



YARDVILLE NATIONAL BANCORP

# Enhancing Franchise Value

**2005**  
**Annual**  
**Review**

- Existing branch locations
- Opened in 2005 and early 2006
- ★ Corporate headquarters and branch
- ★ Regional headquarters and branch
- ▲ Operations center
- Planned branch locations



New York City

PENNSYLVANIA

Philadelphia

NEW JERSEY

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*Yardville National Bancorp is a holding company providing a broad range of lending, deposit, and other financial products and services. Headquartered in Mercer County, New Jersey, YNB offers its unique style of personalized community banking to customers throughout New Jersey and Eastern Pennsylvania. Our mission is to provide top quality products and exceptional service to customers, to help build and support our communities, and to build long-term, sustainable shareholder value by expanding and enhancing the value of the YNB franchise.*



*YNB's Executive Management Team (L to R): Jay G. Destribats, Chairman of the Board; F. Kevin Tylus, President and Chief Operating Officer; and Patrick M. Ryan, Chief Executive Officer.*

## To our shareholders, stakeholders, employees and friends:

This has been a year of significant growth and development in YNB's history. In 2005, we enhanced YNB's franchise, delivered increased shareholder value, entered new markets, expanded our presence in established ones, and built our organization to support YNB's movement to the next level. We have met the challenges that accompany growth and will continue to follow our strategic plan to achieve success.

As we have grown, we have worked diligently to maintain the personal banking orientation that sets YNB apart. In both commercial and retail banking, we have carved out a special niche. While smaller institutions may offer personal connections, and larger ones may offer competitive rates and sophisticated technology, at YNB we offer the best of both worlds, and that's

the value proposition our customers appreciate. We call it "Banking on a More Personal Level."

Commercial borrowers know and value the personal access to our top management and decision-makers. Retail banking customers are often greeted by name by our customer service representatives. Business development officers are recognized leaders of their communities. A core element in our strategy is establishing and maintaining relationships, rather than merely facilitating transactions, and we believe this is the cornerstone of our success.

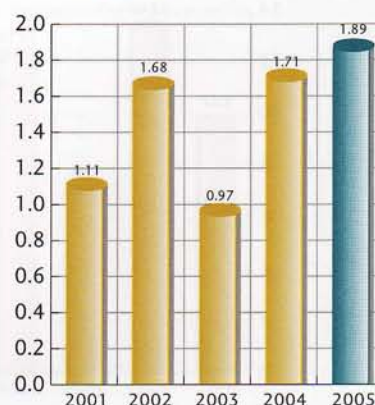
For banking institutions, location is a critical factor, and we are in excellent markets with tremendous business opportunities. As industry consolidation continues, community banks like ours can gain greater market share by serving

retail clients and middle-market commercial borrowers who want YNB's brand of personal service. In addition, we have made the investments in building our brand image and in upgrading our technology that allow us to get our message to new customers, to serve their needs, and to create, retain and extend banking relationships. All of these aspects of our plan are reflected in our solid financial results.

We are pleased to report that for the full year of 2005, net income increased \$2.4 million to \$20.9 million, a 13.0% gain from the \$18.5 million we reported in 2004. Diluted earnings per share for the full year increased 10.5% to \$1.89 when compared with the prior year. Despite the flattening of the yield curve and increased competition, YNB raised its net interest income 17.7% for 2005. In addition, YNB improved its 2005 tax-equivalent net interest margin 7.8% to 3.05% from 2.83% for the prior year.

Our growth and profitability are based on our strength as a

**Earnings per Share (diluted)**  
(in dollars)



business-focused lender and the success of our dynamic retail strategy, which helps support further expansion of our profitable commercial lending activities. Through effective pricing of loans and deposits in a rising interest rate environment, we were able to meet our goals of improving net interest income and our net interest margin. Although we function in an increasingly competitive marketplace, YNB's relationship-based community banking model of local decision making and access to top management allows us to grow and thrive.

### **RETAIL BANKING EXPANSION FUELS OUR GROWTH**

To profitably fund our growing commercial loan portfolio, three years ago we embarked on a retail strategy of expanding our footprint and bringing the YNB model of banking to a larger marketplace. During that time period, we have opened eight new branches, including four in 2005 alone, and entered new counties as well. In early 2006, we continued this effort by expanding into Ocean County and will further develop our presence in Middlesex County later this year. And, as the map on the inside front cover of this report indicates, in the next several years, YNB's coverage will increase throughout our service area.

In addition to new branch locations, we have promoted our new products by using exciting and effective marketing techniques. To

*Executive Vice Presidents (L to R): Daniel J. O'Donnell, Chief Legal Officer; Timothy J. Losch, Chief Market Development and Community Relations Officer; Stephen F. Carman, Chief Financial Officer; and Stephen R. Walker, Chief Information Officer.*

promote the building of relationships, we have introduced suites of products that allow customers to obtain free services by linking multiple accounts. We emphasize relationships in another way by having our bankers, who themselves are long-time local residents, act as our business development officers in their communities. We encourage customers to begin banking with us with promotional products, and then win their additional business and solidify relationships through active cross-sell efforts at each of our branch openings. We were pleased when the *American Banker* featured our marketing program for branch openings in their special Community Bank edition last fall.

### **COMMERCIAL LOANS: SUCCEEDING IN A COMPETITIVE ENVIRONMENT**

Commercial lending remains the engine of our success. Anticipating that steadily increasing competition would lead to slowing

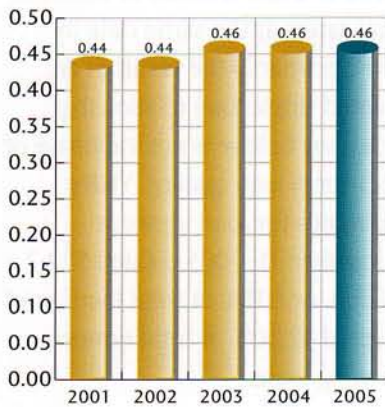
loan growth, we have capitalized on our relationships by continuing to provide the high levels of personal attention and service that drew many of our commercial customers to YNB in the first place. Given market conditions, we were pleased with our double digit increase in total loans for 2005. Led by commercial loans, total loans increased 10.7%, year over year, totaling \$1.97 billion compared to \$1.78 billion at the end of 2004. Nonperforming assets increased to \$18.6 million, or 0.63% of total assets at December 31, 2005, compared to \$10.0 million, or 0.36% of total assets at the same date in 2004, primarily the result of an isolated single loan relationship, which we believe is not indicative of our overall loan quality. YNB's allowance for loan losses at December 31, 2005 totaled \$22.7 million, or 1.15% of total loans, and covered 122.0% of total nonperforming loans.



## BUILDING SHAREHOLDER VALUE

We are committed to building value for shareholders and returning capital to our investors. Over the past ten years, YNB has delivered more than 500% in total return to shareholders, for an approximate 20% annual rate of return since YNB became a public company. We have paid a dividend for the last 49 quarters, and in 2005 alone, we paid \$4.9 million in dividends to shareholders.

**Cash Dividends per Share**  
(in dollars)



## ENHANCING OUR STRUCTURE TO FOSTER GROWTH

As YNB entered a new level of our corporate development, we further strengthened our management and Board structure. Early in 2006, the Board added the title of President to the responsibilities of Chief Operating Officer F. Kevin Tylus as he helps to lead our organization through times of change. Our growth story and future prospects have also allowed us to attract highly experienced, forward-thinking senior executives to further improve our organizational structure across our business segments. Just as important, YNB has attracted a number of capable early career professionals who will

form the foundation for our leadership in the future. All of these additions to our strong cadre of people further enhance our ability to deliver on our plans for long-term growth.

The new directors YNB added in 2004 and in 2005 have brought additional depth and experience to our Board deliberations as well, and, along with our long-serving directors, have made significant contributions to our success. We also would like to thank two long-serving directors who left our Board at the end of 2005, Sidney L. Hofing and Lorraine Buklad, for their contributions over many years.

We are strong believers in constantly improving our capabilities to deliver value for shareholders. In this spirit, we have used the Bank's agreement with our primary regulator, the Office of the Comptroller of the Currency (OCC), as a springboard to put into place many enhancements to YNB's structure and control environment. We have adjusted our risk management procedures in keeping with changing market conditions, formalized our corporate governance structure, and brought additional strength to our Board and management. These enhancements are appropriate for an organization that has grown to YNB's size, and position us to continue to successfully execute our strategic plan.

## BANKING ON THE FUTURE

As we look ahead, we are confident that we will meet our challenges and follow our path to further growth and success. Our core business strategy is working well.

To summarize our goals for 2006, we plan to:

- Continue growing market share in existing markets such as Mercer and Hunterdon
- Capture and expand market share in our emerging markets of Middlesex and Ocean in New Jersey, and Bucks in Pennsylvania
- Emphasize relationships and maintain strong retail banking and commercial lending growth in a competitive banking market
- Consistently deliver top-quality service to all customers, fulfilling our promise of "Banking on a More Personal Level"
- Maintain the highest standards of corporate governance and compliance in all areas of our business and
- Continue to maximize long-term shareholder value in a dynamic, growing franchise.

As we conclude our 80th year since YNB's founding, we are proud to remain one of the premier banking institutions in Central New Jersey, and we are optimistic about our future. More than ever, your support of our efforts and confidence in the Board and management are greatly appreciated, and we will continue to exert our best efforts on your behalf.

Sincerely yours,

Jay G. Destribats

Chairman of the Board

Patrick M. Ryan

Chief Executive Officer

Expanding YNB's retail and lending segments (L to R): Frank J. Kenny Jr., Chief Credit Officer; Brian K. Gray, Chief Retail Services and Marketing Officer; Joanne C. O'Donnell, Chief Credit Administration Officer; and John P. Samborski, Chief Lending Officer.



## Enhancing Franchise Value

YNB's performance in 2005 has demonstrated the success of our established strategic business plan for long-term growth. Driven by our strength as a commercial business lender and the ongoing execution of YNB's dynamic retail strategy, our results have been impressive. We have proceeded with our plans to further expand YNB's geographic footprint to maximize returns for shareholders and have made the appropriate investments in people and in the organization to allow us to continue doing so.

### MAXIMIZING MARKET PENETRATION

YNB brought "Banking on a More Personal Level" to an extended marketplace in 2005, with plans in place for even more growth in 2006 and beyond. We opened new branches, offered additional relationship products and services, increased convenience for new and existing customers, and structured our organization for greater market penetration.

We recently opened additional branches in Morrisville, Pennsylvania in neighboring Bucks County, in Lawrence Township in Mercer County, New Jersey, and our first office in rapidly growing Ocean County. Our retail success is not a factor of geography alone, however. We are making the most of these new locations with strong deposit products, special promotions and aggressive cross-selling, and these efforts have borne real fruit.





*YNB officers and employees support numerous community organizations. Their efforts led to YNB being named Corporate Philanthropist of the Year by the Community Foundation of New Jersey. Displaying the award are (L to R): Nina D. Melker, Jeffrey Mattison, Tracey Destribats, Michael Griffith, and Megan T. Butcher.*

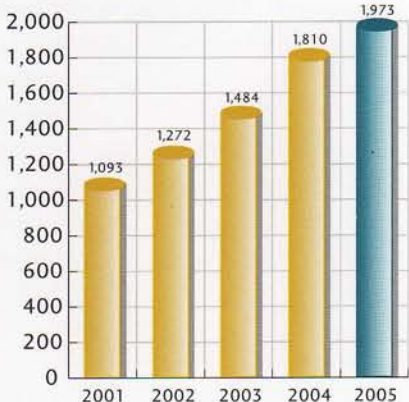
Our recently opened branches have proven immediately successful, bringing in an average of \$2.9 million in deposits per branch after just one month of operation. Perhaps even more telling, however, are the “cross-sell ratios” achieved in these branches, as one in four customers taking advantage of our promotional offers established additional accounts with YNB, turning a “get-acquainted” opportunity into what we believe will be long-term customer relationships.

To further assist us in achieving this goal of increased market share, we enhanced our suite of product offerings in 2005, allowing customers to link their savings balances to account relationships in order to qualify for the free services and additional benefits that our relationship accounts provide to them. Another way to build strong and enduring customer relationships is to hire and retain well-known local bankers. Many of our branch managers and business development officers have been respected members of their local business communities for more than 20 years. Not only are our bankers local, but so are our banking decisions. Special customer requests are dealt with promptly at our branches. Loans are approved by lenders who know the borrowers, their companies, and the communities in which they choose to do business.

To improve customer convenience further, we extended our branch and drive-up hours in 2005, and we have enhanced the offerings in our 24-hour a day, 7 day a week YNB Online. The result is a banking organization whose current customers, according to our market research, overwhelmingly say they would recommend YNB to their friends and colleagues. In the local banking community, no amount of advertising is as powerful as word of mouth, and in this area, we score highly.

We have continued our commitment to many community endeavors — from local Little League sponsorships to the Trenton Area Soup Kitchen and national efforts such as the Parkinson’s Unity Walk and Habitat for Humanity. These earn us public accolades as well as personal satisfaction. Third party endorsements of our organization are indeed valuable, and we were extremely gratified to be named the “Corporate Philanthropist of the Year” by the Community Foundation of New Jersey. More than 100 other companies were nominated for this honor — many of them much larger organizations than YNB — so we consider this award particularly meaningful.

**Total Deposits**  
(dollars in millions)



## COMMERCIAL LENDING AN ONGOING STRENGTH IN A COMPETITIVE MARKETPLACE

Commercial lending continues to lead our growth, and we see considerable opportunity in today's market to build on that strength. As our geographic footprint grows, we are taking advantage of our ability to enhance retail and consumer lending, as well to further diversify our portfolio.

The competitive and regulatory landscapes have become more challenging, with competition from both larger and smaller entities as well as non-banks. In response, we have taken steps to broaden other aspects of our lending base by offering additional business services and increasing our market share in developing areas like Somerset and Middlesex Counties. We expect these to be attractive growing commercial markets for us, and development of those markets continues in earnest in 2006.

Our business development and expansion efforts emphasize our "localized" approach, as we have created market teams staffed by a cadre of experienced local lenders and business leaders. To bring YNB's bankers even closer to our customers, we are placing more of our key individuals out in the field, supporting them with efficient operations at corporate headquarters. This optimal use of our valuable

*YNB's Business Development Team covers our broad range of markets. A few members of that team are shown here. (L to R): Julia Moriarty, Susan Valentino-Paglione, Peter J. Cahill, Eugene C. McCarthy, and Patrick L. Ryan.*

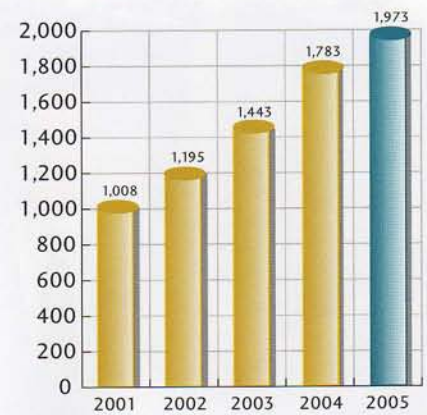
human assets is critical to increasing service to customers and returns to shareholders.

## TECHNOLOGY FURTHER IMPROVES SERVICE

In both retail and commercial banking, 2005 saw YNB refine and further improve upon the significant technological upgrades that we put into place over the last several years. Our internet banking site, for example, was completely redesigned to offer more opportunities for customers to obtain information, communicate with YNB, and perform many of their banking tasks from the comfort of their homes and offices. We instituted a new Client Relationship Management System and made all signature card images available electronically at the branches — helping branch personnel serve clients more efficiently while offering customers more services to expand their YNB relationships.

Whether in person, by phone, or on the internet, YNB customers receive the highest levels of service.

**Loan Portfolio**  
(dollars in millions)



We live in a much more complex financial environment today that demands increased security, and our new loss prevention system and automated clearing house improvements help reduce and prevent check and deposit fraud and improve our risk management capabilities.





*Overseeing YNB's physical expansion:  
Frank Durand III, Bank  
Administration and Security (L) and  
Frank J. Fuzo, Facilities Planning.*

## **TAKING YNB TO THE NEXT LEVEL**

We have a clear-cut, viable strategic business plan for continued growth and profitability. By expanding YNB's footprint in the marketplace further, we lead with our strength in building and maintaining personal relationships, offering our customers competitive rates, outstanding products, efficient delivery, state-of-the-art technology and incomparable service as we do so. We have attracted and retained experienced personnel who know their markets to lead our efforts in the field, and we are supporting them with a lean but robust organization.

As we look to the rest of 2006 and beyond, we plan to open several additional Board-approved branch locations. A branch in West Windsor in the center of Mercer County and one in Readington, Hunterdon County are both moving ahead, and will add further to our strong and growing presence. We are also proceeding with plans for another Hunterdon branch in Ringoes, and for several branches in Middlesex County, including Cranbury, Monroe and New Brunswick. We are also exploring opportunities in Lower Makefield, Bucks County. These are all attractive extensions to markets where YNB's brand of personal banking is garnering strong deposits and loans.

New branches, contiguous new markets, strengthened business development and management structure, innovative products and technology — all of these, added to our established reputation for personal service and community commitment, will accelerate YNB's continued development into one of the area's premier supercommunity banks. We firmly believe the ultimate result will be satisfied customers, loyal employees, and enhanced shareholder value now and in the future.