

**United Commerce**

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United  
Commerce  
Bancorp

2010  
Annual  
Report

**United Commerce Bank**  
2010 Board of Directors



**Don A. Adams**  
President of American Inbound and Century Services Corporation



**Timothy J. Mitchell**  
President and CEO of 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



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President of Bloomington Ford, Inc. and Community Chrysler  
Plymouth Dodge Jeep, Inc.



**Geoffrey M. Grodner**  
Partner, Mallor | Grodner LLP Legal Services



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**Lawrence D. Rink, M.D.**  
Chairman of the Board of Premier Health Care LLC



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

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DISCLAIMER

This 2010 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:

As of January 1, 2011 United Commerce Bank is the only bank headquartered in Bloomington, Indiana. There is a real difference in the way your local community bank does business. Our policies and procedures are established to fit our community. Our directors are all local people that have worked over the years to make Bloomington a better place to live through their personal and business lives. They are extremely involved in our community, and they make sure that we are a local community bank in every way. In addition, most of our 800 shareholders live and work right here in town.

Over the past year the economy created a number of challenges, as did the regulatory environment, making it a very difficult year for the banking industry. Through it all we remained profitable and extended the number of consecutive profitable months to 112. Net income for 2010 was \$521,000 or \$.54 per share. The book value of our company was \$15.29 per share at December 31, 2010, compared to \$14.77 one year ago, an increase of 3.5%. Over the past five years the book value of our stock has increased from \$10.65 to \$15.29 which is an increase of 44%. I want to note that during 2010 we increased our Capital/Asset Ratio to 8.14%, up from 7.44% one year ago. With strong efforts to control non-interest expense, we held the increase to a very modest 1.4% over 2009.

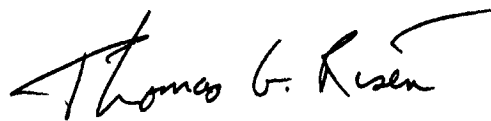
As you will see in the Proxy Statement the Board has unanimously adopted and recommended for approval by the shareholders the 2011 Stock Option Plan. Our existing Plan, the 2000 Stock Option Plan, prohibits the issuance of incentive stock options after October 17, 2010, which is ten years after it was adopted by the shareholders. The Stock Option Plan is used as a tool to attract, retain and motivate employees who are expected to make important contributions to the

Bank. The 2011 Plan will allow the Bancorp to issue incentive stock options to employees.

I want to thank our Board for their hard work over the past 12 years. All of our Directors have been involved with the Bank since the beginning. We formed New Community Bank LLC in 1999, which was established to charter United Commerce Bank. Through their guidance United Commerce Bank is now the third largest bank in the market.

Over these past eleven years I have witnessed the dramatic impact of devoted employees. It is gratifying to watch our team of hard working, loyal and committed employees provide our customers with “Banking the way you want it”. I want to note that we have 14 employees who have been with the Bank since we opened eleven years ago, and 4 more that joined the team in 2000. In addition, 5 staff members have more than eight years with the Bank, and 6 more with five years of service. All of our employees are focused on United Commerce Bank being the best bank in our community.

I want to thank our shareholders and customers for their support, and invite you to stop in or visit us online at [www.unitedcommercebank.com](http://www.unitedcommercebank.com).



Thomas G. Risen  
Chairman, President and CEO



McGladrey & Pullen, LLP  
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, 2010 and 2009, 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 United Commerce Bancorp as of December 31, 2010 and 2009, 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  
February 28, 2011

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United Commerce Bancorp  
Consolidated Balance Sheets  
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and due from banks	\$ 13,065,906	\$ 3,885,044
Securities available for sale	9,868,592	12,644,686
Loans held for sale	3,254,041	1,781,750
Loans, net of allowance for loan losses 2010 \$2,654,085; 2009 \$3,080,271	148,478,542	166,902,734
Premises and equipment	1,817,553	1,901,843
Federal Home Loan Bank stock	689,600	700,000
Accrued interest receivable	682,799	845,491
Prepaid FDIC assessment	676,510	964,803
Other assets	2,435,854	1,390,435
<b>Total assets</b>	<u>\$ 180,969,397</u>	<u>\$ 191,016,786</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest bearing demand	\$ 15,346,885	\$ 12,110,683
Savings, NOW and money market	50,399,005	43,755,509
Certificates of deposit	94,748,930	106,140,144
<b>Total deposits</b>	<u>160,494,820</u>	<u>162,006,336</u>
Short-term borrowings	246,097	125,985
Federal Home Loan Bank advances	5,000,000	14,000,000
Accrued interest payable	103,715	108,586
Other liabilities	363,229	518,013
<b>Total liabilities</b>	<u>166,207,861</u>	<u>176,758,920</u>
<b>Stockholders' Equity</b>		
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	5,674,945	5,153,583
Accumulated other comprehensive income	28,583	46,275
<b>Total stockholders' equity</b>	<u>14,761,536</u>	<u>14,257,866</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 180,969,397</u>	<u>\$ 191,016,786</u>

See Notes to Consolidated Financial Statements.

United Commerce Bancorp  
Consolidated Statements of Income  
Years Ended December 31, 2010 and 2009

	2010	2009
Interest income:		
Loans	\$ 8,484,644	\$ 8,887,657
Investment securities	359,025	517,282
Other	13,096	16,682
Federal funds sold, interest on reserves and other	29,685	14,992
<b>Total interest income</b>	<b>8,886,450</b>	<b>9,436,613</b>
Interest expense:		
Deposits	2,482,362	2,947,733
Short-term borrowings	1	728
Federal Home Loan Bank advances	159,781	170,015
<b>Total interest expense</b>	<b>2,642,144</b>	<b>3,118,476</b>
<b>Net interest income</b>	<b>6,244,306</b>	<b>6,318,137</b>
Provision for loan losses	2,060,000	1,285,000
<b>Net interest income after provision for loan losses</b>	<b>4,184,306</b>	<b>5,033,137</b>
Noninterest income:		
Service charges and fees	112,968	125,001
Gain on sale of mortgage loans, net of commissions	745,802	692,580
Net realized gains on sales of securities available for sale	179,032	180,278
Other	170,326	147,349
<b>Total noninterest income</b>	<b>1,208,128</b>	<b>1,145,208</b>
Noninterest expense:		
Salaries and employee benefits	2,521,043	2,514,466
Net occupancy and equipment	470,456	471,022
Data processing fees	403,203	374,842
FDIC insurance	306,101	336,221
Legal and professional fees	189,518	206,535
Advertising expense	112,366	122,704
Printing and office supplies	87,162	89,062
Director fees	119,750	49,950
Other	416,473	397,732
<b>Total noninterest expense</b>	<b>4,626,072</b>	<b>4,562,534</b>
<b>Income before income taxes</b>	<b>766,362</b>	<b>1,615,811</b>
Provision for income taxes	245,000	547,000
<b>Net income</b>	<b>\$ 521,362</b>	<b>\$ 1,068,811</b>
Basic earnings per share	\$ 0.54	\$ 1.11
Diluted earnings per share	\$ 0.54	\$ 1.11

See Notes to Consolidated Financial Statements.

United Commerce Bancorp  
 Consolidated Statements of Stockholders' Equity  
 Years Ended December 31, 2010 and 2009

	Comprehensive Income	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
<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>		965,333	9,058,008	5,153,583	46,275	14,257,866
Comprehensive income						
Net income	\$ 521,362	—	—	521,362	—	521,362
Change in unrealized loss on available for sale securities, net of tax of \$59,818	89,727	—	—	—	89,727	89,727
Less reclassification for gain on available for sale securities, net of tax of (\$71,613)	(107,419)	—	—	—	(107,419)	(107,419)
Total comprehensive income	<u>\$ 503,670</u>					
<b>Balance, December 31, 2010</b>		<u>965,333</u>	<u>\$ 9,058,008</u>	<u>\$ 5,674,945</u>	<u>\$ 28,583</u>	<u>\$ 14,761,536</u>

See Notes to Consolidated Financial Statements.

United Commerce Bancorp  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 521,362	\$ 1,068,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	136,565	141,487
Provision for loan losses	2,060,000	1,285,000
Amortization of premiums and discounts on securities	95,948	83,484
Deferred income taxes	334,541	(374,179)
Net realized gains on sales of available for sale securities	(179,032)	(180,278)
Loss (gain) on sale of foreclosed assets	(2,588)	16,970
Gains on sales of loans	(745,802)	(692,580)
Originations of loans held for sale	(50,900,658)	(51,997,823)
Proceeds from sales of loans held for sale	50,174,169	52,093,845
Changes in:		
Accrued interest receivable	162,692	11,223
Prepaid FDIC assessment	288,293	(964,803)
Other assets	(286,542)	(7,742)
Accrued interest payable	(4,871)	(92,174)
Other liabilities	(154,784)	219,854
<b>Net cash provided by operating activities</b>	<b>1,499,293</b>	<b>611,095</b>
Cash Flows from Investing Activities		
Net change in loans	15,256,566	(12,131,423)
Purchase of premises and equipment	(52,275)	(123,025)
Redemption of FHLB stock	10,400	—
Proceeds from sales of available for sale securities	9,373,743	7,763,875
Proceeds from calls and maturities of available for sale securities	2,725,000	2,700,000
Purchases of available for sale securities	(10,277,497)	(12,237,542)
Paydowns on available for sale securities	1,008,445	1,986,964
Proceeds from sale of foreclosed assets	28,591	81,488
<b>Net cash provided by (used in) investing activities</b>	<b>18,072,973</b>	<b>(11,959,663)</b>
Cash Flows from Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	9,879,698	8,104,295
Net (decrease) increase in certificates of deposit	(11,391,214)	857,660
Net increase (decrease) in short-term borrowings	120,112	(395,707)
Proceeds from Federal Home Loan Bank advances	15,000,000	27,000,000
Payments on Federal Home Loan Bank advances	(24,000,000)	(26,000,000)
<b>Net cash provided by (used in) financing activities</b>	<b>(10,391,404)</b>	<b>9,566,248</b>
<b>Net increase (decrease) in cash and due from banks</b>	<b>9,180,862</b>	<b>(1,782,320)</b>
Cash and due from banks:		
Beginning of year	3,885,044	5,667,364
End of year	<u>\$ 13,065,906</u>	<u>\$ 3,885,044</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 2,647,015	\$ 3,210,650
Income taxes paid	\$ 417,436	\$ 780,892
Real estate acquired in settlement of loans	<u>\$ 1,107,626</u>	<u>\$ 175,961</u>

See Notes to Consolidated Financial Statements.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(Dollars in Thousands, 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**  
(Dollars in Thousands, Except as Noted)

**Note 1. Nature of Operations and 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**  
(Dollars in Thousands, Except as Noted)

**Note 1. Nature of Operations and 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.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(Dollars in Thousands, Except as Noted)

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

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.

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when, (1) the assets have been isolated from the Company-put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

**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 estimated costs 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 \$1,171 and \$90 at December 31, 2010 or 2009, respectively.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(Dollars in Thousands, Except as Noted)

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

**Stock Options**

The Company has a stock based employee compensation plan, which is described more fully in Note 13. The Company accounts for this plan in accordance with FASB ASC 718, Compensation – Stock Compensation. In accordance with FASB ASC 718, the Company recognizes compensation cost for all stock-based awards based on the estimated grant date fair value. The fair value of stock options are estimated using a Black-Scholes option pricing model and amortized to expense over the option's vesting periods. There was no material impact on the Company related to stock options and, therefore, certain disclosures required by FASB ASC 718 have been omitted.

**Income Taxes**

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 be 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, if any, in the accompanying balance sheets 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, if any, are classified as additional income taxes in the statements 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. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(Dollars in Thousands, Except as Noted)

**Note 1. Nature of Operations and 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 amounts in the accompanying consolidated financial statements as of and for the year ended December 31, 2009 have been reclassified with no effect on stockholders' equity or net income, to be consistent with the classifications as of and for the year ended December 31, 2010.

**New 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 was effective for fiscal years beginning after November 15, 2009. The Company adopted this guidance on January 1, 2010. The adoption of this guidance did not have a material impact on the consolidated financial statements.

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 was effective for the Company in the first quarter of fiscal year 2010. The adoption of this guidance did not have a material impact on the consolidated financial statements.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(Dollars in Thousands, Except as Noted)

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

**New Accounting Standards (Continued)**

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires new disclosures on transfers into and out of Level 1 and 2 measurements of the fair value hierarchy and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchase, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this accounting guidance related to Level 1 and 2 measurements did not have a material impact on the Company's consolidated financial statements. The adoption of this guidance related to Level 3 measurements is not expected to have a material impact on the Company's consolidated financial statements.

**Pending Accounting Standards**

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of financing receivables and allowances for credit losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. This ASU is effective for the Company for annual reporting periods ending after December 15, 2011. The adoption of this guidance will significantly expand the existing disclosure requirements but will not have an impact on the Company's financial position, results of operation and cash flows.

**Subsequent Events**

The Company has evaluated subsequent events through February 28, 2011, which is the date the financial statements were available to be issued.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
(Dollars in Thousands, Except as Noted)

**Note 2. Securities**

The amortized cost and fair value of securities classified as available for sale as of December 31, 2010 and 2009, are as follows:

	<b>2010</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government agencies	\$ 500	\$ 2	\$ —	\$ 502
Mortgage-backed securities	6,567	22	70	6,519
State and political subdivisions	2,754	94	—	2,848
	<b>\$ 9,821</b>	<b>\$ 118</b>	<b>\$ 70</b>	<b>\$ 9,869</b>
	<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
	<b>\$ 12,568</b>	<b>\$ 154</b>	<b>\$ 77</b>	<b>\$ 12,645</b>

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, 2010, by anticipated call date or 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:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 1,269	\$ 1,283
Due after one year through five years	1,785	1,849
Due after five years through ten years	200	218
Mortgage-backed securities	6,567	6,519
	\$ 9,821	\$ 9,869

The carrying value of securities pledged as collateral for Federal Reserve activity amounted to \$1,600 and \$2,000 at December 31, 2010 and December 31, 2009, respectively.

For the years ended December 31, 2010 and 2009, gross realized gains amounted to \$189 and \$180, respectively. For the years ended December 31, 2010 and 2009, gross realized losses amounted to \$10 and none, respectively.

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**Note 2. Securities (Continued)**

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities	\$ 4,074	\$ 70	\$ —	\$ —	\$ 4,074	\$ 70
	2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross 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>

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)**

At December 31, 2010, two debt securities have unrealized losses with aggregate depreciation of 1.69% 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:

	2010	2009
Commercial and industrial	\$ 30,812	\$ 35,625
Commercial real estate	76,438	81,340
Residential real estate-secured by 1-4 family properties	29,314	34,486
Construction	2,066	4,448
Consumer	12,503	14,084
	151,133	169,983
Less allowance for loan losses	2,654	3,080
	\$ 148,479	\$ 166,903

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.

Management assigns classifications to each class of commercial loan based on approved credit quality indicators such as available cash flow, strength of guarantors, and collateral coverage. Consumer loans are evaluated based on payment history and are generally considered nonperforming when they become 60 days past the contractual due date. Information about credit quality indicators in the loan portfolio at December 31, 2010 follows:

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

Commercial and construction loans by internally assigned classification:

	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>Construction Land Development</u>
Pass	26,088	71,732	1,501
Special Mention	924	385	—
Substandard	3,289	4,321	565
Doubtful	511	—	—

Consumer loans based on delinquency status:

	<u>Vehicle</u>	<u>Single Family</u>	<u>Credit Cards</u>	<u>Other</u>
Performing	1,418	26,854	929	10,123
Nonperforming	33	2,460	—	—

Information about impaired loans and non-accrual loans as of and for the years ended December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Impaired loans for which there is a related allowance for loan losses	\$ 2,213	\$ 3,424
Impaired loans for which there is no related allowance for loan losses	2,914	2,345
	<u>\$ 5,127</u>	<u>\$ 5,769</u>
Allowance for loan losses for impaired loans included in the allowance for loan losses	\$ 788	\$ 1,719
Average recorded investment in impaired loans	\$ 4,428	\$ 4,106
Non-accrual loans, excluding impaired loans	\$ —	\$ 118
Loans past due 90 days or more and still accruing, excluding impaired loans	\$ 10	\$ 28

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

Information about impaired loans by class at December 31, 2010 follows:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>With no specific allowance recorded</b>					
Construction	\$ 614	\$ 614	n/a	\$ 1,079	\$ —
Commercial Real Estate	1,785	1,785	n/a	1,523	—
Residential Real Estate	515	515	n/a	439	—
	<u>\$ 2,914</u>	<u>\$ 2,914</u>	n/a	<u>\$ 3,041</u>	<u>\$ —</u>
<b>With an allowance recorded</b>					
Residential Real Estate	\$ 1,097	\$ 1,097	\$ 180	\$ 625	\$ —
Commercial and Industrial	1,019	1,019	511	729	—
Consumer	97	97	97	33	—
	<u>\$ 2,213</u>	<u>\$ 2,213</u>	<u>\$ 788</u>	<u>\$ 1,387</u>	<u>\$ —</u>
<b>Total</b>					
Construction	614	614	—	1,079	—
Commercial Real Estate	1,785	1,785	—	1,523	—
Residential Real Estate	1,612	1,612	180	1,064	—
Commercial and Industrial	1,019	1,019	511	729	—
Consumer	97	97	97	33	—
	<u>\$ 5,127</u>	<u>\$ 5,127</u>	<u>\$ 788</u>	<u>\$ 4,428</u>	<u>\$ —</u>

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**Notes to Consolidated Financial Statements**  
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**Note 3. Loans and Allowance for Loan Losses (Continued)**

Information about non performing loans by class at December 31, 2010 follows:

	<b>Days Contractually Past Due</b>			<b>Non-Accrual</b>
	<b>30-59</b>	<b>60-89</b>	<b>90+</b>	
Commercial and industrial	\$ —	\$ —	\$ 8	\$ 606
Commercial real estate	476	102	—	1,467
Residential real estate secured by 1-4 family properties	581	—	—	2,460
Construction	—	—	—	491
Consumer loans	68	30	2	1
	<u>\$ 1,125</u>	<u>\$ 132</u>	<u>\$ 10</u>	<u>\$ 5,025</u>

Activity in the allowance for loan losses was as follows:

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 3,080	\$ 2,118
Provision charged to expense	2,060	1,285
Losses charged off, net of recoveries 2010 \$8; 2009 \$15	(2,486)	(323)
Balance, end of year	<u>\$ 2,654</u>	<u>\$ 3,080</u>

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

Premises and equipment at December 31 consist of:

	2010	2009
Land	\$ 311	\$ 311
Building and leasehold improvements	1,644	1,648
Furniture and equipment	804	796
	2,759	2,755
Less accumulated depreciation and amortization	941	853
	\$ 1,818	\$ 1,902

**Note 5. Interest-Bearing Deposits**

Interest-bearing deposits in denominations of \$100 or more were \$40,835 and \$50,661 on December 31, 2010 and 2009, respectively.

The scheduled maturities of certificate of deposit are as follows:

	Amount
Year Ending December 31,	
2011	\$ 39,324
2012	41,871
2013	12,182
2014	7
2015	365
Thereafter	1,000
	\$ 94,749

The Bank had \$16,752 and \$49,465 in brokered certificates of deposit at December 31, 2010 and 2009, respectively.

**United Commerce Bancorp**  
**Notes to Consolidated Financial Statements**  
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**Note 6. Short-Term Borrowings**

Short-term borrowings consisted of U.S. Treasury demand notes totaling \$246 and \$126 at December 31, 2010 and 2009, respectively, and have variable interest rates which at December 31, 2010, were 0.00%.

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

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

	<u>2010</u>	<u>2009</u>
Due January 18, 2013, interest due monthly at 2.66%	\$ 5,000	\$ 5,000
Due March 30, 2010, at the base rate of .05% plus .35%	—	3,000
Due February 01, 2010, at the base rate of .05% plus .35%	—	3,000
Due January 4, 2010, at the base rate of .05% plus .35%	—	3,000
	<u>\$ 5,000</u>	<u>\$ 14,000</u>

The advances are secured by mortgage loans totaling \$7,500 at December 31, 2010. The advances are subject to restrictions or penalties in the event of prepayment.

**Note 8. Income Taxes**

The provision for income taxes includes these components:

	<u>2010</u>	<u>2009</u>
Currently payable:		
Federal	\$ (4)	\$ 768
State	(86)	153
Deferred income taxes:		
Federal	213	(276)
State	122	(98)
	<u>\$ 245</u>	<u>\$ 547</u>

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

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

	<u>2010</u>	<u>2009</u>
Computed at the statutory rate (34%)	\$ 261	\$ 549
Tax-exempt interest income	(46)	(48)
Nondeductible expenses	9	14
State income taxes	23	36
Other	(2)	(4)
	<u>\$ 245</u>	<u>\$ 547</u>

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>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 793	\$ 1,104
Loans held for sale	—	3
Other	35	71
	<u>828</u>	<u>1,178</u>
Deferred tax liabilities:		
Depreciation	(71)	(88)
Unrealized gain on available for sale securities	(19)	(31)
Federal Home Loan Bank stock	(17)	(17)
Other	(18)	(17)
	<u>(125)</u>	<u>(153)</u>
	<u>\$ 703</u>	<u>\$ 1,025</u>

**United Commerce Bancorp**  
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**Note 9. Branch Leases**

The Bank has an operating lease for its branch and the related land that expire over the next 6 years and contain renewal options for an additional five years. The Bank pays all executory costs, such as taxes, maintenance and insurance. Rental expense for these leases was approximately \$134 and \$133 in 2010 and 2009, respectively.

Future minimum lease payments under these operating leases are:

	<b>Amount</b>
Year Ending December 31,	
2011	\$ 122
2012	123
2013	125
2014	126
2015	126
Thereafter	129
	\$ 751

**Note 10. Regulatory Matters**

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Those agencies reserve the right to require capital requirements in excess of these minimums. 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.

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, 2010 and 2009, that the Company and the Bank meets these capital adequacy requirements.

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

As of December 31, 2010, 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>2010</b>					
Total Capital (to Risk-weighted Assets)	\$ 16,450	12.06%	\$ 10,914	8.00%	\$ 13,643	10.00%
Tier I Capital (to Risk-weighted Assets)	\$ 14,733	10.80%	\$ 5,457	4.00%	\$ 8,186	6.00%
Tier I Capital (to Average Assets)	\$ 14,733	7.77%	\$ 7,586	4.00%	\$ 9,482	5.00%
	<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%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. In general, 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 \$2,488.

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**Note 11. Related-Party Transactions**

At December 31, 2010 and 2009, the Bank had outstanding loan commitments to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$8,255 and \$7,999, 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, 2010 and 2009 totaled \$2,916 and \$2,166, 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 up to the first 5% of the employee's compensation. Employer contributions charged to expense for 2010 and 2009 were \$40 and \$37, 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 2010 and 2009 was \$0 and \$32, 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.

**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.

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

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, 2010 and 2009.

	<b>2010</b>		
	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</b>
Outstanding, beginning of year	60,000	\$ 10.56	
Granted	—	—	
Exercised	—	—	
Forfeited/expired	3,500	10.57	
Outstanding, end of year	<u>56,500</u>	<u>\$ 10.56</u>	<u>2.3</u>
Exercisable, end of year	<u>53,833</u>	<u>\$ 10.55</u>	<u>2.3</u>
	<b>2009</b>		
	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</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>
Exercisable, end of year	<u>56,000</u>	<u>\$ 10.55</u>	<u>3.3</u>

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**Note 14. Earnings Per Share**

Earnings per share (EPS) were computed as follows:

	<b>Year Ended December 31, 2010</b>		
	<b>Income</b>	<b>Weighted-Average Shares</b>	<b>Per Share Amount</b>
Net income	\$ 521		
Basic earnings per share	521	965,333	\$ 0.54
Effect of dilutive securities:			
Stock options	—	1,762	
Diluted earnings per share:			
Income available to common stockholders and assumed conversions	\$ 521	967,095	\$ 0.54

	<b>Year Ended December 31, 2009</b>		
	<b>Income</b>	<b>Weighted-Average Shares</b>	<b>Per Share Amount</b>
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 15. Fair Value Measurements**

The Company has adopted the provisions of FASB ASC 820, Fair Value Measurements and Disclosures, for assets, liabilities, 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.

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. For the years ended December 31, 2010 and 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent.

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**Note 15. Fair Value Measurements (Continued)****Securities Available for Sale (Recurring)**

The fair value of the Company's securities available for sale are determined using 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.

**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. There were no foreclosed assets carried at fair value at December 31, 2010 and 2009.

The Company did not have any transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during 2010.

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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, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<b>2010</b>			
Assets:				
Securities available for sale:				
U.S. government agencies	\$ —	\$ 502	\$ —	\$ 502
Mortgage-backed securities	—	6,519	—	6,519
State and political subdivisions	—	2,848	—	2,848
	<u>\$ —</u>	<u>\$ 9,869</u>	<u>\$ —</u>	<u>\$ 9,869</u>
	<b>2009</b>			
Assets:				
Securities available for sale:				
U.S. government agencies	\$ —	\$ 1,950	\$ —	\$ 1,950
Mortgage-backed securities	—	6,883	—	6,883
State and political subdivisions	—	3,812	—	3,812
	<u>\$ —</u>	<u>\$ 12,645</u>	<u>\$ —</u>	<u>\$ 12,645</u>

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, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

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

	Level 1	Level 2	Level 3	Total
	<b>2010</b>			
Assets:				
Impaired loans	\$ —	\$ —	\$ 1,831	\$ 1,831
	<b>2009</b>			
Assets:				
Impaired loans	\$ —	\$ —	\$ 1,705	\$ 1,705

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

FASB ASC Topic 820, Fair Value Measurement and Disclosures, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet and determines the framework utilized to determine fair value. Thus accounting guidance 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, 2010 and 2009 and the methods and assumptions used to estimate those fair values.

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 13,066	\$ 13,066	\$ 3,885	\$ 3,885
Securities available for sale	9,869	9,869	12,645	12,645
Loans held for sale	3,254	3,254	1,782	1,782
Loans, net of allowance for loan losses	148,479	143,361	166,903	167,293
Federal Home Loan Bank stock	690	690	700	700
Accrued interest receivable	683	683	845	845
Financial liabilities:				
Deposits	\$ 160,495	\$ 161,428	\$ 162,006	\$ 162,449
Short-term borrowings	246	246	126	126
FHLB advances	5,000	5,230	14,000	14,000
Accrued interest payable	104	104	109	109

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 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 16. Fair Value of Financial Instruments (Continued)**

**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.

**Accrued Interest Receivable**

The carrying amount of accrued interest receivable 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.

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

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

**Accrued Interest Payable**

The carrying amount of accrued interest payable approximates its fair value.

**Off-Balance-Sheet Instruments**

Fair values for the Company's off-balance-sheet instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. These items are not material.

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

In addition, other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, nonfinancial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the earnings potential of loan servicing rights, the earnings potential of the trust operations, the trained work force, customer goodwill and similar items.

**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, 2010 and 2009, the Bank had outstanding commitments to originate loans aggregating approximately \$2,335 and \$5,232, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period at fixed rates.

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, 2010, the Bank had granted unused lines of credit to borrowers aggregating approximately \$10,711 and \$9,775 for commercial lines and open-end consumer lines, respectively. At December 31, 2009, the Bank had granted unused lines of credit to borrowers aggregating approximately \$13,080 and \$10,272 for commercial lines and open-end consumer lines, respectively.

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

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 \$782 and \$628 at December 31, 2010 and 2009, 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, Purchasing*

**CONTROL**

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

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

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

**Bethany Sanders**  
*Accounting and Accounts Payable*

**OPERATIONS**

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

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

**Anna Metzger**  
*Bank Secrecy Act Officer & Operations Specialist*

**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*

**Rebecca A. Barrett**  
*Customer Service Representative*

**Jennifer Reeves**  
*Bookkeeper*

**Pamela J. Gilliland**  
*Teller*

**Lauren Jennett**  
*Teller*

**Billie Reasor**  
*Teller*

**Krista Risley**  
*Teller*

**Kathy Hertz**  
*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*

**Ann M. Jones**  
*Mortgage Loan Coordinator and Loan Officer*

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

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

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

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

**Amber Clark**  
*Credit Analyst*

**Amy O'Brien**  
*Loan Operations Specialist*

**Shannon Sabin**  
*Loan Administrative Assistant*





# **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  
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(812) 330-5581

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Member FDIC