	9,308	15,099
Non-interest income:				
Gains on securities transactions, net	863	3,656	112	6,967
Net impairment losses on securities recognized in earnings	(2,593)	(2,049)	—	—
Trading (losses) gains, net	(3,030)	838	(2,627)	(2,078)
Other non-interest income	20,437	20,031	19,843	30,957
Non-interest expense	78,354	79,973	78,947	80,408
Income before income taxes	39,563	47,091	46,807	53,480
Income tax expense	12,200	14,081	14,168	15,322
Net income	27,363	33,010	32,639	38,158
Earnings per common share:				
Basic	$ 0.16	$ 0.20	$ 0.19	$ 0.23
Diluted	0.16	0.20	0.19	0.23
Cash dividends declared per common share	0.17	0.17	0.17	0.17
Average common shares outstanding:				
Basic	168,831,733	169,009,302	169,177,275	169,426,058
Diluted	168,834,400	169,013,634	169,178,469	169,428,992

PARENT COMPANY INFORMATION (Note 20)

Condensed Statements of Financial Condition

	December 31,	
	2011	2010
	(in thousands)	
Assets		
Cash	$ 42,593	$ 32,415
Interest bearing deposits with banks	135	48,134
Investment securities available for sale	5,938	6,207
Investment in subsidiaries	1,384,925	1,413,158
Loans	36,990	—
Other assets	13,335	13,900
Total assets	$1,483,916	$1,513,814
Liabilities and Shareholders' Equity		
Dividends payable to shareholders	$ 29,355	$ 29,063
Junior subordinated debentures issued to capital trusts (includes fair value of $160,478 at December 31, 2011 and $161,734 at December 31, 2010 for VNB Capital Trust I)	185,598	186,922
Accrued expenses and other liabilities	2,715	2,624
Shareholders' equity	1,266,248	1,295,205
Total liabilities and shareholders' equity	$1,483,916	$1,513,814

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Statements of Income

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Income			
Dividends from subsidiary	$115,000	$ 65,000	$120,000
Income from subsidiary	180	332	2,069
Gains on securities transactions, net	—	106	—
Trading gains (losses), net	1,256	(5,841)	(15,828)
Net impairment losses on securities recognized in earnings	—	—	(434)
Other interest and dividends	223	830	437
Total Income	116,659	60,427	106,244
Total Expenses	16,481	16,388	16,267
Income before income tax benefit and equity in undistributed earnings of subsidiary	100,178	44,039	89,977
Income tax benefit	(5,202)	(7,365)	(10,541)
Income before equity in undistributed earnings of subsidiary	105,380	51,404	100,518
Equity in undistributed earnings of subsidiary	28,273	79,766	15,543
Net Income	133,653	131,170	116,061
Dividends on preferred stock and accretion	—	—	19,524
Net Income Available to Common Stockholders	$133,653	$131,170	$ 96,537

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Statements of Cash Flows

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Cash flows from operating activities:			
Net Income	$ 133,653	$ 131,170	$ 116,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(28,273)	(79,766)	(15,543)
Depreciation and amortization	30	30	30
Stock-based compensation	3,156	4,830	5,049
Net amortization of premiums and accretion of discounts on securities	(56)	(51)	(54)
Losses on securities transactions, net	—	(106)	—
Net impairment losses on securities recognized in earnings	—	—	434
Net change in:			
Fair value of borrowings carried at fair value	(1,256)	5,841	15,828
Other assets	535	(538)	(3,052)
Accrued expenses and other liabilities	132	(3,363)	(954)
Net cash provided by operating activities	107,921	58,047	117,799
Cash flows from investing activities:			
Loan originations	(36,990)	—	—
Investment securities available for sale:			
Sales	—	94	—
Maturities, calls and principal repayments	—	1,250	—
Net cash (used in) provided by investing activities	(36,990)	1,344	—
Cash flows from financing activities:			
Redemption of preferred stock	—	—	(300,000)
Dividends paid to preferred shareholders	—	—	(12,980)
Dividends paid to common shareholders	(116,779)	(115,190)	(109,005)
Common stock issued, net	8,027	8,391	140,008
Net cash used in financing activities	(108,752)	(106,799)	(281,977)
Net change in cash and cash equivalents	(37,821)	(47,408)	(164,178)
Cash and cash equivalents at beginning of year	80,549	127,957	292,135
Cash and cash equivalents at end of year	$ 42,728	$ 80,549	$ 127,957

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

BUSINESS SEGMENTS (Note 21)

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

The consumer lending segment is mainly comprised of residential mortgages, home equity loans and automobile loans. The duration of the residential mortgage loan portfolio is subject to movements in the market level of interest rates and forecasted prepayment speeds. The average weighted life of the automobile loans within the portfolio is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by new loans as a result of the availability of credit within the automobile marketplace and consumer demand for purchasing new or used automobiles. Consumer lending segment also includes the Wealth Management Division, comprised of trust, asset management, insurance services, and asset-based lending support services.

The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio's interest rate characteristics, commercial lending is Valley's business segment that is most sensitive to movements in market interest rates.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables represent the financial data for Valley's four business segments for the years ended December 31, 2011, 2010 and 2009:

	Year Ended December 31, 2011				
	Commercial Lending	Consumer Lending	Investment Management	Corporate and Other Adjustments	Total
			($ in thousands)		
Average interest earning assets	$3,394,161	$6,214,319	$3,205,756	$ —	$12,814,236
Interest income	171,939	375,873	132,530	(6,518)	673,824
Interest expense	47,832	87,574	45,176	18,431	199,013
Net interest income (loss)	124,107	288,299	87,354	(24,949)	474,811
Provision for credit losses	6,806	46,529	—	—	53,335
Net interest income (loss) after provision for credit losses	117,301	241,770	87,354	(24,949)	421,476
Non-interest income	45,830	16,965	7,381	42,121	112,297
Non-interest expense	56,884	48,829	1,016	229,859	336,588
Internal expense transfer	55,059	99,851	51,644	(206,554)	—
Income (loss) before income taxes	$ 51,188	$ 110,055	$ 42,075	$ (6,133)	$ 197,185
Return on average interest earning assets (pre-tax)	1.51%	1.77%	1.31%	N/A	1.54%

	Year Ended December 31, 2010				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
			($ in thousands)		
Average interest earning assets	$3,321,124	$6,153,870	$3,204,762	$ —	$12,679,756
Interest income	180,432	355,565	146,851	(6,036)	676,812
Interest expense	51,240	94,944	49,445	18,431	214,060
Net interest income (loss)	129,192	260,621	97,406	(24,467)	462,752
Provision for credit losses	14,598	34,858	—	—	49,456
Net interest income (loss) after provision for credit losses	114,594	225,763	97,406	(24,467)	413,296
Non-interest income	52,545	7,927	6,166	24,689	91,327
Non-interest expense	49,758	42,131	992	224,801	317,682
Internal expense transfer	53,050	97,704	51,258	(202,012)	—
Income (loss) before income taxes	$ 64,331	$ 93,855	$ 51,322	$ (22,567)	$ 186,941
Return on average interest earning assets (pre-tax)	1.94%	1.53%	1.60%	N/A	1.47%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Year Ended December 31, 2009				
	Consumer Lending	Commercial Lending	Investment Management	Corporate and Other Adjustments	Total
	($ in thousands)				
Average interest earning assets	$3,775,689	$5,930,220	$3,325,737	$ —	$13,031,646
Interest income	213,310	340,358	162,834	(4,318)	712,184
Interest expense	70,822	111,235	62,382	18,431	262,870
Net interest income (loss)	142,488	229,123	100,452	(22,749)	449,314
Provision for credit losses	21,176	26,816	—	—	47,992
Net interest income (loss) after provision for credit losses	121,312	202,307	100,452	(22,749)	401,322
Non-interest income	48,233	7,465	5,699	10,854	72,251
Non-interest expense	47,916	40,190	675	217,247	306,028
Internal expense transfer	56,575	88,043	50,102	(194,720)	—
Income (loss) before income taxes	$ 65,054	$ 81,539	$ 55,374	$ (34,422)	$ 167,545
Return on average interest earning assets (pre-tax)	1.72%	1.37%	1.67%	N/A	1.29%

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Valley National Bancorp:

We have audited the accompanying consolidated statements of financial condition of Valley National Bancorp and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Valley National Bancorp and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Short Hills, New Jersey
February 28, 2012

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

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

Valley's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Valley's disclosure controls and procedures. Based on such evaluation, Valley's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of December 31, 2011 (the end of the period covered by this Annual Report on Form 10-K).

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

Changes in Internal Control Over Financial Reporting

There have been no changes in Valley's internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, Valley's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Valley's management is responsible for establishing and maintaining adequate internal control over financial reporting. Valley's internal control over financial reporting is a process designed to provide reasonable assurance to Valley's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2011 management assessed the effectiveness of Valley's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework* , issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Management's assessment included an evaluation of the design of Valley's internal control over financial reporting and testing of the operating effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit and Risk Committee.

Based on this assessment, management determined that, as of December 31, 2011 Valley's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

KPMG LLP, the independent registered public accounting firm that audited Valley's December 31, 2011 consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report expressing an opinion on the effectiveness of Valley's internal control over financial reporting as of December 31, 2011. The report is included in this item under the heading "Report of Independent Registered Public Accounting Firm."

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Valley National Bancorp:

We have audited Valley National Bancorp and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Valley National Bancorp and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Valley National Bancorp and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 28, 2012 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Short Hills, New Jersey
February 28, 2012

Item 9B. ***Other Information***

Not applicable.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Certain information regarding executive officers is included under the section captioned “Executive Officers” ” in Item 1 of this Annual Report on Form 10-K. The information set forth under the captions “Director Information”, “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2012 Proxy Statement is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information set forth under the caption “Executive Compensation” in the 2012 Proxy Statement is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters***

The information set forth under the captions “Equity Compensation Plan Information” and “Stock Ownership of Management and Principal Shareholders” in the 2012 Proxy Statement is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information set forth under the captions “Compensation Committee Interlocks and Insider Participation”, “Certain Transactions with Management” and “Corporate Governance” in the 2012 Proxy Statement is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information set forth under the caption “Independent Registered Public Accounting Firm” in the 2012 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) Financial Statements and Schedules:

The following Financial Statements and Supplementary Data are filed as part of this annual report:

Consolidated Statements of Financial Condition

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

All financial statement schedules are omitted because they are either inapplicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits (numbered in accordance with Item 601 of Regulation S-K):

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

A. Purchase and Assumption Agreement—Whole Bank; All Deposits, among the Federal Deposit Insurance Corporation, receiver of LibertyPointe Bank, the Federal Deposit Insurance Corporation and Valley National Bank, dated as of March 11, 2010, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on March 16, 2010.

B. Purchase and Assumption Agreement—Whole Bank; All Deposits, among the Federal Deposit Insurance Corporation, receiver of The Park Avenue Bank, the Federal Deposit Insurance Corporation and Valley National Bank, dated as of March 12, 2010, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on March 16, 2010.

C. Agreement and Plan of Merger, dated April 28, 2011, between Valley National Bancorp and State Bancorp, Inc., incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 4, 2011.

(3) Articles of Incorporation and By-laws:

A. Restated Certificate of Incorporation of the Registrant, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 20, 2011.

B. By-laws of the Registrant, as amended, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on January 31, 2011.

(4) Instruments Defining the Rights of Security Holders:

A. First Supplemental Indenture, dated as of July 1, 2008, by and among Wilmington Trust Company, as Trustee, Valley National Bancorp and Greater Community Bancorp, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on July 1, 2008.

B. Warrant Agreement between Valley and American Stock Transfer & Trust Company, LLC, incorporated herein by reference to Appendix B of the Registrant's Form S-4/A Registration Statement filed on May 20, 2008.

C. Form of Warrant Certificate for the purchase of Valley Common Stock, incorporated herein by reference to the Registrant's Form S-3 Registration Statement filed on July 2, 2008.

D. Junior Subordinated Indenture between Greater Community Bancorp and Wilmington Trust Company, as Trustee, dated July 2, 2007, incorporated herein by reference to Exhibit 4.7 to Greater Community Bancorp's Form 10-Q Quarterly Report filed on August 9, 2007.

E. Amended and Restated Trust Agreement among Greater Community Bancorp, as Depositor, Wilmington Trust Company, as Property Trustee, Wilmington Trust Company, as Delaware Trustee, and the Administrative Trustees named therein, dated July 2, 2007, incorporated herein by reference to Exhibit 4.8 to Greater Community Bancorp's Form 10-Q Quarterly Report filed on August 9, 2007.

F. Guarantee Agreement between Greater Community Bancorp, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, dated July 2, 2007, incorporated herein by reference to Exhibit 4.9 to Greater Community Bancorp's Form 10-Q Quarterly Report filed on August 9, 2007.

G. Warrant Agreement, dated May 18, 2010, between Valley and American Stock Transfer & Trust Company, LLC, incorporated herein by reference to the Exhibit 4.1 of the Company's Form 8-A filed on May 18, 2010.

H. Form of Warrant for the purchase of Valley Common Stock, incorporated herein by reference to Exhibit 4.2 of the Company's Form 8-A filed on May 18, 2010.

I. Warrant to purchase Common Stock of Valley National Bancorp, incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K filed on December 28, 2011.

(10) Material Contracts:

A. Amended and Restated Change in Control Agreements among Valley National Bank, Valley and Gerald H. Lipkin, Peter Crocitto, and Alan D. Eskow, dated June 22, 2011, incorporated herein by reference to the Registrant's Form 10-Q Quarterly Report filed on August 9, 2011.+

B. Form of Amended and Restated Change in Control Agreements among Valley National Bank, Valley and each of Albert L. Engel and Robert M. Meyer, dated June 22, 2011, is incorporated herein by reference to the Registrant's Form 10-Q Quarterly Report filed on August 9, 2011.+

C. Form of Amended and Restated Change in Control Agreements among Valley National Bank, Valley and each of Robert E. Farrell, Bernadette Mueller, and Robert J. Mulligan, dated June 22, 2011, is incorporated herein by reference to the Registrant's Form 10-Q Quarterly Report filed on August 9, 2011.+

D. Form of Amended and Restated Change in Control Agreements among Valley National Bank, Valley and each of Elizabeth E. De Laney, Kermit R. Dyke, Eric W. Gould, Russell C. Murawski, John H. Noonan, and Ira D. Robbins, dated June 22, 2011, is incorporated herein by reference to the Registrant's Form 10-Q Quarterly Report filed on August 9, 2011.+

E. Form of Amended and Restated Change in Control Agreements among Valley National Bank, Valley and each of Stephen P. Davey, and Robert A. Ewing, dated June 22, 2011, is incorporated herein by reference to the Registrant's Form 10-Q Quarterly Report filed on August 9, 2011.+

F. Severance Agreement dated January 22, 2008 between Valley, Valley National Bank and Peter Crocitto, Albert L. Engel, Alan D. Eskow, Robert M. Meyer is incorporated herein by reference to the Registrant's Form 8-K Current Report filed on January 28, 2008.+

G. Severance Agreement dated February 8, 2011 between Valley, Valley National Bank and Gerald H. Lipkin, which replaced in full all predecessor severance and guaranteed retirement agreements is incorporated herein by reference to the Registrant's Form 10-K Annual Report for the year ended December 31, 2010.+

H. Valley National Bancorp 2010 Executive Incentive Plan, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on April 19, 2010.+

I. The Valley National Bancorp, Benefit Equalization Plan, as Amended and Restated, dated July 1, 2011, is incorporated herein by reference to the Registrant's Form 10-Q Quarterly Report filed on August 9, 2011.+

J. Form of Participant Agreement for the Benefit Equalization Plan.*+

K. Directors Deferred Compensation Plan, dated June 1, 2004, as amended, is incorporated herein by reference to the Registrant's Form 10-K Annual Report for the year ended December 31, 2009.+

L. The Valley National Bancorp 2004 Director Restricted Stock Plan, as amended, is incorporated by reference to the Registrant's Form 10-Q Quarterly Report filed on May 11, 2009.+

M. Form of Restricted Stock Award Agreement used in connection with Valley National Bancorp 2004 Director Restricted Stock Plan is incorporated by reference to the Registrant's Form 10-Q Quarterly Report filed on May 11, 2009.+

N. Fiscal and Paying Agency Agreement between Valley National Bank and Wilmington Trust Company, as fiscal and paying agent, dated July 13, 2005, is incorporated herein by reference to the Registrant's Form 10-K Annual Report for the year ended December 31, 2010.

O. Amended and Restated Declaration of Trust of VNB Capital Trust I, dated as of November 7, 2001.*

P. Indenture among VNB Capital Trust I, The Bank of New York as Debenture Trustee, and Valley, dated November 7, 2001.*

Q. Preferred Securities Guarantee Agreement among VNB Capital Trust I, The Bank of New York, as Guarantee Trustee, and Valley, dated November 7, 2001.*

R. Valley National Bancorp 1999 Long-Term Stock Incentive Plan dated January 19, 1999, as amended, incorporated herein by reference to the Registrant's Form 10-K Annual Report for the year ended December 31, 2009.+

S. Valley National Bancorp 2009 Long-Term Stock Incentive Plan, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on April 24, 2009.+

T. Form of Valley National Bancorp Incentive Stock Option Agreement, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 27, 2009.+

U. Form of Valley National Bancorp Non-Qualified Stock Option Agreement, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 27, 2009.+

V. Form of Valley National Bancorp Restricted Stock Award Agreement, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 27, 2009.+

W. Form of Valley National Bancorp Escrow Agreement for Restricted Stock Award, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 27, 2009.+

X. Underwriting Agreement, dated May 18, 2010, among Valley, the United States Department of the Treasury, and Deutsche Bank Securities Inc. as Underwriter, incorporated herein by reference to the Registrant's Form 8-K Current Report filed on May 24, 2010.

(12.1)Computation of Ratios of Earnings to Fixed Charges.*

(12.2)Computation of Ratios of Earnings to Fixed Charges Including Preferred Stock Dividends.*

(21) List of Subsidiaries:

Name	Jurisdiction of Incorporation	Percentage of Voting Securities Owned by the Parent Directly or Indirectly
(a) Subsidiaries of Valley:		
Valley National Bank	United States	100%
VNB Capital Trust I	Delaware	100%
GCB Capital Trust III	Delaware	100%
State Capital Trust I	New York	100%
State Capital Trust II	New York	100%
(b) Subsidiaries of Valley National Bank:		
Hallmark Capital Management, Inc.	New Jersey	100%
Highland Capital Corp.	New Jersey	100%
Masters Coverage Corp.	New York	100%
New Century Asset Management, Inc.	New Jersey	100%
Valley Commercial Capital, LLC	New Jersey	100%
Valley National Title Services, Inc.	New Jersey	100%
Valley Securities Holdings, LLC	New Jersey	100%
VNB Loan Services, Inc.	New York	100%
VNB New York Corp.	New York	100%
(c) Subsidiaries of Masters Coverage Corp.:		
RISC One, Inc.	New York	100%
Life Line Planning, Inc.	New York	100%
(d) Subsidiaries of Valley Securities Holdings, LLC:		
Shrewsbury Capital Corporation	New Jersey	100%
Valley Investments, Inc.	New Jersey	100%
VNB Realty, Inc.	New Jersey	100%
(e) Subsidiary of Shrewsbury Capital Corporation:		
GCB Realty, LLC	New Jersey	100%
(f) Subsidiary of VNB Realty, Inc.:		
VNB Capital Corp.	New York	100%

(23.1)Consent of KPMG LLP.*

(24) Power of Attorney of Certain Directors and Officers of Valley.*

(31.1) Certification of Gerald H. Lipkin, Chairman of the Board, President and Chief Executive Officer of the Company, pursuant to Securities Exchange Rule 13a-14(a).*

(31.2) Certification of Alan D. Eskow, Senior Executive Vice President and Chief Financial Officer of the Company, pursuant to Securities Exchange Rule 13a-14(a).*

(32) Certification, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Gerald H. Lipkin, Chairman, President and Chief Executive Officer of the Company and Alan D. Eskow, Executive Vice President and Chief Financial Officer of the Company.*

(101) Interactive Data File **,*

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* Filed herewith

** As provided in Rule 406T of Regulation S-T, this information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

\+ Management contract and compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VALLEY NATIONAL BANCORP

By: /s/ GERALD H. LIPKIN
Gerald H. Lipkin, *Chairman of the Board, President and Chief Executive Officer*

By: /s/ ALAN D. ESKOW
Alan D. Eskow, *Senior Executive Vice President and Chief Financial Officer*

Dated: February 28, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated:

Signature	Title	Date
/S/ GERALD H. LIPKIN **Gerald H. Lipkin**	Chairman of the Board, President and Chief Executive Officer and Director	February 28, 2012
/S/ ALAN D. ESKOW **Alan D. Eskow**	Director, Senior Executive Vice President, Chief Financial Officer (Principal Financial Officer), and Corporate Secretary	February 28, 2012
/S/ MITCHELL L. CRANDELL **Mitchell L. Crandell**	First Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2012
ANDREW B. ABRAMSON * **Andrew B. Abramson**	Director	February 28, 2012
PAMELA R. BRONANDER * **Pamela R. Bronander**	Director	February 28, 2012
PETER C ROCITTO * **Peter Crocitto**	Director, Senior Executive Vice President and Chief Operating Officer	February 28, 2012
ERIC P. EDELSTEIN * **Eric P. Edelstein**	Director	February 28, 2012
MARY J. STEELE GUILFOILE * **Mary J. Steele Guilfoile**	Director	February 28, 2012

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Signature	Title	Date
G RAHAM O. J ONES * **Graham O. Jones**	Director	February 28, 2012
W ALTER H. J ONES , III* **Walter H. Jones, III**	Director	February 28, 2012
G ERALD K ORDE * **Gerald Korde**	Director	February 28, 2012
M ICHAEL L. L ARUSSO * **Michael L. LaRusso**	Director	February 28, 2012
M ARC J. L ENNER * **Marc J. Lenner**	Director	February 28, 2012
R OBINSON M ARKEL * **Robinson Markel**	Director	February 28, 2012
R ICHARD S. M ILLER * **Richard S. Miller**	Director	February 28, 2012
B ARNETT R UKIN * **Barnett Rukin**	Director	February 28, 2012
S URESH L. S ANI * **Suresh L. Sani**	Director	February 28, 2012
R OBERT C. S OLDOVERI * **Robert C. Soldoveri**	Director	February 28, 2012
J EFFREY S. W ILKS * **Jeffrey S. Wilks**	Director	February 28, 2012
* /s/ A LAN D. E SKOW **Alan D. Eskow, attorney-in fact.**		February 28, 2012

EXHIBIT (10.J)

VALLEY NATIONAL BANCORP
and
VALLEY NATIONAL BANK

BENEFIT EQUALIZATION PLAN
PARTICIPATION AGREEMENT

Valley National Bancorp and its subsidiary, Valley National Bank (collectively, the "Employer"), this day of , 20 , hereby designate (the "Participant"), as a Participant in the Valley National Bancorp Benefit Equalization Plan, as restated by the Board of Directors effective January 1, 1989 and subsequently amended (the "Plan"), on the terms and conditions hereinafter set forth:

1. Incorporation by Reference of Plan . The provisions of the Plan, a copy of which is attached to this Participation Agreement, are incorporated by reference herein and shall govern as to all matters not expressly provided for in this Agreement. Terms not defined herein shall have the meanings set forth in the Plan.

2. Impact on other Benefits . Nothing contained herein shall be deemed to exclude the Participant from any supplemental compensation, bonus, pension, insurance, severance pay or other benefit to which otherwise he might be or might become entitled to as an employee of the Employer. This Agreement does not supersede any previous agreements between the Employer and the Participant regarding the terms and conditions of the Participant's employment.

3. Change in Control . Notwithstanding any contrary provisions of the Plan, the Participant shall be entitled to payment from the Employer for all legal fees and expenses incurred in taking any action to enforce the terms of this Agreement if following a "Change in Control" the Participant's employment is terminated for any reason. The Participant shall be entitled to payment of such legal fees and expenses as incurred by him and the Employer hereby agrees to pay such amounts directly to the Participant's attorney or reimburse the Participant upon demand. A court shall be entitled to deny reimbursement of the legal fees and costs incurred by the Participant to enforce the terms of this Agreement only if it determines that the Participant's action was not undertaken in good faith.

"Change in Control" means any of the following events: (i) when Valley National Bancorp (the "Company") or a Subsidiary acquires actual knowledge that any person (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act), other than an affiliate of the Company or a Subsidiary or an employee benefit plan established or maintained by the Company, a Subsidiary or any of their respective affiliates, is or becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act) directly or indirectly, of securities of the Company representing more than twenty-five percent (25%) of the combined voting power of the Company's then outstanding securities (a "Control Person"), (ii) upon the first purchase of

the Company's common stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by the Company, a Subsidiary or an employee benefit plan established or maintained by the Company, a Subsidiary or any of their respective affiliates), (iii) the consummation of (A) a transaction, other than a Non-Control Transaction, pursuant to which the Company is merged with or into, or is consolidated with, or becomes the subsidiary of another corporation, (B) a sale or disposition of all or substantially all of the Company's assets or (C) a plan of liquidation or dissolution of the Company, (iv) if during any period of two (2) consecutive years, individuals (the "Continuing Directors") who at the beginning of such period constitute the Board cease for any reason to constitute at least 60% thereof or, following a Non-Control Transaction, 60% of the board of directors of the Surviving Corporation; provided that any individual whose election or nomination for election as a member of the Board (or, following a Non-Control Transaction, the board of directors of the Surviving Corporation) was approved by a vote of at least two-thirds of the Continuing Directors then in office shall be considered a Continuing Director, or (v) upon a sale of (A) common stock of Valley National Bank, a Subsidiary (the "Bank"), if after such sale any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) other than the Company, an employee benefit plan established or maintained by the Company or a Subsidiary, or an affiliate of the Company or a Subsidiary, owns a majority of the Bank's common stock or (B) all or substantially all of the Bank's assets (other than in the ordinary course of business). No person shall be considered a Control Person for purposes of clause (i) above if (A) such person is or becomes the beneficial owner, directly or indirectly, of more than ten percent (10%) but less than twenty-five percent (25%) of the combined voting power of the Company's then outstanding securities if the acquisition of all voting securities in excess of ten percent (10%) was approved in advance by a majority of the Continuing Directors then in office or (B) such person acquires in excess of ten percent (10%) of the combined voting power of the Company's then outstanding voting securities in violation of law and by order of a court of competent jurisdiction, settlement or otherwise, disposes or is required to dispose of all securities acquired in violation of law. For purposes of this paragraph: (I) the Company will be deemed to have become a subsidiary of another corporation if any other corporation (which term shall include, in addition to a corporation, a limited liability company, partnership, trust, or other organization) owns, directly or indirectly, 50 percent or more of the total combined outstanding voting power of all classes of stock of the Company or any successor to the Company; (II) "Non-Control Transaction" means a transaction in which the Company is merged with or into, or is consolidated with, or becomes the subsidiary of another corporation pursuant to a definitive agreement providing that at least 60% of the directors of the Surviving Corporation immediately after the transaction are persons who were directors of the Company on the day before the first public announcement relating to the transaction; (III) the "Surviving Corporation" in a transaction in which the Company becomes the subsidiary of another corporation is the ultimate parent entity of the Company or the Company's successor; (IV) the "Surviving Corporation" in any other transaction pursuant to which the Company is merged with or into another corporation is the surviving or resulting corporation in the merger or consolidation; and (V) the capitalized term "Subsidiary" means any corporation in an unbroken chain of corporations, beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

4. Acceptance of Provisions . The execution of this Agreement by the Participant shall constitute the Participant's acceptance of and agreement to all of the terms and

conditions of the Plan and this Agreement. This Agreement shall be binding on the heirs, executors and administrators of the Participant and on the successors and assigns of the Employer.

5. Notices . All notices and other communications required or permitted under the Plan and this Agreement shall be in writing and shall be given either by (i) personal delivery or regular mail, in each case against receipt, or (ii) first call registered or certified mail, return receipt requested. Any such communication shall be deemed to have been given (i) on the date of receipt in the cases referred to in clause (i) of the preceding sentence and (ii) on the second day after the date of mailing in the cases referred to in clause (ii) of the preceding sentence. All such communications to the Employer shall be addressed to it, to the attention of its Secretary or Treasurer, at its then principal office and to the Participant at his last address appearing on the records of the Employer or, in each case, to such other persons or address as may be designated by like notices hereunder

6. Miscellaneous . This Agreement and the Plan contain a complete statement of all the arrangements between the parties with respect to their subject matter, and this Agreement cannot be changed except by a writing executed by both parties. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed exclusively in New Jersey. The headings in this Agreement are solely for convenience of reference and shall not affect its meaning or interpretation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

PARTICIPANT'S NAME

_____

VALLEY NATIONAL BANCORP

By: _____

VALLEY NATIONAL BANK

By: _____

EXHIBIT (10.O)

AMENDED AND RESTATED DECLARATION OF TRUST

VNB CAPITAL TRUST I

Dated as of November 7, 2001

CROSS-REFERENCE TABLE*

Section of Trust Indenture Act of 1939, as amended	Section of Declaration
310(a)	5.3
310(b)	5.3(c); 5.3(d)
311(a)	2.2(b)
311(b)	2.2(b)
312(a)	2.2(a)
312(b)	2.2(b)
313	2.3
314(a)	2.4; 2.7(c); 3.6(j)
314(c)	2.5
315(a)	3.6(j); 3.9
315(b)	2.7(a)
315(c)	3.9(a)
315(d)	3.9(b)
316(a)	2.6
316(c)	3.6(e)
317(a)	3.8(e); 3.8(h)
317(b)	3.8(i); 7.5
318	2.1

* This Cross-Reference Table does not constitute part of this Declaration and shall not affect the interpretation of any of its terms or provisions.

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AMENDED AND RESTATED
DECLARATION OF TRUST
OF VNB CAPITAL TRUST I

Dated as of November 7, 2001

AMENDED AND RESTATED DECLARATION OF TRUST ("Declaration") dated and effective as of November 7, 2001, by and among the Trustees (as defined herein), the Sponsor (as defined herein) and the Holders (as defined herein), from time to time, of undivided beneficial interests in the assets of the Trust to be issued pursuant to this Declaration;

WHEREAS, the Delaware Trustee (as defined herein) and the Sponsor established VNB Capital Trust I (the "Trust"), a trust created under the Delaware Business Trust Act pursuant to a Declaration of Trust dated as of October 4, 2001 (the "Original Declaration"), and a Certificate of Trust filed with the Secretary of State of the State of Delaware on October 12, 2001, for the sole purpose of issuing and selling certain securities representing undivided beneficial interests in the assets of the Trust, investing the proceeds thereof in certain Debentures of the Sponsor (each as hereinafter defined), and engaging in only those activities necessary, advisable or incidental thereto; and

WHEREAS, all of the Trustees and the Sponsor, by this Declaration, amend and restate each and every term and provision of the Original Declaration;

WHEREAS, all of the Trustees and the Sponsor, by this Declaration, ratify the actions of each Trustee taken prior to the date hereof;

NOW, THEREFORE, it being the intention of the parties hereto to continue the Trust as a business trust under the Business Trust Act and that this Declaration constitute the governing instrument of such business trust, the Trustees declare that all assets contributed to the Trust will be held in trust for the benefit of the holders, from time to time, of the securities representing undivided beneficial interests in the assets of the Trust issued hereunder, subject to the provisions of this Declaration and, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

ARTICLE I

INTERPRETATION AND DEFINITIONS

Unless the context otherwise requires:

(a) capitalized terms used in this Declaration but not defined in the preamble above or elsewhere herein have the respective meanings assigned to them in this Article I;

(b) a term defined anywhere in this Declaration has the same meaning throughout;

(c) all references to "the Declaration" or "this Declaration" are to this Declaration and each Annex and Exhibit hereto, as modified, supplemented or amended from time to time;

(d) all references in this Declaration to Articles and Sections and Annexes and Exhibits are to Articles and Sections of and Annexes and Exhibits to this Declaration unless otherwise specified;

(e) a term defined in the Trust Indenture Act has the same meaning when used in this Declaration unless otherwise defined in this Declaration or unless the context otherwise requires;

(f) a term defined in the Indenture (as defined herein) has the same meaning when used in this Declaration unless otherwise defined in this Declaration or the context otherwise requires; and

(g) a reference to the singular includes the plural and vice versa.

"Administrative Trustee" has the meaning set forth in Section 5.1.

"Affiliate" has the same meaning as given to that term in Rule 405 under the Securities Act or any successor rule thereunder.

"Agent" means any Paying Agent, Registrar or Exchange Agent.

"Authorized Officer" of a Person means any other Person that is authorized to legally bind such former Person.

"Book-Entry Interest" means a beneficial interest in the Global Preferred Security registered in the name of a Clearing Agency or its nominee, ownership and transfers of which shall be maintained and made through book entries by a Clearing Agency as described in Section 9.3.

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions in Wilmington, Delaware, Wayne, New Jersey or New York, New York, are authorized or required by law or executive order to remain closed.

"Business Trust Act" means Chapter 38 of Title 12 of the Delaware Code, 12 Del. Code § 3801 et seq., as it may be amended from time to time, or any successor legislation.

"Clearing Agency" means an organization registered as a "Clearing Agency" pursuant to Section 17A of the Exchange Act that is acting as depositary for the Preferred Securities and in whose name or in the name of a nominee of that organization shall be registered a global certificate and which shall undertake to effect book entry transfers and pledges of the Preferred Securities.

"Clearing Agency Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time the Clearing Agency effects book entry transfers and pledges of securities deposited with the Clearing Agency.

"Closing Date" means the "Closing Date" as defined in the Underwriting Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor legislation.

"Commission" means the United States Securities and Exchange Commission as from time to time constituted, or if at any time after the execution of this Declaration such Commission is not existing and performing the duties now assigned to it under applicable federal securities laws, then the body performing such duties at such time.

"Common Securities" has the meaning specified in Section 7.1(a).

"Common Security Certificate" means a certificate evidencing ownership of Common Securities, substantially in the form attached as Exhibit A-2.

"Common Securities Guarantee" means the Common Securities Guarantee Agreement, dated as of the Closing Date, entered into by Valley National Bancorp, with respect to the Common Securities.

"Common Securities Subscription Agreement(s)" means the Common Securities Subscription Agreement(s), dated as of the Closing Date or the Date of Delivery, as the case may be, between the Trust and Valley National Bancorp relating to the Common Securities.

"Company Indemnified Person" means (a) any Administrative Trustee; (b) any Affiliate of any Administrative Trustee; (c) any officers, directors, shareholders, members, partners, employees, representatives or agents of any Administrative Trustee; or (d) any officer, employee or agent of the Trust or its Affiliates.

"Corporate Trust Office" means the office of the Property Trustee at which the corporate trust business of the Property Trustee shall, at any particular time, be principally administered, which office at the date of execution of this Declaration is located 5 Penn Plaza, 13th Floor, New York, New York 10001.

"Covered Person" means: (a) any officer, director, shareholder, partner, member, representative, employee or agent of (i) the Trust or (ii) the Trust's Affiliates; and (b) any Holder of Securities.

"Date of Delivery" means the "Date of Delivery" as defined in the Underwriting Agreement.

"Debenture Subscription Agreement(s)" means the Debenture Subscription Agreement(s), dated as of the Closing Date, or the Date of Delivery, as the case may be, between the Sponsor and the Trust in respect of the Debentures.

"Debenture Trustee" means The Bank of New York, a New York banking corporation, not in its individual capacity but solely as trustee under the Indenture until a successor is appointed thereunder, and thereafter means such successor trustee.

"Debentures" means the 7 3/4% Junior Subordinated Deferrable Interest Debentures due Debenture 15, 2031 of the Sponsor issued pursuant to the Indenture.

"Default" means an event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Definitive Preferred Securities" has the meaning set forth in Section 7.

"Delaware Trustee" has the meaning set forth in Section 5.1.

"Direct Action" has the meaning set forth in Section 3.8(e).

"Distribution" means a distribution payable to Holders in accordance with Section 6.1.

"DTC" means The Depository Trust Company, the initial Clearing Agency.

"Event of Default" with respect to the Securities means an Event of Default (as defined in the Indenture) that has occurred and is continuing with respect to the Debentures.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor legislation.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System.

"Fiduciary Indemnified Person" has the meaning set forth in Section 10.4(b).

"Fiscal Year" has the meaning set forth in Section 11.1.

"Global Preferred Security" has the meaning set forth in Section 7.3.

"Holder" means a Person in whose name a Security or Successor Security is registered on the register maintained by or on behalf of the Registrar, such Person being a beneficial owner of the Trust within the meaning of the Business Trust Act.

"Indemnified Person" means a Company Indemnified Person or a Fiduciary Indemnified Person.

"Indenture" means the Indenture, dated as of the Closing Date, between the Sponsor and the Debenture Trustee, as amended from time to time.

"Initial Optional Redemption Date" has the meaning set forth in Section 4(b) of Annex I hereto.

"Investment Company" means an investment company as defined in the Investment Company Act.

"Investment Company Act" means the Investment Company Act of 1940, as amended from time to time, or any successor legislation.

"Investment Company Event" has the meaning set forth in Section 4(c) of Annex I hereto.

"Legal Action" has the meaning set forth in Section 3.6(g).

"Like Amount" has the meaning set forth in Section 3 of Annex I hereto.

"List of Holders" has the meaning set forth in Section 2.2(a).

"Majority in Liquidation Amount" means, with respect to the Trust Securities, except as provided in the terms of the Preferred Securities or by the Trust Indenture Act, Holders of outstanding Trust Securities voting together as a single class or, as the context may require, Holders of outstanding Preferred Securities or Holders of outstanding Common Securities voting separately as a class, excluding the Trust and the Sponsor and any Affiliate thereof, who are the

record owners of more than 50% of the aggregate liquidation amount (including the amount that would be paid on redemption, liquidation or otherwise, plus accumulated and unpaid Distributions to but excluding the date upon which the voting percentages are determined) of all outstanding Securities of the relevant class.

"Officers' Certificate" means, with respect to any Person, a certificate signed by an Authorized Officer of such Person. Any Officers' Certificate delivered by the Trust shall be signed by at least one Administrative Trustee. Any Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Declaration shall include:

(a) a statement that each officer signing the Certificate has read the covenants or conditions and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Certificate;

(c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of each such officer, such condition or covenant has been complied with.

"Opinion of Counsel" means a written opinion of counsel, who may be an employee of the Sponsor, and who shall be acceptable to the Property Trustee.

"Participants" has the meaning specified in Section 7.3.

"Paying Agent" has the meaning specified in Section 7.4.

"Payment Amount" has the meaning specified in Section 6.1.

"Person" means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, or government or any agency or political subdivision thereof, or any other entity of whatever nature.

"Preferred Securities" means the Trust Originated Preferred Securities SM ("TOPrS SM ") specified in Section 7.1(a).

"Preferred Securities Guarantee" means the Preferred Securities Guarantee Agreement, dated as of the Closing Date, by Valley National Bancorp in respect of the Preferred Securities.

"Preferred Security Beneficial Owner" means, with respect to a Book-Entry Interest, a Person who is the beneficial owner of such Book-Entry Interest, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

"Preferred Security Certificate" has the meaning set forth in Section 9.3.

"Property Trustee" has the meaning set forth in Section 5.3(a).

"Property Trustee Account" has the meaning set forth in Section 3.8(c)(i).

"Prospectus" means the prospectus included as part of the Registration Statement.

"Quorum" means a majority of the Administrative Trustees or, if there are only two Administrative Trustees, both of them.

"Redemption Price" has the meaning set forth in Section 4(a) of Annex I hereto.

"Registrar" has the meaning set forth in Section 7.4.

"Registration Statement" means the Registration Statement on Form S-3 used to register the Preferred Securities.

"Regulatory Capital Event" has the meaning set forth in Section 4(c) of Annex I hereto.

"Related Party" means, with respect to the Sponsor, any direct or indirect wholly owned subsidiary of the Sponsor or any other Person that owns, directly or indirectly, 100% of the outstanding voting securities of the Sponsor.

"Responsible Officer" means any officer within the Corporate Trust Office of the Property Trustee with direct responsibility for the administration of this Declaration and also means, with respect to a particular corporate trust matter, any other officer of the Property Trustee to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"Rule 3a-5" means Rule 3a-5 under the Investment Company Act, or any successor rule or regulation.

"Securities" or "Trust Securities" means the Common Securities and the Preferred Securities.

"Securities Act" means the Securities Act of 1933, as amended from time to time, or any successor legislation.

"Securities Guarantees" means the Common Securities Guarantee and the Preferred Securities Guarantee.

"Special Event" has the meaning set forth in Section 4(c) of Annex I hereto.

"Special Event Redemption Price" has the meaning set forth in Section 4(c) of Annex I hereto.

"Sponsor" means Valley National Bancorp, a New Jersey corporation, or any successor entity resulting from any merger, consolidation, amalgamation or other business combination, in its capacity as sponsor of the Trust.

"Successor Delaware Trustee" has the meaning set forth in Section 5.6(b)(ii).

"Successor Entity" has the meaning set forth in Section 3.15(b)(i).

"Successor Property Trustee" has the meaning set forth in Section 3.8(f)(ii).

"Successor Securities" has the meaning set forth in Section 3.15(b)(i).

"Super Majority" has the meaning set forth in Section 2.6(a)(ii).

"Tax Event" has the meaning set forth in Section 4(c) of Annex I hereto.

"Treasury Regulations" means the income tax regulations, including temporary and proposed regulations, promulgated under the Code by the United States Treasury Department, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended from time to time, or any successor legislation.

"Trust Property" means (a) the Debentures, (b) any cash on deposit in or owing to the Property Trustee Account and (c) all proceeds and rights in respect of the foregoing and any other property and assets for the time being held or deemed to be held by the Property Trustee pursuant to this Declaration.

"Trustee" or "Trustees" means each Person who has signed this Declaration as a trustee, so long as such Person shall continue as a trustee of the Trust in accordance with the

terms hereof, and all other Persons who may from time to time be duly appointed, qualified and serving as Trustees in accordance with the provisions hereof, and references herein to a Trustee or the Trustees shall refer to such Person or Persons solely in their capacity as trustees hereunder.

"Underwriting Agreement" means the purchase agreement relating to the Preferred Securities, dated as of October 31, 2001, by and among the Trust, the Sponsor and the underwriters named therein.

"10% in Liquidation Amount" means, with respect to the Trust Securities, except as provided in the terms of the Preferred Securities or by the Trust Indenture Act, Holders of outstanding Trust Securities voting together as a single class or, as the context may require, Holders of outstanding Preferred Securities or Holders of outstanding Common Securities voting separately as a class, excluding the Trust and the Sponsor and any Affiliate thereof, who are the record owners of 10% or more of the aggregate liquidation amount (including the amount that would be paid on redemption, liquidation or otherwise, plus accumulated and unpaid Distributions to the date upon which the voting percentages are determined) of all outstanding Securities of the relevant class.

ARTICLE II

TRUST INDENTURE ACT

SECTION 2.1 Trust Indenture Act; Application .

(a) This Declaration is subject to the provisions of the Trust Indenture Act that are required to be part of this Declaration in order for this Declaration to be qualified under the Trust Indenture Act and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is a trustee for the purposes of the Trust Indenture Act.

(c) If and to the extent that any provision of this Declaration limits, qualifies or conflicts with the duties imposed by §§ 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

(d) The application of the Trust Indenture Act to this Declaration shall not affect the Trust's classification as a grantor trust for United States federal income tax purposes and shall not affect the nature of the Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

SECTION 2.2 Lists of Holders of Securities .

(a) Each of the Sponsor and the Administrative Trustees on behalf of the Trust shall provide the Property Trustee, unless the Property Trustee is Registrar for the Securities, (i) within 14 days after each record date for payment of Distributions, a list, in such form as the Property Trustee may reasonably require, of the names and addresses of the Holders ("List of Holders") as of such record date, provided that, neither the Sponsor nor the Administrative Trustees on behalf of the Trust shall be obligated to provide such List of Holders at any time that the List of Holders does not differ from the most recent List of Holders given to the Property Trustee by the Sponsor and the Administrative Trustees on behalf of the Trust, and (ii) at any other time, within 30 days of receipt by the Trust of a written request for a List of Holders as of a date no more than 14 days before such List of Holders is given to the Property Trustee. The Property Trustee shall preserve, in as current a form as is reasonably practicable, all information contained in Lists of Holders given to it or which it receives in the capacity as Paying Agent (if acting in such capacity), provided that the Property Trustee may destroy any List of Holders previously given to it on receipt of a new List of Holders.

(b) The Property Trustee shall comply with its obligations under §§ 311(a), 311(b) and 312(b) of the Trust Indenture Act.

SECTION 2.3 Reports by the Property Trustee .

(a) By June 14 of each year, commencing June 14, 2002, the Property Trustee shall provide to the Holders of the Preferred Securities such reports, dated as of May 15 of each year, as are required by § 313 of the Trust Indenture Act, if any, in the form and in the manner provided by § 313 of the Trust Indenture Act. The Property Trustee shall also comply with the requirements of § 313(d) of the Trust Indenture Act.

(b) A copy of each report shall, at the time of transmission to the Holders be filed by the Property Trustee with each national securities exchange national market or other organization upon which the Preferred Securities are listed, and also with the Commission and the Sponsor. The Sponsor and/or the Trust shall promptly notify the Property Trustee when the Preferred Securities are listed on any national securities exchange, national market or other organizations and/or delisting thereof.

SECTION 2.4 Periodic Reports to Property Trustee .

Each of the Sponsor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee and the Commission such documents, reports and information as are required by § 314 (if any) of the Trust Indenture Act and shall provide to the Property Trustee the compliance certificate required by § 314 of the Trust Indenture Act in the form, in the manner and at the times required by § 314 of the Trust Indenture Act.

SECTION 2.5 Evidence of Compliance with Conditions Precedent .

Each of the Sponsor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent provided for in this Declaration that relate to any of the matters set forth in § 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to § 314(c)(1) of the Trust Indenture Act may be given in the form of an Officers' Certificate.

SECTION 2.6 Events of Default; Waiver .

(a) The Holders of a Majority in Liquidation Amount of Preferred Securities may, by vote, on behalf of the Holders of all of the Preferred Securities, waive any past Event of Default in respect of the Preferred Securities and its consequences, provided that, if the underlying Event of Default under the Indenture:

(i) is not waivable under the Indenture, the Event of Default under the Declaration shall also not be waivable; or

(ii) requires the consent or vote of greater than a majority in aggregate principal amount of the holders of the Debentures (a "Super Majority") to be waived under the Indenture, the Event of Default under the Declaration may only be waived by the vote of the Holders of at least the proportion in aggregate liquidation amount of the Preferred Securities that the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding.

The foregoing provisions of this Section 2.6(a) shall be in lieu of § 316(a)(1)(B) of the Trust Indenture Act and such § 316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Declaration and the Securities, as permitted by the Trust Indenture Act. Upon such waiver, any such Default shall cease to exist, and any Event of Default with respect to the Preferred Securities arising therefrom shall be deemed to have been cured, for every purpose of this Declaration, but no such waiver shall extend to any subsequent or other Default or an Event of Default with respect to the Preferred Securities or impair any right consequent thereon. Any waiver by the Holders of the Preferred Securities of an Event of Default with respect to the Preferred Securities shall also be deemed to constitute a waiver by the Holders of the Common Securities of any such Event of Default with respect to the Common Securities for all purposes of this Declaration without any further act, vote, or consent of the Holders of the Common Securities.

(b) The Holders of a Majority in Liquidation Amount of the Common Securities may, by vote, on behalf of the Holders of all of the Common Securities, waive any past Event of Default with respect to the Common Securities and its consequences, provided , that , if the underlying Event of Default under the Indenture:

(i) is not waivable under the Indenture, except where the Holders of the Common Securities are deemed to have waived such Event of Default under the Declaration as provided below in this Section 2.6(b), the Event of Default under the Declaration shall also not be waivable; or

(ii) requires the consent or vote of a Super Majority to be waived, except where the Holders of the Common Securities are deemed to have waived such Event of Default under the Declaration as provided below in this Section 2.6(b), the Event of Default under the Declaration may only be waived by the vote of the Holders of at least the proportion in aggregate liquidation amount of the Common Securities that the relevant Super Majority represents of the aggregate principal amount of the Debentures outstanding;

provided , further , each Holder of Common Securities will be deemed to have waived any such Event of Default and all Events of Default with respect to the Common Securities and their consequences if all Events of Default with respect to the Preferred Securities have been cured, waived or otherwise eliminated, and until such Events of Default have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the Holders of the Preferred Securities and only the Holders of the Preferred Securities will have the right to direct the Property Trustee in accordance with the terms of the Securities. The foregoing provisions of this Section 2.6(b) shall be in lieu of §§ 316(a)(1)(A) and 316(a)(1)(B) of the Trust Indenture Act and such §§ 316(a)(1)(A) and 316(a)(1)(B) of the Trust Indenture Act are hereby expressly excluded from this Declaration and the Securities, as permitted by the Trust Indenture Act. Subject to the foregoing provisions of this Section 2.6(b), upon such waiver, any such Default shall cease to exist and any Event of Default with respect to the Common Securities arising therefrom shall be deemed to have been cured for every purpose of this Declaration, but no such waiver shall extend to any subsequent or other Default or Event of Default with respect to the Common Securities or impair any right consequent thereon.

(c) A waiver of an Event of Default under the Indenture by the Property Trustee, at the direction of the Holders of the Preferred Securities, constitutes a waiver of the corresponding Event of Default under this Declaration. The foregoing provisions of this Section 2.6(c) shall be in lieu of § 316(a)(1)(B) of the Trust Indenture Act and such § 316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Declaration and the Securities, as permitted by the Trust Indenture Act.

SECTION 2.7 Default; Notice .

(a) The Property Trustee shall, within 90 days after a Responsible Officer has actual knowledge of the occurrence of a Default with respect to the Securities, transmit by mail, first class postage prepaid, to the Holders, notices of all such Defaults, unless such Defaults have

been cured before the giving of such notice or previously waived; provided , however , that except in the case of a Default arising from the nonpayment of principal of or interest (including Compounded Interest and Additional Sums (as such terms are defined in the Indenture), if any), on any of the Debentures, the Property Trustee shall be protected in withholding such notice if and so long as a Responsible Officer in good faith determines that the withholding of such notice is in the interests of the Holders.

(b) The Property Trustee shall not be deemed to have knowledge of any Default or Event of Default except:

(i) a Default or Event of Default under Sections 5.1(a) (other than the payment or nonpayment of Compounded Interest and Additional Sums) and 5.1(b) of the Indenture; or

(ii) any Default or Event of Default as to which the Property Trustee shall have received written notice or of which a Responsible Officer charged with the administration of the Declaration shall have actual knowledge.

(c) Within ten Business Days after a Responsible Officer has actual knowledge of the occurrence of any Event of Default, the Property Trustee shall transmit notice of such Event of Default to the Holders of the Preferred Securities, by mail, first class postage prepaid, the Administrative Trustees and the Sponsor, unless such Event of Default shall have been cured or waived. The Sponsor and the Administrative Trustees shall file annually with the Property Trustee a certification as to whether or not they are in compliance with all the conditions and covenants applicable to them under this Declaration.

ARTICLE III

ORGANIZATION

SECTION 3.1 Name .

The Trust is named VNB Capital Trust I as such name may be modified from time to time by the Administrative Trustees following written notice to the Delaware Trustee, the Property Trustee and the Holders. The Trust's activities may be conducted under the name of the Trust or any other name deemed advisable by the Administrative Trustees.

SECTION 3.2 Office

The address of the principal office of the Trust is c/o Valley National Bancorp, 1455 Valley Road, Wayne, New Jersey 07470. On ten Business Days' prior written notice to the Delaware Trustee, the Property Trustee and the Holders of Securities, the Administrative Trustees may designate another principal office.

SECTION 3.3 Purpose .

The exclusive purposes and functions of the Trust are (a) to issue and sell the Securities, (b) use the proceeds from the sale of the Securities to acquire the Debentures, and (c) except as otherwise limited herein, to engage in only those other activities necessary, advisable or incidental thereto, including without limitation, those activities specified in Sections 3.6, 3.8, 3.9, 3.10, 3.11 and/or 3.12. The Trust shall not borrow money, issue debt or reinvest proceeds derived from investments, mortgage or pledge any of its assets, or otherwise undertake (or permit to be undertaken) any activity that would cause the Trust not to be classified for United States federal income tax purposes as a grantor trust.

By the acceptance of this Trust, the Trustees, the Sponsor, the Holders of the Preferred Securities and Common Securities and the Preferred Securities Beneficial Owners will agree to treat the Trust as a grantor trust for United States federal income tax purposes and not to take any position which is contrary to such classification.

SECTION 3.4 Authority .

Subject to the limitations provided in this Declaration and to the specific duties of the Property Trustee, the Administrative Trustees shall have exclusive and complete authority to carry out the purposes of the Trust. An action taken by one or more of the Administrative Trustees in accordance with their powers shall constitute the act of and serve to bind the Trust and an action taken by the Property Trustee on behalf of the Trust in accordance with its powers shall constitute the act of and serve to bind the Trust. In dealing with the Trustees acting on behalf of the Trust, no Person shall be required to inquire into the authority of the Trustees to bind the Trust. Persons dealing with the Trust are entitled to rely conclusively on the power and authority of the Trustees as set forth in this Declaration.

SECTION 3.5 Title to Property of the Trust .

Except as provided in Section 3.8 with respect to the Debentures and the Property Trustee Account or as otherwise provided in this Declaration, legal title to all assets of the Trust shall be vested in the Trust. The Holders shall not have legal title to any part of the assets of the Trust, but shall have an undivided beneficial interest in the assets of the Trust.

SECTION 3.6 Powers and Duties of the Administrative Trustees .

The Administrative Trustees acting individually or together shall have the exclusive right, power, duty and authority, and are hereby authorized and directed, to cause the Trust to engage in the following activities:

(a) to execute, enter into and deliver and perform the Common Securities Subscription Agreement(s) and to execute, deliver, issue and sell the Securities in accordance with this Declaration; provided , however , that except as contemplated in Section 7.1(a), (i) the Trust may issue no more than one series of Preferred Securities and no more than one series of Common Securities, (ii) there shall be no interests in the Trust other than the Securities, and (iii) the issuance of Securities shall be limited to a simultaneous issuance of both Preferred Securities and Common Securities on the Closing Date;

(b) in connection with the issue and sale of the Preferred Securities, at the direction of the Sponsor, to:

(i) execute and file with the Commission, the Registration Statement, including the Prospectus, and any amendments thereto prepared by the Sponsor, in relation to the offering and sale of Preferred Securities;

(ii) execute and file any documents prepared by the Sponsor, or take any acts as determined by the Sponsor to be necessary in order to qualify or register all or part of the Preferred Securities under the federal securities laws or the securities laws of any State in which the Sponsor has determined to qualify or register such Preferred Securities for sale;

(iii) execute and file any document, prepared by the Sponsor, to permit the Preferred Securities to trade or be quoted or listed in or on the New York Stock Exchange or any other securities exchange, quotation system or the Nasdaq National Market;

(iv) execute, enter into and deliver any letters, documents or instruments with DTC and other Clearing Agencies relating to the Preferred Securities; and

(v) if required, execute and file with the Commission a registration statement on Form 8-A, including any amendments thereto, prepared by the Sponsor, relating to the registration of the Preferred Securities under Section 12(b) or 12(g) of the Exchange Act, as the case may be.

(c) to execute, enter into, deliver and perform its obligations under the Debenture Subscription Agreement(s) and to acquire the Debentures with the proceeds from the issuance of the Preferred Securities and the Common Securities; provided , however , that the Administrative Trustees shall cause legal title to the Debentures to be held of record in the name of the Property Trustee for the benefit of the Holders;

(d) to give the Sponsor and the Property Trustee prompt written notice of the occurrence of a Special Event;

(e) to establish a record date with respect to all actions to be taken hereunder that require a record date to be established, including and with respect to, for the

purposes of § 316(c) of the Trust Indenture Act, Distributions, voting rights, redemptions and exchanges, and to issue relevant notices to the Holders with respect to such actions and applicable record dates;

(f) to take all actions and perform such duties as may be required of the Administrative Trustees pursuant to the terms of the Securities;

(g) to the fullest extent permitted by law, to bring or defend, pay, collect, compromise, arbitrate, resort to legal action, or otherwise adjust claims or demands of or against the Trust ("Legal Action"), unless pursuant to Section 3.8(e), the Property Trustee has the exclusive power to bring such Legal Action;

(h) to employ or otherwise engage employees, agents (who may be designated as officers with titles), managers, contractors, advisors, and consultants and pay reasonable compensation for such services, provided that such person is a United States person as defined in Section 7701(a)(30) of the Code;

(i) to cause the Trust to comply with the Trust's obligations under the Trust Indenture Act;

(j) to give the certificate required by § 314(a)(4) of the Trust Indenture Act to the Property Trustee, which certificate may be executed by any Administrative Trustee;

(k) to incur expenses that are necessary or incidental to carry out any of the purposes of the Trust;

(l) to act as, or appoint another Person to act as, Registrar for the Securities or to appoint a Paying Agent for the Securities as provided in Section 7.4 except for such time as such power to appoint a Paying Agent is vested in the Property Trustee;

(m) to give prompt written notice to the Property Trustee and to the Holders of any notice received from the Sponsor of its election to defer payments of interest on the Debentures by extending the interest payment period under the Indenture;

(n) to take all action that may be necessary or appropriate for the preservation and the continuation of the Trust's valid existence, rights, franchises and privileges as a statutory business trust under the laws of the State of Delaware and of each other jurisdiction in which such existence is necessary to protect the limited liability of the Holders or to enable the Trust to effect the purposes for which the Trust was created;

(o) to take any action, not inconsistent with this Declaration or with applicable law, that the Administrative Trustees determine in their discretion to be necessary or desirable in carrying out the activities of the Trust as set out in this Section 3.6, including, but not limited to:

(i) causing the Trust not to be deemed to be an Investment Company required to be registered under the Investment Company Act;

(ii) causing the Trust to continue to be classified for United States federal income tax purposes as a grantor trust; and

(iii) cooperating with the Sponsor to ensure that the Debentures will be treated as indebtedness of the Sponsor for United States federal income tax purposes;

(p) to take all action necessary to cause the effectiveness of the Registration Statement under the Securities Act and the qualification of the Indenture under the Trust Indenture Act;

(q) to take all action necessary to cause all applicable tax returns and tax information reports that are required to be filed with respect to the Trust to be duly prepared and filed by the Administrative Trustees, on behalf of the Trust;

(r) to the extent provided in this Declaration and at the direction of the Sponsor, to take all action necessary to dissolve and liquidate the Trust and to prepare, execute and file a certificate of cancellation with the Secretary of State of the State of Delaware;

(s) to execute, deliver and perform its obligations under the Common Securities Subscription Agreement(s), and

(t) to execute and deliver all documents, agreements, certificates and instruments, exercise all rights and powers, perform all duties and do all things for and on behalf of the Trust in all matters necessary, advisable or incidental to the foregoing or the transactions contemplated thereby.

The Administrative Trustees must exercise the powers set forth in this Section 3.6 in a manner that is consistent with the purposes and functions of the Trust set out in Section 3.3, and the Administrative Trustees shall not take any action that is inconsistent with the purposes and functions of the Trust set forth in Section 3.3.

Subject to this Section 3.6, the Administrative Trustees shall have none of the powers or the authority of the Property Trustee set forth in Section 3.8.

Any expenses incurred by the Administrative Trustees pursuant to this Section 3.6 shall be reimbursed by the Sponsor.

SECTION 3.7 Prohibition of Actions by the Trust and the Trustees .

The Trust shall not, and the Trustees (including the Property Trustee, the Delaware Trustee and the Administrative Trustees) shall cause the Trust not to, engage in any activity other than as required or authorized by this Declaration. Notwithstanding any provision in this Declaration to the contrary, the Trust shall not:

(i) invest any proceeds received by the Trust from holding the Debentures, but shall distribute all such proceeds to Holders pursuant to the terms of this Declaration and of the Securities;

(ii) acquire any assets other than as expressly provided herein;

(iii) possess Trust Property for other than a Trust purpose or execute any mortgage in respect of, or pledge, any Trust Property;

(iv) make any loans or incur any indebtedness other than loans represented by the Debentures;

(v) possess any power or otherwise act in such a way as to vary the Trust Property or the terms of the Securities in any way whatsoever (except to the extent expressly authorized in this Declaration or by the terms of the Securities);

(vi) issue any securities or other evidences of beneficial ownership of, or beneficial interest in, the Trust other than the Securities;

(vii) other than as provided in this Declaration or Annex I hereto, (A) direct the time, method and place of conducting any proceeding with respect to any remedy available to the Debenture Trustee, or exercising any trust or power conferred upon the Debenture Trustee with respect to the Debentures, (B) waive any past default that is waivable under the Indenture, or (C) exercise any right to rescind or annul any declaration that the principal of all the Debentures shall be due and payable;

(viii) consent to any amendment, modification or termination of the Indenture or the Debentures where such consent shall be required unless the Trust shall have received an opinion of independent tax counsel experienced in such matters to the effect that such amendment, modification or termination will not cause more than an insubstantial risk that the Trust will not be classified as a grantor trust for United States federal income tax purposes; or

(ix) take any action inconsistent with the status of the Trust as a grantor trust for United States federal income tax purposes.

SECTION 3.8 Powers and Duties of the Property Trustee .

(a) The legal title to the Debentures shall be owned by and held of record in the name of the Property Trustee in trust for the benefit of the Trust and the Holders. The right, title and interest of the Property Trustee to the Debentures shall vest automatically in each Person who may hereafter be appointed as Property Trustee in accordance with Section 5.6. Such vesting and cessation of title shall be effective whether or not conveyancing documents with regard to the Debentures have been executed and delivered.

(b) The Property Trustee shall not transfer its right, title and interest in the Debentures to the Administrative Trustees or to the Delaware Trustee (if the Property Trustee does not also act as Delaware Trustee).

(c) The Property Trustee shall:

(i) establish and maintain a segregated non-interest bearing trust account (the "Property Trustee Account") in the name of and under the exclusive control of the Property Trustee on behalf of the Holders and, upon the receipt of payments of funds made in respect of the Debentures held by the Property Trustee, deposit such funds into the Property Trustee Account and make payments or cause the Paying Agent to make payments to the Holders from the Property Trustee Account in accordance with Section 6.1; funds in the Property Trustee Account shall be held uninvested until disbursed in accordance with this Declaration; and the Property Trustee Account shall be an account that is maintained with a banking institution the rating on whose long-term unsecured indebtedness by a "nationally recognized statistical rating organization," as that term is defined for purposes of Rule 436(g)(2) under the Securities Act, is at least equal to the rating assigned to the Preferred Securities, unless the Preferred Securities are not rated, in which case the banking institution's long-term unsecured indebtedness shall be rated at least investment grade by a "nationally recognized statistical rating organization;"

(ii) engage in such ministerial activities as shall be necessary or appropriate to effect the redemption of the Securities to the extent the Debentures are redeemed or mature; and

(iii) upon written notice of distribution issued by the Administrative Trustees in accordance with the terms of the Securities, engage in such ministerial activities as shall be necessary or appropriate to effect the distribution of the Debentures to Holders upon the occurrence of certain events.

(d) The Property Trustee shall take all actions and perform such duties as may be specifically required of the Property Trustee pursuant to the terms of this Declaration and the Securities.

(e) Subject to Section 3.9(a), the Property Trustee shall take any Legal Action which arises out of or in connection with an Event of Default of which a Responsible Officer has actual knowledge or the Property Trustee's duties and obligations under this Declaration or the Trust Indenture Act. If the Property Trustee fails to enforce its rights under the Debentures after a Holder of Securities has made a written request, such Holder of Securities may, to the extent permitted by applicable law, institute a legal proceeding directly against the Sponsor to enforce the Property Trustee's rights under the Indenture without first instituting any legal proceeding against the Property Trustee or any other Person. If an Event of Default has occurred and is continuing and such event is attributable to the failure of the Sponsor to pay the principal of or interest (including Compounded Interest and Additional Sums, if any) on the Debentures on the date such principal or interest (including Compounded Interest and Additional Sums, if any) is otherwise payable (or in the case of redemption, on the redemption date), then a Holder of Preferred Securities may directly institute a proceeding against the Sponsor for enforcement of payment to such Holder of the principal of or interest (including Compounded Interest and Additional Sums, if any) on the Debentures having a principal amount equal to the aggregate liquidation amount of the Preferred Securities of such Holder (a "Direct Action") on or after the respective due date specified in the Debentures. In connection with such Direct Action, the Holders of the Common Securities will be subrogated to the rights of such Holder of Preferred Securities to the extent of any payment made by the Sponsor to such Holder of Preferred Securities in such Direct Action.

Except as provided in the preceding sentences, the Holders of Preferred Securities will not be able to exercise directly any other remedy available to the holders of the Debentures.

(f) The Property Trustee shall continue to serve as a Trustee until either:

(i) the Trust has been completely liquidated and the proceeds of the liquidation distributed to the Holders pursuant to the terms of the Securities and this Declaration; or

(ii) a successor Property Trustee has been appointed and has accepted that appointment in accordance with Section 5.6 (a "Successor Property Trustee").

(g) The Property Trustee shall have the legal power to exercise all of the rights, powers and privileges of a holder of Debentures under the Indenture and, if an Event of Default actually known to a Responsible Officer occurs and is continuing, the Property Trustee shall, for the benefit of Holders, enforce its rights as holder of the Debentures subject to the rights of the Holders pursuant to the terms of this Declaration and the Securities.

(h) The Property Trustee shall be authorized to undertake any actions set forth in § 317(a) of the Trust Indenture Act.

(i) For such time as the Property Trustee is the Paying Agent, the Property Trustee may authorize one or more Persons to act as additional Paying Agents and to pay

Distributions, redemption payments or liquidation payments on behalf of the Trust with respect to all Securities and any such Paying Agent shall comply with § 317(b) of the Trust Indenture Act. Any such additional Paying Agent may be removed by the Property Trustee at any time the Property Trustee remains as Paying Agent and a successor Paying Agent or additional Paying Agents may be (but are not required to be) appointed at any time by the Property Trustee while the Property Trustee is acting as Paying Agent.

(j) Subject to this Section 3.8, the Property Trustee shall have none of the duties, liabilities, powers or the authority of the Administrative Trustees set forth in Section 3.6.

Notwithstanding anything expressed or implied to the contrary in this Declaration or any Annex or Exhibit hereto, (i) the Property Trustee must exercise the powers set forth in this Section 3.8 in a manner that is consistent with the purposes and functions of the Trust set out in Section 3.3, and (ii) the Property Trustee shall not take any action that is inconsistent with the purposes and functions of the Trust set out in Section 3.3.

SECTION 3.9 Certain Duties and Responsibilities of the Property Trustee .

(a) The Property Trustee, before the occurrence of any Event of Default (of which, other than in the case of Events of Default under Sections 5.1(a) and 5.1(b) of the Indenture, which the Property Trustee is deemed to have knowledge of as provided in Section 2.7(b) hereof, a Responsible Officer of the Property Trustee has actual knowledge) and after the curing or waiving of all such Events of Default that may have occurred, shall undertake to perform only such duties as are specifically set forth in this Declaration and in the Securities and no implied covenants shall be read into this Declaration against the Property Trustee. If no Event of Default exists and the Property Trustee is required to decide between alternative courses of action or to construe ambiguous provisions in this Declaration or is unsure of the application of any provision of this Declaration, and the matter is not one on which Holders are entitled under this Declaration to vote, then the Property Trustee shall take such action as directed by the Sponsor and, if not directed, shall take such action as it deems advisable and in the best interests of the Holders and will have no liability, except for its own bad faith, negligence or willful misconduct. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.6) of which a Responsible Officer has actual knowledge, the Property Trustee shall exercise such of the rights and powers vested in it by this Declaration, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) No provision of this Declaration shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) prior to the occurrence of an Event of Default (of which, other than in the case of Events of Default under Sections 5.1(a) and 5.1(b) of the Indenture, which the Property Trustee is deemed to have knowledge of as provided in Section 2.7(b) hereof, a Responsible Officer of the Property Trustee has actual knowledge) and after the curing or waiving of all such Events of Default that may have occurred:

(A) the duties and obligations of the Property Trustee shall be determined solely by the express provisions of this Declaration and in the Securities and the Property Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Declaration and in the Securities, and no implied covenants or obligations shall be read into this Declaration against the Property Trustee; and

(B) in the absence of bad faith on the part of the Property Trustee, the Property Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Property Trustee and conforming to the requirements of this Declaration; provided , however , that in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Property Trustee, the Property Trustee shall be under a duty to examine the same to determine whether or not on their face they conform to the requirements of this Declaration;

(ii) the Property Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(iii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a Majority in Liquidation Amount of the Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Declaration;

(iv) no provision of this Declaration shall require the Property Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers;

(v) the Property Trustee's sole duty with respect to the custody, safekeeping and physical preservation of the Debentures and the Property Trustee Account shall be to deal with such property in a similar manner as the Property Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Property Trustee under this Declaration and the Trust Indenture Act;

(vi) the Property Trustee shall have no duty or liability for or with respect to the value, genuineness, existence or sufficiency of the Debentures or the payment of any taxes or assessments levied thereon or in connection therewith;

(vii) the Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree in writing with the Sponsor. Money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Property Trustee Account maintained by the Property Trustee pursuant to Section 3.8(c)(i) and except to the extent otherwise required by law; and

(viii) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Sponsor with their respective duties under this Declaration, nor shall the Property Trustee be liable for any default or misconduct of the Administrative Trustees or the Sponsor.

SECTION 3.10 Certain Rights of Property Trustee .

(a) Subject to the provisions of Section 3.9:

(i) the Property Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed, sent or presented by the proper party or parties;

(ii) any direction or act of the Sponsor or the Administrative Trustees contemplated by this Declaration may be sufficiently evidenced by an Officers' Certificate;

(iii) whenever in the administration of this Declaration, the Property Trustee shall deem it desirable that a matter be proved or established before taking, suffering or omitting any action hereunder, the Property Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and conclusively rely upon an Officers' Certificate which, upon receipt of such request, shall be promptly delivered by the Sponsor or the Administrative Trustees;

(iv) the Property Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any rerecording, refiling or registration thereof;

(v) the Property Trustee may consult with counsel or other experts of its selection, and the advice or opinion of such counsel and experts with respect to legal matters or advice within the scope of such experts' area of expertise shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion; such counsel may be counsel to the Sponsor or any of its Affiliates, and may include any of its employees; and the Property Trustee shall have the right at any time to seek instructions concerning the administration of this Declaration from any court of competent jurisdiction;

(vi) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Declaration at the request or direction of any Holder, unless such Holder shall have provided to the Property Trustee security and indemnity, reasonably satisfactory to the Property Trustee, against the costs, expenses (including reasonable attorneys' fees and expenses and the expenses of the Property Trustee's agents, nominees or custodians) and liabilities that might be incurred by it in complying with such request or direction, including such reasonable advances as may be requested by the Property Trustee; provided , however , that, nothing contained in this Section 3.10(a)(vi) shall be taken to relieve the Property Trustee, upon the occurrence of an Event of Default (of which, other than in the case of Events of Default under Sections 5.1(a) and 5.1(b) of the Indenture, which the Property Trustee is deemed to have knowledge of as provided in Section 2.7(b) hereof, a Responsible Officer of the Property Trustee has actual knowledge), of its obligation to exercise the rights and powers vested in it by this Declaration;

(vii) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Property Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(viii) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, custodians, nominees or attorneys, and the Property Trustee shall not be responsible for any misconduct or negligence on the part of any such agent, custodian, nominee or attorney appointed with due care by it hereunder, provided that such agent, custodian, nominee or attorney is a United States person as defined in Section 7701(a)(30) of the Code;

(ix) any action taken by the Property Trustee or its agents hereunder shall bind the Trust and the Holders, and the signature of the Property Trustee or its agents alone shall be sufficient and effective to perform any such action and no third party shall be required to inquire as to the authority of the Property Trustee to so act or as to its compliance with any of the terms and provisions of this Declaration, both of which shall be conclusively evidenced by the Property Trustee's or its agent's taking such action;

(x) whenever in the administration of this Declaration the Property Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Property Trustee (i) may request instructions from the Holders which instructions may only be given by the Holders of the same proportion in liquidation amount of the Securities as would be entitled to direct the Property Trustee under the terms of the Securities in respect of such remedy, right or action, (ii) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (iii) shall be protected in conclusively relying on or acting in accordance with such instructions;

(xi) except as otherwise expressly provided by this Declaration, the Property Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Declaration; and

(xii) the Property Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith, without negligence or willful misconduct, and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Declaration.

(b) No provision of this Declaration shall be deemed to impose any duty or obligation on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Property Trustee shall be construed to be a duty.

SECTION 3.11 Delaware Trustee .

Notwithstanding any other provision of this Declaration other than Section 5.2, the Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities of the Administrative Trustees or Property Trustee described in this Declaration (except as required under the Business Trust Act). Except as set forth in Section 5.2, the Delaware Trustee shall be a Trustee for the sole and limited purpose of fulfilling the requirements of § 3807 of the Business Trust Act. In the event the Delaware Trustee shall at any time be required to take any action or perform any duty hereunder, the Delaware Trustee shall be entitled to the benefits of Section 3.9(b)(ii) to (viii), inclusive, and Section 3.10. No implied covenants or obligations shall be read into this Declaration against the Delaware Trustee. The duties of the Delaware Trustee shall be limited to (a) accepting legal process served on the Trust in the State of Delaware and (b) the execution of any certificates required to be filed with the Delaware Secretary of State which the Delaware Trustee is required to execute under Section 3811 of the Business Trust Statute. To the extent that, at law or in equity, the Delaware Trustee has duties (including fiduciary duties) and liabilities relating thereto to the Trust or the Holders, it is hereby understood and agreed by the other parties hereto and the Holders that such duties and liabilities are replaced by the duties and liabilities of the Delaware Trustee expressly set forth in this Agreement.

SECTION 3.12 Execution of Documents .

Unless otherwise required by applicable law, each Administrative Trustee, individually, is authorized to execute and deliver on behalf of the Trust any documents, agreements, instruments or certificates that the Administrative Trustees have the power and authority to execute pursuant to Section 3.6.

SECTION 3.13 Not Responsible for Recitals or Issuance of Securities .

The recitals contained in this Declaration and the Securities shall be taken as the statements of the Sponsor, and the Trustees do not assume any responsibility for their correctness. The Trustees make no representations as to the value or condition of the Trust Property or any part thereof. The Trustees make no representations as to the validity or sufficiency of this Declaration or the Securities.

SECTION 3.14 Duration of Trust .

The Trust, unless earlier dissolved pursuant to the provisions of Article VIII hereof, shall dissolve on November 7, 2032.

SECTION 3.15 Mergers .

(a) The Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any Person, except as described in Section 3.15(b) and (c) and except with respect to the distribution of Debentures to Holders pursuant to Section 8.1(a)(iii) of this Declaration or Section 3 of Annex I.

(b) The Trust may, at the request of the Sponsor, with the consent of the Administrative Trustees or, if there are more than two, a majority of the Administrative Trustees and without the consent of the Holders, the Delaware Trustee or the Property Trustee, merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, a trust organized as such under the laws of any State; provided that:

(i) such successor entity (the "Successor Entity") either:

(A) expressly assumes all of the obligations of the Trust under the Securities; or

(B) substitutes for the Securities other securities having substantially the same terms as the Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Securities rank in priority with respect to Distributions and payments upon liquidation, redemption and otherwise;

(ii) the Sponsor expressly appoints a trustee of the Successor Entity that possesses the same powers and duties as the Property Trustee with respect to the Debentures;

(iii) the Successor Securities (excluding any securities substituted for the Common Securities) are listed, quoted or included for trading, or any Successor Securities will be listed, quoted or included for trading upon notification of issuance, on any national securities exchange or with any other organization on which the Preferred Securities are then listed, quoted or included;

(iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Preferred Securities (including any Successor Securities) or the Debentures to be downgraded by any nationally recognized statistical rating organization that publishes a rating on the Preferred Securities or the Debentures;

(v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders (including the holders of any Successor Securities) in any material respect (other than with respect to any dilution of the interests of such Holders or holders, as the case may be, in the Successor Entity);

(vi) the Successor Entity has a purpose substantially identical to that of the Trust;

(vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Sponsor has received an opinion of independent counsel to the Trust experienced in such matters to the effect that:

(A) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders (including the holders of any Successor Securities) in any material respect (other than with respect to any dilution of the interests of such Holders or holders, as the case may be, in the Successor Entity);

(B) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Trust nor the Successor Entity will be required to register as an Investment Company; and

(C) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Trust (or the Successor Entity) will continue to be classified as a grantor trust for United States federal income tax purposes;

(viii) the Sponsor or any permitted successor or assignee of the Sponsor owns all of the common securities of the Successor Entity and guarantees the obligations of the Successor Entity under the Successor Securities at least to the extent provided by the Securities Guarantees; and

(ix) there shall have been furnished to the Property Trustee an Officers' Certificate and an Opinion of Counsel, each to the effect that all conditions precedent in this Declaration to such transaction have been satisfied.

(c) Notwithstanding Section 3.15(b), the Trust shall not, except with the consent of Holders of 100% in aggregate liquidation amount of the Securities, consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, any other Person or permit any other Person to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the Successor Entity not to be classified as a grantor trust for United States federal income tax purposes.

SECTION 3.16 Property Trustee May File Proofs of Claim .

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relative to the Trust or any other obligor upon the Securities or the property of the Trust or of such other obligor or their creditors, the Property Trustee (irrespective of whether any Distributions on the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Property Trustee shall have made any demand on the Trust for the payment of any past due Distributions) shall be entitled and empowered, to the fullest extent permitted by law, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of any Distributions owing and unpaid in respect of the Securities (or, if the Securities are original issue discount Securities, such portion of the liquidation amount as may be specified in the terms of such Securities) and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Property Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Property Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trust, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Property Trustee and, in the event the Property Trustee shall consent to the making of such payments directly to the holders, to pay to the Property Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Property Trustee, its agents and counsel, and any other amounts due the Property Trustee.

Nothing herein contained shall be deemed to authorize the Property Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization,

arrangement adjustment or compensation affecting the Securities or the rights of any Holder thereof or to authorize the Property Trustee to vote in respect of the claim of any Holder in any such proceeding.

ARTICLE IV

SPONSOR

SECTION 4.1 Sponsor's Purchase of Common Securities .

At the Closing Date and each Date of Delivery the Sponsor will purchase all of the Common Securities then issued by the Trust, in an amount equal to at least 3% of the total capital of the Trust, at the same time as the Preferred Securities are issued and sold.

SECTION 4.2 Responsibilities of the Sponsor .

In connection with the issue and sale of the Preferred Securities, the Sponsor shall have the exclusive right and responsibility to engage in, or direct the Administrative Trustees to engage in, the following activities:

(a) to prepare and file with the Commission the Registration Statement, including any amendments thereto, and the Prospectus;

(b) to determine the states of the United States in which to take appropriate action to qualify or register for sale all or part of the Preferred Securities and to do any and all such acts, other than actions which must be taken by the Trust, and advise the Trust of actions it must take, and prepare for execution and filing any documents to be executed and filed by the Trust, as the Sponsor deems necessary or advisable in order to comply with the applicable laws of any such states;

(c) if deemed necessary or advisable by the Sponsor, to prepare for filing by the Trust an application to permit the Preferred Securities to trade or be quoted or listed in or on the New York Stock Exchange, or any other securities exchange, quotation system or the Nasdaq National Market;

(d) to prepare for filing by the Trust with the Commission a registration statement on Form 8-A, including any amendments thereto, relating to the registration of the Preferred Securities under Section 12(b) or 12(g) of the Exchange Act, as the case may be, including any amendments thereto; and

(e) to negotiate the terms of, execute, enter into and deliver the Underwriting Agreement.

SECTION 4.3 Right to Proceed .

The Sponsor acknowledges the rights of the Holders of Preferred Securities described in Section 3.8(e) hereof.

SECTION 4.4 Right to Dissolve Trust .

The Sponsor will have the right at any time to dissolve the Trust and, after satisfaction of liabilities to creditors of the Trust as required by applicable law, to cause the Debentures to be distributed to the Holders in liquidation of the Trust. Such right is subject to the Sponsor's having received (i) an Opinion of Counsel to the effect that such distribution will not cause the Holders of Preferred Securities to recognize gain or loss for United States federal income tax purposes and (ii) all required regulatory approvals.

ARTICLE V

TRUSTEES

SECTION 5.1 Number of Trustees; Appointment of Co-Trustee .

The number of Trustees initially shall be five (5), and:

(a) at any time before the issuance of any Securities, the Sponsor may, by written instrument, increase or decrease the number of Trustees; and

(b) after the issuance of any Securities, the number of Trustees may be increased or decreased by vote of the Holders of a Majority in Liquidation Amount of the Common Securities voting as a class at a meeting of the Holders of the Common Securities;

provided , however , that, the number of Trustees shall in no event be less than two (2); provided further that (1) one Trustee, in the case of a natural person, shall be a person who is at least 21 years of age and who is a resident of the State of Delaware or that, if not a natural person, is an entity which has its principal place of business in the State of Delaware (the "Delaware Trustee"); (2) there shall be at least one Trustee who is an employee or officer of, or is affiliated with, the Sponsor (an "Administrative Trustee"); and (3) one Trustee shall be the Property Trustee for so long as this Declaration is required to qualify as an indenture under the Trust Indenture Act, and such Trustee may also serve as Delaware Trustee if it meets the applicable requirements. Notwithstanding the above, unless an Event of Default shall have occurred and be continuing, at any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust Property may at the time be located, the Holders of a Majority in Liquidation Amount of the Common Securities acting as a

class at a meeting of the Holders of the Common Securities, and the Administrative Trustees shall have power to appoint one or more Persons either to act as a co-trustee, jointly with the Property Trustee, of all or any part of the Trust Property, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in such capacity any property, title, right or power deemed necessary or desirable, subject to the provisions of this Declaration, including Sections 5.3 and 13.1 hereof. In case an Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make any such appointment of a co-trustee and any such co-trustee may be removed in accordance with Section 5.6(iii);

(c) at all times the Property Trustee must be (i) a bank as defined in Section 581 of the Code or (ii) a United States government-owned agency or United States government-sponsored enterprise; and

(d) at all times, each Trustee must be a United States person as defined in Section 7701(a)(30) of the Code.

SECTION 5.2 Delaware Trustee .

For so long as required by the Business Trust Act, the Delaware Trustee shall be:

(a) a natural person who is a resident of the State of Delaware; or

(b) if not a natural person, an entity which has its principal place of business in the State of Delaware, and otherwise meets the requirements of applicable law,

provided , however , that, if the Property Trustee has its principal place of business in the State of Delaware and otherwise meets the requirements of applicable law, then the Property Trustee shall also be the Delaware Trustee and Section 3.11 shall have no application.

The initial Delaware Trustee shall be:

The Bank of New York (Delaware)
White Clay Center
Route 273
Newark, Delaware 19711
Attn: Corporate Trust Department
Telephone:
Telecopier:

SECTION 5.3 Property Trustee; Eligibility .

(a) There shall at all times be one Trustee (the "Property Trustee") which shall act as Property Trustee and which shall:

(i) not be an Affiliate of the Sponsor; and

(ii) be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or Person permitted by the Commission to act as an indenture trustee under the Trust Indenture Act, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million U.S. dollars ($50,000,000), and subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then for the purposes of this Section 5.3(a)(ii), the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Property Trustee shall cease to be eligible to so act under Section 5.3(a), the Property Trustee shall immediately resign in the manner and with the effect set forth in Section 5.6(c).

(c) If the Property Trustee has or shall acquire any "conflicting interest" within the meaning of § 330(b) of the Trust Indenture Act, the Property Trustee and the Holder of the Common Securities (as if it were the obligor referred to in § 310(b) of the Trust Indenture Act) shall in all respects comply with the provisions of § 310(b) of the Trust Indenture Act.

(d) The Preferred Securities Guarantee shall be deemed to be specifically described in this Declaration for purposes of clause (i) of the first proviso contained in § 310 (b) of the Trust Indenture Act.

(e) The initial Property Trustee shall be:

The Bank of New York
5 Penn Plaza, 13 th Floor
New York, New York 10001
Attn: Corporate Trust Trustee Administration
Telephone: 212-328-7629
Telecopier: 212-896-7298

SECTION 5.4 Certain Qualifications of Administrative Trustees and Delaware Trustee Generally .

Each Administrative Trustee and the Delaware Trustee (unless the Property Trustee also acts as Delaware Trustee) shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more Authorized Officers.

SECTION 5.5 Administrative Trustees .

The initial Administrative Trustees shall be:

Gerald H. Lipkin
Alan D. Eskow
Jack Blackin

c/o Valley National Bancorp
1455 Valley Road
Wayne, New Jersey 07470
Telephone: 973-305-8800
Telecopier: 973-305-8415

(a) Except as otherwise expressly set forth in this Declaration and except if a meeting of the Administrative Trustees is called with respect to any matter over which the Administrative Trustees have power to act, any power of the Administrative Trustees may be exercised by, or with the consent of, any one such Administrative Trustee.

(b) Unless otherwise required by the Business Trust Act or other applicable law, any Administrative Trustee acting alone is authorized to execute on behalf of the Trust any documents which the Administrative Trustees have the power and authority to cause the Trust to execute pursuant to Section 3.6.

(c) An Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purposes of signing any documents which the Administrative Trustees have power and authority to cause the Trust to execute pursuant to Section 3.6.

SECTION 5.6 Appointment, Removal and Resignation of Trustees .

(a) Subject to Section 5.6(b) hereof and to Section 6(b) of Annex I hereto, Trustees may be appointed or removed without cause at any time:

(i) until the issuance of any Securities, by written instrument executed by the Sponsor;

(ii) unless an Event of Default shall have occurred and be continuing after the issuance of any Securities, by vote of the Holders of a Majority in Liquidation Amount of the Common Securities voting as a class at a meeting of the Holders of the Common Securities; and

(iii) if an Event of Default shall have occurred and be continuing after the issuance of the Securities, with respect to the Property Trustee or the Delaware Trustee, only by vote of Holders of a Majority in Liquidation Amount of the Preferred Securities voting as a class, and with respect to the Administrative Trustees, in the manner set forth in Section 5.6(a)(ii) hereof.

(b) (i) The Trustee that acts as Property Trustee shall not be removed in accordance with Section 5.6(a) until a Successor Property Trustee has been appointed and has accepted such appointment by written instrument executed by such Successor Property Trustee and delivered to the removed Property Trustee, the Administrative Trustees and the Sponsor; and

(ii) the Trustee that acts as Delaware Trustee shall not be removed in accordance with this Section 5.6(a) until a successor Trustee possessing the qualifications to act as Delaware Trustee under Sections 5.2 and 5.4 (a "Successor Delaware Trustee") has been appointed and has accepted such appointment by written instrument executed by such Successor Delaware Trustee and delivered to the removed Delaware Trustee, the Property Trustee (if the removed Delaware Trustee is not also the Property Trustee), the Administrative Trustees and the Sponsor.

(c) A Trustee appointed to office shall hold office until his successor shall have been appointed or until his death, removal or resignation. Any Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing signed by the Trustee and delivered to the other Trustees, the Sponsor and the Trust, which resignation shall take effect upon such delivery or upon such later date as is specified therein; provided , however , that:

(i) No such resignation of the Trustee that acts as the Property Trustee shall be effective:

(A) until a Successor Property Trustee has been appointed and has accepted such appointment by instrument executed by such Successor Property Trustee and delivered to the Trust, the Sponsor, the Delaware Trustee (if the resigning Property Trustee is not also the Delaware Trustee) and the resigning Property Trustee; or

(B) until the assets of the Trust have been completely liquidated and the proceeds thereof distributed to the Holders; and

(ii) no such resignation of the Trustee that acts as the Delaware Trustee shall be effective until a Successor Delaware Trustee has been appointed and has accepted such appointment by instrument executed by such Successor Delaware Trustee and delivered to the Trust, the Property Trustee (if the resigning Delaware Trustee is not also the Property Trustee), the Sponsor and the resigning Delaware Trustee.

(d) The Holders of the Common Securities or, if an Event of Default shall have occurred and be continuing after the issuance of the Securities, the Holders of the Preferred Securities shall use their best efforts to promptly appoint a Successor Property Trustee or Successor Delaware Trustee, as the case may be, if the Property Trustee or the Delaware Trustee delivers an instrument of resignation in accordance with this Section 5.6.

(e) If no Successor Property Trustee or Successor Delaware Trustee shall have been appointed and accepted appointment as provided in this Section 5.6 within 60 days after delivery of an instrument of resignation or removal, the Property Trustee or Delaware Trustee resigning or being removed, as applicable, may petition any court of competent jurisdiction for appointment of a Successor Property Trustee or Successor Delaware Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper to prescribe, appoint a Successor Property Trustee or Successor Delaware Trustee, as the case may be.

(f) No Property Trustee or Delaware Trustee shall be liable for the acts or omissions to act of any Successor Property Trustee or Successor Delaware Trustee, as the case may be.

(g) At the time of resignation or removal of the Property Trustee or the Delaware Trustee, the Sponsor shall pay to such Trustee any amounts that may be owed to such Trustee pursuant to Section 10.4.

(h) Any successor Delaware Trustee shall file an amendment to the Certificate of Trust with the Secretary of State of the State of Delaware identifying the name and principal place of business of such Successor Delaware Trustee in the State of Delaware.

SECTION 5.7 Vacancies among Trustees .

If a Trustee ceases to hold office for any reason and the number of Trustees is not reduced pursuant to Section 5.l, or if the number of Trustees is increased pursuant to Section 5.1, a vacancy shall occur. A resolution certifying the existence of such vacancy by the Administrative Trustees or, if there are more than two, a majority of the Administrative Trustees shall be conclusive evidence of the existence of such vacancy. The vacancy shall be filled with a Trustee appointed in accordance with Section 5.6.

SECTION 5.8 Effect of Vacancies .

The death, resignation, retirement, removal, bankruptcy, dissolution, liquidation, incompetence or incapacity to perform the duties of a Trustee shall not operate to dissolve, liquidate or annul the Trust or to terminate this Declaration. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 5.6, the Administrative Trustees in office, regardless of their number, shall have all the powers granted to the Administrative Trustees and shall discharge all the duties imposed upon the Administrative Trustees by this Declaration.

SECTION 5.9 Meetings .

If there is more than one Administrative Trustee, meetings of the Administrative Trustees shall be held from time to time upon the call of any Administrative Trustee. Regular meetings of the Administrative Trustees may be held at a time and place fixed by resolution of the Administrative Trustees. Notice of any in-person meetings of the Administrative Trustees shall be hand delivered or otherwise delivered in writing (including by facsimile, with a hard copy by overnight courier) not less than 24 hours before such meeting. Notice of any telephonic meetings of the Administrative Trustees or any committee thereof shall be hand delivered or otherwise delivered in writing (including by facsimile, with a hard copy by overnight courier) not less than 24 hours before a meeting. Notices shall contain a brief statement of the time, place and anticipated purposes of the meeting. The presence (whether in person or by telephone) of an Administrative Trustee at a meeting shall constitute a waiver of notice of such meeting except where an Administrative Trustee attends a meeting for the express purpose of objecting to the transaction of any activity on the ground that the meeting has not been lawfully called or convened. Unless provided otherwise in this Declaration, any action of the Administrative Trustees may be taken at a meeting by vote of a majority of the Administrative Trustees present (whether in person or by telephone) and eligible to vote with respect to such matter, provided that, a Quorum is present, or without a meeting by the unanimous written consent of the Administrative Trustees. In the event there is only one Administrative Trustee, any and all action of such Administrative Trustee shall be evidenced by a written consent of such Administrative Trustee.

SECTION 5.10 Delegation of Power .

(a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purpose of executing any documents contemplated in Section 3.6, including any registration statement or amendment thereto filed with the Commission, or making any other governmental filing; provided that such person is a United States person as defined in Section 7701(a)(30) of the Code; and

(b) The Administrative Trustees shall have power to delegate from time to time to such of their number or to officers of the Trust the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of this Declaration; provided that such person is a United States person as defined in Section 7701(a)(30) of the Code.

SECTION 5.11 Merger, Conversion, Consolidation or Succession to Business .

Any Person into which the Property Trustee or the Delaware Trustee or any Administrative Trustee that is not a natural person, as the case may be, may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Property Trustee or the Delaware Trustee, as the case may be, shall be a party, or any Person succeeding to all or substantially all the corporate trust business of the Property Trustee or the Delaware Trustee, as the case may be, shall be the successor of the Property Trustee or the Delaware Trustee, as the case may be, hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided such Person shall be otherwise qualified and eligible under this Article and provided further that such Person shall file an amendment to the Certificate of Trust with the Delaware Secretary of State as contemplated in Section 5.6(h).

ARTICLE VI

DISTRIBUTIONS

SECTION 6.1 Distributions .

Holders shall receive Distributions in accordance with the applicable terms of the relevant Holder's Securities. If and to the extent that the Sponsor makes a payment of interest (including Compounded Interest and Additional Sums) and/or principal on the Debentures held by the Property Trustee with respect to the Debentures held by the Property Trustee (the amount of any such payment being a "Payment Amount"), the Property Trustee shall and is directed, to the extent funds are available for that purpose, to make a distribution (a "Distribution") of the Payment Amount to Holders in accordance with the terms of the Securities, subject to Section 9 of Annex I.

SECTION 6.2 Redemption .

The Trust shall redeem the Securities in accordance with the applicable terms of the relevant Holders' Securities.

ARTICLE VII

ISSUANCE OF SECURITIES

SECTION 7.1 General Provisions Regarding Securities .

(a) The Administrative Trustees shall, on behalf of the Trust, issue one class of Trust Originated Preferred Securities sm ("TOPrS sm ") (the "Preferred Securities") representing undivided preferred beneficial interests in the assets of the Trust having such terms as are set forth in Annex I (which terms are incorporated by reference in, and made a part of, this Declaration as if specifically set forth herein) and one class of common securities (the "Common Securities") representing undivided common beneficial interests in the assets of the Trust having such terms as are set forth in Annex I (which terms are incorporated by reference in, and made a part of, this Declaration as if specifically set forth herein). The Trust shall issue no securities or other interests in the assets of the Trust other than the Preferred Securities and the Common Securities.

(b) The consideration received by the Trust for the issuance of the Securities shall constitute a contribution to the capital of the Trust and shall not constitute a loan to the Trust.

(c) Upon issuance of the Securities as provided in this Declaration, the Securities so issued shall be deemed to be validly issued and, subject to the terms of this Declaration, fully paid and nonassessable undivided beneficial interests in the assets of the Trust and entitled to the benefits of this Declaration, and the Holders thereof shall be entitled to the benefits of this Declaration.

(d) Every Person, by virtue of having become a Holder or a Preferred Security Beneficial Owner in accordance with the terms of this Declaration, shall be deemed to have expressly assented and agreed to the terms of, and shall be bound by, this Declaration.

SECTION 7.2 Execution and Authentication .

(a) Each certificate evidencing the Securities shall be signed on behalf of the Trust by an Administrative Trustee. In case any Administrative Trustee of the Trust who shall have signed any of the Securities shall cease to be such Administrative Trustee before the Securities so signed shall be delivered by the Trust, such Securities nevertheless may be delivered as though the Person who signed such Securities had not ceased to be such Administrative Trustee; and any Securities may be signed on behalf of the Trust by such persons who, at the actual date of execution of such Security, shall be the Administrative Trustees of the Trust, although at the date of the execution and delivery of this Declaration any such person was not an Administrative Trustee.

(b) One Administrative Trustee shall sign each certificate evidencing the Preferred Securities for the Trust by manual or facsimile signature. Unless otherwise determined by an Administrative Trustee on behalf of the Trust, an Administrative Trustee shall sign the Common Securities for the Trust by manual signature.

(c) A Preferred Security shall not be valid until authenticated by the manual signature of an authorized signatory of the Property Trustee. The signature shall be conclusive evidence that the Preferred Security has been authenticated under this Declaration. A Common Security shall be valid upon execution by an Administrative Trustee without any act of the Property Trustee.

(d) Upon a written order of the Trust signed by one Administrative Trustee, the Property Trustee shall authenticate the Preferred Securities for original issue. The aggregate number of Preferred Securities outstanding at any time shall not exceed the number set forth in Annex I hereto except as provided in Section 7.6.

(e) The Property Trustee may appoint an authenticating agent acceptable to the Trust to authenticate Preferred Securities. An authenticating agent may authenticate Preferred Securities whenever the Property Trustee may do so. Each reference in this Declaration to authentication by the Property Trustee includes authentication by such agent. An authenticating agent has the same rights as the Property Trustee hereunder with respect to the Sponsor or an Affiliate.

SECTION 7.3 Form and Dating .

Except as otherwise set forth in this Declaration, the Preferred Securities and Common Securities shall be evidenced by one or more certificates substantially in the form of Exhibits A-1 and A-2, respectively. The Property Trustee's certificate of authentication shall be substantially in the form set forth in Exhibit A-1. Certificates representing the Securities may be printed, lithographed or engraved or may be produced in any other manner as is reasonably acceptable to an Administrative Trustee, as evidenced by the execution thereof. The Securities may have letters, "CUSIP" or other numbers, notations or other marks of identification or designation and such legends or endorsements required by law, stock exchange rule, agreements to which the Trust is subject, if any, or usage, provided that, any such notation, legend or endorsement is in a form acceptable to the Administrative Trustees, as evidenced by their execution thereof. The Trust at the direction of the Sponsor, shall furnish any such legend not contained in Exhibit A-1 to the Property Trustee in writing. Each Preferred Security shall be dated the date of its authentication. The terms and provisions of the Securities set forth in Annex I and the forms of Securities set forth in Exhibits A-1 and A-2 are part of the terms of this Declaration and, to the extent applicable, the Property Trustee and the Sponsor, by their execution and delivery of this Declaration, expressly agree to such terms and provisions and to be bound thereby.

Preferred Securities offered and sold as provided in the Underwriting Agreement shall be issued in the form of a single permanent global Preferred Security in definitive, fully registered form without distribution coupons and with the legends set forth in Exhibit A-1 hereto (the "Global Preferred Security"), which shall be deposited on behalf of the purchasers represented thereby with the Property Trustee, at its Corporate Trust Office, as custodian for the Clearing Agency, and registered in the name of the Clearing Agency or a nominee of the Clearing Agency, duly executed by the Trust and authenticated by the Property Trustee as hereinafter provided. The number of Preferred Securities represented by the Global Preferred Security may from time to time be increased or decreased by adjustments made on the records of the Property Trustee and the Clearing Agency or its nominee as hereinafter provided.

An Administrative Trustee shall execute and the Property Trustee shall, in accordance with this Section 7.3, authenticate and make available for delivery initially a single Global Preferred Security that (i) shall be registered in the name of Cede & Co. or other nominee of such Clearing Agency, and (ii) shall be delivered by the Property Trustee to such Clearing Agency or pursuant to such Clearing Agency's written instructions or, if no such written instructions are received by the Property Trustee, held by the Property Trustee as custodian for the Clearing Agency.

Members of, or participants in, the Clearing Agency ("Participants") shall have no rights under this Declaration with respect to the Global Preferred Security held on their behalf by the Clearing Agency or by the Property Trustee as the custodian of the Clearing Agency or under such Global Preferred Security, and the Clearing Agency may be treated by the Trust, the Property Trustee and any agent of the Trust or the Property Trustee as the absolute owner of such Global Preferred Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Trust, the Property Trustee or any agent of the Trust or the Property Trustee from giving effect to any written certification, proxy or other authorization furnished by the Clearing Agency or impair, as between the Clearing Agency and its Participants, the operation of customary practices of such Clearing Agency governing the exercise of the rights of a holder of a beneficial interest in the Global Preferred Security.

Except as provided in Section 7.9 or 9.2(e), owners of beneficial interests in the Global Preferred Security will not be entitled to receive physical delivery of certificated Preferred Securities ("Definitive Preferred Securities").

SECTION 7.4 Registrar and Paying Agent .

The Trust shall maintain in Wilmington, Delaware (i) an office or agency where Preferred Securities may be presented for registration of transfer ("Registrar"), and (ii) an office or agency where Preferred Securities may be presented for payment ("Paying Agent"). The Registrar shall keep a register of the Preferred Securities and of their transfer. The Trust may appoint the Registrar and the Paying Agent and may appoint one or more co-registrars and one or more additional paying agents in such other locations as it shall determine. The term "Registrar" includes any additional registrar and the term "Paying Agent" includes any additional paying

agent. The Trust may change any Paying Agent, Registrar or co-registrar without prior notice to any Holder. The Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Property Trustee, the Administrative Trustees and the Sponsor. The Trust shall notify the Property Trustee of the name and address of any Agent not a party to this Declaration. If the Trust fails to appoint or maintain another entity as Registrar or Paying Agent, the Property Trustee shall act as such. The Trust or any of its Affiliates may act as Paying Agent or Registrar. The Trust shall act as Paying Agent and Registrar for the Common Securities.

The Trust initially appoints the Property Trustee as Registrar and Paying Agent for the Preferred Securities.

SECTION 7.5 Paying Agent to Hold Money in Trust .

The Trust shall require each Paying Agent other than the Property Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of Holders or the Property Trustee all money held by the Paying Agent for the payment of liquidation amounts or Distributions, and will notify the Property Trustee if there are insufficient funds for such purpose. While any such insufficiency continues, the Property Trustee may require a Paying Agent to pay all money held by it to the Property Trustee. The Trust at any time may require a Paying Agent to pay all money held by it to the Property Trustee and to account for any money disbursed by it. Upon payment over to the Property Trustee, the Paying Agent (if other than the Trust or an Affiliate of the Trust) shall have no further liability for the money. If the Trust or the Sponsor or an Affiliate of the Trust or the Sponsor acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent.

SECTION 7.6 Replacement Securities .

If a Holder claims that a Security owned by it has been lost, destroyed or wrongfully taken or if such Security is mutilated and is surrendered to the Trust or in the case of the Preferred Securities to the Property Trustee, an Administrative Trustee shall execute and the Property Trustee shall authenticate and make available for delivery a replacement Security if the Property Trustee's requirements are met. An indemnity bond must be provided by the Holder which, in the judgment of the Property Trustee, is sufficient to protect the Trustees, the Sponsor, the Trust or any authenticating agent from any loss which any of them may suffer if a Security is replaced. The Trust may charge such Holder for its expenses in replacing a Security.

SECTION 7.7 Outstanding Preferred Securities .

The Preferred Securities outstanding at any time are all the Preferred Securities authenticated by the Property Trustee except for those canceled by it, those delivered to it for cancellation, and those described in this Section as not outstanding.

If a Preferred Security is replaced pursuant to Section 7.6 hereof, it ceases to be outstanding unless the Property Trustee receives proof satisfactory to it that the replaced Preferred Security is held by a bona fide purchaser.

If Preferred Securities are considered paid in accordance with the terms of this Declaration, they cease to be outstanding and Distributions on them shall cease to accumulate.

A Preferred Security does not cease to be outstanding because one of the Trust, the Sponsor or an Affiliate of the Sponsor holds the Security.

SECTION 7.8 Preferred Securities in Treasury .

In determining whether the Holders of the required amount of Securities have concurred in any direction, waiver or consent, Preferred Securities owned by the Trust, the Sponsor or an Affiliate of the Sponsor, as the case may be, shall be disregarded and deemed not to be outstanding, except that for the purposes of determining whether the Property Trustee shall be fully protected in relying on any such direction, waiver or consent, only Securities which the Property Trustee actually knows are so owned shall be so disregarded.

SECTION 7.9 Temporary Securities .

(a) Until Definitive Preferred Securities are ready for delivery, the Trust may prepare and, in the case of the Preferred Securities, the Property Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of Definitive Preferred Securities but may have variations that the Trust considers appropriate for temporary Securities. Without unreasonable delay, the Trust shall prepare and, in the case of the Preferred Securities, the Property Trustee shall authenticate Definitive Preferred Securities in exchange for temporary Securities.

(b) The Global Preferred Security deposited with the Clearing Agency or with the Property Trustee as custodian for the Clearing Agency pursuant to Section 7.3 shall be transferred to the beneficial owners thereof in the form of Definitive Preferred Securities only if such transfer complies with Section 9.2.

(c) Any Global Preferred Security that is transferable to the beneficial owners thereof in the form of Definitive Preferred Securities pursuant to this Section 7.9 shall be surrendered by the Clearing Agency to the Property Trustee to be so transferred, in whole or from time to time in part, without charge, and the Property Trustee shall authenticate and make available for delivery, upon such transfer of each portion of such Global Preferred Security, an equal aggregate liquidation amount of Preferred Securities of authorized denominations in the form of Definitive Preferred Securities. Any portion of the Global Preferred Security transferred pursuant to this Section shall be registered in such names as the Clearing Agency shall direct.

(d) Subject to the provisions of Section 7.9(c), the Holder of the Global Preferred Security may grant proxies and otherwise authorize any Person, including Participants and Persons that may hold interests through Participants, to take any action which such Holder is entitled to take under this Declaration or the Securities.

(e) In the event of the occurrence of any of the events specified in Section 7.9(b), the Trust will promptly make available to the Property Trustee a reasonable supply of certificated Preferred Securities in fully registered form without distribution coupons.

SECTION 7.10 Cancellation .

The Trust at any time may deliver Preferred Securities to the Property Trustee for cancellation. The Registrar and Paying Agent shall forward to the Property Trustee any Preferred Securities surrendered to them for registration of transfer, redemption, or payment. The Property Trustee shall promptly cancel all Preferred Securities surrendered for registration of transfer, redemption, payment, replacement or cancellation and shall dispose of canceled Preferred Securities in accordance with its customary procedures unless the Trust otherwise directs. The Trust may not issue new Preferred Securities to replace Preferred Securities that it has paid or that have been delivered to the Property Trustee for cancellation or that any holder has exchanged.

SECTION 7.11 CUSIP Numbers .

The Trust in issuing the Preferred Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Property Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders of Preferred Securities; provided , that , any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Preferred Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Preferred Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Sponsor will promptly notify the Property Trustee of any change in the CUSIP numbers.

ARTICLE VIII

DISSOLUTION OF TRUST

SECTION 8.1 Dissolution of Trust .

(a) The Trust shall automatically dissolve:

(i) upon any event specified in Section 5.1(d) or (e) of the Indenture;

(ii) upon the filing of a certificate of dissolution or liquidation or its equivalent with respect to the Sponsor; or the revocation of the Sponsor's charter and the expiration of 90 days after the date of revocation without a reinstatement thereof;

(iii) upon receipt by the Property Trustee of written notice from the Sponsor directing the Property Trustee to dissolve the Trust (which direction is optional, and except as otherwise expressly provided below, within the discretion of the Sponsor) and distribute a Like Amount of the Debentures to the Holders, and provided , further , that such direction and such distribution is conditioned on (a) the receipt by the Sponsor of any and all required regulatory approvals, and (b) the Sponsor's receipt and delivery to the Administrative Trustees of an opinion of independent tax counsel experienced in such matters, which opinion may rely on public or private rulings of the Internal Revenue Service, to the effect that the Holders of the Preferred Securities will not recognize any gain or loss for United States federal income tax purposes as a result of the dissolution of the Trust and the distribution of Debentures;

(iv) upon the entry of a decree of judicial dissolution of the Trust by a court of competent jurisdiction;

(v) when all of the Securities shall have been called for redemption and the amounts necessary for redemption thereof shall have been paid to the Holders in accordance with the terms of the Securities;

(vi) upon the redemption or repayment of the Debentures or at such time as no Debentures are outstanding; or

(vii) the expiration of the term of the Trust provided in Section 3.14.

(b) As soon as is practicable upon completion of winding up of the Trust following the occurrence of an event referred to in Section 8.1(a) and the satisfaction of creditors of the Trust in accordance with applicable law, the Administrative Trustees shall terminate the Trust by filing a certificate of cancellation with the Secretary of State of the State of Delaware in accordance with the Business Trust Act.

(c) The provisions of Section 3.9 and Article X shall survive the dissolution and termination of the Trust.

ARTICLE IX

TRANSFER OF INTERESTS

SECTION 9.1 Transfer of Securities .

(a) Securities may only be transferred, in whole or in part, in accordance with the terms and conditions set forth in this Declaration and in accordance with the terms of the Securities. To the fullest extent permitted by law, any transfer or purported transfer of any Security not made in accordance with this Declaration shall be null and void.

(b) Subject to this Article IX, Preferred Securities may only be transferred, in whole or in part, in accordance with the terms and conditions set forth in this Declaration. To the fullest extent permitted by law, any transfer or purported transfer of any Security not made in accordance with this Declaration shall be null and void.

(c) For so long as the Securities remain outstanding, the Sponsor agrees (i) not to transfer ownership of the Common Securities of the Trust, provided that any permitted successor of the Sponsor under the Indenture may succeed to the Sponsor's ownership of the Common Securities, (ii) not to cause, as Sponsor of the Trust, or to permit, as Holder of the Common Securities, the dissolution, winding-up or liquidation of the Trust, except as provided in this Declaration and (iii) to use its best efforts to cause the Trust (a) to remain a business trust, except in connection with the distribution of Debentures to the Holders in liquidation of the Trust, the redemption of all of the Securities, or certain mergers, consolidations or amalgamations, each as permitted by this Declaration, (b) not to be an Investment Company for purposes of the Investment Company Act, and (c) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

(d) The Registrar shall provide for the registration of Preferred Securities and of the transfer of Preferred Securities, which will be effected without charge but only upon payment in respect of any tax or other governmental charges that may be imposed in relation to it. Upon surrender for registration of transfer of any Preferred Securities, an Administrative Trustee shall cause one or more new Preferred Securities to be issued in the name of the designated transferee or transferees. Every Preferred Security surrendered for registration of transfer shall be accompanied by a written instrument of transfer in form satisfactory to the Registrar duly executed by the Holder or such Holder's attorney duly authorized in writing. Each Preferred Security surrendered for registration of transfer shall be delivered to the Registrar and canceled in accordance with Section 7.10. A transferee of a Preferred Security shall be entitled to the rights and subject to the obligations of a Holder hereunder upon the receipt by such transferee of a Preferred Security. By acceptance of a Preferred Security or any interest therein, each transferee shall be deemed to have agreed to be bound by this Declaration.

SECTION 9.2 Transfer Procedures and Restrictions .

(a) When Definitive Preferred Securities are presented to the Registrar or co-registrar:

(x) to register the transfer of such Definitive Preferred Securities; or

(y) to exchange such Definitive Preferred Securities which became mutilated, destroyed, defaced, stolen or lost, for an equal number of Definitive Preferred Securities,

the Registrar or co-registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided , however , that the Definitive Preferred Securities surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Trust and the Registrar or co-registrar, duly executed by the Holder thereof or his attorney duly authorized in writing.

(b) A Definitive Preferred Security may not be exchanged for a beneficial interest in the Global Preferred Security except upon satisfaction of the requirements set forth below. Upon receipt by the Property Trustee of a Definitive Preferred Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Property Trustee, together with written instructions directing the Property Trustee to make, or to direct the Clearing Agency to make, an adjustment on its books and records with respect to the Global Preferred Security to reflect an increase in the number of the Preferred Securities represented by such Global Preferred Security, then the Property Trustee shall cancel such Definitive Preferred Security and cause, or direct the Clearing Agency to cause, the aggregate number of Preferred Securities represented by the Global Preferred Security to be increased accordingly. If the Global Preferred Security is not then outstanding, an Administrative Trustee on behalf of the Trust may issue and the Property Trustee may authenticate, upon written order of any Administrative Trustee, a new Global Preferred Security representing an appropriate number of Preferred Securities.

(c) The transfer and exchange of the Global Preferred Security or beneficial interests therein shall be effected through the Clearing Agency in accordance with this Declaration (including applicable restrictions on transfer set forth herein, if any) and the procedures of the Clearing Agency therefor.

(d) Notwithstanding any other provisions of this Declaration (other than the provisions set forth in subsection (e) of this Section 9.2), the Global Preferred Security may not be transferred as a whole except by the Clearing Agency to a nominee of the Clearing Agency or another nominee of the Clearing Agency or by the Clearing Agency or any such nominee to a successor Clearing Agency or a nominee of such successor Clearing Agency.

(e) If at any time: (i) a Default or an Event of Default has occurred and is continuing, (ii) the Trust, in its sole discretion, notifies the Property Trustee in writing that it elects to cause the issuance of Definitive Preferred Securities under this Declaration, or (iii) the Clearing Agency notifies the Sponsor that it is unwilling or unable to continue as Clearing Agency for such Global Preferred Security or if at any time such Clearing Agency ceases to be a “clearing agency” registered under the Exchange Act, and, in each case, a clearing agency is not

appointed by the Sponsor within 90 days of receipt of such notice or of becoming aware of such condition, then an Administrative Trustee on behalf of the Trust will execute, and the Property Trustee, upon receipt of a written order of the Trust signed by one Administrative Trustee requesting the authentication and delivery of Definitive Preferred Securities to the Persons designated by the Trust, will authenticate and make available for delivery Definitive Preferred Securities, equal in number to the number of Preferred Securities represented by the Global Preferred Security, in exchange for such Global Preferred Security.

(f) At such time as all beneficial interests in the Global Preferred Security have either been exchanged for Definitive Preferred Securities to the extent permitted by this Declaration or redeemed, repurchased or canceled in accordance with the terms of this Declaration, such Global Preferred Security shall be returned to the Clearing Agency for cancellation or retained and canceled by the Property Trustee. At any time prior to such cancellation, if any beneficial interest in the Global Preferred Security is exchanged for Definitive Preferred Securities, Preferred Securities represented by such Global Preferred Security shall be reduced and an adjustment shall be made on the books and records of the Property Trustee and the Clearing Agency or its nominee to reflect such reduction.

(g) (i) To permit registrations of transfers and exchanges, the Trust shall execute and the Property Trustee shall authenticate Definitive Preferred Securities and the Global Preferred Security at the Registrar's or co-registrar's request in accordance with the terms of this Declaration.

(ii) Registrations of transfers or exchanges will be effected without charge, but only upon payment in respect of any tax or other governmental charge that may be imposed in relation to it.

(iii) The Registrar or co-registrar shall not be required to register the transfer of or exchange of (a) Preferred Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption or any notice of selection of Preferred Securities for redemption and ending at the close of business on the day of such mailing or (b) any Preferred Security so selected for redemption in whole or in part, except the unredeemed portion of any Preferred Security being redeemed in part.

(iv) Prior to the due presentation for registration of transfer of any Preferred Security, the Trust, the Property Trustee, the Paying Agent, the Registrar or any co-registrar may deem and treat the Person in whose name a Preferred Security is registered as the absolute owner of such Preferred Security for the purpose of receiving Distributions on such Preferred Security and for all other purposes whatsoever, and none of the Trust, the Property Trustee, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

(v) All Preferred Securities issued upon any registration of transfer or exchange pursuant to the terms of this Declaration shall evidence the same security and shall be entitled to the same benefits under this Declaration as the Preferred Securities surrendered upon such registration of transfer or exchange.

(h) (i) The Property Trustee shall have no responsibility or obligation to any Preferred Security Beneficial Owner, a Participant in the Clearing Agency or other Person with respect to the accuracy of the records of the Clearing Agency or its nominee or of any Participant thereof, with respect to any ownership interest in the Preferred Securities or with respect to the delivery to any Participant, beneficial owner or other Person (other than the Clearing Agency) of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such Preferred Securities. All notices and communications to be given to the Holders and all payments to be made to Holders under the Preferred Securities shall be given or made only to or upon the order of the registered Holders (which shall be the Clearing Agency or its nominee in the case of the Global Preferred Security).

The rights of Preferred Security Beneficial Owners shall be exercised only through the Clearing Agency subject to the applicable rules and procedures of the Clearing Agency. The Property Trustee may conclusively rely and shall be fully protected in relying upon information furnished by the Clearing Agency or any agent thereof with respect to its Participants and any Preferred Security Beneficial Owners.

(ii) The Property Trustee and the Registrar shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Declaration or under applicable law with respect to any transfer of any interest in any Preferred Security (including any transfers between or among Clearing Agency Participants or Preferred Security Beneficial Owners) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Declaration, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(iii) Minimum Transfers. Preferred Securities may only be transferred in minimum denominations of $25.00 and multiples of $25.00 in excess thereof.

SECTION 9.3 Book-Entry Interests .

The Global Preferred Security shall initially be registered on the books and records of the Trust in the name of Cede & Co., the nominee of the Clearing Agency and no Preferred Security Beneficial Owner will receive physical delivery of a definitive Preferred Security certificate (a “Preferred Security Certificate”) representing such Preferred Security Beneficial Owner’s interests in such Global Preferred Security, except as provided in Section 9.2 and Section 7.9. Unless and until Definitive Preferred Securities have been issued to the Preferred Security Beneficial Owners pursuant to Section 9.2 or Section 7.9:

(a) the provisions of this Section 9.3 shall be in full force and effect;

(b) the Trust and the Trustees shall be entitled to deal with the Clearing Agency for all purposes of this Declaration (including the payment of Distributions on the Global Preferred Security and receiving approvals, votes or consents hereunder) as the sole Holder of the Global Preferred Security and shall have no obligation to the Preferred Security Beneficial Owners;

(c) to the extent that the provisions of this Section 9.3 conflict with any other provisions of this Declaration, the provisions of this Section 9.3 shall control; and

(d) the rights of the Preferred Security Beneficial Owners shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Preferred Security Beneficial Owners and the Clearing Agency and/or the Clearing Agency Participants, and the Clearing Agency shall receive and transmit payments of Distributions on the Global Preferred Security to such Clearing Agency Participants; provided , however , that solely for the purposes of determining whether the Holders of the requisite amount of Preferred Securities have voted on any matter provided for in this Declaration, the Trustees, with respect to the Global Preferred Security, may conclusively rely on, and shall be protected in relying on, any written instrument (including a proxy) delivered to the Trustees by the Clearing Agency setting forth the Preferred Security Beneficial Owners' votes or assigning the right to vote on any matter to any other Persons either in whole or in part; and the Clearing Agency will also make book-entry transfers among the Clearing Agency Participants.

SECTION 9.4 Notices to Clearing Agency .

Whenever a notice or other communication to the Preferred Security Holders is required to be given by a Trustee under this Declaration, such Trustee shall give all such notices and communications specified herein to be given to the Holder of the Global Preferred Security to the Clearing Agency and shall have no notice obligations to the Preferred Security Beneficial Owners.

SECTION 9.5 Appointment of Successor Clearing Agency .

If any Clearing Agency elects to discontinue its services as securities depositary with respect to the Preferred Securities, the Administrative Trustees may, in their sole discretion, appoint a successor Clearing Agency with respect to such Preferred Securities.

ARTICLE X

LIMITATION OF LIABILITY OF HOLDERS OF SECURITIES, TRUSTEES OR OTHERS

SECTION 10.1 Liability .

(a) Except as expressly set forth in this Declaration, the Securities Guarantees and the terms of the Securities, the Sponsor shall not be:

(i) personally liable for the return of any portion of the capital contributions (or any return thereon) of the Holders which shall be made solely from assets of the Trust; and

(ii) required to pay to the Trust or to any Holder any deficit upon dissolution of the Trust or otherwise.

(b) The Sponsor shall be liable for all of the debts and obligations of the Trust (other than in respect of the Securities) to the extent not satisfied out of the Trust's assets.

(c) Pursuant to § 3803(a) of the Business Trust Act, the Holders shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

SECTION 10.2 Exculpation .

(a) No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Trust or any Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Declaration or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's gross negligence (or in the case of the Property Trustee, negligence) or willful misconduct with respect to such acts or omissions.

(b) An Indemnified Person shall be fully protected in relying in good faith upon the records of the Trust and upon such information, opinions, reports or statements presented to the Trust by any Person as to matters the Indemnified Person reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Trust, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any other facts pertinent to the existence and amount of assets from which Distributions to Holders might properly be paid.

SECTION 10.3 Fiduciary Duty .

(a) To the extent that, at law or in equity, an Indemnified Person has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to any other Covered

Person, an Indemnified Person acting under this Declaration shall not be liable to the Trust or to any other Covered Person for its good faith reliance on the provisions of this Declaration. The provisions of this Declaration, to the extent that they restrict the duties and liabilities of an Indemnified Person otherwise existing at law or in equity (other than the duties imposed on the Property Trustee under the Trust Indenture Act), are agreed by the parties hereto to replace such other duties and liabilities of such Indemnified Person.

(b) Unless otherwise expressly provided herein:

(i) whenever a conflict of interest exists or arises between any Covered Person and any Indemnified Person, or

(ii) whenever this Declaration or any other agreement contemplated herein or therein provides that an Indemnified Person shall act in a manner that is, or provides terms that are, fair and reasonable to the Trust or any Holder of Securities,

the Indemnified Person shall resolve such conflict of interest, take such action or provide such terms, considering in each case the relative interest of each party (including its own interest) to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable generally accepted accounting practices or principles. In the absence of bad faith by the Indemnified Person, the resolution, action or term so made, taken or provided by the Indemnified Person shall not constitute a breach of this Declaration or any other agreement contemplated herein or of any duty or obligation of the Indemnified Person at law or in equity or otherwise.

(c) Whenever in this Declaration an Indemnified Person is permitted or required to make a decision:

(i) in its "discretion" or under a grant of similar authority, the Indemnified Person shall be entitled to consider such interests and factors as it desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Trust or any other Person; or

(ii) in its "good faith" or under another express standard, the Indemnified Person shall act under such express standard and shall not be subject to any other or different standard imposed by this Declaration or by applicable law.

SECTION 10.4 Indemnification .

(a) (i) The Sponsor shall indemnify, to the full extent permitted by law, any Company Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Trust) by reason of the fact that he is or was a Company Indemnified Person, against expenses (including attorneys'

fees and expenses), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Company Indemnified Person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(ii) The Sponsor shall indemnify, to the full extent permitted by law, any Company Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Trust to procure a judgment in its favor by reason of the fact that he is or was a Company Indemnified Person against expenses (including attorneys' fees and expenses) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such Company Indemnified Person shall have been adjudged to be liable to the Trust unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such Person is fairly and reasonably entitled to indemnity for such expenses which such Court of Chancery or such other court shall deem proper.

(iii) To the extent that a Company Indemnified Person shall be successful on the merits or otherwise (including dismissal of an action without prejudice or the settlement of an action without admission of liability) in defense of any action, suit or proceeding referred to in paragraphs (i) and (ii) of this Section 10.4(a), or in defense of any claim, issue or matter therein, he or she shall be indemnified by the Sponsor, to the full extent permitted by law, against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

(iv) Any indemnification under paragraphs (i) and (ii) of this Section 10.4(a) (unless ordered by a court) shall be made by the Sponsor only as authorized in the specific case upon a determination that indemnification of the Company Indemnified Person is proper in the circumstances because he or she has met the applicable standard of conduct set forth in paragraphs (i) and (ii). Such determination shall be made (1) by the Administrative Trustees by a majority vote of a Quorum consisting of such Administrative Trustees who were not parties to such action, suit or proceeding, (2) if such a Quorum is not obtainable, or, even if obtainable, if a Quorum of disinterested Administrative Trustees so directs, by independent legal counsel in a written opinion, or (3) by the Common Security Holder of the Trust.

(v) Expenses (including attorneys' fees and expenses) incurred by a Company Indemnified Person in defending a civil, criminal, administrative or investigative action, suit or proceeding referred to in paragraphs (i) and (ii) of this Section 10.4(a) shall be paid by the Sponsor in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Company Indemnified Person to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Sponsor as authorized in this Section 10.4(a). Notwithstanding the foregoing, no advance shall be made by the Sponsor if a determination is reasonably and promptly made (i) by the Administrative Trustees by a majority vote of a Quorum of disinterested Administrative Trustees, (ii) if such a Quorum is not obtainable, or, even if obtainable, if a Quorum of disinterested Administrative Trustees so directs, by independent legal counsel in a written opinion or (iii) by the Common Security Holder of the Trust, that, based upon the facts known to the Administrative Trustees, counsel or the Common Security Holder at the time such determination is made, such Company Indemnified Person acted in bad faith or in a manner that the Common Security Holder did not believe to be in, or believed was opposed to, the best interests of the Trust, or, with respect to any criminal proceeding, that such Company Indemnified Person believed or had reasonable cause to believe his or her conduct was unlawful. In no event shall any advance be made in instances where the Administrative Trustees, independent legal counsel or Common Security Holder reasonably determine that a Company Indemnified Person deliberately breached his or her duty to the Trust or its Common or Preferred Security Holders.

(vi) The indemnification and advancement of expenses provided by, or granted pursuant to, the other paragraphs of this Section 10.4(a) shall not be deemed exclusive of any other rights to which those seeking indemnification and advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors of the Sponsor or Preferred Security Holders of the Trust or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. All rights to indemnification under this Section 10.4(a) shall be deemed to be provided by a contract between the Sponsor and each Company Indemnified Person who serves in such capacity at any time while this Section 10.4(a) is in effect. Any repeal or modification of this Section 10.4(a) shall not affect any rights or obligations then existing.

(vii) The Sponsor or the Trust may purchase and maintain insurance on behalf of any person who is or was a Company Indemnified Person against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Sponsor would have the power to indemnify him or her against such liability under the provisions of this Section 10.4(a).

(viii) For purposes of this Section 10.4(a), references to "the Trust" shall include, in addition to the resulting or surviving entity, any constituent entity (including any constituent of a constituent) absorbed in a consolidation or merger, so that any person who is or was a director, trustee, officer or employee of such constituent entity, or is or was serving at the request of such constituent entity as a director, trustee, officer, employee or agent of another entity, shall stand in the same position under the provisions of this Section 10.4(a) with respect to the resulting or surviving entity as he or she would have with respect to such constituent entity if its separate existence had continued.

(ix) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 10.4(a) shall, unless otherwise provided when authorized or ratified, continue as to a Person who has ceased to be a Company Indemnified Person and shall inure to the benefit of the heirs, executors and administrators of such a Person.

(b) The Sponsor agrees to indemnify the (i) Property Trustee, (ii) the Delaware Trustee, (iii) any Affiliate of the Property Trustee or the Delaware Trustee, and (iv) any officers, directors, shareholders, members, partners, employees, representatives, custodians, nominees or agents of the Property Trustee or the Delaware Trustee (each of the Persons in (i) through (iv), including the Property Trustee and the Delaware Trustee in their respective individual capacities, being referred to as a "Fiduciary Indemnified Person") for, and to hold each Fiduciary Indemnified Person harmless against, any and all loss, liability, damage, action, suit, claim or expense including taxes (other than taxes based on the income of such Fiduciary Indemnified Person) of any kind and nature whatsoever incurred without negligence (or gross negligence on the part of the Delaware Trustee) or bad faith on the part of such Fiduciary Indemnified Person, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses (including reasonable legal fees and expenses) of defending against or investigating any claim or liability in connection with the exercise or performance of any of the powers or duties of such Fiduciary Indemnified Person hereunder. The obligation to indemnify as set forth in this Section 10.4(b) shall survive the resignation or removal of the Property Trustee or the Delaware Trustee and the satisfaction and discharge of this Declaration.

(c) The Sponsor agrees to pay the Property Trustee and the Delaware Trustee, from time to time, such compensation for all services rendered by the Property Trustee and the Delaware Trustee hereunder as may be mutually agreed upon in writing by the Sponsor and the Property Trustee or the Delaware Trustee, as the case may be, and, except as otherwise expressly provided herein, to reimburse the Property Trustee and the Delaware Trustee upon its or their request for all reasonable expenses (including legal fees and expenses), disbursements and advances incurred or made by the Property Trustee or the Delaware Trustee, as the case may be, in accordance with the provisions of this Declaration, except any such expense, disbursement or advance as may be attributable to its or their negligence (or gross negligence on the part of the Delaware Trustee) or bad faith.

SECTION 10.5 Outside Businesses .

Any Covered Person, the Sponsor, the Delaware Trustee and the Property Trustee (subject to Section 5.3(c)) may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Trust, and the Trust and the Holders shall have no rights by virtue of this Declaration in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any

such venture, even if competitive with the business of the Trust, shall not be deemed wrongful or improper. No Covered Person, the Sponsor, the Delaware Trustee, or the Property Trustee shall be obligated to present any particular investment or other opportunity to the Trust even if such opportunity is of a character that, if presented to the Trust, could be taken by the Trust, and any Covered Person, the Sponsor, the Delaware Trustee and the Property Trustee shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment or other opportunity. Any Covered Person, the Delaware Trustee and the Property Trustee may engage or be interested in any financial or other transaction with the Sponsor or any Affiliate of the Sponsor, or may act as depositary for, trustee or agent for, or act on any committee or body of holders of, securities or other obligations of the Sponsor or its Affiliates.

ARTICLE XI

ACCOUNTING

SECTION 11.1 Fiscal Year .

The fiscal year ("Fiscal Year") of the Trust shall be the calendar year, or such other year as is required by the Code.

SECTION 11.2 Certain Accounting Matters .

(a) At all times during the existence of the Trust, the Administrative Trustees shall keep, or cause to be kept, full books of account, records and supporting documents, which shall reflect in reasonable detail each transaction of the Trust. The books of account shall be maintained on the accrual method of accounting, in accordance with generally accepted accounting principles, consistently applied. The Trust shall use the accrual method of accounting for United States federal income tax purposes. The books of account and the records of the Trust shall be examined by and reported upon as of the end of each Fiscal Year of the Trust by a firm of independent certified public accountants selected by the Administrative Trustees.

(b) The Administrative Trustees shall cause to be duly prepared and delivered to each of the Holders any annual United States federal income tax information statement required by the Code, containing such information with regard to the Securities held by each Holder as is required by the Code and the Treasury Regulations. Notwithstanding any right under the Code to deliver any such statement at a later date, the Administrative Trustees shall endeavor to deliver all such information statements within 30 days after the end of each Fiscal Year of the Trust.

(c) The Administrative Trustees shall cause to be duly prepared and filed with the appropriate taxing authority, an annual United States federal income tax return, on a Form 1041 or such other form required by United States federal income tax law, and any other annual income tax returns required to be filed by the Administrative Trustees on behalf of the Trust with any state or local taxing authority.

SECTION 11.3 Banking .

The Trust may maintain one or more bank accounts in the name and for the sole benefit of the Trust; provided , however , that all payments of funds in respect of the Debentures held by the Property Trustee shall be made directly to the Property Trustee Account and no other funds of the Trust shall be deposited in the Property Trustee Account. The sole signatories for such accounts shall be designated by the Administrative Trustees; provided , however , that the Property Trustee shall designate the signatories for the Property Trustee Account.

SECTION 11.4 Withholding .

The Trust and the Administrative Trustees shall comply with all withholding requirements under United States federal, state and local law. The Trust shall request, and the Holders shall provide to the Trust, such forms or certificates as are necessary to establish an exemption from withholding with respect to each Holder, and any representations and forms as shall reasonably be requested by the Trust to assist it in determining the extent of, and in fulfilling, its withholding obligations. The Administrative Trustees shall cause to be filed required forms with applicable jurisdictions and, unless an exemption from withholding is properly established by a Holder, shall remit amounts withheld with respect to the Holder to applicable jurisdictions. To the extent that the Trust is required to withhold and pay over any amounts to any authority with respect to Distributions or allocations to any Holder, the amount withheld shall be deemed to be a Distribution in the amount of the withholding to the Holder. In the event of any claim of excess withholding, Holders shall be limited to an action against the applicable jurisdiction. If the amount required to be withheld was not withheld from actual Distributions made, the Trust may reduce subsequent Distributions by the amount of such withholding.

ARTICLE XII

AMENDMENTS AND MEETINGS

SECTION 12.1 Amendments .

(a) Except as otherwise provided in this Declaration or by any applicable terms of the Securities, this Declaration may only be amended by a written instrument approved and executed by:

(i) the Sponsor and the Administrative Trustees (or, if there are more than two Administrative Trustees, a majority of the Administrative Trustees);

(ii) if the amendment affects the rights, powers, duties, obligations or immunities of the Property Trustee, the Property Trustee; and

(iii) if the amendment affects the rights, powers, duties, obligations or immunities of the Delaware Trustee, the Delaware Trustee.

(b) No amendment shall be made, and any such purported amendment shall be void and ineffective:

(i) unless, in the case of any proposed amendment, the Property Trustee shall have first received an Officers' Certificate from each of the Trust and the Sponsor that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities);

(ii) unless, in the case of any proposed amendment which affects the rights, powers, duties, obligations or immunities of the Property Trustee, the Property Trustee shall have first received:

(A) an Officers' Certificate from each of the Trust and the Sponsor that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities); and

(B) an Opinion of Counsel (who may be counsel to the Sponsor or the Trust) that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities) and that all conditions precedent to the execution and delivery of such amendment have been satisfied;

provided , however , that the Property Trustee shall not be required to sign any such amendment; and

(iii) to the extent the result of such amendment would be to:

(A) cause the Trust to fail to continue to be classified for purposes of United States federal income taxation as a grantor trust;

(B) reduce or otherwise adversely affect the powers of the Property Trustee in contravention of the Trust Indenture Act; or

(C) cause the Trust to be deemed to be an Investment Company required to be registered under the Investment Company Act.

(c) At such time after the Trust has issued any Securities that remain outstanding, the Declaration may also be amended by the Trustees and the Sponsor with

(i) the consent of Holders representing a Majority in Liquidation Amount of all outstanding Securities, and

(ii) receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trust's status as a grantor trust for United States federal income tax purposes or the Trust's exemption from status as an Investment Company under the Investment Company Act;

provided , however , that, without the consent of each Holder of Trust Securities affected thereby, the Declaration may not be amended to

(i) change the amount or timing of any Distribution on, or the payment required to be made in respect of, the Trust Securities as of a specified date or otherwise adversely affect the amount of any Distribution required to be made in respect of the Trust Securities as of a specified date;

(ii) change any prepayment provisions; or

(iii) restrict the right of a Holder of Trust Securities to institute suit for the enforcement of any such payment on or after such date;

(d) Section 10.1(c) and this Section 12.1 shall not be amended without the consent of all of the Holders;

(e) Article Four shall not be amended without the consent of the Holders of a Majority in Liquidation Amount of the Common Securities;

(f) The rights of the Holders of the Common Securities under Article V to increase or decrease the number of, and appoint and remove Trustees shall not be amended without the consent of the Holders of a Majority in Liquidation Amount of the Common Securities; and

(g) Notwithstanding Section 12.1(c), this Declaration may be amended without the consent of the Holders to:

(i) cure any ambiguity, correct or supplement any provision in this Declaration that may be inconsistent with any other provision of this Declaration or to make any other provisions with respect to matters or questions arising under this Declaration which shall not be inconsistent with the other provisions of the Declaration; and

(ii) to modify, eliminate or add to any provisions of the Declaration to such extent as shall be necessary to ensure that the Trust will be classified for United States

federal income tax purposes as a grantor trust at all times that any Securities are outstanding or to ensure that the Trust will not be required to register as an Investment Company under the Investment Company Act;

provided , however , that in each clause above, such action shall not adversely affect in any material respect the interests of the Holders, and any such amendments of this Declaration shall become effective when notice thereof is given to the Holders.

SECTION 12.2 Meetings of the Holders; Action by Written Consent .

(a) Meetings of the Holders of any class of Securities may be called at any time by the Administrative Trustees (or as provided in the terms of the Securities) to consider and act on any matter on which Holders of such class of Securities are entitled to act under the terms of this Declaration, the terms of the Securities or the rules of any stock exchange on which the Preferred Securities are listed or admitted for trading. The Administrative Trustees shall call a meeting of the Holders of such class if directed to do so by the Holders of at least 10% in Liquidation Amount of such class of Securities. Such direction shall be given by delivering to the Administrative Trustees one or more notices in writing stating that the signing Holders wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called. Any Holders calling a meeting shall specify in writing the Preferred Security Certificates held by the Holders exercising the right to call a meeting and only those Securities specified shall be counted for purposes of determining whether the required percentage set forth in the second sentence of this paragraph has been met.

(b) Except to the extent otherwise provided in the terms of the Securities, the following provisions shall apply to meetings of Holders:

(i) notice of any such meeting shall be given to all the Holders having a right to vote thereat at least seven days and not more than 60 days before the date of such meeting. Whenever a vote, consent or approval of the Holders is permitted or required under this Declaration or the rules of any stock exchange on which the Preferred Securities are listed or admitted for trading, such vote, consent or approval may be given at a meeting of the Holders; any action that may be taken at a meeting of the Holders may be taken without a meeting if a consent in writing setting forth the action so taken is signed by the Holders owning not less than the minimum amount of Securities in liquidation amount that would be necessary to authorize or take such action at a meeting at which all Holders having a right to vote thereon were present and voting; prompt notice of the taking of action without a meeting shall be given to the Holders entitled to vote who have not consented in writing; and the Administrative Trustees may specify that any written ballot submitted to the Security Holder for the purpose of taking any action without a meeting shall be returned to the Trust within the time specified by the Administrative Trustees;

(ii) each Holder may authorize any Person to act for it by proxy on all matters in which a Holder is entitled to participate, including waiving notice of any meeting, or

voting or participating at a meeting; no proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy; every proxy shall be revocable at the pleasure of the Holder executing it; and, except as otherwise provided herein, all matters relating to the giving, voting or validity of proxies shall be governed by the General Corporation Law of the State of Delaware relating to proxies, and judicial interpretations thereunder, as if the Trust were a Delaware corporation and the Holders were stockholders of a Delaware corporation;

(iii) each meeting of the Holders shall be conducted by the Administrative Trustees or by such other Person that the Administrative Trustees may designate; and

(iv) unless the Business Trust Act, this Declaration, the terms of the Securities, the Trust Indenture Act or the listing rules of any stock exchange on which the Preferred Securities are then listed or trading, otherwise provides, the Administrative Trustees, in their sole discretion, shall establish all other provisions relating to meetings of Holders, including notice of the time, place or purpose of any meeting at which any matter is to be voted on by any Holders, waiver of any such notice, action by consent without a meeting, the establishment of a record date, quorum requirements, voting in person or by proxy or any other matter with respect to the exercise of any such right to vote.

ARTICLE XIII

REPRESENTATIONS OF PROPERTY TRUSTEE AND DELAWARE TRUSTEE

SECTION 13.1 Representations and Warranties of Property Trustee .

The Trustee that acts as initial Property Trustee represents and warrants to the Trust and to the Sponsor at the date of this Declaration, and each Successor Property Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Property Trustee's acceptance of its appointment as Property Trustee that:

(a) the Property Trustee is a New York banking corporation, a national banking association or a bank or trust company, duly organized, validly existing and in good standing under the laws of the United States or the State of New York, as the case may be, with corporate power and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Declaration;

(b) the execution, delivery and performance by the Property Trustee of this Declaration has been duly authorized by all necessary corporate action on the part of the Property Trustee; and this Declaration has been duly executed and delivered by the Property Trustee and under Delaware law (excluding any securities laws) constitutes a legal, valid and

binding obligation of the Property Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

(c) the execution, delivery and performance of this Declaration by the Property Trustee does not conflict with or constitute a breach of the charter or by-laws of the Property Trustee;

(d) no consent, approval or authorization of, or registration with or notice to, any federal or state banking authority governing the trust powers of the Property Trustee is required for the execution, delivery or performance by the Property Trustee of this Declaration; and

(e) the Property Trustee satisfies the requirements set forth in Section 5.3(a).

SECTION 13.2 Representations and Warranties of Delaware Trustee .

The Trustee that acts as initial Delaware Trustee represents and warrants to the Trust and to the Sponsor at the date of this Declaration, and each Successor Delaware Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Delaware Trustee's acceptance of its appointment as Delaware Trustee that:

(a) the Delaware Trustee is a Delaware banking corporation, a national banking association or a bank or trust company, duly organized, validly existing and in good standing under the laws of the United States or the State of Delaware, as the case may be, with corporate power and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Declaration;

(b) the execution, delivery and performance by the Delaware Trustee of this Declaration has been duly authorized by all necessary corporate action on the part of the Delaware Trustee; and this Declaration has been duly executed and delivered by the Delaware Trustee and under Delaware law (excluding any securities laws) constitutes a legal, valid and binding obligation of the Delaware Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

(c) the execution, delivery and performance of this Declaration by the Delaware Trustee does not conflict with or constitute a breach of the charter or by-laws of the Delaware Trustee; and

(d) no consent, approval or authorization of, or registration with or notice to, any federal or Delaware banking authority governing the trust powers of the Delaware Trustee is required for the execution, delivery or performance by the Delaware Trustee of this Declaration; and

(e) the Delaware Trustee is a natural person who is a resident of the State of Delaware or, if not a natural person, an entity which has its principal place of business in the State of Delaware, and is a Person that satisfies for the Trust Section 3807(a) of the Business Trust Act.

ARTICLE XIV

MISCELLANEOUS

SECTION 14.1 Notices .

All notices provided for in this Declaration shall be in writing, duly signed by the party giving such notice, and shall be delivered, telecopied or mailed by first class mail, overnight courier service or confirmed telecopy, as follows:

(a) if given to the Trust, in care of the Administrative Trustees at the Trust's mailing address set forth below (or such other address as the Trust may give notice of to the Property Trustee, the Delaware Trustee and the Holders):

VNB Capital Trust I
c/o Valley National Bancorp
1455 Valley Road
Wayne, New Jersey 07470
Attention: Alan D. Eskow
Telephone: (973) 305-8800
Telecopier: (973) 305-8415

(b) if given to the Delaware Trustee, at the mailing address set forth below (or such other address as Delaware Trustee may give notice of to the Holders):

The Bank of New York (Delaware)
White Clay Center
P.O. Box 6973
Route 273
Newark, Delaware 19711
Attention: Corporate Trust Department
Telephone:
Telecopier:

(c) if given to the Property Trustee, at the Property Trustee's mailing address set forth below (or such other address as the Property Trustee may give notice of to the Holders):

The Bank of New York
5 Penn Plaza, 13 th Floor
New York, New York 10001
Attention: Corporate Trust Administration
Telephone: 212-328-7629
Telecopier: 212-896-7298

(d) if given to the Holder of the Common Securities, at the mailing address of the Sponsor set forth below (or such other address as the Holder of the Common Securities may give notice to the Trust):

Valley National Bancorp
1455 Valley Road
Wayne, New Jersey 07470
Attention: Alan D. Eskow
Telephone: (973) 305-8800
Telecopier: (973) 305-8415

(e) if given to any other Holder, at the address set forth on the books and records of the Trust.

All such notices shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

SECTION 14.2 Governing Law .

This Declaration and the rights of the parties hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware and all rights and remedies shall

be governed by such laws without regard to principles of conflicts of laws of the State of Delaware or any other jurisdiction that would call for the application of the law of any jurisdiction other than the State of Delaware; provided , however , that there shall not be applicable to the parties hereunder or this Declaration any provision of the laws (statutory or common) of the State of Delaware pertaining to trust that relate to or regulate, in a manner inconsistent with the terms hereof (except as mandated by the Business Trust Act) (A) the filing with any court or governmental body or agency of Trustee accounts or schedule of Trustee fees and charges, (B) affirmative requirements to post bonds for Trustees, officers, agents or employees of a trust, (C) the necessity for obtaining court or other governmental approval concerning the acquisition, holding or disposition of real or personal property, (D) fees or other sums payable to Trustees, officers, agents or employees of a trust, (E) the allocation of receipts and expenditures to income or principal, (F) restrictions or limitations on the permissible nature, amount or concentration of trust investments or requirements relating to the titling, storage or other manner of holding or investing Trust assets or (G) the establishment of fiduciary or other standards of responsibility or limitations on the acts or powers of trustees that are inconsistent with the limitations or liabilities or authorities and powers of the Trustees hereunder as set forth or referenced in this Declaration. Section 3540 of Title 12 of the Delaware Code shall not apply to the Trust.

SECTION 14.3 Intention of the Parties .

It is the intention of the parties hereto that the Trust be classified for United States federal income tax purposes as a grantor trust. The provisions of this Declaration shall be interpreted to further this intention of the parties.

SECTION 14.4 Headings

Headings contained in this Declaration are inserted for convenience of reference only and do not affect the interpretation of this Declaration or any provision hereof.

SECTION 14.5 Successors and Assigns .

Whenever in this Declaration any of the parties hereto is named or referred to, the successors and assigns of such party shall be deemed to be included, and all covenants and agreements in this Declaration by the Sponsor and the Trustees shall bind and inure to the benefit of their respective successors and assigns, whether or not so expressed.

SECTION 14.6 Partial Enforceability

If any provision of this Declaration, or the application of such provision to any Person or circumstance, shall be held invalid, the remainder of this Declaration, or the application of such provision to Persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

SECTION 14.7 Counterparts

This Declaration may contain more than one counterpart of the signature page and this Declaration may be executed by the affixing of the signature of each of the Trustees to one or more of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

IN WITNESS WHEREOF, the undersigned has caused these presents to be executed as of the day and year first above written.

Gerald H. Lipkin
as Administrative Trustee

Alan D. Eskow
as Administrative Trustee

Jack Blackin
as Administrative Trustee

THE BANK OF NEW YORK (DELAWARE)
as Delaware Trustee

By: _____
Name: William T. Lewis
Title: Senior Vice President

THE BANK OF NEW YORK
as Property Trustee

By: _____
Name: Julie Salovitch-Miller
Title: Vice President

VALLEY NATIONAL BANCORP,
as Sponsor

By: _____
Name: Alan D. Eskow
Title: Executive Vice President,
Chief Financial Officer

ANNEX I

TERMS OF 7 3/4% PREFERRED SECURITIES, 7 3/4% COMMON SECURITIES

Pursuant to Section 7.1 of the Amended and Restated Declaration, dated as of November 7, 2001 (as amended from time to time, the "Declaration"), the designation, rights, privileges, restrictions, preferences and other terms and provisions of the Securities are set out below (each capitalized term used but not defined herein has the meaning set forth in the Declaration, the Indenture or, if not defined in such Declaration or Indenture, as defined in the Registration Statement referred to below in Section 2(c) of this Annex I):

1. Designation and Number .

(a) Preferred Securities . Up to 8,000,000 Preferred Securities of the Trust, with an aggregate liquidation amount with respect to the assets of the Trust of Two-Hundred Million Dollars ($200,000,000) and with a liquidation amount with respect to the assets of the Trust of Twenty Five Dollars ($25) per preferred security, are hereby designated for the purposes of identification only as "7 3/4% Trust Originated Preferred Securities SM ("TOPrS SM ") (the "Preferred Securities"). The certificates evidencing the Preferred Securities shall be substantially in the form of Exhibit A-1 to the Declaration, with such changes and additions thereto or deletions therefrom as may be required by ordinary usage, custom or practice or to conform to the rules of any exchange or quotation system on or in which the Preferred Securities are listed, traded or quoted.

(b) Common Securities . Up to 247,423 Common Securities of the Trust with an aggregate liquidation amount with respect to the assets of the Trust of Six Million One- Hundred and Eighty-Five Thousand Five Hundred and Seventy Five Dollars ($6,185,575) and a liquidation amount with respect to the assets of the Trust of Twenty Five Dollars ($25) per common security, are hereby designated for the purposes of identification only as "7 3/4% Common Securities" (the "Common Securities"). The certificates evidencing the Common Securities shall be substantially in the form of Exhibit A-2 to the Declaration, with such changes and additions thereto or deletions therefrom as may be required by ordinary usage, custom or practice.

(c) Undivided Interests . The Preferred Securities and the Common Securities represent undivided beneficial interests in the assets of the Trust.

(d) Debentures . In connection with the purchase of the Securities, the Sponsor will deposit in the Trust, and the Trust will purchase, respectively, as trust assets, Debentures of the Sponsor having an aggregate principal amount of up to Two-Hundred and Six Million One-Hundred and Eighty-Five Thousand Five Hundred and Seventy Five Dollars ($206,185,575) and bearing interest at an annual rate equal to the annual Distribution rate on the Preferred Securities and Common Securities and having payment and redemption provisions which correspond to the payment and redemption provisions of the Preferred Securities and Common Securities.

2. Distributions .

(a) Distributions on each Security will be payable at a fixed rate per annum of 7 3/4 % (the "Coupon Rate") of the liquidation amount of $25 per Security, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Interest on Debentures in arrears for more than one quarterly period will accrue additional interest thereon compounded quarterly at the Coupon Rate (to the extent permitted by applicable law) and as a result, Distributions in arrears will accumulate additional Distributions. The term "Distributions" as used herein, includes distributions of any and all such interest payable unless otherwise stated. A Distribution is payable only to the extent that payments are made with respect to the Debentures held by the Property Trustee and to the extent the Property Trustee has funds legally available therefor.

(b) As an undivided ownership interest in the Debentures, Distributions on the Securities will be cumulative, will accumulate from the most recent date to which Distributions have been paid or, if no Distributions have been paid, from November 7, 2001 and will be payable quarterly in arrears on March 15th, June 15th, September 15 th and December 15th of each year, commencing December 15, 2001 (each, a "Distribution Date"), except as otherwise described below. Distributions will be computed on the basis of a 360-day year comprised of twelve 30 day months. Distributions payable for any period shorter than a full quarterly period will be computed on the basis of a 30-day month and, for periods of less than a month, the actual number of days elapsed per 30-day month. As long as no Event of Default has occurred and is continuing under the Indenture, the Sponsor has the right under the Indenture to defer payments of interest by extending the interest payment period at any time and from time to time on the Debentures for a period not exceeding 20 consecutive quarterly periods, including the first such quarterly period during such period (each an "Extension Period"), during which Extension Period no interest shall be due and payable on the Debentures, provided , that no Extension Period shall end on a date other than an Interest Payment Date for the Debentures or extend beyond the Maturity Date of the Debentures. As a consequence of such deferral, interest in the Debentures will continue to accrue, and, as a result, Distributions will also be deferred. Notwithstanding such deferral, interest on the Debentures will continue to accrue, and, as a result, Distributions will continue to accumulate with additional Distributions thereon (to the extent permitted by applicable law but not at a rate greater than the rate at which interest is then accruing on the Debentures) at the Coupon Rate compounded quarterly during any such Extension Period. Prior to the termination of any such Extension Period, the Sponsor may further defer payments of interest by further extending such Extension Period, provided that such extension does not cause such Extension Period, together with all such previous and further extensions within such Extension Period, to exceed 20 consecutive quarterly periods, including the first quarterly period during such Extension Period, end on a date other than an Interest Payment Date for the Debentures or extend beyond the Maturity Date of the Debentures. Upon the termination of any Extension Period and the payment of all amounts then due, the Sponsor may commence a new Extension Period, subject to the above requirements.

(c) Distributions on the Securities will be payable to the Holders thereof as they appear on the books and records of the Trust on the close of business on the 1st day of the month in which the relevant Distribution Date occurs, which Distribution Dates correspond to

the Interest Payment Dates for the Debentures. Subject to any applicable laws and regulations and the provisions of the Declaration, each such payment with respect to the Preferred Securities will be made as described under the heading "Book-Entry Issuance-Payment and Paying Agency" in the Prospectus contained as part of the Registration Statement of the Sponsor and the Trust relating to the Securities and the Debentures. The relevant record dates for the Common Securities shall be the same as the record dates for the Preferred Securities. Distributions payable on any Securities that are not punctually paid on any Distribution Date, as a result of the Sponsor having failed to make a payment under the Debentures, will cease to be payable to the Holder on the relevant record date, and such defaulted Distribution will instead be payable to the Person in whose name such Securities are registered on the special record date or other specified date determined in accordance with the Indenture. If any date on which Distributions are payable on the Securities is not a Business Day, then payment of the Distributions payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) with the same force and effect as if made on such date.

(d) In the event that there is any money or other property held by or for the Trust that is not accounted for hereunder, such property shall be distributed Pro Rata (as defined herein) among the Holders.

3. Liquidation Distribution Upon Dissolution .

In the event of any dissolution of the Trust, the Trust shall be liquidated by the Administrative Trustees as expeditiously as the Administrative Trustees determine to be possible by distributing to the Holders, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, a Like Amount (as defined below) of the Debentures, unless such distribution is determined by the Property Trustee not to be practicable, in which event such Holders will be entitled to receive out of the assets of the Trust legally available for distribution to Holders, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, an amount equal to the aggregate of the liquidation amount of $25 per Security plus accumulated and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution").

"Like Amount" means (i) with respect to a redemption of the Securities, Securities having a Liquidation Amount equal to the principal amount of Debentures to be paid in accordance with their terms and (ii) with respect to a distribution of Debentures upon the liquidation of the Trust, Debentures having a principal amount equal to the Liquidation Amount of the Securities of the Holder to whom such Debentures are distributed.

If, upon any such liquidation, the Liquidation Distribution can be paid only in part because the Trust has insufficient assets legally available to pay in full the aggregate Liquidation Distribution, then the amounts payable directly by the Trust with respect to the Securities shall be paid on a Pro Rata basis.

4. Redemption and Distribution .

(a) Upon the repayment of the Debentures in whole or in part, at maturity or otherwise (either at the option of the Sponsor or pursuant to a Special Event, as described below), the proceeds from such repayment shall be simultaneously applied by the Property Trustee (subject to the Property Trustee having received written notice no later than 45 days prior to such repayment), pro rata, to redeem a Like Amount of the Securities at a redemption price equal to (i) in the case of the repayment of the Debentures on the Maturity Date, the Maturity Redemption Price (as defined below), (ii) in the case of the optional prepayment of the Debentures prior to the Initial Optional Redemption Date and upon the occurrence and continuation of a Special Event, the Special Event Redemption Price (as defined below) and (iii) in the case of the optional prepayment of the Debentures on or after the Initial Optional Redemption Date, the Optional Redemption Price (as defined below). The Maturity Redemption Price, the Special Event Redemption Price and the Optional Redemption Price are referred to collectively as the "Redemption Price." Holders will be given not less than 30 nor more than 60 days prior written notice of such redemption.

(b) (i) The "Maturity Redemption Price" shall mean an amount equal to 100% of the Liquidation Amount of, plus accumulated and unpaid Distributions on, the Securities as of the Maturity Date thereof.

(ii) The Sponsor shall have the right (subject to the conditions in the Indenture) to elect to prepay the Debentures, in whole or in part, at any time on or after November 7, 2006 (the "Initial Optional Redemption Date"), and, simultaneous with such prepayment, to cause a Like Amount of the Securities to be redeemed by the Trust at the Optional Redemption Price on a Pro Rata basis. "Optional Redemption Price" shall mean an amount equal to 100% of the Liquidation Amount of the Securities to be redeemed plus accumulated and unpaid Distributions thereon, if any, to the date of such redemption:

(c) If at any time an Investment Company Event, a Regulatory Capital Event or a Tax Event (each as defined below, and each a "Special Event") occurs, the Sponsor shall have the right (subject to the conditions set forth in the Indenture) at any time prior to the Initial Optional Redemption Date, to prepay the Debentures in whole, but not in part, within the 90 days following the occurrence of such Special Event (the "90 Day Period"), and, simultaneous with such prepayment, to cause a Like Amount of the Securities to be redeemed by the Trust at the Special Event Redemption Price on a Pro Rata basis.

"Investment Company Event" shall mean the receipt by the Sponsor and the Trust of an opinion of independent securities counsel experienced in such matters to the effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any rules, guidelines or policies of any applicable regulatory authority for the Sponsor or (b) any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of original issuance of the Securities, the Trust is, or within 90 days of the date of such opinion will be, considered an Investment Company that is required to be registered under the Investment Company Act.

"Regulatory Capital Event" shall mean the receipt by the Sponsor and the Trust of an opinion of independent bank regulatory counsel experienced in such matters to the effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any rules, guidelines or policies of an applicable regulatory authority for the Sponsor or (b) any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of original issuance of the Securities, the Preferred Securities do not constitute, or within 90 days of the date of such opinion will not constitute, Tier 1 Capital (or its then equivalent if the Sponsor were subject to such capital requirement) for purposes of capital adequacy guidelines of the Federal Reserve Board (or any successor regulatory authority with jurisdiction over bank holding companies), as then in effect and applicable to the Sponsor; provided , however , that the distribution of the Debentures in connection with the liquidation of the Trust by the Sponsor shall not in and of itself constitute a Regulatory Capital Event.

"Special Event Redemption Price" shall mean, with respect to any redemption of the Securities following a Special Event, an amount in cash equal to 100% of the liquidation amount of the Securities plus any accumulated and unpaid Distributions thereon to the date of such redemption.

A "Tax Event" shall occur upon receipt by the Sponsor and the Trust of an opinion of independent tax counsel experienced in such matters to the effect that, as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein, or (b) any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of original issuance of the Securities, there is more than an insubstantial risk that (i) the Trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the Debentures, (ii) the interest payable by the Sponsor on the Debentures is not, or within 90 days of the date of such opinion will not be, deductible by the Sponsor, in whole or in part, for federal income tax purposes, or (iii) the Trust is, or will be within 90 days of the date of such opinion, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

(d) In the case of an optional redemption, if fewer than all the outstanding Securities are to be so redeemed, the Common Securities and the Preferred Securities shall be redeemed Pro Rata and the Preferred Securities to be redeemed will be determined as described in Section 4(g)(ii) below. Upon the entry of an order for the dissolution of the Trust by a court of competent jurisdiction, the Debentures thereafter will be subject to optional redemption, in whole, but not in part, on or after the Initial Optional Redemption Date.

(e) On and from the date fixed by the Administrative Trustees for any distribution of Debentures and liquidation of the Trust: (i) the Securities will no longer be deemed to be outstanding, (ii) the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee), as the Holder of the Preferred Securities, will receive a registered global certificate or certificates representing the Debentures to be delivered upon such distribution, and (iii) any certificates representing Securities not held by the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee) will be deemed to represent a Like Amount of Debentures until such certificates are presented to the Sponsor or its agent for transfer or reissue.

(f) The Trust may not redeem fewer than all the outstanding Securities unless all accumulated and unpaid Distributions have been paid on all Securities for all quarterly Distribution periods terminating on or before the date of redemption.

(g) The procedure with respect to redemptions or distributions of Securities shall be as follows:

(i) Notice of any redemption of, or notice of distribution of Debentures in exchange for, the Securities (a "Redemption/Distribution Notice") will be given by the Trust by mail to each Holder of Securities to be redeemed or exchanged not fewer than 30 nor more than 60 days before the date fixed for redemption or exchange thereof which, in the case of a redemption, will be the date fixed for redemption of the Debentures. For purposes of the calculation of the date of redemption or exchange and the dates on which notices are given pursuant to this Section 4(g)(i), a Redemption/Distribution Notice shall be deemed to be given on the day such notice is first mailed by first-class mail, postage prepaid, to Holders. Each Redemption/Distribution Notice shall be addressed to the Holders at the address of each such Holder appearing in the books and records of the Trust. No defect in the Redemption/Distribution Notice or in the mailing of either thereof with respect to any Holder shall affect the validity of the redemption or exchange proceedings with respect to any other Holder.

(ii) In the event that fewer than all the outstanding Securities are to be redeemed, the particular Securities to be redeemed shall be selected on a Pro Rata basis (based upon Liquidation Amounts) not more than 60 nor less than 30 days prior to the date fixed for redemption from the outstanding Securities not previously called for redemption. With respect to Preferred Securities registered in the name of and held of record by the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee) or any nominee, the distribution of the proceeds of such redemption will be made to the Clearing Agency and disbursed by such Clearing Agency in accordance with the procedures applied by such agency or nominee.

(iii) If Securities are to be redeemed and the Trust gives a Redemption/ Distribution Notice (which notice will be irrevocable), then (A) with respect to Preferred Securities issued in book-entry form, by 12:00 noon, New York City time, on the redemption date, provided that the Sponsor has paid the Property Trustee a sufficient amount of cash in connection with the related redemption or maturity of the Debentures by 10:00 a.m., New York City time, on the Maturity Date or the date of redemption, as the case requires, the Property

Trustee will deposit irrevocably with the Clearing Agency or its nominee (or successor Clearing Agency or its nominee) immediately available funds sufficient to pay the applicable Redemption Price with respect to such Preferred Securities and will give the Clearing Agency irrevocable instructions and authority to pay the Redemption Price to the relevant Clearing Agency Participants, and (B) with respect to Preferred Securities issued in certificated form and Common Securities, provided that the Sponsor has paid the Property Trustee a sufficient amount of cash in connection with the related redemption or maturity of the Debentures, the Property Trustee will irrevocably deposit with the paying agent for the Preferred Securities (if other than the Property Trustee) funds sufficient to pay the applicable Redemption Price to the Holders by check mailed to the address of the relevant Holder appearing on the books and records of the Trust on the redemption date, and provided further, that any such payment shall become due only upon surrender by the Holder of the related certificated Preferred Securities. If a Redemption/Distribution Notice shall have been given and funds deposited as required, if applicable, then immediately prior to the close of business on the date of such deposit, or on the redemption date, as applicable, Distributions will cease to accumulate on the Securities so called for redemption and all rights of Holders so called for redemption will cease, except the right of the Holders of such Securities to receive the Redemption Price, but without interest on such Redemption Price, and such Securities shall cease to be outstanding.

(iv) Payment of accumulated and unpaid Distributions on the Redemption Date of the Securities will be subject to the rights of Holders at the close of business on a regular record date in respect of a Distribution Date occurring on or prior to such Redemption Date. Neither the Administrative Trustees nor the Trust shall be required to register or cause to be registered the transfer of (i) any Securities beginning at the opening of business 15 days before the day of mailing of a notice of redemption or any notice of selection of Securities for redemption or (ii) any Securities selected for redemption, except the unredeemed portion of any Security being redeemed. If any date fixed for redemption of Securities is not a Business Day, then payment of the Redemption Price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay). If payment of the Redemption Price with respect to any Securities is improperly withheld or refused and not paid either by the Property Trustee or by the Sponsor as guarantor pursuant to the relevant Securities Guarantee, Distributions on such Securities will continue to accumulate from the original redemption date to the actual date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the Redemption Price.

(v) Redemption/Distribution Notices shall be sent by the Property Trustee on behalf of the Trust to (A) with respect to Preferred Securities issued in book-entry form, the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee), (B) with respect to Preferred Securities issued in certificated form, to the Holders thereof, and (C) with respect to the Common Securities, to the Holders thereof.

(vi) Subject to the foregoing and applicable law (including, without limitation, United States federal securities laws and banking laws), the Sponsor or any of its subsidiaries may at any time and from time to time purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

5. Voting Rights - Preferred Securities .

(a) Except as provided under Sections 5(b), 6(b) and 7 and as otherwise required by law and the Declaration, the Holders of the Preferred Securities will have no voting rights.

(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee or executing any trust or power conferred on such Debenture Trustee with respect to the Debentures, (ii) waive any past default that is waivable under Section 5.07 of the Indenture, (iii) exercise any right to rescind or annul a declaration of acceleration of the maturity of the principal of the Debentures or (iv) consent to any amendment, modification or termination of the Indenture or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of a Majority in Liquidation Amount of all outstanding Preferred Securities; provided , however , that where a consent under the Indenture would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior approval of each Holder of the Preferred Securities; provided further, where a consent under the Indenture would require the consent of Holders of a majority of the aggregate principal amount of Debentures affected thereby, only the Holders of the percentage of aggregate stated liquidation amount of the Preferred Securities which is at least equal to the percentage required under the Indenture may direct the Property Trustee to give such consent; provided, further that if a Debenture Event of Default has occurred and is continuing, then Holders of 25% of the aggregate liquidation amount of the Preferred Securities may direct the Property Trustee to declare the principal of and interest or other required payments on the Debentures due and payable. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of the Preferred Securities except by subsequent vote of such Holders. The Property Trustee shall notify each Holder of Preferred Securities of any notice of default with respect to the Debentures. In addition to obtaining the foregoing approvals of such Holders of the Preferred Securities, prior to taking any of the foregoing actions, the Trustees shall obtain an opinion of counsel experienced in such matters to the effect that the Trust will continue to be classified as a grantor trust for United States federal income tax purposes after taking any such action into account.

If an Event of Default under the Declaration has occurred and is continuing and such event is attributable to the failure of the Sponsor to pay principal of or interest or other required payments on the Debentures on the due date (or, in the case of redemption, on the redemption date), then a Holder of Preferred Securities may institute a proceeding directly against the Sponsor for enforcement of payment to such Holder of the principal of or interest on a Like Amount of Debentures (a “Direct Action”) on or after the respective due date specified in the Debentures. In connection with such Direct Action, the Common Securities Holder will be subrogated to the rights of such Holder of Preferred Securities to the extent of any payment made by the Sponsor to such Holder of Preferred Securities in such Direct Action. Except as provided in the second preceding sentence, or except as set forth in Section 3.8(e) of the Declaration, the Holders of Preferred Securities will not be able to exercise directly any other remedy available to the holders of the Debentures.

Any approval or direction of Holders of Preferred Securities may be given at a separate meeting of Holders of Preferred Securities convened for such purpose, at a meeting of all of the Holders of Securities in the Trust or pursuant to written consent. The Property Trustee will cause a notice of any meeting at which Holders of Preferred Securities are entitled to vote to be mailed to each Holder of record of Preferred Securities. Each such notice will include a statement setting forth (i) the date of such meeting or the date by which such action is to be taken, (ii) a description of any resolution proposed for adoption at such meeting on which such Holders are entitled to vote or of such matter upon which written consent is sought and (iii) instructions for the delivery of proxies or consent.

No vote or consent of the Holders of the Preferred Securities will be required for the Trust to redeem and cancel Preferred Securities or to distribute the Debentures in accordance with the Declaration and the terms of the Securities.

Notwithstanding that Holders of Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Preferred Securities that are owned by the Sponsor or any Affiliate of the Sponsor shall not be entitled to vote or consent and shall, for purposes of such vote or consent, be treated as if they were not outstanding.

6. Voting Rights - Common Securities .

(a) Except as provided under Section 6(b) or as otherwise required by law and the Declaration, the Holders of the Common Securities will have no voting rights.

(b) Unless a Debenture Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by the Holder of the Common Securities. If a Debenture Event of Default has occurred and is continuing, the Property Trustee and the Delaware Trustee may be removed at such time only by the Holders of a Majority in Liquidation Amount of the outstanding Preferred Securities. In no event will the Holders of the Preferred Securities have the right to vote to appoint, remove or replace the Administrative Trustees, which voting rights are vested exclusively in the Sponsor as the Holder of the Common Securities. No resignation or removal of a Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Declaration.

During any Event of Default, no vote or consent of the Holders of the Common Securities will be required or obtained by the Administrative Trustees with respect to that Event of Default, until that Event of Default has been cured or waived. During that Event of Default, the Property Trustee will act on behalf of the Holders of the Preferred Securities without regard to any vote or consent by the Holders of the Common Securities.

If an Event of Default under the Declaration has occurred and is continuing and such event is attributable to the failure of the Sponsor to pay principal of or interest on the Debentures on the due date (or in the case of redemption, on the redemption date), then a Holder

of Common Securities may institute a Direct Action directly against the Sponsor for enforcement of payment to such Holder of the principal of or interest on a Like Amount of Debentures on or after the respective due date specified in the Debentures. In connection with such Direct Action, the rights of the Common Securities Holder will be subordinated to the rights of Holders of Preferred Securities in respect of any payment from the Sponsor in such Direct Action. Except as provided in the second preceding sentence, the Holders of Common Securities will not be able to exercise directly any other remedy available to the holders of the Debentures.

Any approval or direction of Holders of Common Securities may be given at a separate meeting of Holders of Common Securities convened for such purpose, at a meeting of all of the Holders of Securities in the Trust or pursuant to written consent. The Administrative Trustees will cause a notice of any meeting at which Holders of Common Securities are entitled to vote, or of any matter upon which action by written consent of such Holders is to be taken, to be mailed to each Holder of record of Common Securities. Each such notice will include a statement setting forth (i) the date of such meeting or the date by which such action is to be taken, (ii) a description of any resolution proposed for adoption at such meeting on which such Holders are entitled to vote or of such matter upon which written consent is sought, and (iii) instructions for the delivery of proxies or consents.

No vote or consent of the Holders of the Common Securities will be required for the Trust to redeem and cancel Common Securities or to distribute the Debentures in accordance with the Declaration and the terms of the Securities.

7. Pro Rata .

A reference in these terms of the Securities to any payment, distribution or treatment as being "Pro Rata" shall mean pro rata to each Holder according to the aggregate liquidation amount of the Securities held by such Holder in relation to the aggregate liquidation amount of all Securities outstanding unless, in relation to a payment, an Event of Default under the Declaration has occurred and is continuing, in which case any funds available to make such payment shall be paid first to each Holder of the Preferred Securities pro rata according to the aggregate liquidation amount of Preferred Securities held by such Holder relative to the aggregate liquidation amount of all Preferred Securities outstanding and then, only after satisfaction of all amounts owed to the Holders of the Preferred Securities, to each Holder of Common Securities pro rata according to the aggregate liquidation amount of Common Securities held by such Holder relative to the aggregate liquidation amount of all Common Securities outstanding.

8. Ranking .

The Preferred Securities rank *pari passu* with the Common Securities and payment thereon shall be made Pro Rata with the Common Securities, except that, if an Event of Default under the Declaration occurs and is continuing, no payments in respect of Distributions on, or payments upon liquidation, redemption or otherwise with respect to, the Common Securities shall be made until the Holders of the Preferred Securities shall be paid in full the Distributions, Redemption Price, Liquidation Distribution and any other payments to which they are entitled at such time.

9. Acceptance of Preferred Securities Guarantee, Common Securities Guarantee. Indenture and Debentures .

Each Holder of Preferred Securities and Common Securities, by the acceptance thereof, agrees to the provisions of the Preferred Securities Guarantee, the Common Securities Guarantee, the Indenture and the Debentures, as applicable, including the subordination provisions therein.

10. No Preemptive Rights .

Neither the issuance of Preferred Securities, nor the issuance of Common Securities is subject to preemptive or other similar rights. The Holders shall have no preemptive or similar rights to subscribe for any additional securities.

11. Miscellaneous .

These terms constitute a part of the Declaration. The Sponsor will provide a copy of the Declaration, the Preferred Securities Guarantee or the Common Securities Guarantee, as applicable, and the Indenture (including any supplemental indenture) to a Holder without charge upon written request to the Trust at its principal place of business.

EXHIBIT A-1

PREFERRED SECURITY CERTIFICATE

[FACE OF SECURITY]

THIS PREFERRED SECURITY IS A GLOBAL PREFERRED SECURITY WITHIN THE MEANING OF THE DECLARATION HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY (THE "CLEARING AGENCY") OR A NOMINEE OF THE CLEARING AGENCY. THIS PREFERRED SECURITY IS EXCHANGEABLE FOR PREFERRED SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE CLEARING AGENCY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE DECLARATION AND NO TRANSFER OF THIS PREFERRED SECURITY (OTHER THAN A TRANSFER OF THIS PREFERRED SECURITY AS A WHOLE BY THE CLEARING AGENCY TO A NOMINEE OF THE CLEARING AGENCY OR BY A NOMINEE OF THE CLEARING AGENCY TO THE CLEARING AGENCY OR ANOTHER NOMINEE OF THE CLEARING AGENCY) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS PREFERRED SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE CLEARING AGENCY TO THE TRUST OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY PREFERRED SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE CLEARING AGENCY AND ANY PAYMENT HEREON IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

Certificate Number: 1 Aggregate Liquidation Amount: $175,000,000

CUSIP Number: 92856Q 20 3

Certificate Evidencing Preferred Securities of VNB Capital Trust I

7 3/4% Trust Preferred Securities

(liquidation amount $25.00 per Preferred Security)

VNB Capital Trust I, a statutory business trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Cede & Co. (the "Holder") is the registered owner of $175,000,000 in aggregate liquidation amount of Preferred Securities of the Trust representing undivided preferred beneficial interests in the assets of the Trust designated the

7 3/4% Trust Preferred Securities, (liquidation amount $25 per Preferred Security) (the "Preferred Securities"). The Preferred Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer. The designation, rights, privileges, restrictions, preferences and other terms and provisions of the Preferred Securities represented hereby are issued and shall in all respects be subject to the provisions of the Amended and Restated Declaration of Trust, dated as of November 7, 2001, as the same may be amended from time to time (the "Declaration"), including the designation of the terms of the Preferred Securities as set forth in Annex I to the Declaration. Capitalized terms used but not defined herein shall have the meaning given them in the Declaration. The Sponsor will provide a copy of the Declaration, the Preferred Securities Guarantee and the Indenture (including any supplemental indenture) to a Holder without charge upon written request to the Trust at its principal place of business.

Upon receipt of this Certificate, the Holder is bound by the Declaration and is entitled to the benefits thereunder and to the benefits of the Preferred Securities Guarantee to the extent provided therein.

By acceptance hereof, the Holder agrees, for United States federal income tax purposes, to treat the Debentures as indebtedness and the Preferred Securities as evidence of indirect beneficial ownership in the Debentures.

IN WITNESS WHEREOF, the Trust has executed this certificate this 7th day of November 2001.

VNB CAPITAL TRUST I

By: _____
Alan D. Eskow
Administrative Trustee

PROPERTY TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the 7 3/4% Trust Preferred Securities of VNB Capital Trust I referred to in the within-mentioned Declaration.

Dated: November 7, 2001

THE BANK OF NEW YORK
not in its individual capacity but solely as Property Trustee

By: _____
Julie Salovitch-Miller
Vice President

[REVERSE OF SECURITY]

As an undivided beneficial interest in the Debentures, each Preferred Security will be paid Distributions at a fixed rate per annum of 7 3/4% (the "Coupon Rate") of the liquidation amount of $25 per Preferred Security, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Interest on the Debentures, and, as a result, Distributions, in arrears for more than one quarterly period will bear interest thereon compounded quarterly at the Coupon Rate (to the extent permitted by applicable law). The term "Distributions," as used herein, includes such cash distributions and any and all such interest payable unless otherwise stated. A Distribution is payable only to the extent that payments are made in respect of the Debentures held by the Property Trustee and to the extent the Property Trustee has funds legally available therefor.

Interest on the Debentures will be cumulative, will accumulate from the most recent date to which Distributions have been paid or, or if no Distributions have been paid, from November 7, 2001 and will be payable quarterly in arrears on March 15th, June 15th, September 15th and December 15th of each year, commencing December 15, 2001, except as otherwise described below. As a result, Distributions on the Preferred Securities will be cumulative, will accumulate from the most recent date to which Distributions have been paid or, if no Distributions have been paid, from November 7, 2001 and will be payable quarterly in arrears, on March 15th, June 15th, September 15th and December 15th of each year, commencing December 15, 2001, except as otherwise described below. Distributions will be computed on the basis of a 360-day year of twelve 30-day months. Interest, and, as a result, Distributions payable for any period shorter than a full quarterly period will be computed on the basis of a 30-day month and, for periods of less than a month, the actual number of days elapsed per 30-day month. As long as no Event of Default has occurred and is continuing under the Indenture, the Sponsor has the right under the Indenture to defer payments of interest by extending the interest payment period at any time and from time to time on the Debentures for a period not exceeding 20 consecutive quarterly calendar periods, including the first such quarterly period during such extension period (each an "Extension Period"), provided that no Extension Period shall end on a date other than an Interest Payment Date for the Debentures or extend beyond the Maturity Date of the Debentures. As a consequence of such deferral, Distributions will also be deferred.

Notwithstanding such deferral, quarterly interest payments will continue to accrue, and, as a result, Distributions will continue to accumulate (to the extent permitted by applicable law, but not at a rate exceeding the rate of interest then accruing on the Debentures), at the Coupon Rate compounded quarterly during any such Extension Period. Prior to the termination of any Extension Period, the Sponsor may further defer payments of interest by further extending such Extension Period; provided that such Extension Period, together with all such previous and further extensions within such Extension Period, may not (i) exceed 20 consecutive quarterly periods, including the first quarterly period during such Extension Period, (ii) end on a date other than an Interest Payment Date for the Debentures or (iii) extend beyond the Maturity Date of the Debentures. Payments of accumulated Distributions will be payable to Holders as they appear on the books and records of the Trust on the record date immediately preceding the end of the Extension Period. Upon the termination of any Extension Period and the payment of all amounts then due, the Sponsor may commence a new Extension Period, subject to the above requirements.

Subject to receipt by the Sponsor of any and all required regulatory approvals and to certain other conditions set forth in the Declaration and the Indenture, the Property Trustee may, at the direction of the Sponsor, at any time dissolve the Trust, and after satisfaction of liabilities to creditors of the Trust as provided by applicable law, cause the Debentures to be distributed to the Holders of the Securities in liquidation of the Trust or, simultaneously with any redemption of the Debentures, cause a Like Amount of the Securities to be redeemed by the Trust.

The Preferred Securities shall be redeemable as provided in the Declaration. The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN CON - as tenants in common

TENANT - as tenants in the entireties

JT TEN - as joint tenants with right of survival

UNIF GIFT MIN ACT - under Uniform Gift to Minors Act and not as tenants

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby assigns and transfers this Preferred Security Certificate to:

_____

_____

_____ (Assignee's social security or tax identification number)

_____

(Address and zip code of assignee)

and irrevocably appoints

_____

_____

agent

to transfer this Preferred Security Certificate on the books of the Trust.

The agent may substitute another to act for him or her.

Date:

Signature: _____

(Sign exactly as your name appears on the other side of this Preferred Security Certificate)

Signature Guarantee: _____

Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the

Registrar, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT A-2

COMMON SECURITY CERTIFICATE

[FACE OF SECURITY]

THIS COMMON SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS COMMON SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

This Certificate is not transferable except in compliance with Section 9.1(c) of the Declaration.

Certificate Evidencing Common Securities of VNB Capital Trust I

7 3/4% Common Securities
(liquidation amount $25 per Common Security)

VNB Capital Trust I, a statutory business trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that Valley National Bancorp (the "Holder") is the registered owner of 216,495 common securities of the Trust representing undivided beneficial interests in the assets of the Trust designated the 7 3/4% Common Securities (liquidation amount $25 per Common Security) (the "Common Securities"). Subject to the terms of Section 9.1(c) of the Declaration (as defined below), the Common Securities are not transferable and any attempted transfer shall be void. The designation, rights, privileges, restrictions, preferences and other terms and provisions of the Common Securities represented hereby are issued and shall in all respects be subject to the provisions of the Amended and Restated Declaration of the Trust dated as of November 7, 2001, as the same may be amended from time to time (the "Declaration"), including the designation of the terms of the Common Securities as set forth in Annex I to the Declaration. Capitalized terms used but not defined herein shall have the meaning given them in the Declaration. The Sponsor will provide a copy of the Declaration, the Common Securities Guarantee and the Indenture (including any supplemental indenture) to a Holder without charge upon written request to the Trust at its principal place of business.

Upon receipt of this Certificate, the Holder is bound by the Declaration and is entitled to the benefits thereunder and to the benefits of the Common Securities Guarantee to the extent provided therein.

By acceptance hereof, the Holder agrees to treat, for United States federal income tax purposes, the Debentures as indebtedness and the Common Securities as evidence of indirect beneficial ownership in the Debentures.

IN WITNESS WHEREOF, the Trust has executed this certificate this 7th day of November 2001.

VNB CAPITAL TRUST I

By: _____
Alan D. Eskow
Administrative Trustee

[REVERSE OF SECURITY]

Distributions on each Common Security will be payable at a rate of 7 3/4% per annum (the "Coupon Rate") of the liquidation amount of $25 per Common Security, such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Distributions in arrears for more than one quarterly period will bear interest thereon compounded quarterly at the Coupon Rate (to the extent permitted by applicable law). The term "Distributions", as used herein, includes such cash distributions and any and all such interest payable unless otherwise stated. A Distribution is payable only to the extent that payments are made in respect of the Debentures held by the Property Trustee and to the extent the Property Trustee has funds legally available therefor.

Distributions on the Common Securities will be cumulative, will accrue from the most recent date to which Distributions have been paid or, if no Distributions have been paid, from November 7, 2001 and will be payable quarterly in arrears, on March 15th, June 15th, September 15th and December 15th of each year, commencing December 15, 2001, except as otherwise described below.

Distributions will be computed on the basis of a 360-day year of twelve 30-day months. Distributions payable for any period shorter than a full quarterly period will be computed on the basis of a 30-day month and, for periods of less than a month, the actual number of days elapsed per 30-day month. As long as no Event of Default has occurred and is continuing under the Indenture, the Sponsor has the right under the Indenture to defer payments of interest by extending the interest payment period at any time and from time to time on the Debentures for a period not exceeding 20 consecutive calendar quarterly periods, including the first such quarterly period during such extension period (each an "Extension Period"), provided that no Extension Period shall end on a date other than an Interest Payment Date for the Debentures or extend beyond the Maturity Date of the Debentures. As a consequence of such deferral, Distributions will also be deferred. Notwithstanding such deferral, quarterly Distributions will continue to accumulate with interest thereon (to the extent permitted by applicable law, but not at a rate exceeding the rate of interest then accruing on the Debentures) at the Coupon Rate compounded quarterly during any such Extension Period. Prior to the termination of any Extension Period, the Sponsor may further defer payments of interest by further extending such Extension Period; provided that such Extension Period, together with all such previous and further extensions within such Extension Period, may not (i) exceed to 20 consecutive quarterly periods, including the first quarterly period during such Extension Period, (ii) end on a date other than an Interest Payment Date for the Debentures or (iii) extend beyond the Maturity Date of the Debentures. Payments of accrued Distributions will be payable to Holders as they appear on the books and records of the Trust on the record date immediately preceding the end of the Extension Period. Upon the termination of any Extension Period and the payment of all amounts then due, the Sponsor may commence a new Extension Period, subject to the above requirements.

Subject to the receipt by the Sponsor of any and all required regulatory approvals and to certain other conditions set forth in the Declaration and the Indenture, the Property Trustee may, at the direction of the Sponsor, at any time dissolve the Trust, and after satisfaction

of liabilities to creditors of the Trust, cause the Debentures to be distributed to the Holders of the Securities in liquidation of the Trust or, simultaneously with any redemption of the Debentures, cause a Like Amount of the Securities to be redeemed by the Trust.

The Common Securities shall be redeemable as provided in the Declaration. Under certain circumstances, the rights of the holders of the Common Securities shall be subordinate to the rights of the holders of the Preferred Securities, as provided in the Declaration.

EXHIBIT (10.P)

VALLEY NATIONAL BANCORP

INDENTURE

Dated as of November 7, 2001

THE BANK OF NEW YORK,

as Debenture Trustee

JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Tie Sheet of provisions of Trust Indenture Act of 1939 with Indenture dated as of November 7, 2001 between Valley National Bancorp and The Bank of New York, as Debenture Trustee:

ACT SECTION	INDENTURE SECTION
310(a)(1)	6.9
310(a)(2)	6.9, 6.10, 6.11
310(a)(3)	N/A
310(a)(4)	N/A
310(a)(5)	6.9, 6.10, 6.11
310(b)	6.8
310(c)	N/A
311(a)	6.13
311(b)	6.13
311(c)	N/A
312(a)	4.1(a) and 4.2(a)
312(b)	4.2(b)
312(c)	4.2(c)
313(a)	4.4(a)
313(b)(1)	4.4(a)
313(b)(2)	4.4(a)
313(c)	4.4(a)
313(d)	4.4(b)
314(a)	3.5, 4.3
314(b)	N/A
314(c)(1)	6.7 and 13.6
314(c)(2)	6.7 and 13.6
314(c)(3)	N/A
314(d)	N/A
314(e)	6.7, 13.6
314(f)	N/A
315(a)(c) and (d)	6.1
315(b)	5.8
315(e)	5.9
316(a)(1)	5.7
316(a)(2)	N/A 316(a) last sentence 9.2
316(b)	5.7 and 9.2
316(c)	7.1 and 9.2
317(a)	5.5
317(b)	6.5
318	13.8

THIS TIE-SHEET IS NOT PART OF THE INDENTURE AS EXECUTED.

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EXHIBIT A A-1

THIS INDENTURE, dated as of November 7, 2001, between Valley National Bancorp, a New Jersey corporation (hereinafter called the "Corporation"), and The Bank of New York, a New York banking corporation, as debenture trustee (hereinafter sometimes called the "Debenture Trustee").

W I T N E S S E T H :

In consideration of the premises, and the purchase of the Securities (as defined below) by the holders thereof, the Corporation covenants and agrees with the Debenture Trustee for the equal and proportionate benefit of the respective holders from time to time of the Securities (as defined below), as follows:

ARTICLE I

DEFINITIONS

ARTICLE I Definitions .

The terms defined in this Article I (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture shall have the respective meanings specified in this Article I. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), or which are by reference therein defined in the Securities Act of 1933, as amended (the "Securities Act"), shall (except as herein otherwise expressly provided or unless the context otherwise requires) have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture as originally executed. The following terms have the meanings given to them in the Declaration (as defined below): (i) Clearing Agency; (ii) Delaware Trustee; (iii) Property Trustee; (iv) Administrative Trustees; (v) Preferred Securities; (vi) Direct Action; (vii) Preferred Securities Guarantee; (viii) Distributions; and (ix) underwriter(s) named in the Underwriting Agreement. All accounting terms used herein and not expressly defined shall have the meanings assigned to such terms in accordance with generally accepted accounting principles, and the term "generally accepted accounting principles" means such accounting principles as are generally accepted at the time of any computation. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. Headings are used for convenience of reference only and do not affect interpretation. The singular includes the plural and vice versa.

"Additional Sums" shall have the meaning set forth in Section 2.8(c).

"Affiliate" shall have the meaning given to that term in Rule 405 under the Securities Act or any successor rule thereunder.

"Allocable Amounts" when used with respect to any Senior Indebtedness, means all amounts due or to become due on such Senior Indebtedness less, if applicable, any amount which would have been paid to, and retained by, the holders of such Senior Indebtedness (whether as a result of the receipt of payments by the holders of such Senior Indebtedness from the Corporation or any other obligor thereon or from any holders of, or trustee in respect of, other indebtedness that is subordinate and junior in right of payment to such Senior Indebtedness pursuant to any provision of such indebtedness for the payment over of amounts received on account of such indebtedness to the holders of such Senior Indebtedness or otherwise) but for the fact that such Senior Indebtedness is subordinate or junior in right of payment to (or subject to a requirement that amounts received on such Senior Indebtedness be paid over to obligees on) trade accounts payable or accrued liabilities arising in the ordinary course of business.

"Authenticating Agent" shall mean any agent or agents of the Debenture Trustee which at the time shall be appointed and acting pursuant to Section 6.14.

"Bankruptcy Law" shall mean Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

"Board of Directors" shall mean either the Board of Directors of the Corporation or any duly authorized committee of that board.

"Board Resolution" shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Corporation to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Debenture Trustee.

"Book-Entry Preferred Securities" shall have the meaning set forth in Section 2.7(a)(i).

"Business Day" shall mean, with respect to any series of Securities, any day other than a Saturday, a Sunday or a day on which banking institutions in Wilmington, Delware, Wayne, New Jersey or New York, New York are authorized or required by law or executive order to remain closed.

"Commission" shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Securities" shall mean the 7 3/4% Common Securities of the Trust which represent an undivided beneficial interest in the

assets of the Trust and rank *pari passu* with Preferred Securities issued by the Trust; provided , however , that if an Event of Default has occurred and is continuing, no payments in respect of distributions on, or payments upon liquidation, redemption or otherwise with respect to, the Common Securities shall be made until the holders of the Preferred Securities shall be paid in full the distributions and the liquidation, redemption and other payments to which they are then entitled.

"Common Securities Guarantee" shall mean any guarantee that the Corporation may enter into that operates directly or indirectly for the benefit of the holders of Common Securities.

"Common Stock" shall mean the common stock, no par value per share, of the Corporation or any other class of stock resulting from changes or reclassifications of such common stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value.

"Compounded Interest" shall have the meaning set forth in Section 16.1.

"Corporation" shall mean the person identified as "corporation" in the preamble to this Indenture and, subject to the provisions of Article X, shall also include its successors and assigns.

"Corporation Request" or "Corporation Order" shall mean a written request or order signed in the name of the Corporation by an Officer and delivered to the Debenture Trustee.

"Coupon Rate" shall have the meaning set forth in Section 2.8.

"Custodian" shall mean any receiver, trustee, assignee, liquidator, or similar official under any Bankruptcy Law.

"Debenture Trustee" shall mean the Person identified as "Debenture Trustee" in the preamble to this Indenture and, subject to the provisions of Article VI hereof, shall also include its successors and assigns.

"Declaration" shall mean the Amended and Restated Declaration of Trust, dated as of November 7, 2001, by and among the Trustees (as defined therein), the Corporation, as sponsor, and the holders from time to time of undivided beneficial interest in the assets of the Trust, as amended from time to time.

"Default" shall mean any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" shall have the meaning set forth in Section 2.13.

"Deferred Interest" shall have the meaning set forth in Section 16.1.

"Definitive Securities" shall mean those Securities issued in fully registered certificated form not otherwise in global form.

"Depositary" shall mean, with respect to the Securities for which the Corporation shall determine that such Securities will be issued as a Global Security, The Depository Trust Company, New York, New York, or another clearing agency, or any successor registered as a clearing agency pursuant to Section 17A of the Exchange Act or other applicable statute or regulation, which, in each case, shall be designated by the Corporation pursuant to Section 2.7(d).

"Dissolution Event" shall mean any event resulting in the dissolution of the Trust pursuant to the Declaration, and the distribution of the Securities held by the Property Trustee to the holders of the Trust Securities issued by the Trust pro rata in accordance with the Declaration.

"Event of Default" shall mean any event specified in Section 5.1, continued for the period of time, if any, and after the giving of the notice, if any, therein designated.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Extended Interest Payment Period" shall have the meaning set forth in Section 16.1.

"Federal Reserve" shall mean the Board of Governors of the Federal Reserve System.

"Global Security" shall mean, with respect to the Securities, a Security executed by the Corporation and delivered by the Debenture Trustee to the Depositary or pursuant to the Depositary's instruction or, if no instructions are received, then held by the Property Trustee, all in accordance with this Indenture, which Security shall be registered in the name of the Depositary or its nominee.

"Indebtedness" shall mean, whether recourse as to all or a portion of the assets of the Corporation and whether or not contingent, (i) every obligation of the Corporation for money borrowed; (ii) every obligation of the Corporation evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses; (iii) every reimbursement obligation of the Corporation with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of the Corporation; (iv) every obligation of the Corporation issued, assumed as the deferred purchase price of property or services (but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business); (v) every capital lease obligation of the Corporation; (vi) all indebtedness of the Corporation, whether incurred on or prior to the date of this Indenture or hereafter incurred, for claims in respect of derivative products, including interest rate, foreign exchange rate and commodity forward contracts, options and swaps and similar arrangements; and (vii) every obligation of the type referred to in clauses (i) through (vi) of another Person and all dividends of another Person the payment of which, in either case, the Corporation has guaranteed or is responsible or liable for directly or indirectly, as obligor or otherwise.

"Indebtedness Ranking on a Parity with the Securities" shall mean (i) Indebtedness, whether outstanding on the date of execution of this Indenture or hereafter created, assumed or incurred, to the extent such Indebtedness by its terms ranks *pari passu* with and not prior or senior to the Securities in the right of payment upon the happening of the dissolution, winding-up, liquidation or reorganization of the Corporation, and (ii) all other debt securities issued to any trust other than the Trust, or a trustee of such trust, partnership or other entity affiliated with the Corporation, that is a financing vehicle of the Corporation (a "financing entity") in connection with the issuance by such financing entity of equity securities or other securities that are similar to the Preferred Securities. The securing of any Indebtedness otherwise constituting Indebtedness Ranking on a Parity with the Securities shall not be deemed to prevent such Indebtedness from constituting Indebtedness Ranking on a Parity with the Securities with respect to any assets of the Corporation not securing such Indebtedness.

"Indebtedness Ranking Junior to the Securities" shall mean any Indebtedness, whether outstanding on the date of execution of this Indenture or hereafter created, assumed or incurred, to the extent such Indebtedness by its terms ranks junior to and not *pari passu* with or prior to the Securities in right of payment upon the happening of the dissolution or winding-up or liquidation or reorganization of the Corporation. The securing of any Indebtedness otherwise constituting Indebtedness Ranking Junior to the Securities shall not be deemed to prevent such Indebtedness from constituting Indebtedness Ranking Junior to the Securities with respect to any assets of the Corporation not securing such Indebtedness.

"Indenture" shall mean this instrument as originally executed or, if amended as herein provided, as so amended.

"Initial Optional Redemption Date" shall mean November 7, 2006.

"Interest Payment Date" shall have the meaning set forth in Section 2.8(a).

"Investment Company" shall mean an investment company as defined in the Investment Company Act.

"Investment Company Act" shall mean the Investment Company Act of 1940, as amended from time to time, or any successor legislation.

"Investment Company Event" shall mean the receipt by the Corporation and the Trust of an opinion of an independent securities counsel experienced in such matters to the effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any rules, guidelines or policies of any applicable regulatory authority for the Corporation or (b) any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of original issuance of the Securities, the Trust is, or within 90 days of the date of such opinion will be, considered an investment company that is required to be registered under the Investment Company Act.

"Like Amount" shall mean Securities having a principal amount equal to the liquidation amount of the Trust Securities of the holder to whom Securities are distributed pursuant to Section 2.7.

"Maturity Date" shall mean December 15, 2031.

"Non Book-Entry Preferred Securities" shall have the meaning set forth in Section 2.7(a)(ii).

"Officers" shall mean any of the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors, the Chief Executive Officer, the President, an Executive or Senior Vice President, a Vice President, the Chief Financial Officer, the Secretary or an Assistant Secretary of the Corporation.

"Officers' Certificate" shall mean a certificate signed by two Officers and delivered to the Debenture Trustee.

"Opinion of Counsel" shall mean a written opinion of counsel experienced in the matters as to which such opinion is being delivered, who may be an employee of the Corporation, and who shall be reasonably acceptable to the Debenture Trustee.

"Optional Prepayment Price" shall have the meaning set forth in Section 14.2(a).

"Other Debentures" shall mean all junior subordinated debentures other than the Securities issued by the Corporation from time to time and sold to trusts other than the Trust to be established by the Corporation (if any), in each case similar to the Trust.

"Other Guarantees" shall mean all guarantees other than the Preferred Securities Guarantee and the Common Securities Guarantee issued by the Corporation with respect to preferred beneficial interests (if any) issued to trusts other than the Trust to be established by the Corporation (if any), in each case similar to the Trust.

"Outstanding" when used with reference to the Securities, shall mean, subject to the provisions of Section 7.4, as of any particular time, all Securities authenticated and delivered by the Debenture Trustee or the Authenticating Agent under this Indenture, except:

(a) Securities theretofore canceled by the Debenture Trustee or the Authenticating Agent or delivered to the Debenture Trustee for cancellation;

(b) Securities, or portions thereof, for the payment or prepayment of which moneys in the necessary amount shall have been deposited in trust with the Debenture Trustee or with any paying agent (other than the Corporation) or shall have been set aside and segregated in trust by the Corporation (if the Corporation shall act as its own paying agent); provided that, if such Securities, or portions thereof, are to be prepaid prior to maturity thereof, notice of such prepayment shall have been given as set forth in Article XIV or provision satisfactory to the Debenture Trustee shall have been made for giving such notice; and

(c) Securities in lieu of or in substitution for which other Securities shall have been authenticated and delivered pursuant to the terms of Section 2.10 unless proof satisfactory to the Corporation and the Debenture Trustee is presented that any such Securities are held by bona fide holders in due course.

"Person" shall mean any individual, corporation, estate, partnership, joint venture, national banking association, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Security shall mean every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.10 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

"Preferred Securities" shall mean the 7 3/4% Trust Originated Preferred Securities SM ("TOPrS sm") issued by the Trust which represent undivided beneficial interests in the assets of the Trust and rank *pari passu* with the Common Securities issued by the Trust; provided , however , that if an Event of Default has occurred and is continuing, no payments in respect of distributions on, or payments upon liquidation, redemption or otherwise with respect to, the Common Securities shall be made until the holders of the Preferred Securities shall be paid in full the distributions and the liquidation, redemption and other payments to which they are entitled.

"Preferred Securities Guarantee" shall mean any guarantee agreement that the Corporation may enter into with The Bank of New York, as guarantee trustee, or its successor or assigns or other Persons that operates directly or indirectly for the benefit of holders of the Preferred Securities and shall include the Preferred Securities Guarantee with respect to the Preferred Securities.

"Prepayment Price" shall mean the Special Event Prepayment Price or Optional Prepayment Price, as the context requires.

"Principal Office of the Debenture Trustee," or other similar term, shall mean the office of the Debenture Trustee, at which at any particular time its corporate trust business shall be administered, which at the date hereof is 5 Penn Plaza, 13 th Floor, New York, New York 10001-1810.

"Purchase Agreement" shall mean the purchase agreement, dated November 7, 2001, by and among the Corporation, the Trust and the underwriter(s) named therein.

"Regulatory Capital Event" shall mean the receipt by the Corporation and the Trust of an opinion of independent bank regulatory counsel experienced in such matters to the effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any rules, guidelines or policies of an applicable regulatory authority for the Corporation or (b) any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of original issuance of the Securities, the Preferred Securities do not constitute, or within 90 days of the date of such opinion will not constitute, Tier 1 Capital (or its then equivalent if the Corporation were subject to such capital requirement); for purposes of capital adequacy guidelines of the Federal Reserve (or any successor regulatory authority with jurisdiction over bank holding companies), as then in

effect and applicable to the Corporation; provided , however , that the distribution of the Securities in connection with the liquidation of the Trust by the Corporation shall not in and of itself constitute a Regulatory Capital Event.

"Responsible Officer" shall mean any officer of the Debenture Trustee's Corporate Trust Administration department with direct responsibility for the administration of the Indenture and also means, with respect to a particular corporate trust matter, any other officer of the Debenture Trustee to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"Securities" shall mean the Corporation's 7 3/4% Junior Subordinated Deferrable Interest Debentures due December 15, 2031, as authenticated and issued under this Indenture.

"Securityholder," "holder of Securities," or other similar terms, shall mean any Person in whose name at the time a particular Security is registered in the Security Register kept by the Corporation or the Debenture Trustee for that purpose in accordance with the terms of this Indenture.

"Security Register" and "Securities Registrar" shall have the respective meanings specified in Section 2.9.

"Senior Indebtedness" shall mean the principal of (and premium, if any) and interest, if any (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Corporation whether or not such claim for post petition interest is allowed in such proceedings), on all Indebtedness, whether outstanding on the date of execution of this Indenture, or hereafter created, assumed or incurred, except Indebtedness Ranking on a Parity with the Securities or Indebtedness Ranking Junior to the Securities, and any deferrals, renewals or extensions of such Senior Indebtedness.

"Special Event" shall mean an Investment Company Event, a Regulatory Capital Event or a Tax Event, as the context requires.

"Special Event Prepayment Price" shall mean, with respect to any prepayment of the Securities following a Special Event, an amount in cash equal to 100% of the principal amount of the Securities to be prepaid plus any accrued and unpaid interest thereon (including Compounded Interest and Additional Sums, if any) to the date of such prepayment.

"Subsidiary" shall mean with respect to any Person, (i) any corporation at least a majority of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture, limited liability company or similar entity, at least a majority of whose outstanding partnership, membership or similar

interests shall at the time be owned by such Person or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner. For the purposes of this definition, "voting stock" means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

"Tax Event" shall mean the receipt by the Trust and the Corporation of an opinion of independent tax counsel experienced in such matters to the effect that, as a result of any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein, or as a result of any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of original issuance of the Securities, there is more than an insubstantial risk that (i) the Trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the Securities, (ii) the interest payable by the Corporation on the Securities is not, or within 90 days of the date of such opinion will not be, deductible by the Corporation, in whole or in part, for United States federal income tax purposes or (iii) the Trust is, or will be within 90 days of the date of such opinion, subject to more than a *de minimis* amount of other taxes, duties or other governmental charges.

"Trust" shall mean VNB Capital Trust I, a Delaware business trust created for the purpose of issuing its undivided beneficial interests in connection with the issuance of Securities under this Indenture.

"Trust Securities" shall mean, collectively, the Preferred Securities and the Common Securities.

"U.S. Government Obligations" shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clauses (i) or (ii), are not callable or prepayable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction with respect to the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

ARTICLE II

SECURITIES

SECTION 2.1 Forms Generally .

The Securities and the Debenture Trustee's certificate of authentication shall be substantially in the form of Exhibit A hereto, the terms of which are incorporated in and made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Corporation is subject or usage. Each Security shall be dated the date of its authentication.

SECTION 2.2 Title and Terms .

The Securities shall be known and designated as the "7 3/4% Junior Subordinated Deferrable Interest Debentures Due 2031" of the Corporation. Their final Maturity Date shall be December 15, 2031. The Securities are not savings accounts or deposits and are not insured by the Federal Deposit Insurance Corporation or any other government agency.

SECTION 2.3 Denominations .

The Securities shall be issuable only in registered form without coupons and only in denominations of $25 and any integral multiple thereof.

SECTION 2.4 Execution and Authentication .

An Officer shall sign the Securities on behalf of the Corporation by manual or facsimile signature and the Secretary or one of the Assistant Secretaries of the Corporation shall attest to such signature. If an Officer whose signature is on a Security no longer holds that office at the time the Security is authenticated, the Security shall nevertheless be valid.

A Security shall not be valid until authenticated by the manual signature of the Debenture Trustee. The signature of the Debenture Trustee shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Debenture Trustee shall, upon a Corporation Order, authenticate for original issue up to, and the aggregate principal amount of Securities outstanding at any time may not exceed, $180,412,375 aggregate principal amount of the Securities (or up to $206,185,575 if the underwriters purchase additional preferred securities of VNB Capital Trust I as they are entitled to purchase pursuant to an overallotment option), except as provided in Section 2.10.

SECTION 2.5 Form and Payment .

Except as provided in Section 2.7, the Securities shall be issued as a Global Security. If any Securities are not issued as a Global Security, those Securities shall be issued in fully registered certificated form without interest coupons. Principal of the Securities issued in certificated form will be payable, the transfer of such Securities will be registerable and such Securities will be exchangeable for Securities bearing identical terms and provisions, at the office or agency of the Corporation maintained for such purpose under Section 3.2. Payments of interest may be made at the option of the Corporation (i) by check mailed to the holder of record on the record date at such address as shall appear in the Security Register, or (ii) by transfer to an account maintained by the Person entitled thereto, provided that proper transfer instructions have been received in writing by the relevant record date. Notwithstanding the foregoing, so long as the holder of any Securities is the Property Trustee, the payment of the principal of and interest (including Compounded Interest and Additional Sums, if any) on such Securities held by the Property Trustee will be made at such place and to such account as may be designated by the Property Trustee.

SECTION 2.6 Legends .

Except as otherwise determined by the Corporation in accordance with applicable law, each Security shall bear legends in substantially the form set forth on Exhibit A hereto.

SECTION 2.7 Global Security .

(a) In connection with a Dissolution Event,

(i) if any Preferred Securities are held in book-entry form ("Book-Entry Preferred Securities"), a Like Amount of Definitive Securities shall be presented to the Debenture Trustee (if an arrangement with the Depositary has been maintained) by the Property Trustee in exchange for one or more Global Securities (as may be required pursuant to Section 2.9), to be registered in the name of the Depositary, or its nominee, and delivered by the Debenture Trustee to the Depositary for crediting to the accounts of its participants pursuant to the instructions of the Administrative Trustees; the Corporation upon any such presentation shall execute one or more Global Securities in such aggregate principal amount and deliver the same to the Debenture Trustee for authentication and delivery in accordance with this Indenture; and payments on the Securities issued as a Global Security will be made to the Depositary; and

(ii) if any Preferred Securities are held in certificated form, the related Definitive Securities may be presented to the Debenture Trustee, by the Property Trustee and any Preferred Security certificates which represent Preferred Securities other than Book-Entry Preferred Securities ("Non Book-Entry Preferred Securities") will be deemed to represent

beneficial interests in Securities presented to the Debenture Trustee by the Property Trustee having an aggregate principal amount equal to the aggregate liquidation amount of the Non Book-Entry Preferred Securities until such Preferred Security certificates are presented to the Security Registrar for transfer or reissuance, at which time such Preferred Security certificates will be canceled, and a Security in a Like Amount, registered in the name of the holder of the Preferred Security certificate or the transferee of the holder of such Preferred Security certificate, as the case may be, will be executed by the Corporation and delivered to the Debenture Trustee for authentication and delivery in accordance with this Indenture; and upon the issuance of such Securities, Securities with an equivalent aggregate principal amount that were presented by the Property Trustee to the Debenture Trustee will be canceled.

(b) The Global Securities shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon; provided , however , that the aggregate principal amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and prepayments. Any endorsement of a Global Security to reflect the amount of any increase or decrease in the aggregate principal amount of outstanding Securities represented thereby shall be made by the Debenture Trustee, in accordance with instructions given by the Corporation as required by this Section 2.7.

(c) The Global Securities may be transferred, in whole but not in part, only to the Depositary, to another nominee of the Depositary, or to a successor Depositary selected or approved by the Corporation or to a nominee of such successor Depositary.

(d) If at any time the Depositary notifies the Corporation that it is unwilling or unable to continue as Depositary or the Depositary has ceased to be a clearing agency registered under the Exchange Act, and, in each case, a successor Depositary is not appointed by the Corporation within 90 days after the Corporation receives such notice or becomes aware of such condition, as the case may be, the Corporation will execute, and the Debenture Trustee, upon receipt of a Corporation Order, will authenticate and make available for delivery the Definitive Securities, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security, in exchange for such Global Security. If there is a Default or an Event of Default, the Depositary shall have the right to exchange the Global Securities for Definitive Securities. In addition, the Corporation may at any time determine that the Securities shall no longer be represented by a Global Security. In the event of such Default, Event of Default or such a determination, the Corporation shall execute, and subject to Section 2.9, the Debenture Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Corporation and a Corporation Order, will authenticate and make available for delivery the Definitive Securities, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security, in exchange for such Global Security. Upon the exchange of the Global Security for such Definitive Securities, in authorized denominations, the Global Security shall be canceled by the Debenture Trustee. Such Definitive Securities issued in exchange for the Global Security shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Debenture Trustee. The Debenture Trustee shall deliver such Definitive Securities to the Depositary for delivery to the Persons in whose names such Definitive Securities are so registered.

SECTION 2.8 Interest .

(a) Each Security will bear interest, at the rate of 7 3/4% per annum (the "Coupon Rate"), from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from November 7, 2001, until the principal thereof becomes due and payable, and at the Coupon Rate on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest, compounded quarterly, payable (subject to the provisions of Article XVI) quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing December 15, 2001 (each, an "Interest Payment Date"), to the Person in whose name such Security or any predecessor Security is registered at the close of business on the regular record date for such interest installment, which shall be the 1st day of the month in which the relevant Interest Payment Date falls, except that interest payable on the Maturity Date of the principal of the Securities shall be paid to the Person to whom principal is paid.

(b) The amount of interest payable on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months. Interest payable for any period shorter than a full quarterly period will be computed on the basis of a 30-day month and, for periods of less than a month, the actual number of days elapsed per 30-day month.

(c) During such time as the Property Trustee is the holder of any Securities, after taking into account all payments made under Section 3.9, the Corporation shall pay any additional amounts on the Securities as may be necessary in order that the amount of Distributions then due and payable by the Trust on the outstanding Trust Securities shall not be reduced as a result of any additional taxes, duties and other governmental charges to which the Trust has become subject as a result of a Tax Event ("Additional Sums").

SECTION 2.9 Registration, Transfer and Exchange .

(a) The Corporation shall cause to be kept at the Corporate Trust Office of the Debenture Trustee a register in which, subject to such reasonable regulations as it may prescribe, the Corporation shall provide for the registration of Securities and transfer of Securities. Such register is herein sometimes referred to as the "Security Register." The Debenture Trustee is hereby appointed "Securities Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

(b) The Securities will be issued and may be transferred only in denominations having an aggregate principal amount of not less than $25 and in multiples of $25 in excess thereof.

(c) At the option of the holder, Securities may be exchanged for other Securities of any authorized denomination of a like aggregate principal amount upon surrender of the Securities to be exchanged at the office or agency of the Corporation designated for such purpose

pursuant to Section 3.2. To permit registrations of transfers, the Corporation shall execute and the Debenture Trustee shall authenticate Definitive Securities and Global Securities at the request of the Security Registrar. All Definitive Securities and Global Securities issued upon any registration of transfer of Definitive Securities or Global Securities shall be the valid obligations of the Corporation, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Definitive Securities or Global Securities surrendered upon such registration of transfer.

Every Security presented or surrendered for registration of transfer or exchange shall (if so required by the Corporation or the Securities Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Corporation and the Securities Registrar, duly executed by the holder thereof or his attorney duly authorized in writing. No service charge shall be made to a holder for any registration of transfer, but the Corporation may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith. The Corporation shall not be required to: (i) issue or register the transfer of Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of prepayment or any notice of selection of Securities for prepayment under Article XIV hereof and ending at the close of business on the day of such mailing; or (ii) register the transfer of any Security so selected for prepayment in whole or in part, except the nonprepaid portion of any Security being prepaid in part.

Prior to due presentment for the registration of a transfer of any Security, the Debenture Trustee, the Corporation and any agent of the Debenture Trustee or the Corporation may deem and treat the Person in whose name any Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Securities, and none of the Debenture Trustee, the Corporation or any agents of the Debenture Trustee or the Corporation shall be affected by notice to the contrary.

SECTION 2.10 Replacement Securities .

If any mutilated Security is surrendered to the Debenture Trustee, or the Corporation and the Debenture Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, the Corporation shall issue and the Debenture Trustee shall authenticate a replacement Security if the Debenture Trustee’s requirements for replacements of Securities are met. An indemnity bond must be supplied by the holder that is sufficient in the judgment of the Debenture Trustee and the Corporation to protect the Corporation, the Debenture Trustee, any agent thereof or any Authenticating Agent from any loss that any of them may suffer if a Security is replaced. The Corporation or the Debenture Trustee may charge for its expenses, including, without limitation, applicable taxes and governmental charges, in replacing a Security.

Every replacement Security is an obligation of the Corporation and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Securities duly issued hereunder. All Securities shall be held and owned upon the express

condition that, to the extent permitted by applicable law, the foregoing provisions are exclusive with the replacement of the mutilated, destroyed, lost or stolen Securities and shall preclude any other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement of negotiable instruments or other securities without their surrender.

SECTION 2.11 Temporary Securities .

Pending the preparation of Definitive Securities, the Corporation may execute, and upon Corporation Order the Debenture Trustee shall authenticate and make available for delivery, temporary Securities that are printed, lithographed, typewritten, mimeographed or otherwise reproduced, in any authorized denomination, substantially in the form of the Definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the Officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities. If temporary Securities are issued, the Corporation shall cause Definitive Securities to be prepared without unreasonable delay. The Definitive Securities shall be printed, lithographed or engraved, or provided by any combination thereof, or in any other manner permitted by the rules and regulations of any applicable securities exchange, all as determined by the Officers executing such Definitive Securities. After the preparation of Definitive Securities, the temporary Securities shall be exchangeable for Definitive Securities upon surrender of the temporary Securities at the office or agency maintained by the Corporation for such purpose pursuant to Section 3.2 hereof, without charge to the holder thereof. Upon surrender for cancellation of any one or more temporary Securities, the Corporation shall execute, and the Debenture Trustee shall authenticate and make available for delivery, in exchange therefor the same aggregate principal amount of Definitive Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as Definitive Securities.

SECTION 2.12 Cancellation .

The Corporation at any time may deliver Securities to the Debenture Trustee for cancellation. The Debenture Trustee and no one else shall cancel all Securities surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall return such canceled Securities to the Corporation. The Corporation may not issue new Securities to replace Securities that have been prepaid or paid or that have been delivered to the Debenture Trustee for cancellation, except as expressly permitted by this Indenture.

SECTION 2.13 Defaulted Interest .

Any interest on any Security that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Corporation, at its election, as provided in clause (a) or clause (b) below:

(a) The Corporation may make payment of any Defaulted Interest on Securities to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Corporation shall notify the Debenture Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Corporation shall deposit with the Debenture Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Debenture Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon, the Debenture Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Debenture Trustee of the notice of the proposed payment. The Debenture Trustee shall promptly notify the Corporation of such special record date and, in the name and at the expense of the Corporation, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Security Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered on such special record date and shall be no longer payable pursuant to the following clause (b).

(b) The Corporation may make payment of any Defaulted Interest on any Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Corporation to the Debenture Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Debenture Trustee.

(c) Any interest on any Security which is extended pursuant to Article XVI shall not be Defaulted Interest for purposes of this Section 2.13.

SECTION 2.14 CUSIP Numbers .

The Corporation in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Debenture Trustee shall use "CUSIP" numbers in notices of prepayment as a convenience to Securityholders; provided , however , that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a prepayment and that reliance may be placed only on the other identification numbers printed on the Securities, and any such prepayment shall not be affected by any defect in or omission of such numbers. The Corporation will promptly notify the Debenture Trustee of any change in the CUSIP numbers.

SECTION 2.15 Right of Set-Off .

Notwithstanding anything to the contrary in this Indenture, the Corporation shall have the right to set off any payment it is otherwise required to make in respect of any Security to the extent the Corporation has theretofore made, or is concurrently on the date of such payment making, a payment under the Preferred Securities Guarantee or Common Securities Guarantee relating to such Security or under Section 5.4 of this Indenture.

SECTION 2.16 Agreed Tax Treatment .

Each Security issued hereunder shall provide that each of the Corporation and, by its acceptance of a Security or a beneficial interest therein, the holder of, and any Person that acquires a beneficial interest in, such Security intends that such Security constitutes indebtedness and agrees to treat such Security as indebtedness for United States federal, local and state tax purposes.

ARTICLE III

PARTICULAR COVENANTS OF THE CORPORATION

SECTION 3.1 Payment of Principal and Interest .

The Corporation covenants and agrees for the benefit of the holders of the Securities that it will duly and punctually pay or cause to be paid the principal of and interest on the Securities at the place, at the respective times and in the manner provided herein. The Corporation further covenants to pay any and all amounts due in respect of the Securities, including, without limitation, Additional Sums, as may be required pursuant to Section 2.8(c), and Compounded Interest, as may be required pursuant to Section 16.1.

SECTION 3.2 Offices for Notices and Payments, etc .

So long as any of the Securities remain outstanding, the Corporation will maintain in the Borough of Manhattan, The City of New York an office or agency where the Securities may be presented for payment, an office or agency where the Securities may be presented for registration of transfer and for exchange as in this Indenture provided and an office or agency

where notices and demands to or upon the Corporation in respect of the Securities or this Indenture may be served. The Corporation will give to the Debenture Trustee written notice of the location of any such office or agency and of any change of location thereof. Until otherwise designated from time to time by the Corporation in a notice to the Debenture Trustee, any such office or agency for all of the above purposes shall be the Principal Office of the Debenture Trustee. In case the Corporation shall fail to maintain any such office or agency in the Borough of Manhattan, The City of New York or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Principal Office of the Debenture Trustee.

In addition to any such office or agency, the Corporation may from time to time designate one or more offices or agencies outside the Borough of Manhattan, The City of New York where the Securities may be presented for payment, for registration of transfer and for exchange and where notices and demands to or upon the Corporation in respect of the Securities or this Indenture may be served in the manner provided in this Indenture, and the Corporation may from time to time rescind such designation, as the Corporation may deem desirable or expedient; provided , however , that no such designation or rescission shall in any manner relieve the Corporation of its obligation to maintain any such office or agency in the Borough of Manhattan, The City of New York for the purposes above mentioned. The Corporation will give to the Debenture Trustee prompt written notice of any such designation or rescission thereof.

SECTION 3.3 Appointments to Fill Vacancies in Debenture Trustee's Office .

The Corporation, whenever necessary to avoid or fill a vacancy in the office of Debenture Trustee, will appoint, in the manner provided in Section 6.10, a successor Debenture Trustee, so that there shall at all times be a Debenture Trustee hereunder.

SECTION 3.4 Provision as to Paying Agent .

(a) If the Corporation shall appoint a paying agent other than the Debenture Trustee with respect to the Securities, it will cause such paying agent to execute and deliver to the Debenture Trustee an instrument in which such agent shall agree with the Debenture Trustee, subject to the provisions of this Section 3.4,

(i) that it will hold all sums held by it as such agent for the payment of the principal of, or interest (including Additional Sums and Compounded Interest, if any) on, the Securities (whether such sums have been paid to it by the Corporation or by any other obligor on the Securities) in trust for the benefit of the holders of the Securities; and

(ii) that it will give the Debenture Trustee notice of any failure by the Corporation (or by any other obligor on the Securities) to make any payment of the principal of, or interest (including Additional Sums and Compounded Interest, if any) on, the Securities when the same shall be due and payable.

(iii) at any time during the continuance of any such default, upon the written request of the Debenture Trustee, forthwith pay to the Debenture Trustee all sums so held in trust by such paying agent; and

(iv) comply with the provisions of the Trust Indenture Act applicable to it as a paying agent.

(b) Whenever the Corporation shall have one or more paying agents, it will, on or before each due date of the principal of or interest on any Securities, deposit with a paying agent a sum sufficient to pay the principal or interest (including Additional Sums and Compounded Interest, if any) so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal and or interest (including Additional Sums and Compounded Interest, if any), and (unless such paying agent is the Debenture Trustee) the Corporation will promptly notify the Debenture Trustee of its failure so to act.

(c) If the Corporation shall act as its own paying agent, it will, on or before each due date of the principal of or interest (including Additional Sums and Compounded Interest, if any) on the Securities, set aside, segregate and hold in trust for the benefit of the holders of the Securities a sum sufficient to pay such principal or interest (including Additional Sums and Compounded Interest, if any) so becoming due and will notify the Debenture Trustee of any failure to take such action and of any failure by the Corporation (or by any other obligor under the Securities) to make any payment of the principal of or interest (including Additional Sums and Compounded Interest, if any) on the Securities when the same shall become due and payable.

(d) Anything in this Section 3.4 to the contrary notwithstanding, the Corporation may, at any time, for the purpose of obtaining a satisfaction and discharge with respect to the Securities hereunder, or for any other reason, pay or cause to be paid to the Debenture Trustee all sums payable with respect to the Securities, such sums to be held by the Debenture Trustee upon the trusts herein contained.

(e) Anything in this Section 3.4 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.4 is subject to Sections 11.3 and 11.4.

SECTION 3.5 Certificate to Debenture Trustee .

The Corporation will deliver to the Debenture Trustee on or before 120 days after the end of each fiscal year of the Corporation, commencing with the first fiscal year ending after the date hereof, so long as Securities are outstanding hereunder, an Officers' Certificate, one of the signers of which shall be the principal executive, principal financial or principal accounting

officer of the Corporation, stating that in the course of the performance by the signers of their duties as officers of the Corporation they would normally have knowledge of any Default by the Corporation in the performance of any covenants contained herein, stating whether or not they have knowledge of any such Default and, if so, specifying each such Default of which the signers have knowledge, the nature thereof and the action, if any, the Corporation intends to undertake as a result of such Default.

SECTION 3.6 Compliance with Consolidation Provisions .

The Corporation will not, while any of the Securities remain outstanding, consolidate with, or merge into, or merge into itself, or sell or convey all or substantially all of its property to any other Person unless the provisions of Article X hereof are complied with.

SECTION 3.7 Limitation on Dividends .

The Corporation will not and will not permit any subsidiary of the Corporation to (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Corporation's capital stock, (ii) make any payment of principal of or interest, if any, on, or repay, repurchase or redeem any debt securities of the Corporation (including Other Debentures) that rank *pari passu* with or junior in right of payment to the Securities or (iii) make any guarantee payments with respect to any guarantee by the Corporation of the debt securities of any Subsidiary of the Corporation (including Other Guarantees) if such guarantee ranks *pari passu* with or junior in right of payment to the Securities (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, Common Stock, (b) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto, (c) payments under the Preferred Securities Guarantee or Common Securities Guarantee, as defined in the Indenture, (d) as a result of a reclassification of the Corporation's capital stock or the exchange or conversion of one class or series of the Corporation's capital stock for another class or series of the Corporation's capital stock, (e) the purchase of fractional interests in shares of the Corporation's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged and (f) purchases of Common Stock related to the issuance of Common Stock or rights under any of the Corporation's benefit or compensation plans for its directors, officers or employees or any of the Corporation's dividend reinvestment plans), if at such time (1) there shall have occurred any event of which the Corporation has actual knowledge that (a) is a Default or an Event of Default and (b) in respect of which the Corporation shall not have taken reasonable steps to cure, (2) such Securities are held by the Property Trustee of VNB Capital Trust I and the Corporation shall be in default with respect to its payment of any obligations under the Preferred Securities Guarantee or Common Securities Guarantee or (3) the Corporation shall have given notice of its election to exercise its right to commence an Extended Interest Payment Period and shall not have rescinded such notice, and such Extended Interest Payment Period or any extension thereof shall have commenced and be continuing.

SECTION 3.8 Covenants as to VNB Capital Trust I .

In the event Securities are issued to the Trust or a trustee of such Trust in connection with the issuance of Trust Securities by the Trust, for so long as such Trust Securities remain outstanding, the Corporation (i) will maintain 100% direct or indirect ownership of the Common Securities of the Trust; provided , however , that any successor of the Corporation, permitted pursuant to Article X, may succeed to the Corporation's ownership of such Common Securities, (ii) will use its best efforts to cause the Trust (a) to remain a business trust, except in connection with a distribution of Securities to the holders of Trust Securities in liquidation of the Trust, the redemption of all of the Trust Securities of the Trust, or certain mergers, consolidations or amalgamations, each as permitted by the Declaration, and (b) to otherwise continue to be classified as a grantor trust and not an association taxable as a corporation for United States federal income tax purposes, (iii) will use its best efforts to cause each holder of the Trust Securities to be treated as owning an undivided beneficial interest in the Securities and (iv) will not cause, as sponsor of the Trust, or permit, as holder of the Common Securities, the dissolution, winding-up or liquidation of the Trust, except as provided in the Declaration.

SECTION 3.9 Payment of Expenses .

In connection with the offering, sale and issuance of the Securities to the Trust and in connection with the sale of the Trust Securities by the Trust, the Corporation, in its capacity as borrower with respect to the Securities, shall:

(a) pay all costs and expenses relating to the offering, sale and issuance of the Securities and compensation of the Debenture Trustee in accordance with the provisions of Section 6.6;

(b) pay all costs and expenses of the Trust, including, but not limited to, costs and expenses relating to the organization of the Trust, the offering, sale and issuance of the Trust Securities (including commissions payable to the underwriters pursuant to the Underwriting Agreement in connection therewith), the fees and expenses of the Property Trustee and the Delaware Trustee, the costs and expenses relating to the operation of the Trust, including without limitation, costs and expenses of accountants, attorneys, statistical or bookkeeping services, expenses for printing and engraving and computing or accounting equipment, paying agent(s), registrar(s), transfer agent(s), duplicating, travel and telephone and other telecommunications expenses and costs and expenses incurred in connection with the acquisition, financing, and disposition of assets of the Trust;

(c) be primarily and fully liable for any indemnification obligations arising with respect to the Declaration;

(d) pay any and all taxes (other than United States withholding taxes attributable to the Trust or its assets) and all liabilities, costs and expenses with respect to such taxes of the Trust; and

(e) pay all other fees, expenses, debts and obligations (other than in respect of the Trust Securities) related to the Trust.

SECTION 3.10 Payment Upon Resignation or Removal .

Upon termination of this Indenture or the removal or resignation of the Debenture Trustee, unless otherwise stated, the Corporation shall pay to the Debenture Trustee all amounts accrued and owing to the Debenture Trustee to the date of such termination, removal or resignation. Upon termination of the Declaration or the removal or resignation of the Delaware Trustee or the Property Trustee, as the case may be, pursuant to Section 5.6 of the Declaration, the Corporation shall pay to the Delaware Trustee or the Property Trustee, as the case may be, all amounts accrued and owing to such trustee(s) to the date of such termination, removal or resignation.

ARTICLE IV

LIST OF SECURITYHOLDERS AND REPORTS BY THE CORPORATION AND THE DEBENTURE TRUSTEE

SECTION 4.1 List of Securityholders .

The Corporation covenants and agrees that it will furnish or cause to be furnished to the Debenture Trustee:

(a) on a quarterly basis on each regular record date for the Securities, a list, in such form as the Debenture Trustee may reasonably require, of the names and addresses of the Securityholders as of such record date; and

(b) at such other times as the Debenture Trustee may request in writing, within 30 days after the receipt by the Corporation of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished, except that, no such lists need be furnished so long as the Debenture Trustee is in possession thereof by reason of its acting as Security Registrar.

SECTION 4.2 Preservation and Disclosure of List .

(a) The Debenture Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of the Securities (1) contained in the most recent list furnished to it as provided in Section 4.1 or (2) received by it in the capacity of Security Registrar (if so acting) hereunder. The Debenture Trustee may destroy any list furnished to it as provided in Section 4.1 upon receipt of a new list so furnished.

(b) The rights of Securityholders to communicate with other Securityholders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Debenture Trustee shall be as provided in the Trust Indenture Act.

(c) Every holder of Securities, by receiving and holding the same, agrees with the Corporation and the Debenture Trustee that neither the Corporation or the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of information as to names and address of the holders made pursuant to the Trust Indenture Act.

SECTION 4.3 Reports by the Corporation .

(a) The Corporation covenants and agrees to file with the Debenture Trustee, within 15 days after the date on which the Corporation is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as said Commission may from time to time by rules and regulations prescribe) which the Corporation may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if the Corporation is not required to file information, documents or reports pursuant to either of such sections, then to provide to the Debenture Trustee, such of the supplementary and periodic information, documents and reports which would have been required pursuant to Section 13 of the Exchange Act in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations. The Corporation also covenants and agrees to comply with the provisions of Section 314(a) of the Trust Indenture Act.

(b) The Corporation covenants and agrees to file with the Debenture Trustee and the Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such additional information, documents and reports with respect to compliance by the Corporation with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Corporation covenants and agrees to transmit by mail to all holders of Securities, as the names and addresses of such holders appear upon the Security Register, within 30 days after the filing thereof with the Debenture Trustee, such summaries of any information, documents and reports required to be filed by the Corporation pursuant to subsections (a) and (b) of this Section 4.3 as may be required by rules and regulations prescribed from time to time by the Commission.

(d) Delivery of such reports, information and documents to the Debenture Trustee is for informational purposes only and the Debenture Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Corporation's compliance with any of its covenants hereunder (as to which the Debenture Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 4.4 Reports by the Debenture Trustee .

(a) The Debenture Trustee shall transmit to Securityholders such reports concerning the Debenture Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Debenture Trustee shall, by June 14 of each year, commencing June 14, 2002, deliver to Securityholders a brief report, dated as of May 15 of each year which complies with the provisions of such Section 313(a).

(b) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Debenture Trustee with each stock exchange, if any, upon which the Securities are listed, with the Commission and with the Corporation. The Corporation will promptly notify the Debenture Trustee when the Securities are listed on any stock exchange or any delisting thereof.

ARTICLE V

REMEDIES OF THE DEBENTURE TRUSTEE AND SECURITYHOLDERS UPON EVENT OF DEFAULT

SECTION 5.1 Events of Default .

One or more of the following events of default shall constitute an Event of Default hereunder (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest (including Compounded Interest and Additional Sums, if any) on the Securities or any Other Debentures (with respect to any default on such Other Debentures about which a Responsible Officer of the Debenture Trustee has actual knowledge) when due, and continuance of such default for a period of 30 days; provided , however , that a valid extension of an interest payment period by the Corporation in accordance with the terms hereof or thereof shall not constitute a default in the payment of interest for this purpose; or

(b) default in the payment of any principal of the Securities or any Other Debentures (with respect to any default on such Other Debentures about which a Responsible Officer of the Debenture Trustee has actual knowledge) when due, whether at maturity, upon prepayment, by declaration of acceleration of maturity or otherwise; or

(c) default in the performance, or breach, of any covenant or warranty of the Corporation in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Corporation by the Debenture Trustee or to the Corporation and the Debenture Trustee by the holders of at least 25% in aggregate principal amount of the outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(d) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Corporation in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Corporation or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days; or

(e) the Corporation shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due.

If an Event of Default with respect to Securities at the time outstanding occurs and is continuing, then in every such case the Debenture Trustee or the holders of not less than 25% in aggregate principal amount of the Securities then outstanding may declare the principal amount of all Securities to be due and payable immediately, by a notice in writing to the Corporation (and to the Debenture Trustee if given by the holders of the outstanding Securities), provided that, if, upon an Event of Default, the Debenture Trustee or the holders of not less than 25% in principal amount of the Securities then outstanding fail to declare the principal amount of all the Securities to be due and immediately payable, the holders of at least 25% in aggregate liquidation amount of the Preferred Securities then outstanding shall have such right by a notice in writing to the Corporation and the Debenture Trustee; and upon any such declaration the same shall become immediately due and payable.

The foregoing provisions, however, are subject to the condition that if, at any time after the principal of the Securities shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, (i) the Corporation shall pay or shall deposit with the Debenture Trustee a sum sufficient to pay (A) all matured installments of interest (including Compounded Interest and Additional Sums, if any) on all the Securities and the principal of any and all Securities which shall have become due otherwise than by acceleration (with interest upon such principal, and, to the extent that payment of such interest is enforceable under applicable law, on overdue installments of interest, at the same rate as the rate of interest specified in the Securities to the date of such payment or deposit) and (B) such amount as shall be sufficient to cover compensation due to the Debenture Trustee and each predecessor Debenture Trustee, their respective agents, attorneys and counsel, pursuant to Section 6.6, and (ii) any and all Events of Default under the Indenture, other than the non-payment of the principal of the Securities which shall have become due solely by such declaration of acceleration, shall have been cured, waived or otherwise remedied as provided herein, then, in every such case, the holders of a majority in aggregate principal amount of the Securities then outstanding, by written notice to the Corporation and to the Debenture Trustee, may rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon. If the holders of at least a majority in aggregate principal amount of the Securities then outstanding fails to rescind and annul such declaration and its consequences, the holders of a majority in aggregate liquidation amount of the Preferred Securities then outstanding shall have such right by written notice to the Corporation and the Debenture Trustee, subject to the satisfaction of the conditions set forth in Clauses (i) and (ii) above of this paragraph.

In case the Debenture Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Debenture Trustee, then and in every such case the Corporation, the Debenture Trustee and the holders of the Securities and the holders of the Preferred Securities shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Corporation, the Debenture Trustee and the holders of the Securities and the holders of the Preferred Securities shall continue as though no such proceeding had been taken.

SECTION 5.2 Payment of Securities on Default; Suit Therefor .

The Corporation covenants that (a) in case default shall be made in the payment of any installment of interest (including Compounded Interest and Additional Sums, if any) on any of the Securities as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, or (b) in case default shall be made in the payment of the principal of any of the Securities as and when the same shall have become due and payable, whether at maturity of the Securities or upon prepayment or by declaration or otherwise, then, upon demand of the Debenture Trustee, the Corporation will pay to the Debenture Trustee, for the benefit of the holders of the Securities, the whole amount that then shall have become due and payable on all such Securities for principal or interest (including Compounded Interest and Additional Sums, if any), with interest upon the overdue principal and (to the extent that payment of such interest is enforceable under applicable law and, if the Securities are held by the Trust or a trustee of such Trust, without duplication of any other amounts paid by the Trust or a trustee in respect thereof) upon the overdue installments of interest (including Compounded Interest and Additional Sums, if any) at the rate borne by the Securities; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable compensation to the Debenture Trustee, its agents, attorneys and counsel, and any other amount due to the Debenture Trustee pursuant to Section 6.6.

In case the Corporation shall fail forthwith to pay such amounts upon such demand, the Debenture Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Corporation or any other obligor on the Securities and collect in the manner provided by law out of the property of the Corporation or any other obligor on the Securities, wherever situated, the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Corporation or any other obligor on the Securities under Title 11, United States Code, or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Corporation or such other obligor, or in the case of any other similar judicial proceedings relative to the Corporation or other obligor upon the Securities, or to the creditors or property of the Corporation or such other obligor, the Debenture Trustee,

irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Debenture Trustee shall have made any demand pursuant to the provisions of this Section 5.2, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Securities and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Debenture Trustee (including any claim for amounts due to the Debenture Trustee pursuant to Section 6.6) and of the Securityholders allowed in such judicial proceedings relative to the Corporation or any other obligor on the Securities, or to the creditors or property of the Corporation or such other obligor, unless prohibited by applicable law and regulations, to vote on behalf of the holders of the Securities in any election of a trustee or a standby trustee in arrangement, reorganization, liquidation or other bankruptcy or insolvency proceedings or person performing similar functions in comparable proceedings, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the Securityholders to make such payments to the Debenture Trustee, and, in the event that the Debenture Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Debenture Trustee such amounts as shall be sufficient to cover reasonable compensation to, and expenses of, the Debenture Trustee, each predecessor Debenture Trustee and their respective agents, attorneys and counsel, and all other amounts due to the Debenture Trustee pursuant to Section 6.6.

Nothing herein contained shall be construed to authorize the Debenture Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any holder thereof or to authorize the Debenture Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Securities, may be enforced by the Debenture Trustee without the possession of any of the Securities, or the production thereof on any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Debenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Securities.

In any proceedings brought by the Debenture Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the Debenture Trustee shall be a party), the Debenture Trustee shall be held to represent all the holders of the Securities, and it shall not be necessary to make any holders of the Securities parties to any such proceedings.

SECTION 5.3 Application of Moneys Collected by Debenture Trustee .

Any moneys collected by the Debenture Trustee shall be applied in the following order, at the date or dates fixed by the Debenture Trustee for the distribution of such moneys, upon presentation of the Securities in respect of which moneys have been collected, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

First: To the payment of costs and expenses of collection applicable to the Securities and all other amounts due to the Debenture Trustee under Section 6.6;

Second: To the payment of all Senior Indebtedness of the Corporation if and to the extent required by Article XV;

Third: To the payment of the amounts then due and unpaid upon Securities for principal of and interest (including Compounded Interest and Additional Sums, if any) on the Securities, in respect of which or for the benefit of which money has been collected, ratably, without preference of priority of any kind, according to the amounts due on such Securities for principal and interest, respectively; and

Fourth: To the Corporation.

SECTION 5.4 Proceedings by Securityholders .

No holder of any Security shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Debenture Trustee written notice of an Event of Default and of the continuance thereof with respect to the Securities specifying such Event of Default, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Securities then outstanding shall have made written request upon the Debenture Trustee to institute such action, suit or proceeding in its own name as Debenture Trustee hereunder and shall have offered to the Debenture Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Debenture Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request has been given to the Debenture Trustee during such 60 day period by the holders of a majority in aggregate principal amount of the Securities then outstanding, it being understood and intended, and being expressly covenanted by the taker and holder of every Security with every other taker and holder and the Debenture Trustee, that no one or more holders of Securities shall have any right in any manner whatever by virtue of or by availing itself of any provision of this Indenture to affect, disturb or prejudice the rights of any other holder of Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities.

Notwithstanding any other provisions in this Indenture, however, the right of any holder of any Security to receive payment of the principal of and interest on (including Compounded Interest and Additional Sums, if any) on such Security, on or after the same shall have become due and payable, or to institute suit for the enforcement of any such payment is absolute and unconditional and shall not be impaired or affected without the consent of such holder. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Debenture Trustee shall be entitled to such relief as can be given either at law or in equity.

The Corporation and the Debenture Trustee acknowledge that pursuant to the Declaration, the holders of Preferred Securities are entitled, in the circumstances and subject to the limitations set forth therein, to commence a Direct Action (as defined therein) with respect to any Event of Default referred to in clause (a) or (b) of Section 5.1.

SECTION 5.5 Proceedings by Debenture Trustee .

In case an Event of Default occurs with respect to Securities and is continuing, the Debenture Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Debenture Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Debenture Trustee by this Indenture or by law.

SECTION 5.6 Remedies Cumulative and Continuing .

Except as otherwise provided in the last paragraph of Section 2.10 with respect to replacement of mutilated, lost or stolen Securities, all powers and remedies given by this Article V to the Debenture Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Debenture Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to the Securities, and no delay or omission of the Debenture Trustee or of any holder of the Securities or any holder of Preferred Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.4, every power and remedy given by this Article V or by law to the Debenture Trustee or to the Securityholders or to the holders of the Preferred Securities may be exercised from time to time, and as often as shall be deemed expedient, by the Debenture Trustee or by the Securityholders.

SECTION 5.7 Direction of Proceedings and Waiver of Defaults by Majority of Securityholders .

The holders of a majority in aggregate principal amount of the Securities at the time outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Debenture Trustee, or exercising any trust or power conferred on the Debenture Trustee; provided , however , that (subject to the provisions of Section 6.1) the Debenture Trustee shall have the right to decline to follow any such direction if the Debenture Trustee shall determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or if the Debenture Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if the Debenture Trustee in good faith by one of its Responsible Officers shall determine that the action or proceedings so directed would involve the Debenture Trustee in personal liability. The holders of a majority in aggregate principal amount of the Securities at the time outstanding or the holders of a majority in liquidation amount of outstanding Preferred Securities may on behalf of the holders of all of the Securities waive any past Default or Event of Default and its consequences except a Default (a) in the payment of principal of or interest on (including Compounded Interest and Additional Sums, if any) on any of the Securities (unless such default has been cured and a sum sufficient to pay all matured installments of interest (including Compounded Interest and Additional Sums, if any) and principal, due otherwise than by acceleration has been deposited with the Debenture Trustee) or (b) in respect of covenants or provisions hereof which cannot be modified or amended without the consent of the holder of each Security affected; provided , however , that if the Securities are held by the Property Trustee, such waiver or modification to such waiver shall not be effective until the holders of a majority in aggregate liquidation amount of Preferred Securities shall have consented to such waiver or modification to such waiver; provided, further, that if the consent of the holder of each outstanding Security is required, such waiver shall not be effective until each holder of the Preferred Securities shall have consented to such waiver. Upon any such waiver, the Default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Corporation, the Debenture Trustee and the holders of the Securities shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 5.7, said Default or Event of Default shall for all purposes of the Securities and this Indenture be deemed to have been cured and to be not continuing.

SECTION 5.8 Notice of Defaults .

(a) The Debenture Trustee shall, within 90 days after the occurrence of a Default with respect to the Securities actually known to a Responsible Officer of the Debenture Trustee,

mail to all Securityholders, as the names and addresses of such holders appear upon the Security Register, notice of all such Defaults, unless such Default shall have been cured before the giving of such notice (the term "Default" for the purpose of this Section 5.8 being hereby defined to be any of the events specified in clauses (a), (b), (c), (d) and (e) of Section 5.1, not including periods of grace, if any, provided for therein, and irrespective of the giving of written notice specified in clause (c) of Section 5.1); provided , however , that, except in the case of Default in the payment of the principal of or interest (including Compounded Interest or Additional Sums, if any) on any of the Securities, the Debenture Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Debenture Trustee in good faith determines that the withholding of such notice is in the interests of the Securityholders; provided, further, that in the case of any Default of the character specified in Section 5.1(c), no such notice to Securityholders shall be given until at least 60 days after the occurrence thereof, but shall be given within 90 days after such occurrence.

(b) Within ten Business Days after the occurrence of any Event of Default actually known to a Responsible Officer of the Debenture Trustee, the Debenture Trustee shall transmit notice of such Event of Default to all Securityholders as their names and addresses appear on the Security Register, unless such Event of Default shall have been cured or waived.

SECTION 5.9 Undertaking to Pay Costs .

All parties to this Indenture agree, and each holder of any Security by its acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Debenture Trustee for any action taken or omitted by it as Debenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.9 shall not apply to any suit instituted by the Debenture Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding in the aggregate more than 10% in aggregate principal amount of the Securities outstanding, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of or interest (including Compounded Interest and Additional Sums, if any) on any Security against the Corporation on or after the same shall have become due and payable.

SECTION 5.10 Waiver of Usury, Stay or Extension Laws .

The Corporation covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law whenever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture, and the Corporation

(to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to be Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VI

CONCERNING THE DEBENTURE TRUSTEE

SECTION 6.1 Duties and Responsibilities of Debenture Trustee .

With respect to the holders of the Securities issued hereunder, the Debenture Trustee, prior to the occurrence of an Event of Default (which, other than in the case of Sections 5.1(a) and 5.1(b) hereof, is known to the Debenture Trustee) and after the curing or waiving of all such Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default (which, other than in the case of Sections 5.1(a) and 5.1(b) hereof, is known to the Debenture Trustee) has occurred (which has not been cured or waived), the Debenture Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

No provision of this Indenture shall be construed to relieve the Debenture Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default (which, other than in the case of Sections 5.1(a) and 5.1(b) hereof, is known to the Debenture Trustee) and after the curing or waiving of all such Events of Default which may have occurred,

(i) the duties and obligations of the Debenture Trustee shall be determined solely by the express provisions of this Indenture, and the Debenture Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Debenture Trustee; and

(ii) in the absence of bad faith on the part of the Debenture Trustee, the Debenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Debenture Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificate or opinion which by any provision hereof is specifically required to be furnished to the Debenture Trustee, the Debenture Trustee shall be under a duty to examine the same to

determine whether or not it conforms on its face to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein);

(b) the Debenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers, unless it shall be proved that the Debenture Trustee was negligent in ascertaining the pertinent facts; and

(c) the Debenture Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Securityholders pursuant to Section 5.7, relating to the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or exercising any trust or power conferred upon the Debenture Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Debenture Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it reasonably believes that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

SECTION 6.2 Reliance on Documents, Opinions, etc .

Except as otherwise provided in Section 6.1:

(a) the Debenture Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Corporation mentioned herein may be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Debenture Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Corporation;

(c) the Debenture Trustee may consult with counsel of its selection and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Debenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall

have offered to the Debenture Trustee reasonable and sufficient security or indemnity reasonably satisfactory to the Debenture Trustee against the costs, expenses and liabilities which may be incurred therein or thereby;

(e) the Debenture Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture; nothing contained herein shall, however, relieve the Debenture Trustee of the obligation, upon the occurrence of an Event of Default (which, other than in the case of Sections 5.1(a) and 5.1(b) hereof, is known to the Debenture Trustee) (that has not been cured or waived), to exercise such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs;

(f) the Debenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, coupon or other paper or document, unless requested in writing to do so by the holders of a majority in aggregate principal amount of the outstanding Securities; provided , however , that if the payment within a reasonable time to the Debenture Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Debenture Trustee, not reasonably assured to the Debenture Trustee by the security afforded to it by the terms of this Indenture, the Debenture Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding;

(g) the Debenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents (including any Authenticating Agent) or attorneys, and the Debenture Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed by it with due care; and

(h) the Debenture Trustee shall not be charged with knowledge of any Default or Event of Default unless (1) such Default or Event of Default falls within Section 5.1(a) (other than a default with respect to the payment or nonpayment of Compounded Interest or Additional Sums) or Section 5.1(b) of the Indenture, (2) a Responsible Officer shall have actual knowledge of such Default or Event of Default or (3) written notice of such Default or Event of Default shall have been given to the Debenture Trustee by the Corporation or any other obligor on the Securities or by any holder of the Securities;

(i) the rights, privileges, protections, immunities and benefits given to the Debenture Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Debenture Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder; and

(j) the Debenture Trustee may request that the Corporation deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at

such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 6.3 No Responsibility for Recitals, etc .

The recitals contained herein and in the Securities (except in the certificate of authentication of the Debenture Trustee or the Authenticating Agent) shall be taken as the statements of the Corporation, and the Debenture Trustee and the Authenticating Agent assume no responsibility for the correctness of the same. The Debenture Trustee and the Authenticating Agent make no representations as to the validity or sufficiency of this Indenture or of the Securities. The Debenture Trustee and the Authenticating Agent shall not be accountable for the use or application by the Corporation of any Securities or the proceeds of any Securities authenticated and delivered by the Debenture Trustee or the Authenticating Agent in conformity with the provisions of this Indenture.

SECTION 6.4 Debenture Trustee, Authenticating Agent, Paying Agents, Transfer Agents and Registrar May Own Securities .

The Debenture Trustee or any Authenticating Agent or any paying agent or any transfer agent or any Security Registrar, subject to Sections 6.8 and 6.13 in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not Debenture Trustee, Authenticating Agent, paying agent, transfer agent or Security Registrar for the Securities.

SECTION 6.5 Moneys to be Held in Trust .

Subject to the provisions of Section 11.4, all moneys received by the Debenture Trustee or any paying agent shall, until used or applied as herein provided, be held in trust for the purpose for which they were received, but need not be segregated from other funds except to the extent required by law.

The Debenture Trustee and any paying agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Corporation. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys shall be paid from time to time upon the written order of the Corporation, signed by an Officer thereof.

SECTION 6.6 Compensation and Expenses of Debenture Trustee .

The Corporation, as issuer of Securities under this Indenture, covenants and agrees to pay to the Debenture Trustee from time to time, and the Debenture Trustee shall be entitled to, such compensation as shall be agreed to in writing between the Corporation and the Debenture Trustee (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Corporation will pay or reimburse the Debenture Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Debenture Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ), except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Corporation also covenants to indemnify each of the Debenture Trustee (including in its individual capacity) and any predecessor Debenture Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any and all loss, damage, claim, action, suit, liability or expense including taxes (other than taxes based on the income of the Debenture Trustee) incurred without negligence or bad faith on the part of the Debenture Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability (whether asserted by the Corporation, a holder of the Securities, or any other Person). The obligations of the Corporation under this Section 6.6 to compensate and indemnify the Debenture Trustee and to pay or reimburse the Debenture Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Debenture Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

When the Debenture Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.1(d) or Section 5.1(e), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for its services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the resignation or removal of the Debenture Trustee and the defeasance or other termination of this Indenture.

SECTION 6.7 Officers' Certificate as Evidence .

Except as otherwise provided in Sections 6.1 and 6.2, whenever in the administration of the provisions of this Indenture the Debenture Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof is herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Debenture Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Debenture

Trustee, and such Officers' Certificate, in the absence of negligence or bad faith on the part of the Debenture Trustee, shall be full warrant to the Debenture Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 6.8 Conflicting Interest of Debenture Trustee .

If the Debenture Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Debenture Trustee and the Corporation shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

SECTION 6.9 Eligibility of Debenture Trustee .

The Debenture Trustee hereunder shall at all times be a Person organized and doing business under the laws of the United States of America or any state or territory thereof or of the District of Columbia, or a corporation or other Person permitted to act as trustee by the Commission authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million U.S. dollars ($50,000,000) and subject to supervision or examination by federal, state, territorial, or District of Columbia authority.

If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.9 the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Corporation may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Corporation, serve as Debenture Trustee.

In case at any time the Debenture Trustee shall cease to be eligible in accordance with the provisions of this Section 6.9, the Debenture Trustee shall resign immediately in the manner and with the effect specified in Section 6.10.

SECTION 6.10 Resignation or Removal of Debenture Trustee .

(a) The Debenture Trustee, or any trustee or trustees hereafter appointed, may at any time resign by giving written notice of such resignation to the Corporation and by mailing notice thereof to the holders of the Securities at their addresses as they shall appear on the Security Register. Upon receiving such notice of resignation, the Corporation shall promptly appoint a successor trustee or trustees, in accordance with the provisions of Section 6.9, by written instrument, in duplicate, one copy of which instrument shall be delivered to the resigning Debenture Trustee and one copy to the successor trustee. If no successor trustee shall have been

so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation to the affected Securityholders, the resigning Debenture Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security for at least six months may, subject to the provisions of Section 5.9, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Debenture Trustee shall fail to comply with the provisions of Section 6.8 after written request therefor by the Corporation or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months, or

(ii) the Debenture Trustee shall cease to be eligible in accordance with the provisions of Section 6.9 and shall fail to resign after written request therefor by the Corporation or by any Securityholder, or

(iii) the Debenture Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Debenture Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Debenture Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Corporation may remove the Debenture Trustee and appoint a successor trustee, in accordance with the provisions of Section 6.9, by written instrument, in duplicate, one copy of which instrument shall be delivered to the Debenture Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 5.9, any Securityholder who has been a bona fide holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Debenture Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Debenture Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities at the time outstanding may at any time remove the Debenture Trustee and nominate a successor trustee, which shall be deemed appointed as successor trustee, or if no successor trustee shall have been so appointed and shall have accepted appointment within 30 days after such removal, in which case the Debenture Trustee so removed or any Securityholder, upon the terms and conditions and otherwise as in subsection (a) of this Section 6.10 provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Debenture Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 6.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 6.11.

SECTION 6.11 Acceptance by Successor Debenture Trustee .

Any successor trustee appointed as provided in Section 6.10 shall execute, acknowledge and deliver to the Corporation and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the retiring trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Corporation or of the successor trustee, the trustee ceasing to act shall, upon payment of all amounts then due it pursuant to the provisions of Section 6.6, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring trustee thereunder. Upon request of any such successor trustee, the Corporation shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 6.6.

No successor trustee shall accept appointment as provided in this Section 6.11 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 6.8 and eligible under the provisions of Section 6.9.

Upon acceptance of appointment by a successor trustee as provided in this Section 6.11, the Corporation shall mail notice of the succession of such trustee hereunder to the holders of Securities at their addresses as they shall appear on the Security Register. If the Corporation fails to mail such notice within 10 days after the acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Corporation.

SECTION 6.12 Succession by Merger, etc .

Any Person into which the Debenture Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Debenture Trustee shall be a party, or any Person succeeding to all or substantially all of the corporate trust business of the Debenture Trustee, shall be the successor of the Debenture Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided such Person shall be otherwise qualified and eligible under the Trust Indenture Act.

In case any Securities shall have been authenticated but not delivered at the time such successor to the Debenture Trustee shall succeed to the trusts created by this Indenture, any such successor to the Debenture Trustee may adopt the certificate of authentication of any

predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any successor to the Debenture Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which the Securities or this Indenture elsewhere provides that the certificate of the Debenture Trustee shall have; provided , however , that the right to adopt the certificate of authentication of any predecessor Debenture Trustee or authenticate Securities in the name of any predecessor Debenture Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 6.13 Limitation on Rights of Debenture Trustee as a Creditor .

The Debenture Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship described in Section 311(b) of the Trust Indenture Act. A Debenture Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent included therein.

SECTION 6.14 Authenticating Agents .

There may be one or more Authenticating Agents appointed by the Debenture Trustee upon the request of the Corporation with power to act on the Debenture Trustee's behalf and subject to the Debenture Trustee's direction in the authentication and delivery of Securities issued upon exchange or transfer thereof as fully to all intents and purposes as though any such Authenticating Agent had been expressly authorized to authenticate and deliver Securities and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Debenture Trustee hereunder; provided , however , that the Debenture Trustee shall have no liability to the Corporation for any acts or omissions of the Authenticating Agent with respect to the authentication and delivery of Securities. Any such Authenticating Agent shall at all times be a Person organized and doing business under the laws of the United States or of any state or territory thereof or of the District of Columbia authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of at least $5,000,000 and being subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such Person publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section 6.14 the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect herein specified in this Section.

Any Person into which any Authenticating Agent may be merged, converted or with which it may be consolidated, or any Person resulting from any merger or consolidation to which any Authenticating Agent shall be a party, or any Person succeeding to the corporate trust

business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, if such successor Person is otherwise eligible under this Section 6.14 without the execution or filing of any paper or any further act on the part of the parties hereto or such Authenticating Agent.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Debenture Trustee and to the Corporation. The Debenture Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Corporation. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section 6.14, the Debenture Trustee may, and upon the request of the Corporation shall, promptly appoint a successor Authenticating Agent eligible under this Section 6.14, shall give written notice of such appointment to the Corporation and shall mail notice of such appointment to all Securityholders as the names and addresses of such holders appear on the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all rights, powers, duties and responsibilities of its predecessor hereunder, with like effect as if originally named as Authenticating Agent herein.

The Corporation, as issuer of the Securities, agrees to pay to any Authenticating Agent from time to time reasonable compensation for its services.

Any Authenticating Agent shall have no responsibility or liability for any action taken by it as such in accordance with the directions of the Debenture Trustee.

ARTICLE VII

CONCERNING THE SECURITYHOLDERS

SECTION 7.1 Action by Securityholders .

Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Securities may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced (a) by any instrument (including by way of electronic transmission) or any number of instruments of similar tenor executed by such Securityholders in person or by agent or proxy appointed in writing, or (b) by the record of such holders of Securities voting in favor thereof at any meeting of such Securityholders duly called and held in accordance with the provisions of Article VIII, or (c) by a combination of such instrument or instruments and any such record of such a meeting of such Securityholders.

If the Corporation shall solicit from the Securityholders any request, demand, authorization, direction, notice, consent, waiver or other action, the Corporation may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action, but the Corporation shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the outstanding Securities shall be computed as of the record date; provided , however , that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 7.2 Proof of Execution by Securityholders .

Subject to the provisions of Sections 6.1, 6.2 and 8.5, proof of the execution of any instrument by a Securityholder or his agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Debenture Trustee or in such manner as shall be satisfactory to the Debenture Trustee. The ownership of Securities shall be proved by the Security Register or by a certificate of the Security Registrar. The Debenture Trustee may require such additional proof of any matter referred to in this Section 7.2 as it shall deem necessary.

The record of any Securityholders' meeting shall be proved in the manner provided in Section 8.6.

SECTION 7.3 Who Are Deemed Absolute Owners .

Prior to due presentment for registration of transfer of any Security, the Corporation, the Debenture Trustee, any Authenticating Agent, any paying agent, any transfer agent and any Security Registrar for the Securities may deem the person in whose name such Security shall be registered upon the Security Register to be, and may treat him or her as, the absolute owner of such Security (whether or not such Security shall be overdue) for the purpose of receiving payment of or on account of the principal of and (subject to Section 2.8) interest on such Security and for all other purposes; and neither the Corporation nor the Debenture Trustee nor any Authenticating Agent nor any paying agent nor any transfer agent nor any Security Registrar for the Securities shall be affected by any notice to the contrary. All such payments so made to any holder for the time being or upon his or her order shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security.

SECTION 7.4 Securities Owned by Corporation Deemed Not Outstanding .

In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any direction, consent or waiver under this Indenture, Securities that are owned by the Corporation or any other obligor on the Securities or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided , however , that for the purposes of determining whether the Debenture Trustee shall be protected in relying on any such direction, consent or waiver, only Securities which a Responsible Officer of the Debenture Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.4 if the pledgee shall establish to the satisfaction of the Debenture Trustee the pledgee's right to vote such Securities and that the pledgee is not the Corporation or any such other obligor or Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation or any such other obligor. In the case of a dispute as to such right, any decision by the Debenture Trustee taken upon the advice of counsel shall be full protection to the Debenture Trustee.

SECTION 7.5 Revocation of Consents; Future Holders Bound .

At any time prior to (but not after) the evidencing to the Debenture Trustee, as provided in Section 7.1, of the taking of any action by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action, any holder of a Security (or any Security issued in whole or in part in exchange or substitution therefor), subject to Section 7.1, the serial number of which is shown by the evidence to be included in the group of Securities the holders of which have consented to such action, may, by filing written notice with the Debenture Trustee at its principal office and upon proof of holding as provided in Section 7.2, revoke such action so far as concerns such Security (or so far as concerns the principal amount represented by any exchanged or substituted Security). Except as aforesaid, any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon such Security or any Security issued in exchange or substitution therefor.

ARTICLE VIII

MEETINGS OF SECURITYHOLDERS

SECTION 8.1 Purposes of Meetings .

A meeting of Securityholders may be called and, to the extent permitted by law, action may be taken in lieu of a meeting of Securityholders through written consent at any time and from time to time pursuant to the provisions of this Article VIII for any of the following purposes:

(a) to give any notice to the Corporation or to the Debenture Trustee, or to give any directions to the Debenture Trustee, or to consent to the waiving of any Default hereunder and its consequences, or to take any other action authorized to be taken by Securityholders pursuant to any of the provisions of Article V;

(b) to remove the Debenture Trustee and nominate a successor trustee pursuant to the provisions of Article VI;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.2; or

(d) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of such Securities under any other provision of this Indenture or under applicable law.

SECTION 8.2 Call of Meetings by Debenture Trustee .

The Debenture Trustee may at any time call a meeting of Securityholders to take any action specified in Section 8.1, to be held at such time and at such place in Wayne, New Jersey or the Borough of Manhattan, The City of New York, as the Debenture Trustee shall determine. Notice of every meeting of the Securityholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed to holders of Securities at their addresses as they shall appear on the Security Register. Such notice shall be mailed not less than 20 nor more than 180 days prior to the date fixed for the meeting.

SECTION 8.3 Call of Meetings by Corporation or Securityholders .

In case at any time the Corporation, pursuant to a resolution of the Board of Directors, or the holders of at least 10% in aggregate principal amount of the Securities then outstanding, shall have requested the Debenture Trustee to call a meeting of Securityholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Debenture Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Corporation or such Securityholders may determine the time and

the place in Wayne, New Jersey or the Borough of Manhattan, The City of New York for such meeting and may call such meeting to take any action authorized in Section 8.1, by mailing notice thereof as provided in Section 8.2.

SECTION 8.4 Qualifications for Voting .

To be entitled to vote at any meeting of Securityholders, a Person shall be (a) a holder of one or more Securities or (b) a Person appointed by an instrument in writing as proxy by a holder of one or more Securities. The only Persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Debenture Trustee and its counsel and any representatives of the Corporation and its counsel.

SECTION 8.5 Regulations .

Notwithstanding any other provisions of this Indenture, the Debenture Trustee may make such reasonable regulations as it may deem advisable for any meeting of Securityholders, in regard to proof of the holding of Securities and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Debenture Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Corporation or by Securityholders as provided in Section 8.3, in which case the Corporation or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by majority vote of the meeting.

Subject to the provisions of Section 8.4, at any meeting each holder of Securities or proxy therefor shall be entitled to one vote for each $25 principal amount of Securities held or represented by him or her; provided , however , that no vote shall be cast or counted at any meeting in respect of any Security challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Securities held by him or instruments in writing as aforesaid duly designating him as the person to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 8.2 or 8.3 may be adjourned from time to time by a majority of those present, and the meeting may be held as so adjourned without further notice.

The Persons entitled to vote a majority in principal amount of the outstanding Securities shall constitute a quorum for a meeting of Holders of Securities; provided , however , that if any action is to be taken at such meeting with respect to a consent, waiver, request,

demand, notice, authorization, direction or other action which may be given by the holders of not less than a specified percentage in principal amount of the outstanding Securities, the Persons holding or representing such specified percentage in principal amount of the outstanding Securities will constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of holders of Securities, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjustment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 8.2, except that such notice need be given only once not less than five days prior to the date on which the meeting is schedule to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the outstanding Securities which shall constitute a quorum.

Except as limited by the first proviso to the first paragraph of Section 9.2, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding Securities; provided , however , that, except as limited by the first proviso to the first paragraph of Section 9.2, any resolution with respect to any consent, waiver, request, demand, notice, authorization, direction or other action which this Indenture expressly provides may be given by the holders of not less than a specified percentage in principal amount of the outstanding Securities may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid only by the affirmative vote of the holders of not less than such specified percentage in principal amount of the outstanding Securities.

Any resolution passed or decision taken at any meeting of Holders of Securities duly held in accordance with this Section shall be binding on all the Holders of Securities whether or not present or represented at the meeting.

SECTION 8.6 Voting .

The vote upon any resolution submitted to any meeting of holders of Securities shall be by written ballots on which shall be subscribed the signatures of such holders or of their representatives by proxy and the serial number or numbers of the Securities held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.2.

The record shall show the serial numbers of the Securities voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Corporation and the other to the Debenture Trustee to be preserved by the Debenture Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

ARTICLE IX

AMENDMENTS

SECTION 9.1 Without Consent of Securityholders .

The Corporation and the Debenture Trustee may from time to time and at any time amend this Indenture, without the consent of the Securityholders, for one or more of the following purposes:

(a) to evidence the succession of another Person to the Corporation, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Corporation pursuant to Article X hereof;

(b) to add to the covenants of the Corporation such further covenants, restrictions or conditions for the protection of the Securityholders as the Board of Directors and the Debenture Trustee shall consider to be for the protection of the Securityholders, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions a Default or an Event of Default permitting the enforcement of all or any of the remedies provided in this Indenture as herein set forth; provided , however , that in respect of any such additional covenant, restriction or condition such amendment may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Debenture Trustee upon such default;

(c) to provide, to the extent authorized pursuant to Section 2.7, for the issuance under this Indenture of Securities in fully registered certificated form without interest coupons;

(d) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture; or to make such other provisions in regard to matters or questions arising under this Indenture, provided that any such action shall not materially adversely affect the interests of the holders of the Securities or the holders of the Preferred Securities;

(e) to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Securities;

(f) to make provision for transfer procedures, certification, book-entry provisions, and all other matters required pursuant to Section 2.9 or otherwise necessary, desirable or appropriate in connection with the issuance of Securities to holders of Preferred Securities in the event of a distribution of Securities by the Trust following a Dissolution Event, provided that any such action shall not materially adversely affect the interests of the holders of the Securities or the holders of the Preferred Securities; or

(g) to qualify or maintain qualification of this Indenture under the Trust Indenture Act.

The Debenture Trustee is hereby authorized to join with the Corporation in the execution of any supplemental indenture to effect such amendment, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Debenture Trustee shall not be obligated to, but may in its discretion, enter into any such supplemental indenture which affects the Debenture Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise.

Any amendment to this Indenture authorized by the provisions of this Section 9.1 may be executed by the Corporation and the Debenture Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 9.2.

SECTION 9.2 With Consent of Securityholders .

With the consent (evidenced as provided in Section 7.1) of the holders of a majority in aggregate principal amount of the Securities at the time outstanding, the Corporation, when authorized by a Board Resolution, and the Debenture Trustee may from time to time and at any time amend this Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the holders of the Securities; provided , however , that no such amendment shall, without the consent of the holders of each Security then outstanding and affected thereby (i) change the Maturity Date of any Security, or reduce the rate or extend the time of payment of interest thereon (except as contemplated by Article XVI), or reduce the principal amount thereof, or change any prepayment provisions, or make the principal thereof or any interest thereon payable in any coin or currency other than U.S. dollars, or impair or affect the right of any Securityholder to institute suit for payment thereof, (ii) reduce the aforesaid percentage of Securities, the holders

of which are required to consent to any such amendment to the Indenture or waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder or their consequences) provided for in this Indenture or (iii) modify the provisions in Article XV in any manner adverse to the Securityholders; provided , however , that if the Securities are held by the Trust, such amendment shall not be effective until the holders of a majority in liquidation amount of Preferred Securities shall have consented to such amendment; provided , further , that if the consent of the holder of each outstanding Security is required, such amendment shall not be effective until each holder of the Preferred Securities shall have consented to such amendment.

No amendment shall be made to Section 13.12 hereof that would impair the rights of the holders of the Preferred Securities without the prior consent of each holder of the Preferred Securities.

Upon the request of the Corporation accompanied by a copy of a resolution of the Board of Directors certified by its Secretary or Assistant Secretary authorizing the execution of any supplemental indenture effecting such amendment, and upon the filing with the Debenture Trustee of evidence of the consent of Securityholders as aforesaid, the Debenture Trustee shall join with the Corporation in the execution of such supplemental indenture unless such supplemental indenture affects the Debenture Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Debenture Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Promptly after the execution by the Corporation and the Debenture Trustee of any supplemental indenture pursuant to the provisions of this Section, the Debenture Trustee shall transmit by mail, first class postage prepaid, a notice, prepared by the Corporation, setting forth in general terms the substance of such supplemental indenture, to the Securityholders as their names and addresses appear upon the Security Register. Any failure of the Debenture Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section 9.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 9.3 Compliance with Trust Indenture Act; Effect of Supplemental Indentures .

Any supplemental indenture executed pursuant to the provisions of this Article IX shall comply with the Trust Indenture Act. Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Debenture Trustee, the Corporation and the holders of Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.4 Notation on Securities .

Securities authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation in form approved by the Debenture Trustee as to any matter provided for in such supplemental indenture. If the Corporation or the Debenture Trustee shall so determine, new Securities so modified as to conform, in the opinion of the Debenture Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared and executed by the Corporation, authenticated by the Debenture Trustee or the Authenticating Agent and delivered in exchange for the Securities then outstanding.

SECTION 9.5 Evidence of Compliance of Supplemental Indenture to be Furnished to Debenture Trustee

The Debenture Trustee, subject to the provisions of Sections 6.1 and 6.2, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX.

ARTICLE X

CONSOLIDATION, MERGER, SALE, CONVEYANCE, TRANSFER AND LEASE

SECTION 10.1 Corporation May Consolidate, etc., on Certain Terms .

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Corporation with or into any other Person (whether or not affiliated with the Corporation, as the case may be), or successive consolidations or mergers in which the Corporation or its successor or successors, as the case may be, shall be a party or parties, or shall prevent any sale, conveyance, transfer or lease of the property of the Corporation, or its successor or successors as the case may be, as an entirety, or substantially as an entirety, to any other Person (whether or not affiliated with the Corporation, or its successor or successors, as the case may be) authorized to acquire and operate the same; provided , that (a) the Corporation is the surviving Person, or the Person formed by or surviving any such

consolidation or merger (if other than the Corporation) or to which such sale, conveyance, transfer or lease of property is made is a corporation, partnership, trust or other entity organized and existing under the laws of the United States or any State thereof or the District of Columbia, (b) if the Corporation is not the surviving Person, upon any such consolidation, merger, sale, conveyance, transfer or lease, the due and punctual payment of the principal of and interest on the Securities according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Indenture to be kept or performed by the Corporation shall be expressly assumed by the surviving Person, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act as then in effect) satisfactory in form to the Debenture Trustee executed and delivered to the Debenture Trustee by the Person formed by such consolidation, or into which the Corporation shall have been merged, or by the Person which shall have acquired such property, as the case may be, (c) after giving effect to such consolidation, merger, sale, conveyance, transfer or lease, no Default or Event of Default shall have occurred and be continuing, and (d) such consolidation, merger, sale, conveyance, transfer or lease is permitted under the Declaration and Preferred Securities Guarantee and does not give rise to any breach or violation of the Declaration or Preferred Securities Guarantee.

SECTION 10.2 Successor Person to be Substituted for Corporation .

In case of any such consolidation, merger, sale, conveyance, transfer or lease, and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Debenture Trustee and satisfactory in form to the Debenture Trustee, of the obligation of due and punctual payment of the principal of and interest on all of the Securities and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed or observed by the Corporation, such successor Person shall succeed to and be substituted for the Corporation, with the same effect as if it had been named herein as a party hereto, and the Corporation thereupon shall be relieved of any further liability or obligation hereunder or upon the Securities. Such successor Person thereupon may cause to be signed, and may issue either in its own name or in the name of the Corporation, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Corporation and delivered to the Debenture Trustee or the Authenticating Agent; and, upon the order of such successor Person instead of the Corporation and subject to all the terms, conditions and limitations in this Indenture prescribed, the Debenture Trustee or the Authenticating Agent shall authenticate and deliver any Securities which previously shall have been signed and delivered by any Officer of the Corporation to the Debenture Trustee or the Authenticating Agent for authentication, and any Securities which such successor Person thereafter shall cause to be signed and delivered to the Debenture Trustee or the Authenticating Agent for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof.

SECTION 10.3 Opinion of Counsel to be Given Trustee .

The Trustee, subject to the provisions of Section 6.1 and 6.2, may receive an Opinion of Counsel as conclusive evidence that any consolidation, merger, sale, conveyance, transfer or lease, and any assumption, permitted or required by the terms of this Article X complies with the provisions of this Article X. The Trustee is not obligated to receive such an Opinion of Counsel in any case.

ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 11.1 Discharge of Indenture .

When (a) the Corporation shall deliver to the Debenture Trustee for cancellation all Securities theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced as provided in Section 2.10) and not theretofore canceled, or (b) all the Securities not theretofore canceled or delivered to the Debenture Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for prepayment within one year under arrangements satisfactory to the Debenture Trustee for the giving of notice of prepayment, and the Corporation shall deposit with the Debenture Trustee, in trust, funds or U.S. Government Obligations sufficient to pay on the Maturity Date or upon prepayment all of the Securities (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced as provided in Section 2.10) not theretofore canceled or delivered to the Debenture Trustee for cancellation, including principal and interest (including Compounded Interest and Additional Sums, if any) due or to become due to the Maturity Date or prepayment date, as the case may be, and if, in either case the Corporation shall also pay or cause to be paid all other sums payable hereunder by the Corporation, then this Indenture shall cease to be of further effect except for the provisions of Sections 2.4, 2.9, 2.10, 3.1, 3.2, 3.4, 6.6, 6.10 and 11.4 hereof, which shall survive until such Securities shall mature and be paid. Thereafter, Sections 6.6, 6.10 and 11.4 shall survive, and the Debenture Trustee, on demand of the Corporation accompanied by any Officers' Certificate and an Opinion of Counsel and each stating that all conditions precedent herein relating to the satisfaction and discharge of this Indenture have been complied with and at the cost and expense of the Corporation, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture; the Corporation, however, hereby agrees to reimburse the Debenture Trustee for any costs or expenses thereafter reasonably and properly incurred by the Debenture Trustee in connection with this Indenture or the Securities.

SECTION 11.2 Deposited Moneys and U.S. Government Obligations to be Held in Trust by Debenture Trustee .

Subject to the provisions of Section 11.4, all moneys and U.S. Government Obligations deposited with the Debenture Trustee pursuant to Sections 11.1 or 11.5 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Corporation if acting as its own paying agent), to the holders of the particular Securities for the payment of which such moneys or U.S. Government Obligations have been deposited with the Debenture Trustee, of all sums due and to become due thereon for principal and interest.

The Corporation shall pay and indemnify the Debenture Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Governmental Obligations deposited pursuant to Section 11.5 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the holders of outstanding Securities.

SECTION 11.3 Paying Agent to Repay Moneys Held .

Upon the satisfaction and discharge of this Indenture all moneys then held by any paying agent of the Securities (other than the Debenture Trustee) shall, upon written demand of the Corporation, be repaid to it or paid to the Debenture Trustee, and thereupon such paying agent shall be released from all further liability with respect to such moneys.

SECTION 11.4 Return of Unclaimed Moneys .

Any moneys deposited with or paid to the Debenture Trustee or any paying agent for payment of the principal of or interest (including Compounded Interest and Additional Sums, if any) on Securities and not applied but remaining unclaimed by the holders of Securities for two years after the date upon which the principal of or interest (including Compounded Interest and Additional Sums, if any) on such Securities, as the case may be, shall have become due and payable, shall be repaid to the Corporation by the Debenture Trustee or such paying agent; and the holder of any of the Securities shall thereafter look only to the Corporation for any payment which such holder may be entitled to collect and all liability of the Debenture Trustee or such paying agent with respect to such moneys shall thereupon cease.

SECTION 11.5 Defeasance Upon Deposit of Moneys or U.S. Government Obligations .

Subject to receipt of any necessary regulatory approvals, the Corporation shall be deemed to have been Discharged (as defined below) from its obligations with respect to the Securities on the 91st day after the applicable conditions set forth below have been satisfied:

(a) the Corporation shall have deposited or caused to be deposited irrevocably with the Debenture Trustee or the Defeasance Agent (as defined below) as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Securities (i) money in an amount, or (ii) U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (iii) a combination of (i) and (ii), sufficient, in the opinion (with respect to (ii) and (iii)) of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Debenture Trustee and the Defeasance Agent, if any, to pay and discharge each installment of principal of and interest on in respect of the outstanding Securities on the dates such installments of principal and interest are due;

(b) if the Securities are then listed on any national securities exchange, the Corporation shall have delivered to the Debenture Trustee and the Defeasance Agent, if any, an Opinion of Counsel to the effect that the exercise of the option under this Section 11.5 would not cause such Securities to be delisted from such exchange;

(c) no Default or Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit; and

(d) the Corporation shall have delivered to the Debenture Trustee and the Defeasance Agent, if any, an Opinion of Counsel to the effect that holders of the Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of the option under this Section 11.5 and will be subject to United States federal income tax on the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised.

"Discharged" means that the Corporation shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Securities and to have satisfied all the obligations under this Indenture relating to the Securities (and the Debenture Trustee, at the expense of the Corporation, shall execute proper instruments acknowledging the same), except (1) the rights of holders of Securities to receive, from the trust fund described in clause (a) above, payment of the principal of and the interest on the Securities when such payments are due; (2) the Corporation's obligations with respect to the Securities under Sections 2.9, 2.10, 5.2 and 11.4; and (3) the rights, powers, trusts, duties and immunities of the Debenture Trustee hereunder.

"Defeasance Agent" means another financial institution which is eligible to act as Debenture Trustee hereunder and which assumes all of the obligations of the Debenture Trustee necessary to enable the Debenture Trustee to act hereunder. In the event such a Defeasance Agent is appointed pursuant to this Section, the following conditions shall apply:

(i) the Debenture Trustee shall have approval rights over the document appointing such Defeasance Agent and the document setting forth such Defeasance Agent's rights and responsibilities; and

(ii) the Defeasance Agent shall provide verification to the Debenture Trustee acknowledging receipt of sufficient money and/or U.S. Government Obligations to meet the applicable conditions set forth in this Section 11.5.

ARTICLE XII

IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 12.1 Indenture and Securities Solely Corporate Obligations .

No recourse for the payment of the principal of or interest (including Compounded Interest and Additional Sums, if any) on any Security, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Corporation in this Indenture, or in any Security, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, officer or director, as such, past, present or future, of the Corporation or of any successor Person to the Corporation, either directly or through the Corporation or any successor Person to the Corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of the Securities.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

SECTION 13.1 Successors .

All of the covenants, stipulations, promises and agreements of the Corporation contained in this Indenture shall also bind the Corporation's successors and assigns whether so expressed or not.

SECTION 13.2 Official Acts by Successor Corporation .

Any act or proceeding that, by any provision of this Indenture, is authorized or required to be done or performed by any board, committee or officer of the Corporation shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Corporation.

SECTION 13.3 Surrender of Corporation Powers .

The Corporation by instrument in writing executed by authority of 2/3 (two-thirds) of its Board of Directors and delivered to the Debenture Trustee may surrender any of the powers reserved to the Corporation hereunder, and thereupon such power so surrendered shall terminate both as to the Corporation, as the case may be, and as to any successor Person.

SECTION 13.4 Addresses for Notices, etc .

Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Debenture Trustee or by the holders of Securities on the Corporation may be given or served by being deposited postage prepaid by first class mail, registered or certified mail, overnight courier service or conformed telecopy addressed (until another address is filed by the Corporation with the Debenture Trustee for the purpose) to Valley National Bancorp at 1455 Valley Road, Wayne, New Jersey 07470, Attention: Alan D. Eskow. Any notice, direction, request or demand by any Securityholder to or upon the Debenture Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the office of The Bank of New York, 5 Penn Plaza, 13 th Floor, New York, New York 10001-1810, Attention: Corporate Trust Administration (unless another address is provided by the Debenture Trustee to the Corporation for such purpose). Any notice or communication to a Securityholder shall be mailed by first class mail to his or her address shown on the Security Register kept by the Security Registrar. Notices required to be given to the Debenture Trustee or the Authenticating Agent shall be in writing, personally delivered or mailed first class postage prepaid to each of the foregoing, or at such other address as shall be designated by written notice to the other parties.

SECTION 13.5 Governing Law .

This Indenture and each Security shall be governed by and construed in accordance with the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of such State without regard to conflicts of laws principles thereof.

SECTION 13.6 Evidence of Compliance with Conditions Precedent .

Upon any application or demand by the Corporation to the Debenture Trustee to take any action under any of the provisions of this Indenture, the Corporation shall furnish to the Debenture Trustee (which the Debenture Trustee shall be fully protected in relying on) an Officers' Certificate stating that in the opinion of the signers all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Debenture Trustee with respect to compliance with a condition or covenant provided for in this Indenture (except certificates delivered pursuant to Section 3.5) shall include (1) a statement that the Person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 13.7 Business Days .

In any case where the date of payment of principal of or interest on the Securities is not a Business Day, the payment of such principal of or interest on the Securities will not be made on such date but will be made on the next succeeding Business Day, with the same force and effect as if made on the original date of payment, and no interest shall accrue for the period from and after such date.

SECTION 13.8 Trust Indenture Act to Control .

If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 318, inclusive, of the Trust Indenture Act, such imposed duties shall control.

SECTION 13.9 Table of Contents, Headings, etc .

The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 13.10 Execution in Counterparts .

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 13.11 Separability .

In case any one or more of the provisions contained in this Indenture or in the Securities shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of the Securities, but this Indenture and the Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 13.12 Acknowledgment of Rights .

The Corporation acknowledges that, with respect to any Securities held by the Trust or a trustee of such Trust, if the Property Trustee of such Trust fails to enforce its rights under this Indenture as the holder of the Securities held as the assets of the Trust, any holder of Preferred Securities may institute legal proceedings, subject to Section 5.9, directly against the Corporation to enforce such Property Trustee's rights under this Indenture without first instituting any legal proceedings against such Property Trustee or any other person or entity. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Corporation to pay principal of or interest on the Securities when due, the Corporation acknowledges that a holder of Preferred Securities may directly institute a proceeding for enforcement of payment to such holder of the principal of or interest on the Securities having an aggregate principal amount equal to the aggregate liquidation amount of the Preferred Securities of such holder on or after the respective due date specified in the Securities.

SECTION 13.13 Benefits of Indenture .

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors and assigns, the holders of Senior

Indebtedness, the Holders of the Securities and, to the extent expressly herein, the holders of Preferred Securities, any benefit or any legal or equitable right, remedy or claim under this Indenture.

ARTICLE XIV

PREPAYMENT OF SECURITIES

SECTION 14.1 Special Event Prepayment .

If, prior to the Initial Optional Redemption Date, a Special Event has occurred and is continuing, then notwithstanding Section 14.2 (a) but subject to Section 14.2(c), the Corporation shall have the right, at any time within 90 days following the occurrence of such Special Event, upon (i) not less than 45 days' written notice to the Debenture Trustee and (ii) not less than 30 days nor more than 60 days' written notice to the Securityholders, to prepay the Securities, in whole (but not in part), at the Special Event Prepayment Price. Following a Special Event, the Corporation shall take such action as is necessary to promptly determine the Special Event Prepayment Price. The Special Event Prepayment Price shall be paid prior to 12:00 noon, New York City time, on the date of such prepayment or such earlier time as the Corporation determines, provided that the Corporation shall deposit with the Debenture Trustee an amount sufficient to pay the Special Event Prepayment Price by 10:00 a.m., New York City time, on the date such Special Event Prepayment Price is to be paid.

SECTION 14.2 Optional Prepayment by Corporation .

(a) Subject to Sections 14.2(b) and (c), the Corporation shall have the right to prepay the Securities, in whole or in part, at any time on or after the Initial Optional Redemption Date, upon (i) not more than 45 days' written notice to the Debenture Trustee and (ii) not less than 30 days and not more than 60 days' written notice to the Securityholders, at 100% of the principal amount of the Securities to be prepaid plus, in each case, accrued and unpaid interest thereon (including Compounded Interest and Additional Sums, if any) to the applicable date of prepayment (the "Optional Prepayment Price").

If the Securities are only partially prepaid pursuant to this Section 14.2, the Securities to be prepaid shall be selected on a pro rata basis not more than 60 days prior to the date fixed for prepayment from the outstanding Securities not previously called for prepayment; provided , however , that any such proration may be made on the basis of the aggregate principal amount of Securities held by each Securityholder and may be made by making such adjustments as the Corporation deems fair and appropriate in order that only Securities in denominations of $25 or integral multiples thereof shall be prepaid. The Optional Prepayment Price shall be paid prior to 12:00 noon New York City time, on the date of such prepayment or at such earlier time

as the Corporation determines, provided that the Corporation shall deposit with the Debenture Trustee an amount sufficient to pay the Optional Prepayment Price by 10:00 a.m., New York City time, on the date such Optional Prepayment Price is to be paid.

(b) Notwithstanding the first sentence of Section 14.2(a), upon the entry of an order for dissolution of the Trust by a court of competent jurisdiction, the Securities thereafter will be subject to optional prepayment, in whole only, but not in part, on or after the Initial Optional Redemption Date, at the applicable Optional Prepayment Price and otherwise in accordance with this Article XIV.

(c) Any prepayment of Securities pursuant to Section 14.1 or Section 14.2 shall be subject to the Corporation obtaining any and all required regulatory approvals.

SECTION 14.3 No Sinking Fund .

The Securities are not entitled to the benefit of any sinking fund.

SECTION 14.4 Notice of Prepayment; Selection of Securities .

In case the Corporation shall desire to exercise the right to prepay all, or, as the case may be, any part of the Securities in accordance with their terms, it shall fix a date for prepayment and shall mail a notice of such prepayment at least 30 and not more than 60 days' prior to the date fixed for prepayment to the holders of Securities to be so prepaid as a whole or in part at their last addresses as the same appear on the Security Register. Such mailing shall be by first class mail. The notice, if mailed in the manner herein provided, shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Security designated for prepayment as a whole or in part shall not affect the validity of the proceedings for the prepayment of any other Security.

Each such notice of prepayment shall specify the CUSIP number of the Securities to be prepaid, the date fixed for prepayment, the Prepayment Price at which the Securities are to be prepaid (or the method by which such Prepayment Price is to be calculated), the place or places of payment where payment will be made upon presentation and surrender of the Securities, that interest accrued to the date fixed for prepayment will be paid as specified in said notice, and that on and after said date interest thereon or on the portions thereof to be prepaid will cease to accrue. If less than all the Securities are to be prepaid, the notice of prepayment shall specify the numbers of the Securities to be prepaid.

In case any Security is to be prepaid in part only, the notice of prepayment shall state the portion of the principal amount thereof to be prepaid and shall state that on and after the date fixed for prepayment, upon surrender of such Security, a new Security or Securities in principal amount equal to the portion thereof that has not been prepaid will be issued.

By 10:00 a.m., New York City time, on the prepayment date specified in the notice of prepayment given as provided in this Section, the Corporation will deposit with the Debenture Trustee or with one or more paying agents an amount of money sufficient to prepay on the prepayment date all the Securities so called for prepayment at the Prepayment Price .

SECTION 14.5 Payment of Securities Called for Prepayment .

If notice of prepayment has been given as provided in Section 14.4, the Securities or portions of Securities with respect to which such notice has been given shall become due and payable on the date and at the place or places stated in such notice at the Prepayment Price (subject to the rights of holders of Securities at the close of business on a regular record date in respect of an Interest Payment Date occurring on or prior to the prepayment date) and on and after said date (unless the Corporation shall default in the payment of such Securities at the Prepayment Price) interest (including Compounded Interest and Additional Sums, if any) on the Securities or portions of Securities so called for prepayment shall cease to accrue. On presentation and surrender of such Securities at a place of payment specified in said notice, the said Securities or the specified portions thereof shall be paid and prepaid by the Corporation at the applicable Prepayment Price, (subject to the rights of holders of Securities on the close of business on a regular record date in respect of an Interest Payment Date occurring on or prior to the prepayment date).

Upon presentation of any Security prepaid in part only, the Corporation shall execute and the Debenture Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Corporation, a new Security or Securities of authorized denominations, in principal amount equal to the portion of the Security so presented that has not been prepaid.

If any Security called for prepayment shall not be so paid upon surrender thereof for prepayment, the principal of such security shall, until paid, bear interest from the prepayment date.

ARTICLE XV

SUBORDINATION OF SECURITIES

SECTION 15.1 Agreement to Subordinate .

The Corporation covenants and agrees, and each holder of Securities issued hereunder likewise covenants and agrees, that the Securities shall be issued subject to the provisions of this Article XV; and each holder of a Security, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment by the Corporation of the principal of and interest (including Compounded Interest and Additional Sums, if any) on all Securities issued hereunder shall, to the extent and in the manner hereinafter set forth, be subordinated and subject in right of payment to the prior payment in full of all Allocable Amounts then due and payable in respect of Senior Indebtedness, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article XV shall prevent the occurrence of any Default or Event of Default hereunder.

SECTION 15.2 Default on Senior Indebtedness .

In (a) the event and during the continuation of any default by the Corporation in the payment of principal of or interest or any other payment due on any Senior Indebtedness, or in the event that the maturity of any Senior Indebtedness has been accelerated because of a default and such default shall not have been cured or waived and such acceleration has not been rescinded or canceled or (b) the event any judicial proceeding shall be pending with respect to any such default in payment or event of default, then, in either case, no payment of any kind or character, whether in cash, properties or securities (including any Junior Subordinated Payment (as defined in Section 15.3 hereto)) shall be made by the Corporation with respect to the principal (including prepayment payments) of or interest on the Securities (including Compounded Interest and Additional Sums, if any, or any other amounts which may be due on the Securities pursuant to the terms hereof or thereof) or on account of the purchase or other acquisition of Securities by the Corporation or any Subsidiary, in each case unless and until the holders of such Senior Indebtedness are paid in full all Allocable Amounts due on or in respect of such Senior Indebtedness.

In the event of the acceleration of the maturity of the Securities, then no payment of any kind or character, whether in cash, properties or securities (including any Junior Subordinated Payment) shall be made by the Corporation with respect to the principal (including prepayment payments) of or interest on the Securities (including Compounded Interest and Additional Sums, if any, or any other amounts which may be due on the Securities pursuant to the terms hereof or thereof) or on account of the purchase or other acquisition of Securities by the Corporation or any Subsidiary, in each case until the holders of all Senior Indebtedness outstanding at the time of such acceleration shall receive payment, in full, of all Allocable Amounts due on or in respect of such Senior Indebtedness (including any amounts due upon acceleration).

In the event that, notwithstanding the foregoing, the Corporation shall make any payment to the Debenture Trustee or any Securityholder prohibited by the foregoing provisions

of this Section, and if such fact shall, at or prior to the time of such payment, have been made known to the Debenture Trustee or, as the case may be, such Securityholder, then and in such event such payment shall be paid over and delivered forthwith to the Corporation.

The provisions of this Section 15.2 shall not apply to any payment with respect to which Section 15.3 applies.

SECTION 15.3 Liquidation; Dissolution; Bankruptcy .

Upon any payment by the Corporation or distribution of assets of the Corporation of any kind or character, whether in cash, property or securities, to creditors upon any dissolution, winding-up, liquidation or reorganization of the Corporation, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other similar proceedings (each such event, if any, herein sometimes referred to as a "Proceeding"), the holders of all Senior Indebtedness of the Corporation will first be entitled to receive payment in full of Allocable Amounts due on or in respect of such Senior Indebtedness, before any payment is made by the Corporation of any kind or character, whether in cash, property or securities (including any payment or distribution which may be payable or deliverable by reason of the payment of any other Indebtedness of the Corporation subordinated to the payment of the Securities, such payment or distribution being hereinafter referred to as a "Junior Subordinated Payment"), on account of the principal of or interest on the Securities (including Compounded Interest and Additional Sums (if any) or any other amounts which may be due on the Securities pursuant to the terms hereof or thereof) or on account of the purchase or other acquisition of Securities by the Corporation or any Subsidiary; and upon any such Proceeding, any payment by the Corporation, or distribution of assets of the Corporation of any kind or character, whether in cash, property or securities, which the Securityholders or the Debenture Trustee would be entitled to receive from the Corporation, except for the provisions of this Article XV, shall be paid by the Corporation or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, directly to the holders of Senior Indebtedness of the Corporation (pro rata to such holders on the basis of the respective Allocable Amounts of Senior Indebtedness held by such holders, as calculated by the Corporation) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay all such Allocable Amounts of Senior Indebtedness in full, in money or moneys worth, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Securityholders or to the Debenture Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Corporation of any kind or character prohibited by the foregoing, whether in cash, property or securities, including any Junior Subordinated Payment, shall be received by the Debenture Trustee, or any Securityholder, before the Allocable Amounts of all Senior Indebtedness is paid in full, or provision is made for such payment in money in accordance with its terms, or otherwise in a manner satisfactory to the holders of the Senior Indebtedness, and if

such fact shall, at or prior to the time of such payment or distribution have been made known to the Debenture Trustee or, as the case may be, such Securityholder, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Corporation for application to the payment of all Allocable Amounts due or to become due on all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Allocable Amounts due or to become due on all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness.

For purposes of this Article XV, the words "cash, property or securities" shall not be deemed to include shares of stock of the Corporation as reorganized or readjusted, or securities of the Corporation or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article XV with respect to the Securities to the payment of Senior Indebtedness that may at the time be outstanding. The consolidation of the Corporation with, or the merger of the Corporation into, another Person or the liquidation or dissolution of the Corporation following the sale, conveyance, transfer or lease of its property as an entirety, or substantially as an entirety, to another Person upon the terms and conditions provided for in Article X of this Indenture shall not be deemed a Proceeding for the purposes of this Section 15.3 if such other Person shall, as a part of such consolidation, merger, sale, conveyance, transfer or lease, comply with the conditions stated in Article X of this Indenture. Nothing in Section 15.2 or in this Section 15.3 shall apply to claims of, or payments to, the Debenture Trustee under or pursuant to Section 6.6 of this Indenture.

SECTION 15.4 Subrogation .

Subject to the payment in full of all Allocable Amounts of Senior Indebtedness, the rights of the Securityholders shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities of the Corporation, as the case may be, applicable to such Senior Indebtedness until the principal of and interest on the Securities shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of such Senior Indebtedness of any cash, property or securities to which the Securityholders or the Debenture Trustee would be entitled except for the provisions of this Article XV, and no payment over pursuant to the provisions of this Article XV to or for the benefit of the holders of such Senior Indebtedness by Securityholders or the Debenture Trustee, shall, as between the Corporation, its creditors other than holders of Senior Indebtedness of the Corporation, and the holders of the Securities, be deemed to be a payment by the Corporation to or on account of such Senior Indebtedness. It is understood that the provisions of this Article XV are and are intended solely for the purposes of defining the relative rights of the holders of the Securities, on the one hand, and the holders of such Senior Indebtedness on the other hand.

Nothing contained in this Article XV or elsewhere in this Indenture or in the Securities is intended to or shall impair, as between the Corporation and the holders of the Securities, the obligation of the Corporation, which is absolute and unconditional, to pay to the

holders of the Securities the principal of and interest (including Compounded Interest and Additional Sums, if any) on the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Securities and creditors of the Corporation, as the case may be, other than their rights in relation to the holders of Senior Indebtedness of the Corporation, nor shall anything herein or therein prevent the Debenture Trustee or the holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article XV of the holders of such Senior Indebtedness in respect of cash, property or securities of the Corporation, as the case may be, received upon the exercise of any such remedy.

SECTION 15.5 Debenture Trustee to Effectuate Subordination .

Each Securityholder, by such Securityholder's acceptance thereof, authorizes and directs the Debenture Trustee on such Securityholder's behalf to take such action (as the Debenture Trustee, in its discretion, deems necessary or appropriate, upon instruction or otherwise) to effectuate the subordination provided in this Article XV and appoints the Debenture Trustee such Securityholder's attorney-in-fact for any and all such purposes.

SECTION 15.6 Notice by the Corporation .

The Corporation shall give prompt written notice to a Responsible Officer of the Debenture Trustee of any fact known to the Corporation that would prohibit the making of any payment of monies to or by the Debenture Trustee in respect of the Securities pursuant to the provisions of this Article XV. Notwithstanding the provisions of this Article XV or any other provision of this Indenture, the Debenture Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment of monies to or by the Debenture Trustee in respect of the Securities pursuant to the provisions of this Article XV, unless and until a Responsible Officer of the Debenture Trustee shall have received written notice thereof from the Corporation or a holder or holders of Senior Indebtedness or from any trustee therefor; and before the receipt of any such written notice, the Debenture Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled in all respects to assume that no such facts exist; provided , however , that if the Debenture Trustee shall not have received the notice provided for in this Section 15.6 at least two Business Days prior to the date upon which, by the terms hereof, any money may become payable for any purpose (including, without limitation, the payment of the principal of or interest (including Compounded Interest and Additional Sums, if any) on any Security, then, anything herein contained to the contrary notwithstanding, the Debenture Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary that may be received by it within two Business Days prior to such date.

The Debenture Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled to conclusively rely on a written notice delivered to it by a Person representing himself to be a holder of Senior Indebtedness of the Corporation (or a trustee on behalf of such holder), as the case may be, to establish that such notice has been given by a holder of such Senior Indebtedness or a trustee on behalf of any such holder or holders. In the event that the Debenture Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of such Senior Indebtedness to participate in any payment or distribution pursuant to this Article XV, the Debenture Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Debenture Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article XV, and, if such evidence is not furnished, the Debenture Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

Upon any payment or distribution of assets of the Corporation referred to in this Article XV, the Debenture Trustee, subject to the provisions of Article VI of this Indenture, and the Securityholders shall be entitled to conclusively rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding-up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, custodian, receiver, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Debenture Trustee or to the Securityholders, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of Senior Indebtedness and other indebtedness of the Corporation, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article XV.

SECTION 15.7 Rights of the Debenture Trustee; Holders of Senior Indebtedness .

The Debenture Trustee in its individual capacity shall be entitled to all the rights set forth in this Article XV in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Debenture Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness of the Corporation, the Debenture Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article XV, and no implied covenants or obligations with respect to the holders of such Senior Indebtedness shall be read into this Indenture against the Debenture Trustee. The Debenture Trustee shall not be deemed to owe any fiduciary duty to the holders of such Senior Indebtedness and, subject to the provisions of Article VI of this Indenture, the Debenture Trustee shall not be liable to any holder of such Senior Indebtedness if it shall pay over or deliver to Securityholders, the Corporation or any other Person money or assets to which any holder of such Senior Indebtedness shall be entitled by virtue of this Article XV or otherwise.

Nothing in this Article XV shall apply to claims of, or payments to, the Debenture Trustee under or pursuant to Section 6.6.

SECTION 15.8 Subordination May Not Be Impaired .

No right of any present or future holder of any Senior Indebtedness of the Corporation to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Corporation, as the case may be, or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Corporation, as the case may be, with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof that any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness of the Corporation may, at any time and from time to time, without the consent of or notice to the Debenture Trustee or the Securityholders, without incurring responsibility to the Securityholders and without impairing or releasing the subordination provided in this Article XV or the obligations hereunder of the holders of the Securities to the holders of such Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, such Senior Indebtedness, or otherwise amend or supplement in any manner such Senior Indebtedness or any instrument evidencing the same or any agreement under which such Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing such Senior Indebtedness; (iii) release any Person liable in any manner for the collection of such Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Corporation, as the case may be, and any other Person.

SECTION 15.9 Certain Conversions or Exchanges Not Deemed Payment .

For the purposes of this Article XV only, (a) the issuance and delivery of junior securities upon conversion or exchange of Securities shall not be deemed to constitute a payment or distribution on account of the principal of or interest (including any Defaulted Interest) on Securities or on account of the purchase or other acquisition of Securities, and (b) the payment, issuance or delivery of cash, property or securities (other than shares of any stock of any class of the Corporation and Indebtedness ranking junior to the Securities) upon conversion or exchange of a Security shall be deemed to constitute payment on account of the principal of such security.

For purposes of this Section, the term “junior securities” means (i) shares of any stock of any class of the Corporation and (ii) securities of the Corporation which are

subordinated in right of payment to all Senior Indebtedness which may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article XV.

ARTICLE XVI

EXTENSION OF INTEREST PAYMENT PERIOD

SECTION 16.1 Extension of Interest Payment Period .

So long as no Event of Default has occurred and is continuing, the Corporation shall have the right, at any time and from time to time during the term of the Securities, to defer payments of interest by extending the interest payment period of such Securities for a period not exceeding 20 consecutive quarterly periods, including the first such quarterly period during such extension period (the "Extended Interest Payment Period"), during which Extended Interest Payment Period no interest shall be due and payable, provided that no Extended Interest Payment Period shall end on a date other than an Interest Payment Date or extend beyond the Maturity Date. To the extent permitted by applicable law, interest, the payment of which has been deferred because of the extension of the interest payment period pursuant to this Section 16.1, will bear interest thereon at the Coupon Rate compounded quarterly for each quarterly period during the Extended Interest Payment Period ("Compounded Interest"). At the end of the Extended Interest Payment Period, the Corporation shall pay all interest accrued and unpaid on the Securities, including any Additional Sums and Compounded Interest (together, "Deferred Interest"), that shall be payable to the holders of the Securities in whose names the Securities are registered in the Security Register on the record date immediately preceding the end of the Extended Interest Payment Period. Before the termination of any Extended Interest Payment Period, and so long as no Event of Default has occurred and is occurring, the Corporation may further defer payments of interest by further extending such Extended Interest Payment Period, provided that such Extended Interest Payment Period, together with all such previous and further extensions within such Extended Interest Payment Period, shall not (i) exceed 20 consecutive quarterly periods, including the first such quarterly period during such Extended Interest Payment Period, (ii) end on a date other than an Interest Payment Date or (iii) extend beyond the Maturity Date of the Securities. Upon the termination of any Extended Interest Payment Period and the payment of all amounts then due, the Corporation may commence a new Extended Interest Payment Period, subject to the foregoing requirements. No interest shall be due and payable during an Extended Interest Payment Period, except at the end thereof, but the Corporation may prepay at any time all or any portion of the interest accrued during an Extended Interest Payment Period.

SECTION 16.2 Notice of Extension .

(a) If the Property Trustee is the only holder of the Securities at the time the Corporation elects to commence an Extended Interest Payment Period, the Corporation shall give written notice to the Administrative Trustees, the Property Trustee and the Debenture Trustee of its election to commence such Extended Interest Payment Period at least five Business Days before the earlier of (i) the next succeeding date on which Distributions on the Trust Securities would have been payable, and (ii) the date the Property Trustee is required to give notice of the record date, or the date such Distributions are payable, to any national securities exchange or automated quotation system or to holders of the Preferred Securities, but in any event at least five Business Days before such record date.

(b) If the Property Trustee is not the only holder of the Securities at the time the Corporation elects to commence an Extended Interest Payment Period, the Corporation shall give the holders of the Securities and the Debenture Trustee written notice of its election of such Extended Interest Payment Period at least 10 Business Days before the earlier of (i) the next succeeding Interest Payment Date, and (ii) the date the Debenture Trustee is required to give notice of the record or payment date of such interest payment to any national securities exchange.

(c) The quarterly period in which any notice is given pursuant to paragraphs (a) or (b) of this Section 16.2 shall be counted as one of the 20 quarterly periods permitted in the maximum Extended Interest Payment Period permitted under Section 16.1.

The Bank of New York hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

VALLEY NATIONAL BANCORP

By: _____
Name: Alan D. Eskow
Title: Executive Vice President and Chief Financial Officer

THE BANK OF NEW YORK,
as Debenture Trustee

By: _____
Name: Julie Salovitch-Miller
Title: Vice President

EXHIBIT A

[FACE OF SECURITY]

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY ("DTC") OR A NOMINEE OF DTC. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN DTC OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY DTC TO A NOMINEE OF DTC OR BY A NOMINEE OF DTC TO DTC OR ANOTHER NOMINEE OF DTC) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. 1 **CUSIP No. 919794 AA 5**

SUBORDINATED DEBENTURE CERTIFICATE

VALLEY NATIONAL BANCORP

7 3/4% JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURE

DUE DECEMBER 15, 2031

Valley National Bancorp, a New Jersey corporation (the "Corporation," which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to The Bank of New York, as Property Trustee of VNB Capital Trust I under that certain Amended and Restated Declaration of Trust dated as of November 7, 2001 or registered assigns, the principal sum of $180,412,375 on December 15, 2031 (the "Maturity Date"), unless previously prepaid, and to pay interest on the outstanding principal amount hereof from November 7, 2001, or from the most recent interest payment date (each such

date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set forth herein) in arrears on March 15th, June 15th, September 15th, and December 15th of each year, commencing December 15, 2001 at the rate of 7 3/4 % per annum, until the principal hereof shall have become due and payable, and on any overdue principal and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum compounded quarterly ("Compounded Interest"). The amount of interest payable hereon shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which the principal of or interest on this Security is payable is not a Business Day (as defined in the Indenture), then the payment payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. Pursuant to the Indenture, in certain circumstances the Corporation will be required to pay Additional Sums (as defined in the Indenture) with respect to this Security.

The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, which shall be at the close of business on the 1st day of the month in which the relevant Interest Payment Date falls. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the holders on such regular record date and may be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Debenture Trustee for the payment of such defaulted interest, notice whereof shall be given to the holders of Securities not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The principal of and interest (including Compounded Interest and Additional Sums, if any) on this Security shall be payable at the office or agency of the Debenture Trustee maintained for that purpose in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts; provided , however , that payment of interest may be made at the option of the Corporation by (i) check mailed to the holder at such address as shall appear in the Security Register or (ii) transfer to an account maintained by the Person entitled thereto, provided that proper written transfer instructions have been received by the relevant record date.

Notwithstanding the foregoing, so long as the holder of this Security is the Property Trustee of VNB Capital Trust I, the payment of the principal of and interest (including Compounded Interest and Additional Sums, if any) on this Security will be made at such place and to such account as may be designated by such Property Trustee.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Debenture Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Debenture Trustee his or her attorney-in-fact for any and all such purposes. Each holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Security shall not be entitled to any benefit under the Indenture or be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Debenture Trustee.

The provisions of this Security are continued on the reverse side hereof and such provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Corporation has caused this instrument to be duly executed and sealed this 7th day of November, 2001.

VALLEY NATIONAL BANCORP

By: _____
Alan D. Eskow
Executive Vice President and Chief Financial Officer

Attest:

By: _____
Name: Christine Mozer
Title: First Vice President and Controller

CERTIFICATE OF AUTHENTICATION

This is one of the 7 3/4% Junior Subordinated Deferrable Interest Debentures of VALLEY NATIONAL BANCORP referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK,
not in its individual capacity but solely as Debenture Trustee

By: _____
Julie Salovitch-Miller
Vice President

Dated: November 7, 2001

[REVERSE OF SECURITY]

7 3/4% SUBORDINATED DEBENTURE

This Security is one of the Securities of the Corporation (herein sometimes referred to as the "Securities"), specified in the Indenture, all issued or to be issued under and pursuant to an Indenture, dated as of November 7, 2001 (the "Indenture"), duly executed and delivered between the Corporation and The Bank of New York, as Debenture Trustee (the "Debenture Trustee"), to which Indenture reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Debenture Trustee, the Corporation and the holders of the Securities. The Securities are limited in aggregate principal amount as specified in the Indenture.

Upon the occurrence and continuation of a Special Event (as defined in the Indenture) prior to November 7, 2006 (the "Initial Optional Redemption Date"), the Corporation shall have the right, at any time within 90 days following the occurrence of such Special Event, to prepay this Security in whole (but not in part) at the Special Event Prepayment Price. "Special Event Prepayment Price" shall mean, with respect to any prepayment of the Securities following a Special Event, an amount in cash equal to 100% of the principal amount of the Securities to be prepaid, plus any accrued and unpaid interest (including Compounded Interest and Additional Sums, if any) thereon to the date of such prepayment.

In addition, the Corporation shall have the right to prepay this Security, in whole or in part, at any time on or after the Initial Optional Redemption Date (an "Optional Prepayment"), at 100% of the principal amount of this Security plus, in each case, accrued and unpaid interest thereon (including Compounded Interest and Additional Sums, if any) thereon to the applicable date of prepayment (the "Optional Prepayment Price").

The Prepayment Price shall be paid prior to 12:00 noon, New York City time, on the date of such prepayment or at such earlier time as the Corporation determines, provided that the Corporation shall deposit with the Debenture Trustee an amount sufficient to pay the Prepayment Price by 10:00 a.m., New York City time, on the date such Prepayment Price is to be paid. Any prepayment pursuant to this paragraph will be made upon not less than 30 days nor more than 60 days' prior written notice.

If the Securities are only partially prepaid by the Corporation pursuant to an Optional Prepayment, the particular Securities to be prepaid shall be selected on a pro rata basis from the outstanding Securities not previously called for prepayment; provided , however , that any such proration may be made on the basis of the aggregate principal amount of Securities held by each Securityholder thereof and may be made by making such adjustments as the Corporation deems fair and appropriate in order that only Securities in denominations of $25 or integral multiples thereof shall be prepaid. In the event of prepayment of this Security in part only, a new Security or Securities for the portion hereof that has not been prepaid will be issued in the name of the holder hereof upon the cancellation hereof.

Notwithstanding the foregoing, any prepayment of Securities by the Corporation shall be subject to the receipt of any and all required regulatory approvals.

In case an Event of Default (as defined in the Indenture) shall have occurred and be continuing, the principal of all of the Securities may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Corporation and the Debenture Trustee, with the consent of the holders of a majority in aggregate principal amount of the Securities at the time outstanding (as defined in the Indenture), to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of the Securities; provided , however , that no such supplemental indenture shall, without the consent of each holder of Securities then outstanding and affected thereby, (i) change the Maturity Date of any Security, or reduce the rate or extend the time of payment of interest thereon (subject to Article XVI of the Indenture), or reduce the principal amount thereof, or change any of the prepayment provisions or make the principal thereof or any interest thereon payable in any coin or currency other than U.S. dollars, or impair or affect the right of any holder of Securities to institute suit for payment thereof, or (ii) reduce the aforesaid percentage of Securities the holders of which are required to consent to any such supplemental indenture. The Indenture also contains provisions permitting the holders of a majority in aggregate principal amount of the Securities at the time outstanding affected thereby, on behalf of all of the holders of the Securities, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture, and its consequences, except a default in the payment of the principal of or interest on any of the Securities or a default in respect of any covenant or provision under which the Indenture cannot be modified or amended without the consent of each holder of Securities then outstanding. Any such consent or waiver by the holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Security and of any Security issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Corporation, which is absolute and unconditional, to pay the principal of and interest (including Compounded Interest and Additional Sums, if any) on this Security at the time and place and at the rate and in the money herein prescribed.

So long as no Event of Default shall have occurred and be continuing, the Corporation shall have the right, at any time and from time to time during the term of the Securities, to defer payments of interest by extending the interest payment period (an “Extended Interest Payment Period”) of such Securities for a period not (i) exceeding 20 consecutive quarterly periods, including the first such quarterly period during such extension period, (ii) extending beyond the Maturity Date of the Securities or (iii) ending on a date other than an

Interest Payment Date, at the end of which period the Corporation shall pay all interest then accrued and unpaid (together with interest thereon at the rate specified for the Securities to the extent that payment of such interest is enforceable under applicable law). Before the termination of any such Extended Interest Payment Period, the Corporation may further defer payments of interest by further extending such Extended Interest Payment Period, provided that such Extended Interest Payment Period, together with all such previous and further extensions within such Extended Interest Payment Period, (i) shall not exceed 20 consecutive quarterly periods including the first quarterly period during such Extended Interest Payment Period, (ii) shall not end on any date other than an Interest Payment Date, and (iii) shall not extend beyond the Maturity Date of the Securities. Upon the termination of any such Extended Interest Payment Period and the payment of all accrued and unpaid interest and any additional amounts then due, the Corporation may commence a new Extended Interest Payment Period, subject to the foregoing requirements. No interest shall be due and payable during an Extended Interest Payment Period, except at the end thereof, but the Corporation may prepay at any time all or any portion of the interest accrued during an Extended Interest Payment Period.

The Corporation has agreed that it will not (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Corporation's capital stock, (ii) make any payment of principal of or interest on or repay, repurchase or redeem any debt securities of the Corporation (including Other Debentures) that rank *pari passu* with or junior in right of payment to the Securities or (iii) make any guarantee payments with respect to any guarantee by the Corporation of the debt securities of any Subsidiary of the Corporation (including Other Guarantees) if such guarantee ranks *pari passu* with or junior in right of payment to the Securities (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, Common Stock, (b) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto, (c) payments under the Preferred Securities Guarantee, as defined in the Indenture, (d) as a result of a reclassification of the Corporation's capital stock or the exchange or conversion of one class or series of the Corporation's capital stock for another class or series of the Corporation's capital stock, (e) the purchase of fractional interests in shares of the Corporation's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged and (f) purchases of Common Stock related to the issuance of Common Stock or rights under any of the Corporation's benefit or compensation plans for its directors, officers or employees or any of the Corporation's dividend reinvestment plans), if at such time (1) there shall have occurred any event of which the Corporation has actual knowledge that (a) is a Default or an Event of Default and (b) in respect of which the Corporation shall not have taken reasonable steps to cure, (2) such Securities are held by the Property Trustee of VNB Capital Trust I and the Corporation shall be in default with respect to its payment of any obligations under the Preferred Securities Guarantee or (3) the Corporation shall have given notice of its election to exercise its right to commence an Extended Interest Payment Period and shall not have rescinded such notice, and such Extended Interest Payment Period or any extension thereof shall have commenced and be continuing.

Subject to (i) the Corporation having received any required regulatory approvals and (ii) the Administrative Trustees of VNB Capital Trust I having received an opinion of counsel to the effect that such distribution will not cause the holders of Preferred Securities to recognize gain or loss for federal income tax purposes, the Corporation will have the right at any time to liquidate the Trust and, after satisfaction of liabilities of creditors of the Trust as required by applicable law, to cause the Securities to be distributed to the holders of the Trust Securities in liquidation of the Trust.

By acceptance hereof, the holder hereof agrees, for United States federal income tax purposes, to treat this Security as indebtedness.

As provided in the Indenture and subject to the transfer restrictions limitations as may be contained herein and therein from time to time, this Security is transferable by the holder hereof on the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Corporation in the Borough of Manhattan, the City of New York accompanied by a written instrument or instruments of transfer in form satisfactory to the Corporation or the Debenture Trustee duly executed by the holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Securities of authorized denominations and for the same aggregate principal amount will be issued to the designated transferee or transferees. No service charge will be made for any such registration of transfer, but the Corporation may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Security, the Corporation, the Debenture Trustee, any authenticating agent, any paying agent, any transfer agent and the Security Registrar may deem and treat the holder hereof as the absolute owner hereof (whether or not this Security shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal hereof and (subject to the Indenture) interest due hereon and for all other purposes, and neither the Corporation nor the Debenture Trustee nor any authenticating agent nor any paying agent nor any transfer agent nor any Security Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or interest (including Compounded Interest and Additional Sums, if any) on this Security, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, employee, officer or director, past, present or future, as such, of the Corporation or of any predecessor or successor Person, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

All terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THE INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AND FOR ALL PURPOSES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF SUCH STATE WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THEREOF.

EXHIBIT (10.Q)

PREFERRED SECURITIES GUARANTEE AGREEMENT

VALLEY NATIONAL BANCORP

Dated as of November 7, 2001

CROSS REFERENCE TABLE

Section of Section of Guarantee
Trust Indenture Agreement Act of 1939, as amended

310(a)	4.1(a)
310(b)	2.8, 4.1(c)
310(c)	N/A
311(a)	2.2(b)
311(b)	2.2(b)
311(c)	N/A
312(a)	2.2(a)
312(b)	2.2(b)
312(c)	N/A
313	2.3
314(a)	2.4
314(b)	N/A
314(c)	2.5
314(d)	N/A
314(e)	1.1, 2.5, 3.2
314(f)	2.1, 3.2
315(a)	3.1(d), 3.2(a)
315(b)	2.7
315(c)	3.1(c)
315(d)	3.1(d), 3.2(a), 8.1
315(e)	N/A
316(a)	1.1, 2.6, 5.4
316(b)	5.3, 5.4
316(c)	9.2
317(a)	N/A
317(b)	N/A
318(a)	2.1(a)
318(b)	2.1(b)
318(c)	2.1(b)

* This Cross-Reference Table does not constitute part of this Guarantee Agreement and shall not affect the interpretation of any of its terms or provisions.

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PREFERRED SECURITIES GUARANTEE AGREEMENT

This PREFERRED SECURITIES GUARANTEE AGREEMENT (the "Preferred Securities Guarantee"), dated as of November 7, 2001 is executed and delivered by VALLEY NATIONAL BANCORP, a New Jersey corporation (the "Guarantor"), and THE BANK OF NEW YORK, a New York banking corporation, as trustee (the "Preferred Securities Guarantee Trustee" or "Trustee"), for the benefit of the Holders (as defined herein) from time to time of the Preferred Securities (as defined herein) of VNB CAPITAL TRUST I, a Delaware statutory business trust (the "Issuer").

WHEREAS, pursuant to an Amended and Restated Declaration of Trust (the "Declaration"), dated as of November 7, 2001, by and among the trustees of the Issuer named therein, the Guarantor, as sponsor, and the Holders from time to time of undivided beneficial interests in the assets of the Issuer, the Issuer is issuing on the date hereof 7,000,000 Preferred securities, having a liquidation amount of $25 per security and an aggregate liquidation amount of $175,000,000 (or up to $200,000,000 aggregate liquidation amount of additional Preferred Securities pursuant to an overallotment option granted to the underwriters of the Preferred Securities), such Preferred securities being designated the 7 3/4% Trust Originated Preferred Securities sm ("TOPrS SM ") (the "Preferred Securities").

WHEREAS, as incentive for the Holders to purchase the Preferred Securities, the Guarantor desires irrevocably and unconditionally to agree, to the extent set forth in this Preferred Securities Guarantee, to pay the Guarantee Payments (as defined herein) to the Holders of the Preferred Securities, and the Guarantor agrees to make certain other payments on the terms and conditions set forth herein.

WHEREAS, the Guarantor is also executing and delivering the Common Securities Guarantee Agreement, dated as of November 7, 2001 (the "Common Securities Guarantee"), for the benefit of the holders of the Common Securities (as defined herein), the terms of which provide that if an Event of Default (as defined in the Declaration) has occurred and is continuing, the rights of holders of the Common Securities to receive Guarantee Payments under the Common Securities Guarantee are subordinated, to the extent and in the manner set forth in the Common Securities Guarantee, to the rights of Holders of Preferred Securities to receive Guarantee Payments under this Preferred Securities Guarantee.

NOW, THEREFORE, in consideration of the purchase by each Holder of the Preferred Securities, which purchase the Guarantor hereby acknowledges shall benefit the Guarantor, the Guarantor executes and delivers this Preferred Securities Guarantee for the benefit of such Holders.

ARTICLE I

DEFINITIONS AND INTERPRETATION

SECTION 1.1 Definitions and Interpretation

In this Preferred Securities Guarantee, unless the context otherwise requires:

(a) capitalized terms used in this Preferred Securities Guarantee but not defined in the preamble above have the respective meanings assigned to them in this Section 1.1;

(b) terms defined in the Declaration as in effect at the date of execution of this Preferred Securities Guarantee have the same meaning when used in this Preferred Securities Guarantee unless otherwise defined in this Preferred Securities Guarantee;

(c) a term defined anywhere in this Preferred Securities Guarantee has the same meaning throughout;

(d) all references to "the Preferred Securities Guarantee" or "this Preferred Securities Guarantee" are references to this Preferred Securities Guarantee as modified, supplemented or amended from time to time;

(e) all references in this Preferred Securities Guarantee to Articles and Sections are references to Articles and Sections of this Preferred Securities Guarantee, unless otherwise specified;

(f) a term defined in the Trust Indenture Act has the same meaning when used in this Preferred Securities Guarantee, unless otherwise defined in this Preferred Securities Guarantee or unless the context otherwise requires; and

(g) a reference to the singular includes the plural and vice versa.

"Affiliate" has the same meaning as given to that term in Rule 405 under the Securities Act of 1933, as amended, or any successor rule thereunder.

"Business Day" shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in Wilmington, Delaware, Wayne, New Jersey or New York, New York are authorized or required by law or executive order to remain closed.

"Common Securities" shall mean the securities representing common undivided beneficial interests in the assets of the Issuer.

"Corporate Trust Office" shall mean the office of the Preferred Securities Guarantee Trustee at which the corporate trust business of the Preferred Securities Guarantee Trustee shall, at any particular time, be principally administered, which office at the date of execution of this Agreement is located at 5 Penn Plaza, 13th Floor, New York, New York 10001.

"Covered Person" shall mean any Holder or beneficial owner of Preferred Securities.

"Debentures" shall mean the series of subordinated debt securities of the Guarantor designated the 7 3/4% Junior Subordinated Deferrable Interest Debentures due December 15, 2031, held by the Property Trustee (as defined in the Declaration) of the Issuer.

"Event of Default" shall mean a default by the Guarantor on any of its payment or other obligations under this Preferred Securities Guarantee; provided , however , that, except with respect to default in respect of any Guarantee Payment, no default by the Guarantor hereunder shall constitute an Event of Default unless the Guarantor shall have received written notice of the default and shall not have cured such default within 60 days after receipt thereof.

"Guarantee Payments" shall mean the following payments or distributions, without duplication, with respect to the Preferred Securities, to the extent not paid or made by or on behalf of the Issuer: (i) any accumulated and unpaid Distributions (as defined in the Declaration) that are required to be paid on such Preferred Securities, to the extent the Issuer has funds available therefor at such time, (ii) the redemption price, including all accumulated and unpaid Distributions to the date of redemption (the "Redemption Price"), to the extent the Issuer has funds available therefor at such time, with respect to any Preferred Securities called for redemption, and (iii) upon a voluntary or involuntary dissolution, winding up or liquidation of the Issuer (other than in connection with the distribution of Debentures to the Holders in exchange for Preferred Securities or in connection with the redemption of the Preferred Securities, in each case as provided in the Declaration), the lesser of (a) the aggregate of the liquidation amount and all accumulated and unpaid Distributions on the Preferred Securities to the date of payment, to the extent the Issuer has funds available therefor at such time, and (b) the amount of assets of the Issuer remaining available for distribution to Holders after satisfaction of liabilities to creditors of the Issuer as required by applicable law (in either case, the "Liquidation Distribution"). If an Event of Default hereunder or an Event of Default under the Declaration (as defined therein) has occurred and is continuing, no Guarantee Payments under the Common Securities Guarantee with respect to the Common Securities or any guarantee payment under the Common Securities Guarantee or any Other Common Securities Guarantee shall be made until the Holders of the Preferred Securities shall be paid in full the Guarantee Payments to which they are entitled under this Preferred Securities Guarantee.

"Holder" shall mean any holder, as registered on the books and records of the Issuer, of any Preferred Securities; provided , however , that, in determining whether the holders of the requisite percentage of Preferred Securities have given any request, notice, consent or waiver hereunder, "Holder" shall not include the Guarantor or any Person actually known to a Responsible Officer of the Preferred Securities Guarantee Trustee to be an Affiliate of the Guarantor.

"Indemnified Person" shall mean the Preferred Securities Guarantee Trustee (including in its individual capacity), any Affiliate of the Preferred Securities Guarantee Trustee, or any officers, directors, shareholders, members, partners, employees, representatives, nominees, custodians or agents of the Preferred Securities Guarantee Trustee.

"Indenture" shall mean the Indenture, dated as of November 7, 2001, between Valley National Bancorp, as issuer of Debentures (the "Debenture Issuer"), and The Bank of New York, as trustee, pursuant to which the Debentures are to be issued to the Property Trustee of the Issuer.

"Majority in Liquidation Amount of the Preferred Securities" shall mean, except as provided by the Trust Indenture Act, a vote by Holder(s) of the Preferred Securities, voting separately as a class, of more than 50% of the aggregate liquidation amount (including the amount that would be paid on redemption, liquidation or otherwise, plus accumulated and unpaid Distributions to but excluding the date upon which the voting percentages are determined) of all outstanding Preferred Securities, excluding Preferred Securities held by the Guarantor, the Issuer or any Affiliate thereof.

"Officers' Certificate" shall mean, with respect to any Person, a certificate signed by the Chairman, the Vice Chairman, the Chief Executive Officer, the President, an Executive or Senior Vice President, a Vice President, the Chief Financial Officer and the Secretary or an Assistant Secretary. Any Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Preferred Securities Guarantee shall include:

(a) a statement that each officer signing the Officers' Certificate has read the covenants or conditions and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer on behalf of such Person in rendering the Officer's Certificate;

(c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of each such officer, such condition or covenant has been complied with.

"Other Common Securities Guarantees" shall have the same meaning as "Other Guarantees" in the Common Securities Guarantee.

"Other Debentures" shall mean all junior subordinated debentures, other than the Debentures (as defined in the Indenture), issued by the Guarantor, from time to time and sold to trusts other than the Issuer to be established by the Guarantor (if any), in each case similar to the Issuer.

"Other Guarantees" shall mean all guarantees, other than this Preferred Securities Guarantee, to be issued by the Guarantor with respect to preferred securities (if any) similar to the Preferred Securities, issued by trusts other than the Issuer to be established by the Guarantor (if any), in each case similar to the Issuer.

"Person" shall mean a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, or government or any agency or political subdivision thereof, or any other entity of whatever nature.

"Preferred Securities Guarantee Trustee" shall mean The Bank of New York, as Trustee under the Preferred Securities Guarantee, unless and until a Successor Preferred Securities Guarantee Trustee has been appointed and has accepted such appointment pursuant to the terms of this Preferred Securities Guarantee and thereafter means each such Successor Preferred Securities Guarantee Trustee.

"Responsible Officer" shall mean, with respect to a Person, any officer with direct responsibility for the administration of any matters relating to this Preferred Securities Guarantee.

"Successor Preferred Securities Guarantee Trustee" shall mean a successor Preferred Securities Guarantee Trustee possessing the qualifications to act as Preferred Securities Guarantee Trustee under Section 4.1.

"Trust Indenture Act" shall mean the Trust Indenture Act of 1939, as amended.

"Trust Securities" shall mean the Common Securities and the Preferred Securities, collectively.

ARTICLE II

TRUST INDENTURE ACT

SECTION 2.1 Trust Indenture Act; Application

(a) This Preferred Securities Guarantee is subject to the provisions of the Trust Indenture Act that are required to be part of this Preferred Securities Guarantee and shall, to the extent applicable, be governed by such provisions.

(b) If and to the extent that any provision of this Preferred Securities Guarantee limits, qualifies or conflicts with the duties imposed by Section 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control. If any provision of this Preferred Securities Guarantee modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the modified or excluded provision of the Trust Indenture Act shall be deemed to apply to this Preferred Securities Guarantee as so modified or excluded, as the case may be.

SECTION 2.2 Lists of Holders of Securities

(a) The Guarantor shall provide the Preferred Securities Guarantee Trustee (unless the Preferred Securities Guarantee Trustee is otherwise the registrar of the Preferred Securities) with a list, in such form as the Preferred Securities Guarantee Trustee may reasonably require, of the names and addresses of the Holders of the Preferred Securities ("List of Holders") as of such date, (i) within fourteen (14) days after each record date for payment of Distributions (as defined in the Declaration), and (ii) at any other time within 30 days of receipt by the Guarantor of a written request for a List of Holders as of a date no more than 14 days before such List of Holders is given to the Preferred Securities Guarantee Trustee; provided , however , that the Guarantor shall not be obligated to provide such List of Holders at any time the List of Holders does not differ from the most recent List of Holders given to the Preferred Securities Guarantee Trustee by the Guarantor. The Preferred Securities Guarantee Trustee may destroy any List of Holders previously given to it upon receipt of a new List of Holders.

(b) The Preferred Securities Guarantee Trustee shall comply with its obligations under Sections 31l(a), 31l(b) and Section 312(b) of the Trust Indenture Act.

SECTION 2.3 Reports by the Preferred Securities Guarantee Trustee

By June 14 of each year, commencing June 14, 2002, the Preferred Securities Guarantee Trustee shall provide to the Holders of the Preferred Securities such reports, dated as of May 15 of each year, as are required by Section 313 of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313 of the Trust Indenture Act. The Preferred Securities Guarantee Trustee shall also comply with the requirements of Section 313(d) of the Trust Indenture Act.

SECTION 2.4 Periodic Reports

The Guarantor shall provide to the Preferred Securities Guarantee Trustee such documents, reports and information as are required by Section 314 of the Trust Indenture Act (if any) and the compliance certificate required by Section 314 of the Trust Indenture Act in the form, in the manner and at the times required by Section 314 of the Trust Indenture Act. Delivery of such reports, information and documents to the Preferred Securities Guarantee

Trustee is for informational purposes only and the Preferred Securities Guarantee Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Guarantor's compliance with any of its covenants hereunder (as to which the Preferred Securities Guarantee Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 2.5 Evidence of Compliance with Conditions Precedent

The Guarantor shall provide to the Preferred Securities Guarantee Trustee such evidence of compliance with the conditions precedent, if any, provided for in this Preferred Securities Guarantee that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c)(1) may be given in the form of an Officers' Certificate.

SECTION 2.6 Waiver of Events of Default

The Holders of a Majority in Liquidation Amount of the Preferred Securities may, by vote, on behalf of the Holders of all of the Preferred Securities, waive any past Event of Default and its consequences. Upon such waiver, any such Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Preferred Securities Guarantee, but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

SECTION 2.7 Notice of Events of Default

(a) The Preferred Securities Guarantee Trustee shall, within 10 Business Days after the occurrence of an Event of Default with respect to this Preferred Securities Guarantee actually known to a Responsible Officer of the Preferred Securities Guarantee Trustee, transmit by mail, first class postage prepaid, to all Holders of the Preferred Securities, notices of all such Events of Default, unless such Events of Default have been cured before the giving of such notice; provided , however , that, except in the case of an Event of Default arising from the non-payment of any Guarantee Payment, the Preferred Securities Guarantee Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Preferred Securities Guarantee Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of the Preferred Securities.

(b) The Preferred Securities Guarantee Trustee shall not be deemed to have knowledge of any Event of Default unless the Preferred Securities Guarantee Trustee shall have received written notice, or a Responsible Officer of the Preferred Securities Guarantee Trustee charged with the administration of the Declaration shall have obtained actual knowledge, of such Event of Default.

SECTION 2.8 Conflicting Interests

The Declaration shall be deemed to be specifically described in this Preferred Securities Guarantee for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act.

SECTION 2.9 Guarantee Trustee May File Proofs of Claim

Upon the occurrence of an Event of Default, the Trustee is hereby authorized to (a) recover judgment, in its own name and as trustee of an express trust, against the Guarantor for the whole amount of any Guarantee Payments remaining unpaid and (b) file such proofs of claim and other papers or documents as may be necessary or advisable in order to have its claims and those of the Holders of the Preferred Securities allowed in any judicial proceedings relative to the Guarantor, its creditors or its property.

ARTICLE III

POWERS, DUTIES AND RIGHTS OF PREFERRED SECURITIES GUARANTEE TRUSTEE

SECTION 3.1 Powers and Duties of the Preferred Securities Guarantee Trustee

(a) This Preferred Securities Guarantee shall be held by the Preferred Securities Guarantee Trustee for the benefit of the Holders of the Preferred Securities, and the Preferred Securities Guarantee Trustee shall not transfer this Preferred Securities Guarantee to any Person except a Holder of the Preferred Securities exercising his or her rights pursuant to Section 5.4(b) or to a Successor Preferred Securities Guarantee Trustee on acceptance by such Successor Preferred Securities Guarantee Trustee of its appointment to act as Successor Preferred Securities Guarantee Trustee. The right, title and interest of the Preferred Securities Guarantee Trustee shall automatically vest in any Successor Preferred Securities Guarantee Trustee, and such vesting and succession of title shall be effective whether or not conveyancing documents have been executed and delivered pursuant to the appointment of such Successor Preferred Securities Guarantee Trustee.

(b) If an Event of Default actually known to a Responsible Officer of the Preferred Securities Guarantee Trustee has occurred and is continuing, the Preferred Securities Guarantee Trustee shall enforce this Preferred Securities Guarantee for the benefit of the Holders of the Preferred Securities.

(c) The Preferred Securities Guarantee Trustee, before the occurrence of any Event of Default (of which, other than a default in respect of any Guarantee Payment, a Responsible Officer of the Property Trustee has actual knowledge) and after the curing of all such Events of Default that may have occurred, shall undertake to perform only such duties as

are specifically set forth in this Preferred Securities Guarantee, and no implied covenants or obligations shall be read into this Preferred Securities Guarantee against the Preferred Securities Guarantee Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.6) and is actually known to a Responsible Officer of the Preferred Securities Guarantee Trustee, the Preferred Securities Guarantee Trustee shall exercise such of the rights and powers vested in it by this Preferred Securities Guarantee, and use the same degree of care and skill in its exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(d) No provision of this Preferred Securities Guarantee shall be construed to relieve the Preferred Securities Guarantee Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) prior to the occurrence of any Event of Default (of which, other than a default in respect of any Guarantee Payment, a Responsible Officer of the Property Trustee has actual knowledge) and after the curing or waiving of all such Events of Default that may have occurred:

(A) the duties and obligations of the Preferred Securities Guarantee Trustee shall be determined solely by the express provisions of this Preferred Securities Guarantee, and the Preferred Securities Guarantee Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Preferred Securities Guarantee, and no implied covenants or obligations shall be read into this Preferred Securities Guarantee against the Preferred Securities Guarantee Trustee; and

(B) in the absence of bad faith on the part of the Preferred Securities Guarantee Trustee, the Preferred Securities Guarantee Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Preferred Securities Guarantee Trustee and conforming to the requirements of this Preferred Securities Guarantee; provided , however , that in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Preferred Securities Guarantee Trustee, the Preferred Securities Guarantee Trustee shall be under a duty to examine the same to determine whether or not on their face they conform to the requirements of this Preferred Securities Guarantee;

(ii) the Preferred Securities Guarantee Trustee shall not be liable for any errors of judgment made in good faith by a Responsible Officer of the Preferred Securities Guarantee Trustee, unless it shall be proved that the Preferred Securities Guarantee Trustee or such Responsible Officer was negligent in ascertaining the pertinent facts upon which such judgment was made;

(iii) the Preferred Securities Guarantee Trustee shall not be liable with respect to any actions taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a Majority in Liquidation Amount of the Preferred Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Preferred Securities Guarantee Trustee, or exercising any trust or power conferred upon the Preferred Securities Guarantee Trustee under this Preferred Securities Guarantee; and

(iv) no provision of this Preferred Securities Guarantee shall require the Preferred Securities Guarantee Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if the Preferred Securities Guarantee Trustee shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Preferred Securities Guarantee or indemnity, reasonably satisfactory to the Preferred Securities Guarantee Trustee, against such risk or liability is not reasonably assured to it.

SECTION 3.2 Certain Rights of Preferred Securities Guarantee Trustee

(a) Subject to the provisions of Section 3.1:

(i) the Preferred Securities Guarantee Trustee may conclusively rely, and shall be fully protected in acting or refraining from acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed, sent or presented by the proper party or parties;

(ii) any direction or act of the Guarantor contemplated by this Preferred Securities Guarantee may be sufficiently evidenced by an Officers' Certificate;

(iii) whenever, in the administration of this Preferred Securities Guarantee, the Preferred Securities Guarantee Trustee shall deem it desirable that a matter be proved or established before taking, suffering or omitting any action hereunder, the Preferred Securities Guarantee Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and conclusively rely upon an Officers' Certificate, which, upon receipt of such request, shall be promptly delivered by the Guarantor;

(iv) the Preferred Securities Guarantee Trustee shall have no duty to see to any recording, filing or registration of any instrument or other document (or any rerecording, refiling or registration thereof);

(v) the Preferred Securities Guarantee Trustee may consult with counsel of its selection, and the advice or opinion of such counsel with respect to legal matters shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion; and such counsel may be counsel to the Guarantor or any of its Affiliates and may include any of its employees; and the Preferred Securities Guarantee Trustee shall have the right at any time to seek instructions concerning the administration of this Preferred Securities Guarantee from any court of competent jurisdiction;

(vi) the Preferred Securities Guarantee Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Preferred Securities Guarantee at the request or direction of any Holder, unless such Holder shall have provided to the Preferred Securities Guarantee Trustee such security and indemnity, reasonably satisfactory to the Preferred Securities Guarantee Trustee, against the costs, expenses (including attorneys' fees and expenses and the expenses of the Preferred Securities Guarantee Trustee's agents, nominees or custodians) and liabilities that might be incurred by it in complying with such request or direction, including such reasonable advances as may be requested by the Preferred Securities Guarantee Trustee, provided , however , that nothing contained in this Section 3.2(a)(vi) shall be taken to relieve the Preferred Securities Guarantee Trustee, upon the occurrence of an Event of Default, of its obligation to exercise the rights and powers vested in it by this Preferred Securities Guarantee;

(vii) the Preferred Securities Guarantee Trustee shall have no obligation to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Preferred Securities Guarantee Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(viii) the Preferred Securities Guarantee Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, nominees, custodians or attorneys, and the Preferred Securities Guarantee Trustee shall not be responsible for any misconduct or negligence on the part of any such person appointed with due care by it hereunder;

(ix) any action taken by the Preferred Securities Guarantee Trustee or its agents hereunder shall bind the Holders of the Preferred Securities, and the signature of the Preferred Securities Guarantee Trustee or its agents alone shall be sufficient and effective to perform any such action; and no third party shall be required to inquire as to the authority of the Preferred Securities Guarantee Trustee to so act or as to its compliance with any of the terms and provisions of this Preferred Securities Guarantee, both of which shall be conclusively evidenced by the Preferred Securities Guarantee Trustee's or its agent's taking such action;

(x) whenever in the administration of this Preferred Securities Guarantee the Preferred Securities Guarantee Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Preferred Securities Guarantee Trustee, (i) may request instructions from the Holders of a Majority in Liquidation Amount of the Preferred Securities, (ii) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (iii) shall be protected in conclusively relying on or acting in accordance with such instructions; and

(xi) the Preferred Securities Guarantee Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith, without negligence, and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Preferred Securities Guarantee.

(b) No provision of this Preferred Securities Guarantee shall be deemed to impose any duty or obligation on the Preferred Securities Guarantee Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it in any jurisdiction in which it shall be illegal, or in which the Preferred Securities Guarantee Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Preferred Securities Guarantee Trustee shall be construed to be a duty.

SECTION 3.3 Not Responsible for Recitals or Issuance of Preferred Securities Guarantee

The recitals contained in this Preferred Securities Guarantee shall be taken as the statements of the Guarantor, and the Preferred Securities Guarantee Trustee does not assume any responsibility for their correctness. The Preferred Securities Guarantee Trustee makes no representation as to the validity or sufficiency of this Preferred Securities Guarantee.

ARTICLE IV

PREFERRED SECURITIES GUARANTEE TRUSTEE

SECTION 4.1 Preferred Securities Guarantee Trustee; Eligibility

(a) There shall at all times be a Preferred Securities Guarantee Trustee that shall

(i) not be an Affiliate of the Guarantor; and

(ii) be a corporation or other Person organized and doing business under the laws of the United States of America or any state or territory thereof or of the District of Columbia, or a corporation or other Person permitted by the Securities and Exchange Commission to act as an indenture trustee under the Trust Indenture Act, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million U.S. dollars ($50,000,000), and subject to supervision or examination by federal, state, territorial or District of Columbia authority; it being understood that if such corporation or other Person publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then, for the purposes of this Section 4.1(a)(ii) and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Preferred Securities Guarantee Trustee shall cease to be eligible to so act under Section 4.1(a), the Preferred Securities Guarantee Trustee shall immediately resign in the manner and with the effect set out in Section 4.2(c).

(c) If the Preferred Securities Guarantee Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Preferred Securities Guarantee Trustee and Guarantor shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

SECTION 4.2 Appointment, Removal and Resignation of Preferred Securities Guarantee Trustee

(a) Subject to Section 4.2(b), the Preferred Securities Guarantee Trustee may be appointed or removed without cause at any time by the Guarantor except during an Event of Default.

(b) The Preferred Securities Guarantee Trustee shall not be removed in accordance with Section 4.2(a) until a Successor Preferred Securities Guarantee Trustee has been appointed and has accepted such appointment by written instrument executed by such Successor Preferred Securities Guarantee Trustee and delivered to the Guarantor.

(c) The Preferred Securities Guarantee Trustee shall hold office until a Successor Preferred Securities Guarantee Trustee shall have been appointed, subject to Section 4.1, or until its removal or resignation. The Preferred Securities Guarantee Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing executed by the Preferred Securities Guarantee Trustee and delivered to the Guarantor, which resignation shall not take effect until a Successor Preferred Securities Guarantee Trustee has been appointed, subject to Section 4.1, and has accepted such appointment by instrument in writing executed by such Successor Preferred Securities Guarantee Trustee and delivered to the Guarantor and the resigning Preferred Securities Guarantee Trustee.

(d) If no Successor Preferred Securities Guarantee Trustee shall have been appointed and accepted appointment as provided in this Section 4.2 within 60 days after delivery of an instrument of removal or resignation, the Preferred Securities Guarantee Trustee resigning or being removed may petition any court of competent jurisdiction for appointment of a Successor Preferred Securities Guarantee Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper, appoint a Successor Preferred Securities Guarantee Trustee.

(e) No Preferred Securities Guarantee Trustee shall be liable for the acts or omissions to act of any Successor Preferred Securities Guarantee Trustee.

(f) Upon termination of this Preferred Securities Guarantee or removal or resignation of the Preferred Securities Guarantee Trustee pursuant to this Section 4.2, the Guarantor shall pay to the Preferred Securities Guarantee Trustee all amounts due to the Preferred Securities Guarantee Trustee accrued to the date of such termination, removal or resignation.

ARTICLE V

GUARANTEE

SECTION 5.1 Guarantee

The Guarantor irrevocably and unconditionally agrees to pay in full to the Holders the Guarantee Payments (without duplication of amounts theretofore paid by the Issuer), as and when due, regardless of any defense, right of set-off or counterclaim that the Issuer may have or assert. The Guarantor's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Guarantor to the Holders or by causing the Issuer to pay such amounts to the Holders.

SECTION 5.2 Waiver of Notice and Demand

The Guarantor hereby waives notice of acceptance of this Preferred Securities Guarantee and of any liability to which it applies or may apply, presentment, demand for payment, any right to require a proceeding first against the Issuer or any other Person before proceeding against the Guarantor, protest, notice of nonpayment, notice of dishonor, notice of redemption and all other notices and demands.

SECTION 5.3 Obligations Not Affected

The obligations, covenants, agreements and duties of the Guarantor under this Preferred Securities Guarantee shall be absolute and unconditional and shall in no way be affected or impaired by reason of the happening from time to time of any event, including without limitation the following, whether or not with notice to, or the consent of, the Guarantor:

(a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Preferred Securities to be performed or observed by the Issuer;

(b) the extension of time for the payment by the Issuer of all or any portion of the Distributions, Redemption Price, Liquidation Distributions or any other sums payable under the terms of the Preferred Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preferred Securities (other than an extension of time for payment of Distributions, Redemption Price, Liquidation Distributions or other sums payable that result from the extension of any interest payment period on the Debentures permitted by the Indenture);

(c) any failure, omission, delay or lack of diligence on the part of the Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preferred Securities, or any action on the part of the Issuer granting indulgence or extension of any kind;

(d) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer;

(e) any invalidity of, or defect or deficiency in, the Preferred Securities;

(f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred; or

(g) any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a guarantor; it being the intent of this Section 5.3 that the obligations of the Guarantor with respect to the Guarantee Payments shall be absolute and unconditional under any and all circumstances.

There shall be no obligation of the Holders to give notice to, or obtain consent of, the Guarantor with respect to the happening of any of the foregoing.

SECTION 5.4 Rights of Holders

(a) The Holders of a Majority in Liquidation Amount of the Preferred Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Preferred Securities Guarantee Trustee in respect of this Preferred Securities Guarantee or exercising any trust or power conferred upon the Preferred Securities Guarantee Trustee under this Preferred Securities Guarantee; provided , however , that, subject to Section 3.1, the Preferred Securities Guarantee Trustee shall have the right to decline to follow any such direction if the Preferred Securities Guarantee Trustee shall reasonably and in good faith determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or if the Preferred Securities Guarantee Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if the Preferred Securities Guarantee Trustee reasonably and in good faith by its board of directors or trustees,

executive committee, or a trust committee of directors or trustees and/or Responsible Officers shall determine that the action or proceedings so directed would involve the Preferred Securities Guarantee Trustee in personal liability.

(b) If the Preferred Securities Guarantee Trustee fails to enforce such Preferred Securities Guarantee, any Holder of the Preferred Securities may institute a legal proceeding directly against the Guarantor to enforce the Preferred Securities Guarantee Trustee's rights under this Preferred Securities Guarantee, without first instituting a legal proceeding against the Issuer, the Preferred Securities Guarantee Trustee or any other person or entity. The Guarantor waives any right or remedy to require that any action be brought first against the Issuer or any other person or entity before proceeding directly against the Guarantor.

SECTION 5.5 Guarantee of Payment

This Preferred Securities Guarantee creates a guarantee of payment and not of collection.

SECTION 5.6 Subrogation

The Guarantor shall be subrogated to all (if any) rights of the Holders of Preferred Securities against the Issuer in respect of any amounts paid to such Holders by the Guarantor under this Preferred Securities Guarantee; provided , however , that the Guarantor shall not (except to the extent required by mandatory provisions of law) be entitled to enforce or exercise any right that it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of payment under this Preferred Securities Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Preferred Securities Guarantee. If any amount shall be paid to the Guarantor in violation of the preceding sentence, the Guarantor agrees to hold such amount in trust for the Holders and to pay over such amount to the Holders.

SECTION 5.7 Independent Obligations

The Guarantor acknowledges that its obligations hereunder are independent of the obligations of the Issuer with respect to the Preferred Securities, and that the Guarantor shall be liable as principal and as debtor hereunder to make Guarantee Payments pursuant to the terms of this Preferred Securities Guarantee notwithstanding the occurrence of any event referred to in subsections (a) through (h), inclusive, of Section 5.3 hereof.

ARTICLE VI

LIMITATION OF TRANSACTIONS; SUBORDINATION

SECTION 6.1 Limitation of Transactions

So long as any Preferred Securities remain outstanding, the Guarantor shall not nor permit any subsidiary of the Guarantor to (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Guarantor's capital stock, (ii) make any payment of principal of, or interest, if any, on or repay, repurchase or redeem any debt securities of the Guarantor (including Other Debentures) that rank *pari passu* with or junior in right of payment to the Debentures, (iii) make any guarantee payments with respect to any guarantee by the Guarantor of the debt securities of any subsidiary of the Guarantor (including Other Guarantees) if such guarantee ranks *pari passu* with or junior in right of payment to the Debentures (other than (a) dividends or distributions in shares of, or options, warrants, rights to subscribe for or purchase shares of, common stock of the Guarantor, (b) any declaration of a dividend in connection with the implementation of a shareholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto, (c) payments under this Preferred Securities Guarantee, (d) as a result of a reclassification of the Guarantor's capital stock or the exchange or the conversion of one class or series of the Guarantor's capital stock for another class or series of the Guarantor's capital stock, (e) the purchase of fractional interests in shares of the Guarantor's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, and (f) purchases of common stock related to the issuance of common stock or rights under any of the Guarantor's benefit or compensation plans for its directors, officers or employees or any of the Guarantor's dividend reinvestment plans) if at such time (l) there shall have occurred any event of which the Guarantor has actual knowledge that (A) is a Default or Event of Default (each as defined in the Indenture) and (B) in respect of which the Guarantor shall not have taken reasonable steps to cure, (2) if the Debentures are held by the Property Trustee, the Guarantor shall be in default with respect to its payment of any obligations under this Preferred Securities Guarantee or (3) the Guarantor shall have given notice of its election of the exercise of its right to commence an Extended Interest Payment Period as provided in the Indenture and shall not have rescinded such notice, and such Extended Interest Payment Period, or an extension thereof, shall have commenced and be continuing, or (iv) amend the Common Securities Guarantee to reduce, suspend or cancel the subordination, to the rights of holders of the Preferred Securities, of Guarantee Payments (as that term is defined in the Common Securities Guarantee with respect to the Common Securities) with respect to the holders of the Common Securities.

SECTION 6.2 Ranking

The obligations of the Guarantor under this Preferred Securities Guarantee shall rank *pari passu* with the obligations of the Guarantor under (i) any Other Guarantee, (ii) the Indenture and the Debentures issued thereunder; and (iii) any other security, guarantee or other agreement or obligation that is expressly stated to rank *pari passu* with the obligations of the Guarantor under this Preferred Securities Guarantee or with any obligation that ranks *pari passu* with the obligations of the Guarantor under this Preferred Securities Guarantee.

ARTICLE VII

TERMINATION

SECTION 7.1 Termination

This Preferred Securities Guarantee shall terminate and be of no further force and effect upon (i) full payment of the Redemption Price of all Preferred Securities, (ii) dissolution, winding up or liquidation of the Issuer, immediately following the full payment of the amounts payable in accordance with the Declaration, or (iii) the distribution of all of the Debentures to the Holders of the Trust Securities. Notwithstanding the foregoing, this Preferred Securities Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any Holder of the Preferred Securities must restore payment of any sums paid under the Preferred Securities or under this Preferred Securities Guarantee.

ARTICLE VIII

INDEMNIFICATION

SECTION 8.1 Exculpation

(a) No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Guarantor or any Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith in accordance with this Preferred Securities Guarantee and in a manner that such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Preferred Securities Guarantee or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's negligence or willful misconduct with respect to such acts or omissions.

(b) An Indemnified Person shall be fully protected in relying in good faith upon the records of the Guarantor and upon such information, opinions, reports or statements presented to the Guarantor by any Person as to matters the Indemnified Person reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Guarantor, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any other facts pertinent to the existence and amount of assets from which Distributions to Holders of Preferred Securities might properly be paid.

SECTION 8.2 Compensation and Indemnification

The Guarantor agrees to pay to the Preferred Securities Guarantee Trustee such compensation for its services as shall be mutually agreed upon by the Guarantor and the Preferred Securities Guarantee Trustee. The Guarantor shall reimburse the Preferred Securities

Guarantee Trustee upon request for all reasonable out-of-pocket expenses incurred by it, including the reasonable compensation and expenses of the Preferred Securities Guarantee Trustee's agents and counsel, except any expense as may be attributable to the negligence or bad faith of the Preferred Securities Guarantee Trustee.

The Guarantor agrees to indemnify each Indemnified Person for, and to hold each Indemnified Person harmless against, any and all loss, liability, damage, action, suit, claim or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses (including reasonable legal fees and expenses) of defending itself against, or investigating, any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The provisions of this Section 8.2 shall survive the termination of this Preferred Securities Guarantee and shall survive the resignation or removal of the Preferred Securities Guarantee Trustee.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1 Successors and Assigns

All guarantees and agreements contained in this Preferred Securities Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor and shall inure to the benefit of the Holders of the Preferred Securities then outstanding. Except in connection with any merger or consolidation of the Guarantor with or into another entity permitted by Section 10.01 of the Indenture or any sale, transfer, conveyance or other disposition of the property of the Guarantor permitted by Section 10.01 of the Indenture, the Guarantor may not assign its rights or delegate its obligations under this Preferred Securities Guarantee.

SECTION 9.2 Amendments

Except with respect to any changes that do not materially adversely affect the rights of Holders of the Preferred Securities (in which case no consent of such Holders will be required), this Preferred Securities Guarantee may only be amended with the prior approval of the Holders of a Majority in Liquidation Amount of the Preferred Securities. The provisions of Section 12.2 of the Declaration with respect to meetings of Holders of the Trust Securities apply to the giving of such approval. This Preferred Securities Guarantee may not be amended, and no amendment hereof that affects the Preferred Securities Guarantee Trustee's rights, duties or immunities hereunder or otherwise, shall be effective, unless such amendment is executed by the Preferred Securities Guarantee Trustee (which shall have no obligation to execute any such amendment, but may do so in its sole discretion).

SECTION 9.3 Notices

All notices provided for in this Preferred Securities Guarantee shall be in writing, duly signed by the party giving such notice, and shall be delivered, telecopied or mailed by first class mail, as follows:

(a) If given to the Issuer, in care of the Administrative Trustee at the Issuer's mailing address set forth below (or such other address as the Issuer may give notice of to the Preferred Securities Guarantee Trustee and the Holders of the Preferred Securities):

VNB CAPITAL TRUST I
1455 Valley Road
Wayne, New Jersey 07470
Attention: Alan D. Eskow
Telephone: (973) 305-8800
Telecopier: (973) 305-8415

(b) If given to the Preferred Securities Guarantee Trustee, at the Preferred Securities Guarantee Trustee's mailing address set forth below (or such other address as the Preferred Securities Guarantee Trustee may give notice of to the Holders of the Preferred Securities):

THE BANK OF NEW YORK
5 Penn Plaza, 13 th Floor
New York, New York 10001-1810
Attention: Julie Salovitch-Miller
Telephone: (212) 328-7629
Telecopier: (212) 896-7298

(c) If given to the Guarantor, at the Guarantor's mailing address set forth below (or such other address as the Guarantor may give notice of to the Preferred Securities Guarantee Trustee and the Holders of the Preferred Securities):

VALLEY NATIONAL BANCORP
1455 Valley Road
Wayne, New Jersey 07470
Attention: Alan D. Eskow
Telephone: (973) 305-8800
Telecopier: (973) 305-8415

(d) If given to any Holder of the Preferred Securities, at the address set forth on the books and records of the Issuer.

All such notices shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

SECTION 9.4 Benefit

This Preferred Securities Guarantee is solely for the benefit of the Holders of the Preferred Securities and, subject to Section 3.1(a), is not separately transferable from the Preferred Securities.

SECTION 9.5 Governing Law

THIS PREFERRED SECURITIES GUARANTEE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CONFLICTS OF LAWS PRINCIPLES.

THIS PREFERRED SECURITIES GUARANTEE is executed as of the day and year first above written.

VALLEY NATIONAL BANCORP
as Guarantor

By: _____
Name: Alan D. Eskow
Title: Executive Vice President and Chief Financial Officer

THE BANK OF NEW YORK
as Preferred Securities Guarantee Trustee

By: _____
Name: Julie Salovitch-Miller
Title: Vice President

EXHIBIT 12.1

Computation of Ratios of Earnings to Fixed Charges

	Years ended December 31,				
	2011	2010	2009	2008	2007
Excluding interest on deposits	2.44	2.28	2.11	1.73	2.50
Including interest on deposits	1.96	1.85	1.62	1.35	1.59

Note: The ratio of earnings to fixed charges is calculated by adding income before income taxes plus fixed charges and dividing that sum by fixed charges.

	Years ended December 31,				
	2011	2010	2009	2008	2007
Income before income taxes	$197,185	$186,941	$167,545	$110,525	$204,926
Interest on deposits	$ 68,167	$ 74,924	$118,297	$163,113	$210,369
Borrowings and long-term debt	130,846	139,136	144,573	145,782	132,953
1/3 of net rental expense	6,405	6,378	5,883	5,194	4,031
Total fixed charges, including interest on deposits	$205,418	$220,438	$268,753	$314,089	$347,353
Total fixed charges, excluding interest on deposits	$137,251	$145,514	$150,456	$150,976	$136,984

EXHIBIT 12.2

Computation of Ratio of Earnings to Fixed Charges Including Preferred Stock Dividends

	Years ended December 31,				
	2011	2010	2009	2008	2007
Excluding interest on deposits	2.44	2.28	1.99	1.72	2.50
Including interest on deposits	1.96	1.85	1.58	1.35	1.59

Note: The ratio of earnings to fixed charges is calculated by adding income before income taxes plus fixed charges and dividing that sum by fixed charges.

	Years ended December 31,				
	2011	2010	2009	2008	2007
Income before income taxes	$197,185	$186,941	$167,545	$110,525	$204,926
Interest on deposits	$ 68,167	$ 74,924	$118,297	$163,113	$210,369
Borrowings and long-term debt	130,846	139,136	144,573	145,782	132,953
1/3 of net rental expense	6,405	6,378	5,883	5,194	4,031
Preferred stock dividends	—	—	19,524	2,090	—
Total fixed charges, including interest on deposits	$205,418	$220,438	$288,277	$316,179	$347,353
Total fixed charges, excluding interest on deposits	$137,251	$145,514	$169,980	$153,066	$136,984

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors of
Valley National Bancorp:

We consent to the incorporation by reference in registration statements No. 333-178867, No. 333-159050, No. 333-124215, No. 033-52809, No. 033-56933, No. 333-25419, No. 333-65993, No. 333-75889, No. 333-77673, No. 333-80507, No. 333-53888, No. 333-36667, No. 333-133430 and No. 033-61547 on Form S-8; No. 333-125595, No. 333-70996, No. 333-42958 and No. 333-156049 on Form S-3, No. 333-157561, No. 333-156370, and No. 333-152077 on Form S-3ASR and No. 333-56425 and No. 333-160285 on Form S-3D of Valley National Bancorp and Subsidiaries (Valley) of our reports dated February 28, 2012, with respect to the consolidated statements of financial condition of Valley National Bancorp and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2011 and the effectiveness of internal control over financial reporting as of December 31, 2011, which reports appear in the December 31, 2011 annual report on Form 10-K of Valley National Bancorp.

/s/ KPMG LLP
Short Hills, New Jersey
February 28, 2012

EXHIBIT 24

POWER OF ATTORNEY

We, the undersigned directors and officers of Valley National Bancorp, hereby severally constitute and lawfully appoint Gerald H. Lipkin and Alan D. Eskow, and each of them singly, our true and lawful attorneys-in-fact with full power to them and each of them to sign for us, in our names in the capacities indicated below, the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 of Valley National Bancorp and any and all amendments thereto, and to file the same with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Gerald H. Lipkin **Gerald H. Lipkin**	Chairman of the Board, President and Chief Executive Officer and Director	February 28, 2012
/s/ Alan D. Eskow **Alan D. Eskow**	Director, Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2012
/s/ Mitchell L. Crandell **Mitchell L. Crandell**	First Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2012
/s/ Andrew B. Abramson **Andrew B. Abramson**	Director	February 28, 2012
/s/ Pamela R. Bronander **Pamela R. Bronander**	Director	February 28, 2012
/s/ Peter Crocitto **Peter Crocitto**	Director, Senior Executive Vice President and Chief Operating Officer	February 28, 2012
/s/ Eric P. Edelstein **Eric P. Edelstein**	Director	February 28, 2012
/s/ Mary J. Steele Guilfoile **Mary J. Steele Guilfoile**	Director	February 28, 2012
/s/ Graham O. Jones **Graham O. Jones**	Director	February 28, 2012
/s/ Walter H. Jones, III **Walter H. Jones, III**	Director	February 28, 2012
/s/ Gerald Korde **Gerald Korde**	Director	February 28, 2012

Signature	Title	Date
/s/ Michael L. LaRusso **Michael L. LaRusso**	Director	February 28, 2012
/s/ Marc J. Lenner **Marc J. Lenner**	Director	February 28, 2012
/s/ Robinson Markel **Robinson Markel**	Director	February 28, 2012
/s/ Richard S. Miller **Richard S. Miller**	Director	February 28, 2012
/s/ Barnett Rukin **Barnett Rukin**	Director	February 28, 2012
/s/ Suresh L. Sani **Suresh L. Sani**	Director	February 28, 2012
/s/ Robert C. Soldoveri **Robert C. Soldoveri**	Director	February 28, 2012
/s/ Jeffrey S. Wilks **Jeffrey S. Wilks**	Director	February 28, 2012

EXHIBIT (31.1)

CERTIFICATIONS

I, Gerald H. Lipkin, certify that:

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

Date: February 28, 2012

/s/ Gerald H. Lipkin
Gerald H. Lipkin
Chairman of the Board, President and Chief Executive Officer

EXHIBIT (31.2)

CERTIFICATIONS

I, Alan D. Eskow, certify that:

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

Date: February 28, 2012

/s/ Alan D. Eskow

Alan D. Eskow
Senior Executive Vice President and Chief Financial Officer

EXHIBIT (32)

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

In connection with the Annual Report on Form 10-K of Valley National Bancorp (the "Company") for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Gerald H. Lipkin, as Chief Executive Officer of the Company, and Alan D. Eskow, as Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. (section) 1350, as adopted pursuant to (section) 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

/s/ Gerald H. Lipkin
Gerald H. Lipkin
Chairman of the Board, President and Chief Executive Officer
February 28, 2012

/s/ Alan D. Eskow
Alan D. Eskow
Senior Executive Vice President and Chief Financial Officer
February 28, 2012