

# United Commerce

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United Commerce Bancorp  
**2009** Annual Report



**United Commerce Bank**  
2009 Board of Directors



**Don A. Adams**  
President, American Inbound



**Timothy J. Mitchell**  
President, First Capital Investment Group, Inc.



**R. Daniel Grossman, M.D.**  
Ophthalmic Surgeon, Integ Health System, P.C.



**Thomas G. Risen**  
Chairman, President, and CEO, United Commerce Bank



**Thomas C. Martin**  
President, Bloomington Ford, Inc.



**Geoffrey M. Grodner**  
Partner, Mallor Clendening Grodner & Bohrer



**Elizabeth N. Mann**  
Senior Judge, State of Indiana



**Lawrence D. Rink, M.D.**  
Chairman, IMA, Inc.



**Sherman R. Bynum**  
President, Bynum, Fanyo and Associates, Inc.

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DISCLAIMER

This 2009 Shareholder Annual Report also serves as the annual disclosure statement to shareholders required under the regulations of the Federal Deposit Insurance Corporation. This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.



To Our Shareholders, Customers and Friends:

We have just completed our 10th year of operation. In January 2000 United Commerce Bank was the first new bank to open in Monroe County in over 100 years. I am happy to report that, based on the FDIC Summary of Deposit Report, United Commerce Bank is now the third largest bank in Bloomington, with just over \$162 million in deposits. There are 15 banks doing business in Monroe County, with 7 being headquartered out of state and 5 banks that are out of county. United Commerce Bank is a locally owned community bank with almost 800 shareholders. Our policies are established locally and designed to make sure we provide outstanding quality service to our customers.

On the financial report please note that the per share book value of our company was \$14.77 as of December 31, 2009, compared to \$13.68 one year ago, an increase of 8%. Over the past five years the book value of our stock has increased 49%.

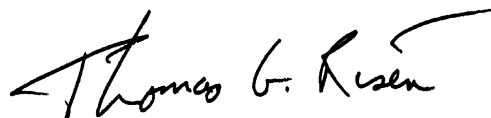
I am pleased to report that we completed our most profitable taxable year with net income for 2009 of \$1,069,000 or \$1.11 per share, an increase of 19% over 2008. We accomplished this while increasing our allowance for loan loss by almost \$1 million, from \$2.1 million to \$3.1 million during 2009. We have always taken a conservative approach with our loan portfolio, and this year is no different. In addition, the FDIC implemented a special deposit insurance assessment on all banks during 2009, causing our fees to increase 246% to \$336,000 compared to \$97,000 in 2008. United Commerce Bank continued as one of the leading mortgage lenders in Monroe County, filing almost \$74 million in mortgages during 2009, which produced almost \$700,000 of fee income. This was the third consecutive year that we have filed over \$70 million of mortgage

loans. One other highlight was a \$948,000 increase in our net interest margin over 2008, or 18%.

I also want to mention that United Commerce Bank has affiliated with the national surcharge free ATM network Alliance One. There are 38 ATM's in Bloomington that are part of this network, with over 800 in Indiana and almost 4,700 nationwide. If you check our website you will find a link to the Alliance One site where you can find information on all locations. Look for the Alliance One sign and never pay an ATM surcharge. In addition, I want to invite you to take a look at our updated website with added features.

[www.unitedcommercebank.com](http://www.unitedcommercebank.com)

On behalf of our directors and staff I want to thank our shareholders and customers for their support over the past 10 years. We look forward to serving our community over the next 10 years. If you are not a customer please stop in and give us a chance to show you what we mean when we say "Banking the way you want it".



Thomas G. Risen  
Chairman, President and CEO



# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
United Commerce Bancorp  
Bloomington, Indiana

We have audited the accompanying consolidated balance sheets of United Commerce Bancorp (Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the Company as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Champaign, Illinois  
March 3, 2010

McGladrey & Pullen LLP is a member firm of RSM International -  
an affiliation of separate and independent legal entities.



United Commerce Bancorp  
Consolidated Balance Sheets  
December 31, 2009 and 2008

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash and due from banks	\$ 3,885,044	\$ 5,667,364
Available for sale securities	12,644,686	12,784,420
Loans held for sale	1,781,750	1,185,192
Loans, net of allowance for loan losses 2009 \$3,080,271; 2008 \$2,117,984	166,902,734	156,232,272
Premises and equipment	1,901,843	1,920,305
Federal Home Loan Bank stock	700,000	700,000
Interest receivable	845,491	856,714
Prepaid FDIC assessment	964,803	—
Other assets	1,390,435	921,719
<b>Total assets</b>	<u>\$ 191,016,786</u>	<u>\$ 180,267,986</u>

**LIABILITIES**

Deposits:		
Noninterest bearing demand	\$ 12,110,683	\$ 11,993,007
Savings, NOW and money market	43,755,509	35,768,890
Certificates of deposit	106,140,144	105,282,484
<b>Total deposits</b>	<u>162,006,336</u>	<u>153,044,381</u>
Short-term borrowings	125,985	521,692
Federal Home Loan Bank advances	14,000,000	13,000,000
Interest payable	108,586	200,760
Other liabilities	518,013	298,159
<b>Total liabilities</b>	<u>176,758,920</u>	<u>167,064,992</u>
Stockholders' Equity:		
Preferred stock, no par value; authorized and unissued 1,000,000 shares	—	—
Common stock, no par or stated value; authorized 4,000,000 shares; issued and outstanding 965,333 shares	—	—
Additional paid-in capital	9,058,008	9,058,008
Retained earnings	5,153,583	4,084,772
Accumulated other comprehensive income	46,275	60,214
<b>Total stockholders' equity</b>	<u>14,257,866</u>	<u>13,202,994</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 191,016,786</u>	<u>\$ 180,267,986</u>

See Notes to Consolidated Financial Statements



United Commerce Bancorp  
Consolidated Statements of Income  
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest income:		
Loans	\$ 8,887,657	\$ 9,211,051
Investment securities	517,282	533,028
Other	16,682	29,704
Federal funds sold, interest on reserves and other	14,992	88,457
<b>Total interest income</b>	<u>9,436,613</u>	<u>9,862,240</u>
Interest expense:		
Deposits	2,947,733	4,218,227
Short-term borrowings	728	5,803
Federal Home Loan Bank advances	170,015	268,542
<b>Total interest expense</b>	<u>3,118,476</u>	<u>4,492,572</u>
<b>Net interest income</b>	6,318,137	5,369,668
Provision for loan losses	1,285,000	600,000
<b>Net interest income after provision for loan losses</b>	<u>5,033,137</u>	<u>4,769,668</u>
Noninterest income:		
Service charges and fees	125,001	129,749
Gain on sale of mortgage loans, net of commissions	692,580	374,723
Net realized gains on sales of available for sale securities	180,278	7,058
Other	147,349	139,725
<b>Total noninterest income</b>	<u>1,145,208</u>	<u>651,255</u>
Noninterest expense:		
Salaries and employee benefits	2,514,466	2,355,727
Net occupancy and equipment	471,022	473,306
Data processing fees	374,842	364,285
FDIC Insurance	336,221	97,219
Legal and professional fees	206,535	165,021
Advertising expense	122,704	134,340
Printing and office supplies	89,062	73,104
Director fees	49,950	53,250
Other	397,732	358,289
<b>Total noninterest expense</b>	<u>4,562,534</u>	<u>4,074,541</u>
<b>Income before income taxes</b>	1,615,811	1,346,382
Provision for income taxes	547,000	449,000
<b>Net income</b>	<u>\$ 1,068,811</u>	<u>\$ 897,382</u>
Basic earnings per share	<u>\$ 1.11</u>	<u>\$ 0.93</u>
Diluted earnings per share	<u>\$ 1.11</u>	<u>\$ 0.93</u>

See Notes to Consolidated Financial Statements.



United Commerce Bancorp  
 Consolidated Statements of Stockholders' Equity  
 Years Ended December 31, 2009 and 2008

	<u>Comprehensive Income</u>	<u>Common Stock Shares</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
<b>Balance, December 31, 2007</b>		965,333	\$ 9,058,008	\$ 3,187,390	\$ 38,636	\$ 12,284,034
Comprehensive income						
Net income	\$ 897,382	—	—	897,382	—	897,382
Change in unrealized loss on available for sale securities, net of tax of \$16,855	26,166	—	—	—	26,166	26,166
Less reclassification for gain on available for sale securities, net of tax of (\$2,470)	(4,588)	—	—	—	(4,588)	(4,588)
Total comprehensive income	<u>\$ 918,960</u>					
<b>Balance, December 31, 2008</b>		965,333	9,058,008	4,084,772	60,214	13,202,994
Comprehensive income						
Net income	\$ 1,068,811	—	—	1,068,811	—	1,068,811
Change in unrealized loss on available for sale securities, net of tax of \$62,819	94,228	—	—	—	94,228	94,228
Less reclassification for gain on available for sale securities, net of tax of (\$72,111)	(108,167)	—	—	—	(108,167)	(108,167)
Total comprehensive income	<u>\$ 1,054,872</u>					
<b>Balance, December 31, 2009</b>		<u>965,333</u>	<u>\$ 9,058,008</u>	<u>\$ 5,153,583</u>	<u>\$ 46,275</u>	<u>\$ 14,257,866</u>

See Notes to Consolidated Financial Statements.



United Commerce Bancorp  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Net income	\$ 1,068,811	\$ 897,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	141,487	145,925
Provision for loan losses	1,285,000	600,000
Amortization of premiums and discounts on securities	83,484	26,977
Deferred income taxes	(374,179)	(173,746)
Net realized gains on available for sale securities	(180,278)	(7,058)
Loss on sale of foreclosed assets	16,970	—
Gains on sales of loans	(692,580)	(374,723)
Originations of loans held for sale	(51,997,823)	(27,780,950)
Proceeds from sales of loans held for sale	52,093,845	29,180,131
Changes in:		
Interest receivable	11,223	98,630
Prepaid FDIC assessment	(964,803)	—
Other assets	(7,742)	(102,197)
Interest payable	(92,174)	(36,770)
Other liabilities	219,854	92,701
<b>Net cash provided by operating activities</b>	611,095	2,566,302
Cash Flows from Investing Activities:		
Net change in loans	(12,131,423)	(25,417,155)
Purchase of premises and equipment	(123,025)	(77,575)
Purchase of FHLB Stock	—	(212,000)
Proceeds from sales of available for sale securities	7,763,875	—
Proceeds from calls and maturities of available for sale securities	2,700,000	3,525,000
Purchases of available for sale securities	(12,237,542)	(6,048,149)
Paydowns on available for sale securities	1,986,964	1,504,046
Proceeds from sale of foreclosed assets	81,488	86,853
<b>Net cash used in investing activities</b>	(11,959,663)	(26,638,980)
Cash Flows from Financing Activities:		
Net (decrease) increase in demand deposits, money market, NOW and savings accounts	8,104,295	(1,522,771)
Net (decrease) increase in certificates of deposit	857,660	21,393,262
Net (decrease) increase in short-term borrowings	(395,707)	299,016
Net (decrease) increase in federal funds purchased	—	(700,000)
Proceeds from Federal Home Loan Bank advances	27,000,000	39,000,000
Payments on Federal Home Loan Bank advances	(26,000,000)	(32,000,000)
<b>Net cash provided by financing activities</b>	9,566,248	26,469,507
<b>Increase (decrease) in cash and due from banks</b>	(1,782,320)	2,396,829
Cash and Due from Banks:		
Beginning of year	5,667,364	3,270,535
End of year	\$ 3,885,044	\$ 5,667,364
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	\$ 3,210,650	\$ 4,529,640
Income taxes paid	\$ 780,892	\$ 625,171
Real estate acquired in settlement of loans	\$ 175,961	\$ 98,853

See Notes to Consolidated Financial Statements.



**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Nature of Operations and Summary of Significant Accounting Policies****Nature of Operations**

The Company is a bank holding company whose principal activity is the ownership and management of the Bank. The Bank, which operates under a state bank charter, provides a full range of banking services. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Monroe County, Indiana and surrounding counties. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. The Bank is subject to competition from other financial institutions and nonfinancial institutions providing financial products and services. As a state bank, the Bank is subject to regulation by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation.

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and conform to the predominate practice in the banking industry. The more significant of the policies are described below.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

In preparing the consolidated financial statements, Company management is required to make estimates and assumptions which significantly affect the amounts reported in the consolidated financial statements. The significant estimates which are particularly susceptible to change in a short period of time are the determination of the allowance for loan losses and the fair value of investment securities. Actual results could differ from these estimates.

**Cash and Due from Banks**

The Bank considers all liquid investments, when available, with original maturities of three months or less to be cash equivalents. The Bank maintains cash in bank deposit accounts, which at times may exceed federally insured limits. The Bank has not experienced any losses in such accounts. Management of the Bank does not believe they are exposed to any significant risk.



**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Securities Available for Sale**

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. The difference between the fair value and amortized cost, cost adjusted for amortization of premium and accretion of discounts, recognized as adjustments to interest income using the level yield method over the contractual lives, results in an unrealized gain or loss. Unrealized gains or losses are reported as increases or decreases in accumulated other comprehensive income (loss), net of the related deferred tax effect as a part of stockholders' equity. Realized gains or losses from the sale of securities are determined using the specific identification method and are included in earnings.

**Loans Held for Sale**

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

**Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs and reduced by the allowance for loan losses. Interest on loans is recognized by the simple interest method on daily balances of the principal amount outstanding. Generally, loans are placed on nonaccrual status at 90 days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection.



**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Allowance for Loan Losses**

The allowance for loan losses is increased through a provision for loan losses charged to operating expense and is reduced by net loan charge-offs. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on evaluation of the collectibility of loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment measurements.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Premises and Equipment**

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method and accelerated methods over the estimated useful lives of the assets. The estimated useful lives of office furniture and equipment is three to seven years. The estimated useful lives of buildings and leasehold improvements is seven to 39 years. For leasehold improvements, the useful life is determined based on the lesser of the estimated life or term of the lease.

**Federal Home Loan Bank Stock**

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula.

**Foreclosed Assets Held for Sale**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets. Foreclosed assets held for sale were \$90,000 and \$12,000 at December 31, 2009 or 2008, respectively.

**Stock Options**

The Company has a stock based employee compensation plan, which is described more fully in Note 13. Prior to 2006 the Company accounted for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the grant date.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

The proforma effect on net income and earnings per share, if the Company had applied the fair value provisions of Financial Accounting Standards Board, Auditing Standards Codification 718 Accounting for Stock-Based Compensation, to stock-based employee compensation is not presented because it is insignificant.

In 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board, Auditing Standards Codification 718 (FASB ASC 718) Share-Based Payment. There was no material impact on the Company from adopting this standard and, therefore, certain disclosures required by FASB ASC 718 have been omitted.

**Income Tax**

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. Management believes that the Company maintains no uncertain tax positions for tax reporting purposes and accordingly, no liability is required to be recorded.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Earnings Per Share**

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

**Reclassifications**

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net income.

**New Accounting Standards**

In June 2009, the FASB issued an accounting pronouncement establishing the FASB “Accounting Standards Codification™” (the “ASC”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. This pronouncement was effective for financial statements issued for interim and annual periods ending after September 30, 2009. On the effective date, this pronouncement superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The Company adopted this new accounting pronouncement effective December 31, 2009. There was no impact on the consolidated financial statements from the adoption of this pronouncement.

In April 2009, the FASB issued three related accounting pronouncements to provide further application guidance and enhanced disclosures of fair value measurements and impairments of securities. These pronouncements provide guidance for making fair value measurements more consistent with existing accounting principles when the volume and level of activity for the asset or liability have significantly decreased. The pronouncements also enhance consistency in reporting by increasing the frequency of fair value disclosures and modifies existing general accounting standards for and disclosure of other-than-temporary impairment (“OTTI”) losses for impaired debt securities.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

The fair value measurement guidance of these pronouncements reaffirms the need for entities to use judgment in determining if a formerly active market has become inactive and in determining fair values when markets have become inactive. Prior to these pronouncements, fair value disclosures for instruments covered by the pronouncements were required for annual statements only. These disclosures are now required in interim financial statements. The general standards of accounting for OTTI losses were changed to require the recognition of an OTTI loss in earnings only when an entity (1) intends to sell the debt security; (2) more likely than not will be required to sell the security before recovery of its amortized cost basis; or (3) does not expect to recover the entire amortized cost basis of the security. When an entity intends to sell or more likely than not will be required to sell a security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in other comprehensive income, net of deferred taxes.

All three pronouncements were effective for interim and annual reports ending after June 15, 2009. The Company adopted these new accounting pronouncements effective December 31, 2009. The adoption of these provisions did not have an impact on the consolidated financial statements.

In May 2009, the FASB issued an accounting pronouncement establishing general standards of accounting for and disclosure of subsequent events. The pronouncement defines “recognized subsequent events” as those that give evidence of conditions that existed at the balance-sheet date and “non-recognized subsequent events” as those that provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements. Entities must recognize in the financial statements the effect of recognized subsequent events, but cannot recognize the effects in the financial statements of non-recognized subsequent events. This pronouncement also requires entities to disclose the date through which subsequent events have been evaluated. This pronouncement was effective for interim and annual periods ending after June 30, 2009. The Company adopted this pronouncement for the year ended December 31, 2009. The adoption of this guidance did not have an impact on the consolidated financial statements.



**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars, except as noted)

**Note 1. Summary of Significant Accounting Policies (Continued)**

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (“FIN 48”), which has been codified in FASB ASC 740. FIN 48 clarifies the accounting for uncertainty in income taxes in financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective and was implemented in 2009 by the Company; however, Company management believes that the Company maintains no uncertain tax positions for tax reporting purposes and accordingly, no FIN 48 liability is required to be recorded. When applicable, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

**Pending Accounting Standards**

In June 2009, the FASB issued revised guidance for accounting for the transfers of financial assets. The guidance removes the concept of a qualifying special-purpose entity (QSPE). This guidance also clarifies the requirements for isolation and limitations on portions of financial assets eligible for sale accounting. This guidance is effective for fiscal years beginning after November 15, 2009. The Company will adopt this guidance on January 1, 2010. The Company is currently assessing the impact of the adoption of this guidance.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. ASU 2009-05 is effective for the Company in the first quarter of fiscal year 2010. The Company is currently evaluating the impact that adoption will have on the Company’s consolidated financial statements. This guidance may change the valuation techniques used by the Company for measuring liabilities at fair value.

**Subsequent Events**

The Company has evaluated subsequent events through March 3, 2010, the date on which the financial statements were issued.



**United Commerce Bancorp**  
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**Note 2. Securities**

The amortized cost and approximate fair value of securities classified as available for sale are as follows:

	<b>2009</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government agencies	\$ 1,997	\$ —	\$ 47	\$ 1,950
Mortgage-backed securities	6,876	37	30	6,883
State and political subdivisions	3,695	117	—	3,812
	<u>\$ 12,568</u>	<u>\$ 154</u>	<u>\$ 77</u>	<u>\$ 12,645</u>
	<b>2008</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government agencies	\$ 2,995	\$ 26	\$ —	\$ 3,021
Mortgage-backed securities	5,784	125	39	5,870
State and political subdivisions	3,905	21	32	3,894
	<u>\$ 12,684</u>	<u>\$ 172</u>	<u>\$ 71</u>	<u>\$ 12,785</u>

All mortgage-backed securities are secured by residential properties.



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**Note 2. Securities (Continued)**

The amortized cost and fair value of available for sale securities at December 31, 2009, by contractual maturity, are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,815	\$ 2,780
Due after one year through five years	2,343	2,434
Due after five years through ten years	534	548
Mortgage-backed securities	<u>6,876</u>	<u>6,883</u>
	<u>\$ 12,568</u>	<u>\$ 12,645</u>

The carrying value of securities pledged as collateral for Federal Reserve activity amounted to \$2,000,000 at December 31, 2009 and \$997,000 at December 31, 2008.

For the years ended December 31, 2009 and 2008, gross realized gains amounted to \$180,000 and \$7,058, respectively. No realized losses were recognized during those same periods.



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**Note 2. Securities (Continued)**

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31:

	2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 1,450	\$ 47	\$ —	\$ —	\$ 1,450	\$ 47
Mortgage-backed securities	4,907	22	273	8	5,180	30
	<u>\$ 6,357</u>	<u>\$ 69</u>	<u>\$ 273</u>	<u>\$ 8</u>	<u>\$ 6,630</u>	<u>\$ 77</u>
	2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 419	\$ 10	\$ 507	\$ 29	\$ 926	\$ 39
State and political subdivisions	417	1	1,145	31	1,562	32
	<u>\$ 836</u>	<u>\$ 11</u>	<u>\$ 1,652</u>	<u>\$ 60</u>	<u>\$ 2,488</u>	<u>\$ 71</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, management monitors market trends and current events in order to identify trends and circumstances that might impact the carrying value of securities.



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**Note 2. Securities (Continued)**

To determine if an other-than-temporary impairment exists on an investment security, the Company first determines if (a) it intends to sell the security or (b) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Company will recognize an other-than-temporary impairment in earnings equal to the difference between the security's fair value and its adjusted cost basis. If neither of the conditions is met, the Company determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of total impairment related to all other factors is included in other comprehensive income.

At December 31, 2009, 6 debt securities have unrealized losses with aggregate depreciation of 1.15% from the Company's amortized cost basis. These unrealized losses relate principally to the fluctuations in the current interest rate environment. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. As management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

**Note 3. Loans and Allowance for Loan Losses**

Categories of loans at December 31 are as follows:

	<b>2009</b>	<b>2008</b>
Commercial and industrial	\$ 35,625	\$ 32,496
Commercial real estate	81,340	73,955
Residential real estate-secured by 1-4 family properties	34,486	33,275
Construction	4,448	5,057
Consumer	14,084	13,567
	169,983	158,350
Less allowance for loan losses	3,080	2,118
	\$ 166,903	\$ 156,232



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**Note 3. Loans and Allowance for Loan Losses (Continued)**

The Company's opinion as to the ultimate collectability of these loans is subject to estimates regarding future cash flows from operations and the value of the property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

Information about impaired loans and non-accrual loans as of and for the years ended December 31, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Impaired loans for which there is a related allowance for loan losses	\$ 3,424	\$ 1,804
Impaired loans for which there is no related allowance for loan losses	2,345	—
	<u>\$ 5,769</u>	<u>\$ 1,804</u>
Allowance for loan losses for impaired loans included in the allowance for loan losses	<u>\$ 1,719</u>	<u>\$ 1,070</u>
Average recorded investment in impaired loans	<u>\$ 4,106</u>	<u>\$ 1,673</u>
Non-accrual loans, excluding impaired	<u>\$ 118</u>	<u>\$ 391</u>
Loans past due 90 days or more and still accruing, excluding impaired	<u>\$ 28</u>	<u>\$ 151</u>

Activity in the allowance for loan losses was as follows:

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 2,118	\$ 1,704
Provision charged to expense	1,285	600
Losses charged off, net of recoveries 2009 \$20; 2008 \$9	(323)	(186)
Balance, end of year	<u>\$ 3,080</u>	<u>\$ 2,118</u>



**United Commerce Bancorp**  
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**Note 4. Premises and Equipment**

Premises and equipment at December 31 consist of:

	<u>2009</u>	<u>2008</u>
Land	\$ 311	\$ 311
Building and leasehold improvements	1,648	1,632
Furniture and equipment	<u>796</u>	<u>724</u>
	2,755	2,667
Less accumulated depreciation and amortization	<u>853</u>	<u>747</u>
	<u>\$ 1,902</u>	<u>\$ 1,920</u>

**Note 5. Interest-Bearing Deposits**

Interest-bearing deposits in denominations of \$100,000 or more were \$50,661,000 and \$55,348,000 on December 31, 2009 and 2008, respectively.

The scheduled maturities of certificate of deposit are as follows:

	<u>Amount</u>
Year Ending December 31,	
2010	\$ 85,341
2011	15,141
2012	3,651
2013	999
2014	8
Thereafter	<u>1,000</u>
	<u>\$ 106,140</u>

The Bank had \$49,465,000 and \$47,455,000 in brokered certificates of deposit at December 31, 2009 and 2008, respectively.



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**Note 6. Short-term Borrowings**

Short-term borrowings consisted of U.S. Treasury demand notes totaling \$126,000 and \$522,000 at December 31, 2009 and 2008 respectively and have variable interest rates which at December 31, 2009, were 0.00%.

**Note 7. Federal Home Loan Bank Advances**

Federal Home Loan Bank Advances included the following at December 31:

	2009	2008
Due January 18, 2013, at the base rate of .05% plus 2.66% (an effective rate of 2.71% at December 31, 2009)	\$ 5,000	\$ 5,000
Due March 30, 2010, at the base rate of .05% plus .35% (an effective rate of .40% at December 31, 2008)	3,000	—
Due February 01, 2010, at the base rate of .05% plus .35% (an effective rate of .40% at December 31, 2009)	3,000	—
Due January 4, 2010, at the base rate of .05% plus .35% (an effective rate of .40% at December 31, 2009)	3,000	—
Due February 9, 2009, at the base rate of .14% plus .35% (an effective rate of .49% at December 31, 2008)	—	5,000
Due January 18, 2008, at the base rate of .14% plus .23% (an effective rate of .37% at December 31, 2008)	—	3,000
	\$ 14,000	\$ 13,000

The advances are secured by mortgage loans totaling \$20,804,000 at December 31, 2009. The advances are subject to restrictions or penalties in the event of prepayment.



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**Note 8. Income Taxes**

The provision for income taxes includes these components:

	<b>2009</b>	<b>2008</b>
Currently payable:		
Federal	\$ 768	\$ 567
State	153	56
Deferred income taxes:		
Federal	(276)	(158)
State	(98)	(16)
	\$ 547	\$ 449

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<b>2009</b>	<b>2008</b>
Computed at the statutory rate (34%)	\$ 549	\$ 458
Increase (decrease) resulting from tax-exempt interest income	(48)	(52)
Nondeductible expenses	14	14
State income taxes	36	26
Other	(4)	3
	\$ 547	\$ 449



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**Note 8. Income Taxes (Continued)**

The tax effects of temporary differences related to deferred income taxes, included in other assets in the balance sheet, are as follows at December 31:

	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,104	\$ 754
Loans held for sale	3	7
Other	71	38
	<u>1,178</u>	<u>799</u>
Deferred tax liabilities:		
Depreciation	(88)	(95)
Unrealized gain on available for sale securities	(31)	(40)
Federal Home Loan Bank stock	(17)	(17)
Other	(17)	(5)
	<u>(153)</u>	<u>(157)</u>
	<u>\$ 1,025</u>	<u>\$ 642</u>

Company evaluated the tax positions under the two-step approach for recognition and measurement of uncertain tax positions required by the Income Taxes Topic of the FASB Accounting Standards Codification upon adoption on January 1, 2009 and did not identify the need for or recognize a liability for unrecognized tax benefits.



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**Note 9. Branch Lease**

The Bank has two operating leases for its branches that expire over the next 10 years and contain renewal options for five years. The Bank pays all executory costs, such as taxes, maintenance and insurance. Rental expense for these leases was approximately \$133,000 and \$131,000 in 2009 and 2008, respectively.

Future minimum lease payments under these nonrelated party operating leases are:

	<b>Amount</b>
Year Ending December 31,	
2010	\$ 121
2011	122
2012	123
2013	125
2014	126
Thereafter	256
	\$ 873

**Note 10. Regulatory Matters**

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Company and the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company and the Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.



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**Note 10. Regulatory Matters (Continued)**

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Company and the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the Bank’s regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

Due to limited activity at the Company, the Company’s capital ratios are consistent with the Bank ratios listed below. The Company is not subject to prompt corrective action rules.

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<b>2009</b>					
Total Capital (to Risk-weighted Assets)	\$ 16,111	10.69%	\$ 12,057	8.00%	\$ 15,071	10.00%
Tier I Capital (to Risk-weighted Assets)	\$ 14,212	9.43%	\$ 6,028	4.00%	\$ 9,042	6.00%
Tier I Capital (to Average Assets)	\$ 14,212	7.37%	\$ 7,717	4.00%	\$ 9,646	5.00%
	<b>2008</b>					
Total Capital (to Risk-weighted Assets)	\$ 14,915	10.55%	\$ 11,313	8.00%	\$ 14,142	10.00%
Tier I Capital (to Risk-weighted Assets)	\$ 13,143	9.29%	\$ 5,657	4.00%	\$ 8,485	6.00%
Tier I Capital (to Average Assets)	\$ 13,143	7.45%	\$ 7,060	4.00%	\$ 8,825	5.00%



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**Note 10. Regulatory Matters (Continued)**

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Regulations allow the Bank to pay dividends equal to the lesser of net profits for the current year plus those for the previous two years or retained earnings. Net profits for the current and preceding two years was approximately \$2,778,000.

**Note 11. Related-Party Transactions**

At December 31, 2009 and 2008, the Bank had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$6,042,000 and \$6,039,000, respectively.

In management's opinion such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2009 and 2008 totaled \$2,166,000 and \$3,368,000, respectively.

**Note 12. Employee Benefit Plans**

The Bank has a defined-contribution pension plan covering substantially all employees. Employees may contribute up to the annual Internal Revenue Service limitation with the Bank matching 50% of the employee's contribution on the first 5% of the employee's compensation. Employer contributions charged to expense for 2009 and 2008 were \$37,000 and \$38,000, respectively.

The Bank maintains an incentive compensation plan, whereby certain executive officers can receive a bonus based on the profitability of the Bank. The expense for the plan for 2009 and 2008 was \$32,000 and \$28,000, respectively.

The Bank has entered into an employment contract with the president and chief executive officer and three executive officers. If a change in control, as defined in the contract, were to occur, the Bank would accrue and pay an amount to the officers of approximately three times the annual compensation for the president and chief executive officer and approximately two times annual compensation for the executive officers.



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**Note 13. Stock Option Plan**

The Bank has a stock option plan (Plan) whereby selected executives and other key employees may be granted stock option awards. The Bank grants selected executives and other key employees stock option awards which vest and become fully exercisable over three years at the rate of 33 1/3% per year. The Plan authorizes the grant of options for up to 90,000 shares of the Bank’s common stock. The exercise price of each option, which has a 10-year life, was greater than or equal to the market price of the Bank’s stock on the date of grant.

In 2006, the company adopted FASB ASC 718 to account for the Plan; however the adoption, due to the few number of shares vesting in 2006 and future years, is insignificant. Due to the immaterial nature, certain disclosures required by FASB ASC 718 have been omitted.

The following is a summary of the status of the Company’s Plan and changes in that Plan as of and for the years ended December 31, 2009 and 2008.

	<b>2009</b>			
	<b>Shares</b>	<b>Weighted-average Exercise Price</b>	<b>Weighted-average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Price</b>
Outstanding, beginning of year	56,000	\$ 10.55		
Granted	4,000	10.84		
Exercised	—	—		
Forfeited/expired	—	—		
Outstanding, end of year	<u>60,000</u>	<u>\$ 10.56</u>	<u>3.3</u>	<u>\$ —</u>
Exercisable, end of year	<u>56,000</u>	<u>\$ 10.55</u>	<u>3.3</u>	<u>\$ —</u>



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**Note 13. Stock Option Plan (continued)**

	2008			
	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Price
Outstanding, beginning of year	60,000	\$ 10.52		
Granted	—	—		
Exercised	—	—		
Forfeited/expired	4,000	13.00		
Outstanding, end of year	56,000	\$ 10.55	4.1	\$ 25,200
Exercisable, end of year	56,000	\$ 10.55	4.1	\$ 25,200

**Note 14. Earnings Per Share**

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2009		
	Income	Weighted-average Shares	Per Share Amount
Net income	\$ 1,069		
Basic earnings per share	1,069	965,333	\$ 1.11
Effect of dilutive securities:			
Stock options *	—	—	
Diluted earnings per share:			
Income available to common stockholders and assumed conversions	\$ 1,069	965,333	\$ 1.11

\* excludes antidilutive shares



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**Note 14. Earnings Per Share (continued)**

	Year Ended December 31, 2008		
	Income	Weighted-average Shares	Per Share Amount
Net income	\$ 897		
Basic earnings per share	897	965,333	\$ 0.93
Effect of dilutive securities:			
Stock options	—	2,291	
Diluted earnings per share:			
Income available to common stockholders and assumed conversions	\$ 897	967,624	\$ 0.93

**Note 15. Fair Value Measurements**

Effective January 1, 2008, the Company adopted the provisions of FASB ASC 820, Fair Value Measurements, for assets and liabilities measured and reported at fair value. Effective January 1, 2009, the Company adopted the remaining provisions of FASB ASC 820, Fair Value Measurement, for nonfinancial assets and nonfinancial liabilities measured and reported at fair value. FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.



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**Note 15. Fair Value Measurements (Continued)**

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

**Securities Available For Sale (Recurring)**

The fair value of the Company's securities available for sale are determined using Level 1 and Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively. 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 bonds' terms and conditions, among other things.



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**Note 15. Fair Value Measurements (Continued)**

**Impaired loans (nonrecurring)**

Impaired loans are evaluated and adjusted to fair value at the time the loan is identified as impaired. Impaired loans are carried at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non-recurring Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

**Foreclosed Assets (Nonrecurring)**

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

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**Note 15. Fair Value Measurements (Continued)**

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2009</b>				
Assets:				
U.S. government agencies	\$ 1,950	\$ —	\$ 1,950	\$ —
Mortgage-backed securities	6,883	—	6,883	—
State and political subdivisions	3,812	—	3,812	—
<b>2008</b>				
Assets:				
U.S. government agencies	\$ 3,021	\$ —	\$ 3,021	\$ —
Mortgage-backed securities	5,870	—	5,870	—
State and political subdivisions	3,894	—	3,894	—



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**Note 15. Fair Value Measurements (Continued)**

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The following table summarizes assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
	<b>2009</b>			
Assets:				
Impaired loans	\$ 4,050	\$ —	\$ —	\$ 4,050
Foreclosed assets	90	—	—	90
	<b>2008</b>			
Assets:				
Impaired loans	\$ 734	\$ —	\$ —	\$ 734
Foreclosed assets	12	—	—	12



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(In thousands of dollars, except as noted)

**Note 16. Fair Value of Financial Instruments**

FASB ASC Topic 820, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet and determines under the framework utilized to determine fair value. FASB ASC Topic 820 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The following information presents estimated fair values of the Company's financial instruments as of December 31, 2009 and 2008 and the methods and assumptions used to estimate those fair values.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 3,885	\$ 3,885	\$ 5,667	\$ 5,667
Available for sale securities	12,645	12,645	12,785	12,785
Loans held for sale	1,782	1,782	1,185	1,185
Loans, net of allowance for loan losses	166,903	167,293	156,232	156,714
Federal Home Loan Bank stock	700	700	700	700
Interest receivable	845	845	857	857
<b>Financial liabilities:</b>				
Deposits	\$ 162,006	\$ 162,449	\$ 153,044	\$ 153,648
Short-term borrowings	126	126	522	522
FHLB Advances	14,000	14,000	13,000	13,000
Interest payable	109	109	201	201
Unrecognized financial instruments (net of contract amount):				
Commitments to extend credit	—	—	—	—
Letters of credit	—	—	—	—
Lines of credit	—	—	—	—



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**Note 16. Fair Value of Financial Instruments (continued)**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

**Cash and Due from Banks**

For these short-term instruments, the carrying amount approximates fair value.

**Securities**

The fair value of the Company's securities available for sale are determined using Level 1 and Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively. 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 bonds' terms and conditions, among other things.

**FHLB Stock**

The fair value of FHLB stock is based upon the price at which it may be resold to the FHLB.

**Loans Held for Sale**

The carrying amount of loans held for sale approximates fair value.

**Loans**

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

**Deposits and FHLB Advances**

The fair value of demand deposits, savings accounts, NOW accounts and certain money market deposits is the amount payable on demand at the reporting date, i.e., their carrying amount. The fair value of fixed-maturity time deposits and FHLB Advances is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits and advances of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.



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**Note 16. Fair Value of Financial Instruments (continued)**

**Short-Term Borrowings, Including Federal Funds Purchased**

For these short-term instruments, the carrying amount approximates fair value.

**Commitments to Extend Credit, Forward Sale Commitments, Letters of Credit and Lines of Credit**

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

**Note 17. Commitments and Credit Risk**

Commitments to extend 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 fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2009 and 2008, the Bank had outstanding commitments to originate loans aggregating approximately \$5,232,000 and \$7,269,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period at fixed rates.



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**Note 17. Commitments and Credit Risk (Continued)**

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2009, the Bank had granted unused lines of credit to borrowers aggregating approximately \$13,080,000 and \$10,272,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2008, the Bank had granted unused lines of credit to borrowers aggregating approximately \$18,460,000 and \$14,743,000 for commercial lines and open-end consumer lines, respectively.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of credit customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

The Bank had total outstanding standby letters of credit amounting to \$628,000 and \$741,000 at December 31, 2009 and 2008, respectively, with terms up to one year.



## SHAREHOLDER INFORMATION

### Market Information

United Commerce Bank received authorization from the Indiana Department of Financial Institutions to organize as a state chartered commercial bank on October 14, 1999 and commenced with a public offering of its Common Stock, without par value, on October 18, 1999. United Commerce Bancorp was approved as a bank holding company by the Board of Governors of the Federal Reserve System on March 2, 2005. On May 31, 2005, all of the outstanding shares of United Commerce Bank were exchanged for shares of Common Stock, without par value, of United Commerce Bancorp. The Common Stock of United Commerce Bancorp is quoted on the OTC Bulletin Board under the symbol "UCBN."

The sole source of income for United Commerce Bancorp is the dividends it receives, if any, from United Commerce Bank. Under Indiana law, the Bank is restricted as to the maximum amount of dividends it may pay on its Common Stock. The Indiana Financial Institutions Act provides that an Indiana bank may not pay dividends in an amount greater than its undivided profits or in an amount that would impair its capital. Moreover, the approval of the DFI is required for the payment of any dividend if the aggregate amount of all dividends paid by the Bank during a calendar year, including the proposed dividend, would exceed the sum of the Bank's retained net income for the year to date combined with its retained net income for the previous two years. The DFI and the FDIC are also authorized under certain circumstances to prohibit the payment of dividends by the Bank.

The following sets forth information regarding United Commerce Bancorp's transfer agent, general counsel and independent auditor.

### Transfer Agent and Registrar

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, New Jersey 07016-3572  
(908) 497-2300

### General Counsel

Barnes & Thornburg LLP  
11 South Meridian Street  
Indianapolis, Indiana 46204

### Independent Auditor

McGladrey & Pullen LLP  
1806 Fox Drive  
Champaign, Illinois 61820

### Financial Information

Current financial information regarding United Commerce Bank is available on its website, [www.unitedcommercebank.com](http://www.unitedcommercebank.com). Interested persons may obtain copies of this information without cost by contacting Tom Risen, President, United Commerce Bancorp, 211 South College Avenue, Bloomington, IN 47404.



**STAFF OF UNITED COMMERCE BANK**

**ADMINISTRATION**

**Thomas G. Risen**  
*Chairman, President & CEO*

**Rebecca J. Johnson**  
*Marketing Director*

**Shelly Hewitt**  
*Administrative Officer*

**CONTROL**

**David L. Musgrave**  
*Senior Vice President, Chief Financial Officer*

**S. Scott Martin**  
*Vice President, Controller*

**Cindy Stevens**  
*Accounting, Wire Transfer*

**Kathy E. Floyd**  
*Purchasing & Accounting*

**OPERATIONS**

**Charles E. Thompson**  
*Senior Vice President, Cashier*

**Paul E. Mullins**  
*Vice President, Deposit Operations Officer*

**Linda Sparks**  
*Deposit Operations Manager, Assistant Cashier*

**Jean Emery**  
*Vice President, Business Development Officer*

**T.J. Deckard**  
*Assistant Vice President, Director of IT*

**Russell J. Percifield**  
*Assistant Vice President, Main Office Branch Manager*

**Judith A. Scott**  
*Assistant Vice President, Jackson Creek Branch Manager*

**Becky Jo Merida**  
*Head Teller, Main Office*

**Tina Scott**  
*Head Teller, Jackson Creek Branch*

**Anna L. Metzger**  
*Customer Service Representative*

**Jennifer Reeves**  
*Bookkeeper*

**Pamela J. Gilliland**  
*Teller*

**Lauren Jennett**  
*Teller*

**Billie Reasor**  
*Teller*

**Krista Risley**  
*Teller*

**Shannon Sabin**  
*Teller*

**Donald Donham**  
*Mobile Banking Courier*

**Ernest Robinson**  
*Mobile Banking Courier*

**LOANS**

**Jerry L. Towle**  
*Senior Vice President, Senior Loan Officer*

**Timothy G. Risen**  
*Vice President, Commercial Loan Manager*

**Everett R. Southern**  
*Commercial Loan Officer*

**Martina M. Chance**  
*Vice President, Mortgage Loan Manager*

**Barbara L. Joseph**  
*Assistant Vice President, Mortgage Loan Officer*

**Sandra K. McLain**  
*Mortgage Loan Officer*

**Debra J. Bruner**  
*Assistant Vice President, Consumer Loan Manager*

**Lisa Z. Hamm**  
*Loan Operations Manager*

**Sarah R. Rehmel**  
*Senior Loan Coordinator*

**Amy O'Brien**  
*Mortgage Loan Processor*

**Amber Clark**  
*Loan Administrative Assistant*

**BEDFORD LOAN CENTER**

**Ann M. Jones**  
*Vice President, Mortgage Loan Officer*

**Mark F. Mathews**  
*Mortgage Loan Officer*

**Sheila Flick**  
*Mortgage Loan Processor*





# **United Commerce**

B A N K

## **Main Office**

211 South College Avenue  
Bloomington, Indiana 47404  
(812) 336-BANK

## **Jackson Creek Branch**

1285 South College Mall Road  
Bloomington, Indiana 47401  
(812) 330-5581

## **Bedford Loan Center**

923 East Fifth Street  
Bedford, Indiana 47421  
(812) 277-0737

**[www.UnitedCommerceBank.com](http://www.UnitedCommerceBank.com)**



Member FDIC