TRACK DATA CORP
Form 10-Q
November 14, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2006**

Commission File Number 0-24634

TRACK DATA CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**22-3181095**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

95 Rockwell Place
Brooklyn, NY 11217
(Address of principal executive offices)

(718) 522-7373
(Registrant's telephone number)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer o   Accelerated Filer o Non-Accelerated Filer x
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of October 31, 2006 there were 8,392,000 shares of common stock outstanding.

Track Data Corporation and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except number of shares)

	September 30, 2006	December 31, 2005
	Unaudited	*Audited*
ASSETS		
CASH AND EQUIVALENTS	$ 6,865	$ 4,469
ACCOUNTS RECEIVABLE - net of allowance for doubtful accounts of $231 in 2006 and $225 in 2005	2,587	1,950
DUE FROM CLEARING BROKER	391	154
DUE FROM BROKER	19,599	15,591
MARKETABLE SECURITIES	5,006	9,492
FIXED ASSETS - at cost (net of accumulated depreciation)	1,987	1,701
EXCESS OF COST OVER NET ASSETS ACQUIRED - net	1,900	1,900
OTHER ASSETS	765	950
TOTAL	$ 39,100	$ 36,207
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 5,103	$ 3,707
Note payable - bank	859	1,137
Trading securities sold, but not yet purchased	9,172	8,223
Net deferred income tax liabilities	452	959
Other liabilities, including income taxes	839	632
Total liabilities	16,425	14,658
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - $.01 par value; 60,000,000 shares authorized; issued and outstanding - 8,392,000 shares in 2006 and 8,380,000 shares in 2005	84	84
Additional paid-in capital	10,183	10,136
Retained earnings	12,213	10,374

Accumulated other comprehensive income	195	955
Total stockholders’ equity	22,675	21,549
TOTAL	$ 39,100	$ 36,207

See notes to condensed consolidated financial statements

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Track Data Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(in thousands, except earnings per share)

(Unaudited)

	2006	2005
SERVICE FEES AND REVENUE		
Market Data Services	$ 16,408	$ 17,544
ECN Services	11,113	5,371
Broker-Dealer Commissions	5,321	4,470
Total	32,842	27,385
COSTS, EXPENSES AND OTHER:		
Direct operating costs (includes depreciation and amortization of $445,000 and $496,000 in 2006 and 2005, respectively)	23,882	19,164
Selling and administrative expenses (includes depreciation and amortization of $69,000 and $102,000 in 2006 and 2005, respectively)	8,027	9,434
Rent expense - related party	473	465
Marketing and advertising	162	223
Gain on arbitrage trading	(973)	(572)
Gain on sale of marketable securities - Innodata and Edgar Online	(1,777)	(1,061)
Interest income	(282)	(161)
Interest expense	265	381
Total	29,777	27,873
INCOME (LOSS) BEFORE INCOME TAXES	3,065	(488)
INCOME TAXES (BENEFIT)	1,226	(195)
NET INCOME (LOSS)	$ 1,839	$ (293)
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	$.22	$(.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	8,379	9,474
ADJUSTED DILUTIVE SHARES OUTSTANDING	8,389	9,474

See notes to condensed consolidated financial statements

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Track Data Corporation and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(in thousands, except earnings per share)
(Unaudited)

	2006	2005
SERVICE FEES AND REVENUE		
Market Data Services	$ 5,364	$ 5,662
ECN Services	3,344	1,741
Broker-Dealer Commissions	1,615	1,395
Total	10,323	8,798
COSTS, EXPENSES AND OTHER:		
Direct operating costs (includes depreciation and amortization of $149,000 and $166,000 in 2006 and 2005, respectively)	7,568	6,123
Selling and administrative expenses (includes depreciation and amortization of $23,000 and $34,000 in 2006 and 2005, respectively)	2,610	3,163
Rent expense - related party	158	157
Marketing and advertising	23	52
Gain on arbitrage trading	(407)	(381)
Gain on sale of marketable securities—Innodata and Edgar Online	(1)	(6)
Interest income	(75)	(38)
Interest expense	74	184
Total	9,950	9,254
INCOME (LOSS) BEFORE INCOME TAXES	373	(456)
INCOME TAXES (BENEFIT)	149	(182)
NET INCOME (LOSS)	$ 224	$ (274)
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	$.03	$(.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	8,379	9,295
ADJUSTED DILUTIVE SHARES OUTSTANDING	8,410	9,295

See notes to condensed consolidated financial statements

Track Data Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2006

(in thousands)
(Unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock-holders' Equity	Compre-hensive Income
BALANCE, JANUARY 1, 2006	**8,380**	**$ 84**	**$10,136**	**$ 10,374**	**$ 955**	**$ 21,549**	
Net income				1,839		1,839	$ 1,839
Purchase and retirement of treasury stock	(6)		(20)			(20)	
Exercise of stock options	18		56			56	
Tax effect of stock options exercised			11			11	
Reclassification adjustment for gain on marketable securities - net of taxes					(946)	(946)	(946)
Unrealized gain on marketable securities - net of taxes					186	186	186
Comprehensive income							**$ 1,079**
BALANCE, SEPTEMBER 30, 2006	**8,392**	**$ 84**	**$10,183**	**$ 12,213**	**$ 195**	**$ 22,675**	

See notes to condensed consolidated financial statements

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Track Data Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(in thousands)

(Unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,839	$ (293)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	514	598
Tax effect of stock options exercised	11	-
Gain on sale of Innodata and Edgar Online common stock	(1,777)	(1,061)
Other	2	51
Changes in operating assets and liabilities:		
Accounts receivable and due from clearing broker	(874)	59
Due from broker	(4,008)	23,678
Marketable securities	3,207	5,100
Other assets	415	(15)
Accounts payable and accrued expenses	1,396	(975)
Trading securities sold, but not yet purchased	949	(25,821)
Other liabilities, including income taxes	(24)	(2,200)
Net cash provided by (used in) operating activities	1,650	(879)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(808)	(562)
Investment in private company	(150)	(100)
Proceeds from sale of Innodata and Edgar Online common stock	1,787	1,074
Proceeds from sale of equipment	-	8
Net cash provided by investing activities	829	420
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) proceeds from note payable - bank	(278)	1,269
Net proceeds from contributions to employee savings program	161	100
Purchase of treasury stock	(20)	(3,676)
Proceeds from exercise of stock options	56	-
Net cash used in financing activities	(81)	(2,307)
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH	(2)	(7)
NET INCREASE (DECREASE) IN CASH	2,396	(2,773)
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	4,469	6,818

CASH AND EQUIVALENTS, END OF PERIOD	$ 6,865	$ 4,045
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 265	$ 381
Income taxes	698	1,943

See notes to condensed consolidated financial statements

Track Data Corporation and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(unaudited)

1. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position as of September 30, 2006, and the results of operations for the three and nine month periods ended September 30, 2006 and 2005 and of cash flows for the nine months ended September 30, 2006 and 2005. The results of operations for the nine months ended September 30, 2006 are not necessarily indicative of results that may be expected for any other interim period or for the full year.

These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-K. The accounting policies used in preparing these financial statements is the same as those described in the December 31, 2005 financial statements.

Certain reclassifications of prior year amounts were made to conform to the 2006 presentation. There was no effect on reported income.

2. The Company charges all costs incurred to establish the technological feasibility of a product or product enhancement to research and development expense. Research and development expenses, included in direct operating costs, were approximately $119,000 and $167,000 for the nine months and $40,000 and $55,000 for the three months ended September 30, 2006 and 2005, respectively.

3. Advertising costs, included in selling and administrative expenses and charged to operations when incurred, were $162,000 and $223,000 for the nine months and $23,000 and $52,000 for the three months ended September 30, 2006 and 2005, respectively.

4. Marketable securities consists of the following (in thousands):

	September 30, 2006	December 31, 2005
Edgar Online - Available for sale securities - at market	$ -	$ 734
Innodata - Available for sale securities - at market	648	1,193
Arbitrage trading securities - at market	4,358	7,565
Marketable securities	$ 5,006	$ 9,492
Arbitrage trading securities sold but not yet purchased - at market	$ 9,172	$ 8,223

During the nine months ended September 30, 2006, the Company sold its remaining shares of Edgar Online, Inc. ("EOL"), an Internet-based supplier of business, financial and competitive intelligence derived from U.S. Securities and Exchange Commission data. At December 31, 2005, the Company owned 403,498 shares of EOL. The Company carried the investment at $734,000, the market value at December 31, 2005. The difference between the cost of $5,000 and fair market value of these securities, net of $292,000 in deferred taxes, or $437,000 was classified as a component of accumulated other comprehensive income included in stockholders' equity at December 31, 2005.

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The Company owns 337,798 shares of Innodata, a provider of digital content outsourcing services. The Company carries the investment at $648,000 the market value at September 30, 2006. The difference between the cost of $324,000 and fair market value of these securities, net of $129,000 in deferred taxes, or $195,000 is classified as a component of accumulated other comprehensive income included in stockholders' equity as of September 30, 2006. At December 31, 2005, the Company owned 344,548 shares of Innodata. The Company carried the investment at $1,193,000, the market value at December 31, 2005. The difference between the cost of $329,000 and fair market value of these securities, net of $346,000 in deferred taxes, or $518,000 is classified as a component of accumulated other comprehensive income included in stockholders' equity at December 31, 2005.

The Company engages in arbitrage trading activity. The Company's trading strategy consists principally of establishing hedged positions consisting of stocks and options. The Company is subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

As of September 30, 2006, trading securities had a long market value of $4,358,000 with a cost of $4,395,000, or a net unrealized loss of $37,000. Securities sold but not yet purchased, had a short market value of $9,172,000 with a cost/short proceeds of $9,234,000, or a net unrealized gain of $62,000. The Company expects that its September 30, 2006 positions will be closed during the fourth quarter of 2006 and that other positions with the same strategy will be established. The Company pledged its holdings in Innodata as collateral for its trading accounts. In addition, the Company's Chairman pledged approximately 1.8 million shares of his holdings in the Company's common stock as collateral for these accounts. The Company is paying its Chairman at the rate of 2% per annum on the value of the collateral pledged. Such payments aggregated $30,000 and $34,000 for the nine months and $12,000 and $11,000 for the three months ended September 30, 2006 and 2005, respectively.

The Company recognized gains from arbitrage trading of $973,000 and $572,000 for the nine months ended September 30, 2006 and 2005, respectively. The Company recognized gains from arbitrage trading of $407,000 and $381,000 for the three months ended September 30, 2006 and 2005, respectively.

At December 31, 2005, trading securities had a long market value of $7,565,000 with a cost of $7,567,000, or a net unrealized loss of $2,000. Securities sold but not yet purchased, had a short market value of $8,223,000 with a cost/short proceeds of $8,253,000, or a net unrealized gain of $30,000.

In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. The level of trading in the arbitrage trading account is partially dependent on the margin value of Track Data common stock pledged by its CEO, and Innodata common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control.

5. The Company has a line of credit with a bank up to a maximum of $3 million. The line is collateralized by the assets of the Company and is guaranteed by its Chairman. Interest is charged at 1.75% above the bank's prime rate and is due on demand. The Company may borrow up to 80% of eligible market data service receivables, as defined, and is required to maintain a compensating balance of 10% of the outstanding loans ($86,000 at September 30, 2006). At September 30, 2006, the Company had borrowings of $859,000 under the line. Additional borrowings available on the line of credit at September 30, 2006 were $193,000 based on these formulas.

6. Earnings (Loss) Per Share--Basic earnings (loss) per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share are based on the weighted average number of common and potential dilutive common shares outstanding. For the three and nine months ended September 30, 2006, the Company had 817,000 and 925,000 stock options outstanding, respectively, and for the three and nine months ended September 30, 2005, the Company had 1,192,000 stock options outstanding, respectively, that were not included in the dilutive calculation because the exercise price was greater than the average market price of the common stock for the period. There was no effect on earnings per share as a result of potential dilution. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the period.

Earnings (loss) per share (in thousands, except per share):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net income (loss)	$ 224	$ (274)	$1,839	$ (293)
Weighted average common shares outstanding	8,379	9,295	8,379	9,474
Dilutive effect of outstanding options	31	-	10	-
Adjusted for dilutive computation	8,410	9,295	8,389	9,474
Basic income (loss) per share	$.03	$(.03)	$.22	$(.03)
Diluted income (loss) per share	$.03	$(.03)	$.22	$(.03)

7. Accounting for Stock Options--Statement of Financial Accounting Standards ("SFAS") 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," requires disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income (loss) and per share amounts in annual and interim financial statements. At September 30, 2006, the Company had seven stock-based employee compensation plans of which there were outstanding awards exercisable into 1,000,000 shares of common stock. Until December 31, 2005, the Company accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. No stock-based employee compensation cost is reflected in the statement of operations, 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 date of

grant.

Commencing January 1, 2006, the Company was required to adopt SFAS 123(R), "Share-Based Payment," using the modified prospective transition method. The adoption of the new requirements will result in compensation charges to the Company's statement of operations for the fair value of options granted to employees after December 31, 2005, as well as the compensation cost for the portion of outstanding awards for which the requisite service had not yet been rendered as of December 31, 2005. At December 31, 2005, all of the Company's outstanding stock options were fully vested and the Company made no option grants during the nine months ended September 30, 2006. The Company expects that the adoption of this statement may have a material impact on net income (loss) and earnings (loss) per share in future periods upon issuance of new awards.

The following table illustrates the effect on net income (loss) and net income (loss) per share as if the Company had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation prior to January 1, 2006:

	Three Months Ended September 30, 2005	**Nine Months Ended September 30, 2005**
	(in thousands, except earnings per share)	
Net loss, as reported	$(274)	$(293)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(46)	(172)
Net loss, as adjusted	$(320)	$(465)
Loss per share:		
Basic and diluted --as reported	$(.03)	$(.03)
Basic and diluted --as adjusted	$(.03)	$(.05)

8. Segment Information--The Company is a financial services company that provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. The Company owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. ("NASD"). The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the professional institutional traders, and myTrack and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company's operations are classified in three business segments: (1) market data services and trading, including ECN services, to the institutional professional investment community, and (2) Internet-based online trading and market data services to the non-professional individual investor community, and (3) arbitrage trading. See Note 4.

The accounting policies of the segments are the same as those described in Note A, Summary of Significant Accounting Policies in the Company's financial statements for the year ended December 31, 2005 included in Form

10-K. Segment data includes charges allocating corporate overhead to each segment. The Company has not disclosed asset information by segment as the information is not produced internally. Substantially all long-lived assets are located in the U.S. The Company's business is predominantly in the U.S. Revenues and net income from international operations are not material.

Information concerning operations in its business segments is as follows (in thousands):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues				
Professional Market	$ 7,375	$ 6,013	$ 23,536	$ 18,637
Non-Professional Market	2,948	2,785	9,306	8,748
Total Revenues	$ 10,323	$ 8,798	$ 32,842	$ 27,385
Arbitrage Trading - gain on sale of marketable securities	$ 407	$ 381	$ 973	$ 572
(Loss) income before unallocated amounts and income taxes:				
Professional Market	$ (376)	$ (827)	$ (852)	$ (2,210)
Non-Professional Market	560	381	1,807	1,053
Arbitrage Trading (including interest)	346	195	821	215
Unallocated amounts:				
Depreciation and amortization	(172)	(199)	(514)	(598)
Gain on sale of Innodata and Edgar Online common stock	1	6	1,777	1,061
Interest income (expense), net	14	(12)	26	(9)
Income (loss) before income taxes	$ 373	$ (456)	$3,065	$ (488)

9. Transactions with Clearing Broker and Customers--The Company conducts business through a clearing broker which settles all trades for the Company, on a fully disclosed basis, on behalf of its customers. The Company earns commissions as an introducing broker for the transactions of its customers. In the normal course of business, the Company's customer activities involve the execution of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the obligation at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers' accounts. However, the Company is required to either obtain additional collateral or to sell the customer's position if such collateral is not forthcoming. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company. At September 30, 2006, the Company had $10.9 million in margin credit extended to its customers. The Company believes it is unlikely it will have to make material payments under the indemnification agreement and has not recorded any contingent liability in the Consolidated Financial Statements.

The Company and its clearing broker seek to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company and its clearing broker monitor required margin levels daily and, pursuant to such guidelines, require the customer to deposit additional collateral or to reduce positions when necessary.

10. Net Capital Requirements-- The Securities and Exchange Commission ("SEC"), NASD, and various other regulatory agencies have stringent rules requiring the maintenance of specific levels of net capital by securities brokers, including the SEC's uniform net capital rule, which governs Track Data Securities Corp. Net capital is defined as assets minus liabilities, plus other allowable credits and qualifying subordinated borrowings less mandatory deductions that result from excluding assets that are not readily convertible into cash and from valuing other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments in the market value of securities to reflect the possibility of a market decline prior to disposition.

As of September 30, 2006, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately $1 million and had total net capital of $3,581,000, or approximately $2,581,000 in excess of minimum net capital requirements.

If TDSC fails to maintain the required net capital it may be subject to suspension or revocation of registration by the SEC and suspension or expulsion by the NASD and other regulatory bodies, which ultimately could require TDSC's liquidation. In addition, a change in the net capital rules, the imposition of new rules, a specific operating loss, or any unusually large charge against net capital could limit those operations of TDSC that require the intensive use of capital and could limit its ability to expand its business.

11. Comprehensive income (loss) is as follows (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net income (loss)	$ 224	$ (274)	$ 1,839	$ (293)
Reclassification adjustment for gain on marketable securities - net of taxes	(2)	(4)	(946)	(464)
Unrealized (loss) gain on marketable securities-net of taxes	(125)	(78)	186	(1,196)
Comprehensive income (loss)	$ 97	$ (356)	$ 1,079	$ (1,953)

12. In May, 2006, the Company purchased a non-dilutable 15% interest in SFB Market Systems, Inc. ("SFB") for $150,000 cash. The Company may be required to pay up to an additional $100,000 in the event SFB achieves certain sales projections between December, 2006 and October, 2007. SFB is a privately held company that provides an online centralized securities symbol management system and related equity and option information for updating and loading of master files. The Company currently has a representative on SFB's four member Board of Directors. The Company accounts for its investment in SFB under the cost method, and is included in other assets in the balance sheet as of September 30, 2006.

13. The Company leases its executive office facilities in Brooklyn from a limited partnership owned by the Company's Chairman and members of his family. The Company paid the partnership rent of $158,000 and $157,000 for the three months and $473,000 and $465,000 for the nine months ended September 30, 2006 and 2005, respectively. The lease provided for the Company to pay $630,000 per annum through April 1, 2006. The Company is presently paying at the same rate without a new lease. This lease is expected to be renewed for another one-year period.

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In April 2006, the Company's Chairman formed a private limited partnership of which he is the general partner for the purpose of operating a hedge fund for trading in certain options strategies. The Company has no financial interest in or commitments related to, the hedge fund. The hedge fund opened a trading account with the Company's broker-dealer. The Company charged commissions to the hedge fund totaling $55,000 and $31,000 for the nine and three months ended September 30, 2006, respectively.

14. On June 14, 2005, the SEC filed a civil complaint against Barry Hertz, the Company's Chairman and CEO, in the U.S. District Court for the Eastern District of New York in Brooklyn alleging violations of various provisions of the federal securities laws in connection with certain transactions in the Company’s stock owned by others. The SEC seeks various remedies including an injunction, disgorgement of profits and an order barring Mr. Hertz from serving as an officer or director of a public company. Mr. Hertz has denied wrongdoing and filed a motion for summary judgment dismissing the complaint. The SEC has filed a cross-motion for partial summary judgment. The motions for summary judgment and partial summary judgment have been denied by the Court.

The operations of TDSC, a wholly owned subsidiary of the Company, are subject to reviews by regulators within its industry, which include the SEC and the NASD. In the past, certain reviews have resulted in the Company incurring fines and required the Company to change certain of its internal control and operating procedures. Ongoing and future reviews may result in the Company incurring additional fines and changes in its internal control and operating procedures. Management does not expect any ongoing reviews to have a material affect on the Company's financial position or statement of operations.

15. In November, 2005, the Board of Directors authorized the purchase of up to 1 million shares from time to time in market purchases or in negotiated transactions. As of September 30, 2006, the Company had purchased approximately 6,000 shares for $20,000 pursuant to such authorization.

16. In September 2005, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) 154, “Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements.” SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods’ financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 did not have an impact on the Company’s financial statements.

In November 2005, the FASB issued FASB Staff Position FAS 115-1 and FAS 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (“FSP 115-1”), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The adoption of FSP 115-1 did not have an impact on the Company’s consolidated financial condition or results of operations.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109.” This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is assessing the impact of this Interpretation on its financial statements, but does not expect it to have a material affect.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It codifies the definitions of fair value included in other authoritative literature; clarifies and, in some cases, expands on the guidance for implementing fair value measurements; and increases the level of disclosure required for fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements, nor does it establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement will be effective for the Company's fiscal year beginning January 2008. The Company will evaluate the impact of adopting SFAS 157, but does not expect that it will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 becomes effective in 2007. Adoption of SAB 108 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Disclosures in this Form 10-Q contain certain forward-looking statements, including, without limitation, statements concerning the Company's operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate" and other similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties, including, without limitation, changes in external market factors, changes in the Company's business or growth strategy or an inability to execute its strategy due to changes in its industry or the economy generally, the emergence of new or growing competitors, various other competitive factors and other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-Q will in fact occur. The Company makes no commitment to revise or update any forward looking statements in order to reflect events or circumstances after the date any such statement is made.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business

Track Data Corporation (the “Company”) is a Delaware corporation that was formed in 1981. The Company maintains offices in the U.S. and Europe, with executive offices located at 95 Rockwell Place, Brooklyn, New York 11217. Its telephone number is 212-943-4555 or 718-522-7373.

The Company is a financial services company that provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. The Company owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the professional institutional traders, and myTrack and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company's operations are classified in three business segments: (1) Professional Market -- Market data services and trading, including ECN services, to the institutional professional investment community, (2) Non-Professional Market -- Internet-based online trading and market data services to the non-professional individual investor community, and (3) Arbitrage trading.

Relevant Factors

The Company's Professional Market segment revenues from the institutional market data services experienced significant declines since 2001 from a combination of staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services offered by the Company or other vendors. This trend has continued in 2006. Track ECN has recently been successful in attracting new subscribers. Profit margins are very low in this business and significant volume is necessary to have an impact on the results of operations. In addition, Track ECN had been dependent on Nasdaq's trading platform to display and execute most of its subscriber orders until October 23, 2006, when Nasdaq fully implemented its new trading platform and pricing that forced Track ECN to operate elsewhere. Track ECN initially moved all its business to the NASDs Alternative Display Facility (ADF). It currently displays orders on the ADF and on the National Stock Exchange (NSX). There have been start up issues on the ADF, and the new system on the NSX has not been fully implemented at this time. There has been a significant decline in volume since the move. Regulation NMS which will require best price for Nasdaq stocks has been a major help in Track ECN establishing direct connectivity to major market makers and takers of liquidity. Further, it is anticipated that Track ECN will be able to offer listed business to its subscribers. Until recent regulatory changes, Track ECN was unable to offer its subscribers any payment for adding liquidity in listed stocks. The Company commenced self-clearing of its ECN business at the end of the third quarter of 2005 in an effort to decrease costs associated with ECN revenues. Although TDSC has approval from NASD-R for “clearing” of its Track ECN business, it is a limited approval for it to submit two sided trade data respecting trades which were executed by broker-dealers on the Track ECN. TDSC submits this data to the National Securities Clearing Corporation so that the actual trading counterparties can compare, clear and settle their trades and, except in the case of a rare error, TDSC “drops out” of the clearing process. This effort to "self-clear" was a step to reduce costs of having a third party handle this function.

The Non-Professional Market segment revenues have been inconsistent month to month but were higher in the second quarter when compared to the same period in the prior year. The Company is attempting to grow revenues in this segment, principally through marketing alliances and limited advertising to attract new customers, and by offering additional services to existing customers. The Company presently offers trading of U.S. based stocks, options and e-mini futures.

The trading and market data services for both segments require the Company to maintain a market data ticker plant on a 24/7 basis, as well as all back office trading functions. The Company's focus is to increase revenues in both segments, as the underlying costs of maintaining the operations and back office will not increase commensurate with any revenue increase, allowing greater operating margins on incremental revenues.

The Company engages in arbitrage trading activity. The Company's trading strategy consists principally of establishing hedged positions consisting of stocks and options. The Company is subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. The level of trading in the arbitrage trading account is partially dependent on the margin value of Track Data common stock pledged by its CEO, and Innodata common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control.

Results of Operations

Three Months Ended September 30, 2006 and 2005

Revenues for the three months ended September 30, 2006 and 2005 were $10,323,000 and $8,798,000, respectively, an increase of 17%. The Company's Professional Market segment had revenues for the three months ended September 30, 2006 and 2005 of $7,375,000 and $6,013,000, respectively, an increase of 23% for this segment. The Company's Non-Professional Market segment had revenues of $2,948,000 and $2,785,000, respectively, for the three months ended September 30, 2006 and 2005, an increase of 6% for this segment. Increased revenues were from the Company's Track ECN; however, ECN revenues have low margins compared to higher margins lost from a reduction of market data service revenues. Track ECN has recently been successful in attracting new subscribers. At the end of October, 2006, Nasdaq implemented changes in its systems and pricing that forced Track ECN to move its business to the NASD's ADF facility and to the NSX whose new system is not fully operational at this time. Track ECN cannot determine what effect these moves will have in the long term, but it likely will result in potentially significant short term declines in revenue. Since 2001, the Company has experienced a decline in revenues from its market data services to the Professional Market segment due principally to staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services that are offered by the Company or other vendors. This trend has continued in 2006, negatively impacting revenues and profits. The increase in the Company's Non-professional segment was principally due to increased revenue in the retail brokerage business.

Direct operating costs were $7,568,000 for the three months ended September 30, 2006 and $6,123,000 for the similar period in 2005, an increase of 24%. Direct operating costs as a percentage of revenues were 73% in 2006 and 70% in 2005. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, the Company's Professional Market segment had $5,754,000 and $4,424,000 of direct costs for the three months ended September 30, 2006 and 2005, respectively, an increase of 30%. Direct operating costs as a percentage of revenues for the Professional segment were 78% in 2006 and 74% in 2005. The dollar and percentage increase is due to the increased ECN revenues and the lower profit margins realized on Track ECN business. The Company commenced self-clearing of its ECN operations at the end of the third quarter of 2005 which has since reduced clearing costs. The Company's Non-Professional Market segment had $1,618,000 and $1,483,000 in direct costs for the three months ended September 30, 2006 and 2005, respectively, an increase of 9%. Direct operating costs as a percentage of revenues for the Non-Professional segment were 55% in 2006 and 53% in 2005. Certain direct operating costs are allocated to each segment based on revenues. Direct operating costs include direct payroll, direct telecommunication costs, computer supplies, depreciation, equipment lease expense and the amortization of software development costs, costs of clearing, back office payroll and other direct broker-dealer expenses and ECN customer commissions and clearing.

Selling and administrative expenses were $2,610,000 and $3,163,000 in the 2006 and 2005 periods, respectively, a decrease of 17%. Selling and administrative expenses as a percentage of revenues was 25% in 2006 and 36% in 2005. The dollar and percentage decrease was principally due to decreased salaries and professional fees totaling $370,000. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, selling and administrative expenses for the Professional Market segment were $1,885,000 and $2,261,000 in the 2006 and 2005 periods, respectively, a decrease of 17%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 26% in 2006 and 38% in 2005. Selling and administrative expenses for the Non-Professional segment were $701,000 and $869,000 in the 2006 and 2005 periods, respectively, a decrease of 19%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 24% in 2006 and 31% in 2005. Certain selling and administrative expenses are allocated to each segment based on revenues.

The Professional Market segment realized a loss of $376,000 in 2006 compared to a loss of $827,000 before unallocated amounts and income taxes in 2005. The Non-Professional Market segment realized income of $560,000 in 2006 and $381,000 in 2005 before unallocated amounts and income taxes. The Arbitrage segment realized income of $346,000 in 2006 compared to $195,000 in 2005 before unallocated amounts and income taxes.

Net interest income in 2006 was $1,000 compared to net interest expense of $146,000 in 2005. The decrease in interest expense in 2006 is due principally to reduced levels of margin debt in connection with the Company's arbitrage trading program.

As a result of the above-mentioned factors, the Company realized income before taxes of $373,000 in the 2006 period compared to a loss of $456,000 in 2005.

The Company realized net income of $224,000 in 2006 compared to a net loss of $274,000 in 2005.

Nine Months Ended September 30, 2006 and 2005

Revenues for the nine months ended September 30, 2006 and 2005 were $32,842,000 and $27,385,000, respectively, an increase of 20%. The Company's Professional Market segment had revenues for the nine months ended September 30, 2006 and 2005 of $23,536,000 and $18,637,000, respectively, an increase of 26% for this segment. The Company's Non-Professional Market segment had revenues of $9,306,000 and $8,748,000, respectively, for the nine months ended September 30, 2006 and 2005, an increase of 6% for this segment. The increase in revenues was attributable to the Company's Track ECN which increased from $5,371,000 to $11,113,000; however, ECN revenues have low margins compared to higher margins lost from reduced market data services. Track ECN has recently been successful in attracting new subscribers. See the discussion of ECN revenues for the three months ended September 30, 2006 for recent changes. Since 2001, the Company has experienced a decline in revenues from its market data services to the Professional Market segment due principally to staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services that are offered by the Company or other vendors. This trend has continued in 2006, negatively impacting revenues and profits.

Direct operating costs were $23,882,000 for the nine months ended September 30, 2006 and $19,164,000 for the similar period in 2005, an increase of 25%. Direct operating costs as a percentage of revenues were 73% in 2006 and 70% in 2005. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, the Company's Professional Market segment had $18,302,000 and $13,899,000 of direct costs for the nine months ended September 30, 2006 and 2005, respectively, an increase of 32%. Direct operating costs as a percentage of revenues for the Professional segment were 78% in 2006 and 75% in 2005. The dollar and percentage increase is due to the increased ECN revenues and the lower profit margins realized on Track ECN business. The Company commenced self-clearing of its ECN operations at the end of the third quarter of 2005 which has since reduced clearing costs. The Professional Market segment includes a credit in 2005 of $370,000 for telecommunication costs recognized in prior periods. The Company's Non-Professional Market segment had $4,993,000 in 2006 and $4,623,000 in direct costs for the nine months ended September 30, 2006 and 2005, respectively, an increase of 8%. Direct operating costs as a percentage of revenues for the Non-Professional segment were 54% in 2006 and 53% in 2005. Certain direct operating costs are allocated to each segment based on revenues.

Selling and administrative expenses were $8,027,000 and $9,434,000 in the 2006 and 2005 periods, respectively, a decrease of 15%. Selling and administrative expenses as a percentage of revenues was 24% in 2006 and 34% in 2005. The dollar and percentage decrease was principally due to decreased salaries and professional fees totaling $1,176,000. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, selling and administrative expenses for the Professional Market segment were $5,670,000 and $6,433,000 in the 2006 and 2005 periods, respectively, a decrease of 12%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 24% in 2006 and 35% in 2005. The 2005 period includes a reversal of a judgment on sales taxes assessed of $245,000. Selling and administrative expenses for the Non-Professional segment were $2,288,000 and $2,900,000 in the 2006 and 2005 periods, respectively, a decrease of 21%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 25% in 2006 and 33% in 2005. Certain selling and administrative expenses are allocated to each segment based on revenues.

The Professional Market segment realized a loss of $852,000 in 2006 compared to a loss of $2,210,000 before unallocated amounts and income taxes in 2005. The Non-Professional Market segment realized income of $1,807,000 in 2006 and $1,053,000 in 2005 before unallocated amounts and income taxes. The Arbitrage segment realized income of $821,000 in 2006 compared to income of $215,000 in 2005 before unallocated amounts and income taxes.

In 2006 and 2005, the Company recognized gains of $1,777,000 and $1,061,000, respectively, from the sale of shares of Innodata and Edgar Online common stock.

Net interest income in 2006 was $17,000 compared to net interest expense of $220,000 in 2005. The decrease in interest expense in 2006 is due principally to reduced levels of margin debt in connection with the Company's arbitrage trading program.

As a result of the above-mentioned factors, the Company realized income before taxes of $3,065,000 in the 2006 period compared to a loss of $488,000 in 2005.

The Company realized net income of $1,839,000 in 2006 compared to a net loss of $293,000 in 2005.

Liquidity and Capital Resources

During the nine months ended September 30, 2006, cash provided by operating activities was $1,650,000 compared to cash used in operating activities of $879,000 in 2005. The increase in 2006 was principally due to increased income from operations and reduced payments of liabilities. Cash flows provided by investing activities in 2006 was $829,000 compared to $420,000 in 2005. The increase was due principally to sales of Innodata and Edgar Online common stock. Cash flows used in financing activities was $81,000 in 2006 and $2,307,000 in 2005. The decrease was due to significantly reduced purchases of treasury stock in 2006.

The Company has a line of credit with a bank up to a maximum of $3 million. The line is collateralized by the assets of the Company and is guaranteed by its Chairman. Interest is charged at 1.75% above the bank’s prime rate and is due on demand. The Company may borrow up to 80% of eligible market data service receivables as defined, and is required to maintain a compensating balance of 10% of the outstanding loans. At September 30, 2006, the Company had borrowings of $859,000 under the line. Additional borrowings available on the line of credit at September 30, 2006 were $193,000 based on these formulas.

The Company has significant positions in stocks and options and receives significant proceeds from the sale of trading securities sold but not yet purchased under the arbitrage trading strategy described in Note 4 of Notes to Consolidated Financial Statements. The Company expects that its September 30, 2006 positions will be closed during the fourth quarter of 2006 and that other positions with the same strategy will be established. The level of trading activity is partially dependent on the value of the shares of Track Data pledged by its CEO, and Innodata common stock that is held as collateral.

In November, 2005, the Board authorized the purchase of up to 1 million shares from time to time in market purchases or in negotiated transactions. As of September 30, 2006, the Company purchased approximately 6,000 shares for $20,000 pursuant to such authorization. No major capital expenditures are anticipated beyond the normal replacement of equipment and additional equipment to meet customer requirements. The Company believes that borrowings available under the Company’s line of credit, its present cash position, including cash available in its Arbitrage trading, and any cash that may be generated from operations are sufficient for the Company’s cash requirements for the next 12 months.

The Company’s broker-dealer subsidiary, TDSC, is subject to a minimum net capital requirement of $1 million by the NASD. TDSC operations are subject to reviews by regulators within its industry, which include the SEC and the NASD. In the past, certain reviews have resulted in the Company incurring fines and required the Company to change certain of its internal control and operating procedures. Ongoing and future reviews may result in the Company incurring additional fines and changes in its internal control and operating procedures. Management does not expect any ongoing reviews to have a material affect on the Company's financial position or statement of operations.

In connection with an acquisition of a 15% interest in SFB Market Systems, Inc, the Company may be required to pay up to an additional $100,000 in the event SFB achieves certain sales projections.

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial position.

Off Balance Sheet Risk

In connection with the Company's broker-dealer operations, certain customer securities activities are transacted on a margin basis. The Company's clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers' accounts. In the event of a decline in the market value of the securities in a margin account, the Company is required to either obtain additional collateral from the customer or to sell the customer's position if such collateral is not forthcoming. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company. The Company and its clearing broker seek to control the risks associated with customer activities by monitoring required margin levels daily and, pursuant to such guidelines, requiring the customer to deposit additional collateral or to reduce positions when necessary. At September 30, 2006, the Company had $10.9 million in margin credit extended to its customers. The Company believes it is unlikely it will have to make material payments under the indemnification agreement and has not recorded any contingent liability in the Condensed Consolidated Financial Statements.

Contractual Obligations and Commitments

At December 31, 2005, the Company had operating lease obligations aggregating $1,328,000 pursuant to which payments are due as follows: $609,000 in 2006; $277,000 in 2007; $212,000 in 2008; $154,000 in 2009; and $76,000 in 2010. There are no significant changes in such commitments as of September 30, 2006. In addition, the Company had $859,000 due on demand under its line of credit financing with a bank at September 30, 2006.

In connection with the Company's broker-dealer operations, certain customer securities activities are transacted on a margin basis. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results when different assumptions are utilized. We believe that our principal critical accounting policies are described below. For a detailed discussion on the application of these and other accounting policies, see Note A of Notes to Consolidated Financial Statements for the year ended December 31, 2005 included in Form 10-K.

Revenue Recognition

The Company recognizes revenue from market data and ECN services as services are performed. Billings in advance of services provided are recorded as unearned revenues. All other revenues collected in advance of services are deferred until services are rendered. The Company earns commissions as an introducing broker and for licensing its trading system for the transactions of its customers. Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

For ECN services, transaction fees are earned on a per trade basis, based on shares transacted, and are recognized as transactions occur. For each transaction executed, there is an associated liquidity payment or routing charge paid. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"), the Company records such expenses as liquidity payments or routing charges in the consolidated statements of operations.

Marketable Securities

Arbitrage marketable securities transactions are recorded on trade date. Gains and losses are recognized based on closed transactions and the difference between market value and cost at balance sheet date.

The Company classifies its investment in Innodata as available for sale securities. The Company carries this investment at fair value, based on quoted market prices, and unrealized gains and losses, net of taxes, are included in accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity. Realized gains and losses are recognized in the consolidated statement of income when realized. The Company reviews this holding on a regular basis to evaluate whether or not such security has experienced an other-than-temporary decline in fair value. If the Company believes that an other-than-temporary decline exists in the marketable securities, the equity investment is written down to market value and an investment loss is recorded in the condensed consolidated statement of income.

Long-lived Assets

In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make assumptions regarding estimated undiscounted expected future cash flows to be generated by the assets to determine the fair value of the respective assets. If these estimated cash flows and related assumptions change in the future, the Company may be required to record an impairment charge in the condensed consolidated statement of income.

New Pronouncements

In June 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 did not have an impact on the Company's financial statements.

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In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is assessing the impact of this Interpretation on its financial statements, but does not expect it to have a material affect.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It codifies the definitions of fair value included in other authoritative literature; clarifies and, in some cases, expands on the guidance for implementing fair value measurements; and increases the level of disclosure required for fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements, nor does it establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement will be effective for the Company's fiscal year beginning January 2008. The Company will evaluate the impact of adopting SFAS 157, but does not expect that it will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 becomes effective in 2007. Adoption of SAB 108 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Inflation and Seasonality

To date, inflation has not had a significant impact on the Company’s operations. The Company’s revenues are not affected by seasonality.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate change market risk with respect to its credit facility with a financial institution, which is priced based on the prime rate of interest. At September 30, 2006, there was $859,000 outstanding under the credit facility. Changes in the prime interest rate during fiscal 2006 will have a positive or negative effect on the Company's interest expense. Such exposure will increase should the Company maintain higher levels of borrowing during 2006. Assuming debt remains constant, a 1% change in interest rates would not be material to the Company's interest expense.

The Company has significant positions in stocks and options and receives significant proceeds from the sale of trading securities sold but not yet purchased under the abitrage trading strategy described in Note 4 of Notes to Condensed Consolidated Financial Statements. In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. Such exposure will increase should the Company maintain higher levels of borrowing. The level of trading in the arbitrage trading account is partially dependent on the value of Track Data common stock pledged by its CEO, and Innodata common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control. If the stock collateral is not available, the Company will decrease its trading or seek additional collateral.

The Company conducts business through a clearing broker, which settles all trades for the Company, on a fully disclosed basis, on behalf of its customers. The Company earns commissions as an introducing broker for the transactions of its customers. In the normal course of business, the Company's customer activities involve the execution of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the obligation at a loss. At September 30, 2006, the Company had $10.9 million in margin credit extended to its customers.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2006 ("Evaluation Date"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. Not Applicable

Item 1a. Risk Factors. There were no material changes from Risk Factors disclosed in the Company’s Form 10-K for the year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

	Period Purchased	Number of Shares of Common Stock Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans		
	1,620	1,907	4,084	4,626	1,035	2,229	3,256
Per common share(3)**:**							
Book value per share outstanding	$ 19.38	$ 18.93	$ 19.05	$ 18.19	$ 17.54	$ 17.62	$ 16.93
Tangible book value per share outstanding(2)	12.17	12.36	11.85	12.21	12.69	15.80	15.11
Basic earnings per share	.73	.80	1.74	1.86	0.49	.94	1.34
Diluted earnings per share	.72	.80	1.73	1.85	0.49	.93	1.31
Financial ratios:							
Stockholders equity to total assets	6.82%	7.00%	6.72%	7.08%	7.50%	7.52%	8.40%
Non-performing assets to total assets	.49%	1.16%	0.86%	1.64%	1.00%	2.03%	0.45%
Net charge-offs to average loans	.08%	.12%	0.44%	0.77%	1.53%	0.01%	0.02%
Net interest margin	3.29%	3.52%	3.41%	3.42%	3.16%	3.22%	3.16%
Efficiency ratio(5)	78.45%	76.15%	75.75%	68.47%	74.80%	65.43%	71.03%
	.60%	.62%	0.65%	0.76%	0.19%	0.42%	0.69%

Return on average assets							
Return on average stockholders equity	8.73%	8.88%	9.28%	10.37%	3.04%	5.41%	8.18%
Average equity to average assets	6.81%	6.99%	6.96%	7.31%	6.33%	7.70%	8.41%
Dividend payout ratio(4)				4.03%	61.22%	15.51%	8.96%

(1) Includes certificates of deposit.

(2) Calculated by subtracting goodwill and other intangible assets from stockholders equity.

(3) All share and per share information for years prior to 2003 have been restated for the 2 for 1 stock split in October 2003.

(4) Calculated by dividing dividends per share by earnings per share.

(5) Calculated by net interest income plus noninterest income excluding securities gains divided by noninterest expense.

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RISK FACTORS

By voting in favor of the merger, you will be choosing to invest in the common stock of a combined UnionBancorp and Centrue Financial. In addition to the information contained elsewhere in this joint proxy statement-prospectus or incorporated in this joint proxy statement-prospectus by reference, you should carefully consider the following factors in making your decision as to how to vote on the merger.

The exchange ratio is fixed and will not be adjusted to reflect changes in UnionBancorp s stock value prior to the effective time of the merger.

The merger agreement provides that each share of Centrue Financial common stock will be converted into the right to receive 1.2 shares of UnionBancorp common stock. The exchange ratio of 1.2 shares of UnionBancorp stock per share of Centrue Financial stock is fixed and will not be adjusted to reflect any changes in the value of UnionBancorp common stock between the date of the merger agreement and the effective time of the merger. As a result, the value of the merger consideration to be paid to Centrue Financial s stockholders will not be known at the time of the Centrue Financial special meeting, and you will not know when you vote the exact value of the shares of UnionBancorp common stock that you will receive. You are urged to obtain current market price quotations for UnionBancorp common stock prior to voting on the merger.

Moreover, the value of the combined company s common stock may also rise or fall after the merger. Stock price changes may result from a variety of factors, including completion of the merger, general market and economic conditions, changes in our respective businesses, operations and prospects and regulatory considerations. Many of these factors are beyond the combined company s control, and it is possible that the market value of the combined company s common stock at the time of the merger and afterward may be substantially higher or lower than current market value.

The interests of certain management officials may be different from those of other stockholders.

Thomas A. Daiber, the President and Chief Executive Officer of Centrue Financial, Scott A. Yeoman, the President and Chief Executive Officer of UnionBancorp, and Kurt R. Stevenson, the Chief Financial Officer of UnionBancorp, have entered into employment agreements in connection with the merger. We anticipate that other senior officers will enter into employment agreements that are substantially similar to those of Messrs. Daiber, Yeoman, and Stevenson. In addition, five of the members of UnionBancorp s current board of directors and five of the members of Centrue Financial s board of directors will together serve as the entire board of directors of the combined company after the completion of the merger. Following the merger, they will also serve on the board of the combined bank subsidiary, and receive payments for their service. Accordingly, our directors and some of our executive officers may have interests in the merger that are different from, or in addition to, yours. *See* Description of Transaction Interests of Certain Persons in the Merger.

Difficulties in combining the operations of Centrue Financial and UnionBancorp may prevent the combined company from achieving the expected benefits from its acquisition.

The combined company may not be able to achieve fully the strategic objectives and operating efficiencies it hopes to achieve in the merger. The success of the merger will depend on a number of factors, including the combined company s ability to:

- integrate the operations of Centrue Financial and UnionBancorp;
- maintain existing relationships with depositors so as to minimize withdrawals of deposits after the merger;
- maintain and enhance existing relationships with borrowers so as to limit unanticipated losses from loans of Centrue Financial and UnionBancorp;
- control the incremental non-interest expense so as to maintain overall operating efficiencies;

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retain and attract qualified personnel; and

compete effectively in the communities served by Centrue Financial and UnionBancorp and in nearby communities.

Your interest will be diluted by the merger.

After the merger, Centrue Financial s stockholders will own less than a majority of the outstanding voting stock of the combined company and could therefore, for matters requiring a majority vote, be outvoted by the existing and continuing UnionBancorp stockholders if they all voted together as a group on any such issue that is presented to the combined company s stockholders. UnionBancorp s stockholders will own approximately % of the combined company s outstanding voting stock, but the President and Chief Executive Officer of the combined company and five of the combined company s ten-member board of directors will be individuals who formerly served as directors of Centrue Financial. Neither group of stockholders will have the same control over the combined company as they currently have over their respective companies.

In addition, there will be no restrictions in the combined company s governing documents relating to the ability of any person or group of persons to acquire common stock of the combined company. Accordingly, your interests may be diluted further to the extent that any person or group is able to consolidate ownership.

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the merger.

Completion of the merger is conditioned upon the receipt of all material governmental authorizations, consents, orders and approvals. UnionBancorp and Centrue Financial intend to pursue all required approvals in accordance with the merger agreement. No assurance can be given that the required consents and approvals will be obtained or that the required conditions to closing will be satisfied, and, if all such consents and approvals are obtained and the conditions are satisfied, no assurance can be given as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the merger agreement. See Description of Transaction Conditions for the Completion of the Merger for a discussion of the conditions to the completion of the merger and Description of Transaction Regulatory Approvals for a description of the regulatory approvals necessary in connection with the merger.

These factors could contribute to the combined company not achieving the expected benefits from the merger within the desired time frames, if at all.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We have each made forward-looking statements in this document (and in documents to which we refer you in this document) that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our operations or the performance of the combined company after the merger is completed. When we use any of the words believes, expects, anticipates, estimates or similar expressions, we are making forward-looking statements. These statements are based on UnionBancorp s and Centrue Financial s respective management s existing expectations, which in turn are based on information that is currently available to them and on the current economic, regulatory and competitive environment, including factors such as the strength of the U.S. and local economies; federal, state and local laws, regulations and policies; interest rates and regulatory policies; and expectations as to competitors and customers. Many possible events or factors, including changes from current conditions in the factors mentioned above, could affect the future financial results and performance of each of our companies and the combined company after the merger and could cause those results or performance to differ materially from those expressed in our forward-looking statements.

In addition to the factors listed above and the risks discussed in the Risk Factors section of this joint proxy statement-prospectus, factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, the following:

- the economic impact of past and any future terrorist threats and attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks;

- technological changes implemented by us and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to us and our customers;

- the availability of capital to fund the expansion of the combined business; and

- other factors referenced in this joint proxy statement-prospectus or the documents incorporated by reference.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Any forward-looking earnings estimates included in this joint proxy statement-prospectus have not been examined or compiled by either of our independent public accountants, nor have either of our independent accountants applied any procedures to our estimates. Accordingly, our accountants do not express an opinion or any other form of assurance on them. The forward-looking statements included in this joint proxy statement-prospectus are made only as of the date of this joint proxy statement-prospectus. Further information concerning UnionBancorp and its business, including additional factors that could materially affect UnionBancorp s financial results, is included in UnionBancorp s filings with the Securities and Exchange Commission. Further information concerning Centrue Financial and its business, including additional factors that could materially affect Centrue Financial s financial results, is included in Centrue Financial s filings with the Securities and Exchange Commission.

INTRODUCTION

UnionBancorp is furnishing this joint proxy statement-prospectus to holders of UnionBancorp common stock, $1.00 par value per share, in connection with the proxy solicitation by UnionBancorp s board of directors. UnionBancorp s board of directors will use the proxies at the special meeting of stockholders of UnionBancorp to be held on *[ ]*, 2006, and at any adjournments or postponements of the meeting.

Centrue Financial is furnishing this joint proxy statement-prospectus to holders of Centrue Financial common stock, $0.01 par value per share, in connection with the proxy solicitation by Centrue Financial s board of directors. Centrue Financial s board of directors will use the proxies at the special meeting of stockholders of Centrue Financial to be held on *[ ]*, 2006, and at any adjournments or postponements of the meeting.

Our stockholders will be asked at their respective special meetings to vote to adopt the Agreement and Plan of Merger, dated as of June 30, 2006, between UnionBancorp and Centrue Financial, and to approve the transactions it contemplates. Under the merger agreement, Centrue Financial will merge with and into UnionBancorp. In the merger of Centrue Financial with and into UnionBancorp, each of the outstanding shares of Centrue Financial common stock will be converted into 1.2 shares of UnionBancorp common stock. Centrue Financial stockholders will receive cash instead of any fractional shares. By approving the merger, UnionBancorp stockholders are also approving the adoption of an amended and restated certificate of incorporation attached as Exhibit A to the merger agreement.

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UNIONBANCORP SPECIAL MEETING

Date, Place, Time and Purpose

The special meeting of UnionBancorp s stockholders will be held at *[   ]*, at *[   ]*:00 *[   ]*.m. local time, on *[   ]*, 2006. At the special meeting, holders of UnionBancorp common stock will be asked to vote upon a proposal to adopt the merger agreement and to approve the transactions it contemplates.

Record Date, Voting Rights, Required Vote and Revocability of Proxies

The UnionBancorp board fixed the close of business on *[   ]*, 2006, as the record date for determining those UnionBancorp stockholders who are entitled to notice of and to vote at the special meeting. Only holders of UnionBancorp common stock of record on the books of UnionBancorp at the close of business on the record date have the right to receive notice of and to vote at the special meeting. On the record date, there were *[   ]* shares of UnionBancorp common stock issued and outstanding, held by approximately *[   ]* holders of record.

At the special meeting, UnionBancorp stockholders will have one vote for each share of UnionBancorp common stock owned on the record date. The holders of a majority of the outstanding shares of UnionBancorp common stock entitled to vote at the special meeting must be present for a quorum to exist at the special meeting.

To determine if a quorum is present, UnionBancorp intends to count the following:

- shares of UnionBancorp common stock present at the special meeting either in person or by proxy; and

- shares of UnionBancorp common stock for which it has received signed proxies, but with respect to which holders of shares have abstained on any matter.

Approval of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of UnionBancorp common stock.

Brokers who hold shares in street name for customers who are the beneficial owners of such shares may not give a proxy to vote those shares without specific instructions from their customers. Any abstention, non-voting share or broker non-vote will have the same effect as a vote against the approval of the merger agreement.

Properly executed proxies that UnionBancorp receives before the vote at the special meeting that are not revoked will be voted in accordance with the instructions indicated on the proxies. If no instructions are indicated, these proxies will be voted **FOR** the proposal to adopt the merger agreement and to approve the transactions it contemplates, **FOR** any resolution to adjourn the special meeting, if necessary, to solicit additional proxies, and the proxy holder may vote the proxy in its discretion as to any other matter that may properly come before the special meeting.

A UnionBancorp stockholder who has given a proxy solicited by the UnionBancorp board may revoke it at any time prior to its exercise at the special meeting by:

- giving written notice of revocation to the secretary of UnionBancorp;

- properly submitting to UnionBancorp a duly executed proxy bearing a later date; or

- attending the special meeting and voting in person.

All written notices of revocation and other communications with respect to revocation of proxies should be sent to: UnionBancorp, Inc., 122 West Madison Street, Ottawa, Illinois 61350, Attention: Suzanne Fechter, Secretary.

On the record date, UnionBancorp s directors owned *[   ]* shares, or approximately *[   ]*% of the outstanding shares, of UnionBancorp common stock. These individuals have agreed to vote their shares in favor of adopting the merger agreement and approving the transactions it contemplates. However, because they hold only *[ ]%* of the voting power, adoption of the merger agreement and approval of the merger is not assured.

Solicitation of Proxies

Directors, officers and employees of UnionBancorp may solicit proxies by regular or electronic mail, in person or by telephone or facsimile. They will receive no additional compensation for these services. UnionBancorp may make arrangements with brokerage firms and other custodians, nominees and fiduciaries, if any, for the forwarding of solicitation materials to the beneficial owners of UnionBancorp common stock held of record by such persons. UnionBancorp will reimburse any brokers, custodians, nominees and fiduciaries for the reasonable out-of-pocket expenses incurred by them for their services. UnionBancorp will bear all expenses associated with the printing and mailing of this joint proxy statement-prospectus to its stockholders, as provided in the merger agreement. *See* Description of Transaction Expenses.

Authority to Adjourn Special Meeting to Solicit Additional Proxies

UnionBancorp is asking its stockholders to grant full authority for the special meeting to be adjourned, if necessary, to permit solicitation of additional proxies to approve the transactions proposed by this joint proxy statement-prospectus.

Appraisal Rights

UnionBancorp s stockholders do not have the right under Delaware law, UnionBancorp s governing documents, or any other statute to demand appraisal of their shares and obtain cash in an amount equal to the fair value of their shares of UnionBancorp common stock.

Recommendation of UnionBancorp s Board

The UnionBancorp board has unanimously approved the merger agreement and the transactions it contemplates and believes that the proposal to adopt the merger agreement and approve the transactions it contemplates are in the best interests of UnionBancorp and its stockholders. The UnionBancorp board unanimously recommends that the UnionBancorp stockholders vote **FOR** adoption of the merger agreement and approval of the transactions it contemplates and **FOR** any resolution to adjourn the special meeting, if necessary, to solicit additional proxies. See Description of Transaction UnionBancorp s Reasons for the Merger and Board Recommendation.

CENTRUE FINANCIAL SPECIAL MEETING

Date, Place, Time and Purpose

The special meeting of Centrue Financial s stockholders will be held at *[ ]*, at *[ ]*:00 *[ ]*.m. local time, on *[ ]*, 2006. At the special meeting, holders of Centrue Financial common stock will be asked to vote upon a proposal to adopt the merger agreement and to approve the transactions it contemplates.

Record Date, Voting Rights, Required Vote and Revocability of Proxies

The Centrue Financial board fixed the close of business on *[ ]*, 2006, as the record date for determining those Centrue Financial stockholders who are entitled to notice of and to vote at the special meeting. Only holders of Centrue Financial common stock of record on the books of Centrue Financial at the close of business on the record date have the right to receive notice of and to vote at the special meeting. On the record date, there were *[ ]* shares of Centrue Financial common stock issued and outstanding, held by approximately *[ ]* holders of record.

At the special meeting, Centrue Financial stockholders will have one vote for each share of Centrue Financial common stock owned on the record date. The holders of a majority of the outstanding shares of

Centrue Financial common stock entitled to vote at the special meeting must be present for a quorum to exist at the special meeting.

To determine if a quorum is present, Centrue Financial intends to count the following:

shares of Centrue Financial common stock present at the special meeting either in person or by proxy; and

shares of Centrue Financial common stock for which it has received signed proxies, but with respect to which holders of shares have abstained on any matter.

Approval of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of Centrue Financial common stock.

Brokers who hold shares in street name for customers who are the beneficial owners of such shares may not give a proxy to vote those shares without specific instructions from their customers. Any abstention, non-voting share or broker non-vote will have the same effect as a vote against the approval of the merger agreement.

Properly executed proxies that Centrue Financial receives before the vote at the special meeting that are not revoked will be voted in accordance with the instructions indicated on the proxies. If no instructions are indicated, these proxies will be voted **FOR** the proposal to adopt the merger agreement and to approve the transactions it contemplates, **FOR** any resolution to adjourn the special meeting, if necessary, to solicit additional proxies, and the proxy holder may vote the proxy in its discretion as to any other matter that may properly come before the special meeting.

A Centrue Financial stockholder who has given a proxy solicited by the Centrue Financial board may revoke it at any time prior to its exercise at the special meeting by:

giving written notice of revocation to the secretary of Centrue Financial;

properly submitting to Centrue Financial a duly executed proxy bearing a later date; or

attending the special meeting and voting in person.

All written notices of revocation and other communications with respect to revocation of proxies should be sent to: Centrue Financial Corporation, 303 Fountains Parkway, Fairview Heights, Illinois 60208, Attention: Thomas A. Daiber, Acting Secretary.

On the record date, Centrue Financial s directors owned *[ ]* shares, or approximately *[ ]%* of the outstanding shares, of Centrue Financial common stock. These individuals have agreed to vote their shares in favor of adopting the merger agreement and approving the transactions it contemplates. However, because they hold only *[ ]%* of the voting power, adoption of the merger agreement and approval of the merger is not assured.

Solicitation of Proxies

Directors, officers and employees of Centrue Financial may solicit proxies by regular or electronic mail, in person or by telephone or facsimile. They will receive no additional compensation for these services. Centrue Financial may make arrangements with brokerage firms and other custodians, nominees and fiduciaries, if any, for the forwarding of solicitation materials to the beneficial owners of Centrue Financial common stock held of record by such persons. Centrue Financial will reimburse any brokers, custodians, nominees and fiduciaries for the reasonable out-of-pocket expenses incurred by them for their services. Centrue Financial will bear all expenses associated with the printing and mailing of this joint proxy statement-prospectus to its stockholders, as provided in the merger agreement. *See* Description of Transaction Expenses.

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Authority to Adjourn Special Meeting to Solicit Additional Proxies

Centrue Financial is asking its stockholders to grant full authority for the special meeting to be adjourned, if necessary, to permit solicitation of additional proxies to approve the transactions proposed by this joint proxy statement-prospectus.

Appraisal Rights

Centrue Financial s stockholders do not have the right under Delaware law, Centrue Financial s governing documents, or any other statute to demand appraisal of their shares and obtain cash in an amount equal to the fair value of their shares of Centrue Financial common stock.

Recommendation of Centrue Financial s Board

The Centrue Financial board has unanimously approved the merger agreement and the transactions it contemplates and believes that the proposal to adopt the merger agreement and approve the transactions it contemplates are in the best interests of Centrue Financial and its stockholders. The Centrue Financial board unanimously recommends that the Centrue Financial stockholders vote ***FOR*** *adoption of the merger agreement and approval of the transactions it contemplates and* ***FOR*** *any resolution to adjourn the special meeting, if necessary, to solicit additional proxies. See Description of Transaction Centrue Financial s Reasons for the Merger and Board Recommendation.*

DESCRIPTION OF TRANSACTION

The following information describes material aspects of the merger and related transactions. This description does not provide a complete description of all the terms and conditions of the merger agreement. It is qualified in its entirety by the Appendices to this document, including the merger agreement, which is attached as Appendix A to this joint proxy statement-prospectus and which is incorporated into this joint proxy statement-prospectus by reference. We urge you to read the Appendices in their entirety.

General

The merger agreement provides for the merger of Centrue Financial with and into UnionBancorp. At the time the merger becomes effective, each share of Centrue Financial common stock then issued and outstanding will be converted into and exchanged for the right to receive 1.2 shares of UnionBancorp common stock. By approving the merger, UnionBancorp stockholders are also approving the adoption of an amended and restated certificate of incorporation attached as Exhibit A to the merger agreement.

No fractional shares of UnionBancorp common stock will be issued to Centrue Financial s stockholders. Rather, UnionBancorp will redeem any of these fractional interests for cash in an amount equal to the average of the closing sale prices of UnionBancorp common stock for the five trading days immediately following the completion of the merger. No interest will be paid or accrued on cash payable to holders of Centrue Financial common stock in lieu of fractional shares. No stockholder of Centrue Financial will be entitled to dividends, voting rights or any other rights as a stockholder of UnionBancorp in respect of any fractional shares.

On their respective record dates, UnionBancorp had *[ ]* shares of common stock issued and outstanding and Centrue Financial had *[ ]* shares of common stock issued and outstanding. Based on the exchange ratio contained in the merger agreement, on completion of the merger, UnionBancorp will issue *[ ]* shares of its common stock to former Centrue Financial stockholders. After the merger, former Centrue Financial stockholders would own approximately *[ ]%* of the outstanding shares of common stock of the combined company.

Fluctuation in UnionBancorp Stock Price. Because the exchange ratio of 1.2 shares of UnionBancorp common stock is fixed, the value of the merger consideration will fluctuate as the price of UnionBancorp common stock changes. Share prices cannot be accurately predicted. The following table illustrates the effective value of the merger consideration to be received on a per share basis under varying prices of UnionBancorp common stock:

Price of UnionBancorp Common Stock	Value of Stock Consideration to be Received in the Merger	
$18.75	$	22.50
$19.00	$	22.80
$19.25	$	23.10
$19.50	$	23.40
$19.75	$	23.70
$20.00	$	24.00
$20.25	$	24.30
$20.50	$	24.60
$20.75	$	24.90
$21.00	$	25.20
$21.25	$	25.50

You should obtain current market price quotations for UnionBancorp common stock to determine the current value of the merger consideration. Based on the $*[ ]* closing price of UnionBancorp common stock on *[ ]*, 2006, the total value of the merger consideration to Centrue Financial stockholders is $*[ ]* (shares, multiplied by $*[ ]*).

Treatment of Centrue Financial Stock Options and Restricted Stock

Upon completion of the merger, each outstanding option to acquire Centrue Financial common stock will be converted into an option to acquire that number of whole shares of the combined company s common stock equal to the product of the number of shares of Centrue Financial common stock that were subject to the original Centrue Financial stock option multiplied by the exchange ratio at a per share exercise price equal to the exercise price per share of the original Centrue Financial stock option divided by the exchange ratio (subject to certain rounding adjustments set forth in the merger agreement). As soon as practicable following the completion of the merger, the combined company intends to file a registration statement to register the issuance of the shares of the combined company s common stock to be issued upon exercise of the converted Centrue Financial stock options.

Centrue Financial has issued 12,400 shares of common stock as restricted stock under its stock incentive plan. When the merger is completed, each share of restricted stock will vest and will become free of all restrictions, and each of these shares will be converted into the right to receive 1.2 shares of UnionBancorp common stock.

Surrender of Stock Certificates

Shortly after the merger, all Centrue Financial stockholders will receive a letter of transmittal, together with a return envelope. The letter of transmittal will include instructions for the surrender and exchange of certificates representing Centrue Financial common stock in exchange for the combined company s common stock. will serve as the exchange agent in the process. A letter of transmittal will be deemed properly completed only if signed and accompanied by stock certificates representing all shares of Centrue Financial common stock or an appropriate guarantee of delivery of the certificates.

Please do not send any certificates to the exchange agent, Centrue Financial or UnionBancorp until you receive a letter of transmittal and instructions.

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Until you surrender your Centrue Financial stock certificates for exchange after completion of the merger, you will not be paid dividends or other distributions declared after the merger with respect to any of the combined company s common stock into which your Centrue Financial shares have been converted. When Centrue Financial stock certificates are surrendered, we will pay to the surrendering holder any of his or her respective unpaid dividends or other distributions, without interest. After the completion of the merger, no further transfers of Centrue Financial common stock will be permitted. Centrue Financial stock certificates presented for transfer after the completion of the merger will be canceled and exchanged for common stock of the combined company.

None of the exchange agent, UnionBancorp, Centrue Financial or any other person will be liable to any former holder of Centrue Financial common stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

If a certificate for Centrue Financial common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon compliance by the holder of Centrue Financial common stock with the conditions reasonably imposed by the exchange agent. These conditions will include a requirement that the stockholder provide a lost instruments indemnity bond in form, substance and amount reasonably satisfactory to the exchange agent and us.

Effective Time of the Merger

Subject to the conditions to each party s obligations to complete the merger, the merger will become effective when a certificate of merger reflecting the merger is filed with the Secretary of State of the State of Delaware. Unless we agree otherwise, each party will use reasonable efforts to cause the merger to become effective 10 business days after the later to occur of:

- the receipt of all required regulatory approvals and the expiration of all statutory waiting periods relating to the approvals; and
- the satisfaction or waiver of all of the conditions to closing.

We anticipate that the merger will become effective in the fourth quarter of 2006; however, delays could occur.

We cannot assure you that the necessary stockholder and regulatory approvals of the merger will be obtained or that other conditions precedent to the merger can or will be satisfied. Either party s board of directors may terminate the merger agreement if the merger is not completed by March 1, 2007, unless it is not completed because of the failure by the party seeking termination to comply fully with its obligations under the merger agreement, except that, in general, the termination date can be extended for up to ninety days if the sole reason that the closing has not occurred is due to the fact that (1) the regulatory approvals have not been received, or (2) the Registration Statement has not become effective. *See* Conditions to Completion of the Merger and Termination and Termination Fees.

United States Federal Income Tax Consequences of the Merger

The following is a summary of the material United States federal income tax consequences of the merger generally applicable to Centrue Financial stockholders. This discussion assumes you hold your shares of Centrue Financial common stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code, and does not address all aspects of United States federal income taxation that may be relevant to you in light of your particular circumstances or if you are subject to special rules, such as rules relating to:

- stockholders who are not citizens or residents of the United States;
- financial institutions;
- tax-exempt organizations;
- insurance companies;

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting;

stockholders who acquired their shares of Centrue Financial common stock pursuant to the exercise of employee stock options or otherwise acquired shares as compensation; and

stockholders who hold their shares of Centrue Financial common stock as part of a hedge, straddle or other risk reduction, constructive sale or conversion transaction.

In addition, this summary does not address any state, local or foreign tax consequences of the merger that may apply. The following discussion is based on the Code, existing and proposed regulations promulgated under the Code, published Internal Revenue Service rulings and court decisions, all as in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this discussion.

Tax Opinion of Crowe Chizek and Company LLC. It is a condition of the merger, that both UnionBancorp and Centrue Financial have received an opinion from UnionBancorp s accountants that, for federal income tax purposes, Centrue Financial stockholders who exchange their shares for shares of common stock of the combined company will not recognize any gain or loss as a result of the merger, except in connection with the payment of cash instead of fractional shares. We have obtained the opinion of Crowe Chizek and Company LLC (Crowe Chizek) as to the expected federal income tax consequences of the merger, a copy of which is attached as an exhibit to the Registration Statement. Subject to the conditions, qualifications, representations and assumptions contained in this document and in the tax opinion, Crowe Chizek s opinion provides the following conclusions:

The acquisition by UnionBancorp of substantially all of the assets of Centrue Financial in exchange for shares of UnionBancorp common stock and the assumption of liabilities of UnionBancorp and of Centrue Financial pursuant to the merger will constitute a reorganization within the meaning of Section 368(a) of the Code.

UnionBancorp and Centrue Financial will each be a party to a reorganization within the meaning of Section 368(b) of the Code.

No gain or loss will be recognized by either UnionBancorp or Centrue Financial as a result of the merger.

No gain or loss will be recognized by the stockholders of Centrue Financial as a result of the exchange of Centrue Financial common stock for UnionBancorp common stock pursuant to the merger. Assuming that the UnionBancorp common stock is a capital asset in the hands of the respective Centrue Financial stockholders and has been held for more than one year, any gain or loss recognized as a result of the receipt of cash in lieu of a fractional share will be a capital gain or loss equal to the difference between the cash received and that portion of the holder s tax basis in the Centrue Financial common stock allocable to the fractional share.

The tax basis of UnionBancorp common stock to be received by the stockholders of Centrue Financial will be the same as the tax basis of the Centrue Financial common stock surrendered in exchange therefor (reduced by any amount allocable to a fractional share interest for which cash is received).

The holding period of the UnionBancorp common stock to be received by stockholders of Centrue Financial will include the holding period of the Centrue Financial common stock surrendered in exchange therefore on the date of the exchange.

The tax opinion is based on the Code, Treasury Regulations issued under the Code by the Internal Revenue Service, judicial decisions and administrative pronouncements of the Internal Revenue Service, all existing and in effect on the date of this joint proxy statement-prospectus and all of which are subject to change at any time, possibly retroactively. Any such change could have a material impact on the conclusions reached in the tax opinion. The tax opinion represents only Crowe Chizek s best judgment as to the expected federal income tax consequences of the merger and is not binding on the Internal Revenue Service or the

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courts. The Internal Revenue Service may challenge the conclusions stated in the tax opinion or positions taken by stockholders on their income tax returns. Stockholders of Centrue Financial may incur the cost and expense of defending positions taken by them with respect to the merger. A successful challenge by the Internal Revenue Service could have material adverse consequences to the parties to the merger, including stockholders of Centrue Financial.

In rendering the tax opinion, Crowe Chizek has relied as to factual matters solely on the continuing accuracy of the following:

the description of the facts relating to the merger contained in the merger agreement and this joint proxy statement-prospectus;

the factual representations and warranties contained in the merger agreement and this joint proxy statement-prospectus and related documents and agreements; and

factual matters addressed by representations made by executive officers of UnionBancorp and Centrue Financial, as further described in the tax opinion.

Events occurring after the date of the tax opinion could alter the facts upon which the opinion is based. In such case, the conclusions reached in the tax opinion and in this summary could be materially impacted.

The conditions relating to the receipt of the tax opinion may be waived by both of us, although neither of us currently intends to do so. If the condition relating to the receipt of the tax opinion were waived and the material federal income tax consequences of the merger were substantially different from those described in this joint proxy statement-prospectus, we would each resolicit the approval of our respective stockholders prior to completing the merger.

Backup Withholding. Unless you provide a taxpayer identification number (social security number or employer identification number) and certify, among other things, that such number is correct, or you provide proof of an applicable exemption from backup withholding, the exchange agent will be required to withhold 28% of any cash payable to Centrue Financial stockholders in connection with the merger. Any amount so withheld under the backup withholding rules is not an additional tax and will be allowed as a refund or credit against your United States federal income tax liability, provided that you furnish the required information to the Internal Revenue Service. Centrue Financial stockholders should complete and sign the substitute Form W-9 that will be included as part of the transmittal letter that accompanies the election form to provide the information and certification necessary to avoid backup withholding, unless an applicable exception exists and is established in a manner that is satisfactory to the exchange agent.

Centrue Financial stockholders will be required to retain records pertaining to the merger and will be required to file a statement with your United States federal income tax return for the taxable year in which the merger takes place that sets forth certain facts relating to the merger, including your basis in your Centrue Financial common stock that you surrender in connection with the merger and the fair market value of the UnionBancorp common stock that you receive in connection with the merger. In addition, pursuant to the American Jobs Creation Act of 2004, Centrue Financial, or UnionBancorp as Centrue Financial s successor, will be required to provide to the Internal Revenue Service and Centrue Financial stockholders information with respect to the merger, including information regarding your identity (and the identities of other Centrue Financial stockholders) and the fair market value of UnionBancorp common stock received by you (and by each other Centrue Financial stockholder) in the merger.

The foregoing discussion is not intended to be a complete analysis or description of all potential federal income tax consequences of the merger. In addition, the discussion does not address tax consequences that may vary with, or are contingent on, your individual circumstances. Moreover, the discussion does not address any non-income tax or any foreign, state, or local tax consequences of the merger. Accordingly, you are strongly urged to consult with your own tax advisor to determine the particular federal, state, local and foreign income and other tax consequences to you of the merger.

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Background of the Merger

The boards of directors of each of Centrue Financial and UnionBancorp have regularly reviewed the business strategies of their respective companies in light of general conditions in the banking industry, local competitive and economic conditions, the results of operations and future prospects, legislative changes and other developments affecting the banking industry generally and each of their respective companies specifically.

The Centrue Financial board of directors also has considered from time to time the possible benefits of strategic business combinations with other comparably-sized financial institutions, including other bank holding companies, as a part of its ongoing evaluation of available methods to increase stockholder value, to strengthen its franchise through expansion of its existing service area and to solidify its market position in existing markets. Following a series of strategic planning meetings in early 2003, the focus of the institution became to seek to transform Centrue Financial into the premier financial institution in the central Illinois markets between Chicago and St. Louis. To this end, the senior management of Centrue Financial has from time to time had informal discussions with senior management of other financial institutions regarding potential business combinations.

As a part of these discussions and the implementation of Centrue Financial s strategic plan, representatives of each of Centrue Financial and UnionBancorp, together with a significant individual stockholder of UnionBancorp, had an informal conversation and information-sharing meeting regarding a very preliminary exploration of the possibility of merging the two franchises. A follow-up meeting was held in the Fall of 2003 following Centrue Financial s acquisition of Aviston Financial Corporation and the related retention of Thomas A. Daiber as Chief Executive Officer. Although the parties recognized that potential synergies could be reached given UnionBancorp s expressed desire to move their franchise toward Chicago and build a full-service financial institution, the parties did not make any further effort to pursue a transaction at that time. This decision was based in part on the need for UnionBancorp to address asset quality and earnings issues that had arisen in the early 2000s and to implement a cohesive long-term strategy, including focusing on the retention of a strong management team. In addition, the parties agreed that there was a need on the part of Centrue Financial s new management team to integrate operations following the Aviston acquisition prior to undertaking a strategic transaction of this nature, as well as to focus on asset quality and earnings issues.

Centrue Financial s board of directors continued to evaluate business combinations, undertaking the acquisition of two smaller financial institutions located in central Illinois, and also continued to explore the availability of additional opportunities that would enhance stockholder value. In April 2005, Centrue Financial received an unsolicited, non-binding expression of interest from senior management of an Illinois financial institution, which included an offer to purchase Centrue Financial for cash and stock consideration. Over a series of meetings conducted during May 2005, Centrue Financial, together with a financial advisor, analyzed the expression of interest, and the parties conducted mutual due diligence. Following review and discussion among the parties, the negotiations were terminated due to relative valuation issues and to an inability of the parties to reach agreement on threshold issues such as management and director integration.

Following UnionBancorp s employment of Scott A. Yeoman as Chief Executive Officer in June 2005, Mr. Yeoman met with Mr. Daiber and with the retiring Chief Executive Officer of UnionBancorp, and the parties met again in November 2005, along with the Chief Financial Officers of each institution. At that time, the parties entered into a confidentiality agreement to facilitate the exchange of information. Although the parties again informally discussed the desirability of a proposed affiliation, these discussions did not progress, primarily because UnionBancorp s board was in the midst of consideration of UnionBancorp s strategic direction, and UnionBancorp was also in the midst of a reduction in force.

In the Fall of 2005, Centrue Financial received an unsolicited, non-binding expression of interest from a financial institution located in the St. Louis metropolitan area regarding an offer to acquire Centrue Financial in a cash and stock transaction. Representatives of each company met with one another to discuss the desired synergies resulting from the proposed acquisition, and the parties, including a new financial advisor to Centrue Financial, conducted mutual due diligence. Following this process and after discussions among the respective

parties regarding transaction terms, discussions, were terminated due to, among other things, uncertainty with respect to the combined company s ability to generate acceptable earnings.

The board of directors in November 2005 again considered its strategic alternatives, and agreed to further evaluate Centrue Financial s strategic plan. In January 2006, Centrue Financial conducted an informal market check, with its financial advisor contacting approximately 8-10 financial institutions, including UnionBancorp, that Centrue Financial felt might have a strategic or financial interest in the potential acquisition of Centrue Financial at a market premium. The board of directors of Centrue Financial determined as a result of this market check that the timing did not seem appropriate to sell the company, but that it might be willing to consider strategic combinations structured as a merger of equals. In reaching this conclusion, the Centrue Financial board considered that a merger of equals would, if completed, likely be completed at a value that would not represent an immediate premium over Centrue Financial s then current market value, while its previous considerations of sale transactions had contemplated that Centrue Financial stockholders would receive such a premium. However, the board noted that at no time had any prior discussions or the informal market check indicated that a sale transaction at an acceptable value would be achievable. In addition, in making its decision to focus on a merger of equals transaction, the board noted that the evaluation of the price to be paid to Centrue Financial stockholders would be able to be evaluated over a long-term horizon, which would give the board flexibility to evaluate transactions that would support its overall corporate strategy and that may, if proper synergies were achieved, result in increases in stockholder value in the long term. When Mr. Yeoman again contacted Mr. Daiber in January, 2006 to discuss an affiliation structured as a merger of equals, the parties began in earnest to discuss the proposed structure and financial terms of such a transaction. At a UnionBancorp board meeting held on March 16, 2006, Dennis J. McDonnell, chairman of UnionBancorp, reported on conversations he had had with Centrue Financial and discussed similarities between the organizations and advantages to be gained in a merger of equals.

As a result of discussions held in April, 2006 among representatives of each company, including a significant individual stockholder of UnionBancorp, the parties agreed to move forward with the consideration of a possible transaction in which Centrue Financial would combine with UnionBancorp, with the combined company retaining the name Centrue Financial Corporation. In the combination, it was proposed that UnionBancorp would issue stock to Centrue Financial s stockholders, with an exchange ratio based on an approximation of market-to-market value preceding the date of announcement of the transaction. It was also proposed that the combined company would have a board of directors comprised of ten members, five from each constituent company, with equal representation on committees of the board. The senior management team was proposed to consist of Mr. Daiber as Chief Executive Officer, Mr. Yeoman as Chief Operating Officer, and Kurt R. Stevenson, the current Chief Financial Officer of UnionBancorp, as the Chief Financial Officer. Through a series of meetings and conversations held in late April 2006, the parties developed a framework for the financial terms and management integration, and expressed a mutual interest in pursuing a transaction. The discussions among the parties included the consideration of the possible advantages of a combination, including the fact that each of the franchises had little geographic overlap and represented the opportunity to extend the combined market share over a larger portion of central Illinois, with a possible long term goal of ultimately expanding into the Chicago metropolitan area. At a meeting of UnionBancorp s board on April 25, 2006, Mr. McDonnell apprised the entire UnionBancorp board of the above discussions and after discussion among the board members, the UnionBancorp board unanimously agreed that UnionBancorp should continue conversations with Centrue Financial. Mr. McDonnell sent a letter to Centrue Financial dated May 18, 2006 setting forth the proposed material terms of a possible merger of equals transaction between UnionBancorp and Centrue Financial.

At a meeting of Centrue Financial s board held on May 24, 2006, the directors approved moving forward with the consideration a possible merger, and authorized management to proceed with mutual due diligence. In addition, the directors authorized management to contact prospective investment bankers, including Centrue Financial s most recent financial advisor, and ask the bankers to give presentations with respect to the proposed transaction. UnionBancorp and Centrue Financial met and had discussions several times over the ensuing days to organize the due diligence process and to discuss organization, vision and strategy for the

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combined institution. In addition, the parties discussed with their respective counsel the alternative structures for a merger of equals transaction.

A meeting of UnionBancorp s board was held on May 25, 2006 which was attended by all of UnionBancorp s directors, UnionBancorp s Chief Financial Officer, Kurt R. Stevenson, and representatives of UnionBancorp s attorneys, Howard & Howard Attorneys P.C. At the meeting, Mr. McDonnell updated the board on the negotiations with Centrue. Representatives of Howard & Howard discussed in detail with the board members their fiduciary duties in connection with merger transactions and answered questions from the board. A possible timeline was also discussed should events move forward including the due diligence process and the timing of the preparation of a definitive agreement. Messrs. Yeoman and Stevenson recommended that the company engage Sandler O Neill & Partners, L.P. to act as independent financial advisors to assist management in a possible merger of equals transaction with Centrue Financial, based on UnionBancorp s previous experience with Sandler O Neill and Sandler O Neill s reputation and expertise in the financial services industry. After discussion and by unanimous vote, the Board authorized management to engage Sandler O Neill as financial advisor to UnionBancorp. UnionBancorp formally engaged Sandler O Neill by letter dated May 25, 2006.

On June 1, 2006, the audit committee of Centrue Financial s board of directors met, with participation from the remaining board members and legal counsel, Barack Ferrazzano, to interview the investment bankers to represent Centrue Financial in connection with the transaction. Following the presentations offered at the meeting, the audit committee selected Keefe Bruyette & Woods, Inc. to represent Centrue Financial as the investment banker on the transaction, based in part on their experience with merger of equals transactions. Keefe Bruyette was directed to begin its financial analysis of the transaction, and to engage in discussions with UnionBancorp s financial advisors, Sandler O Neill & Partners, to assess whether any modification to the proposed exchange ratio was appropriate. At the conclusion of the meeting, the audit committee directed Barack Ferrazzano to prepare a definitive merger agreement to be presented to UnionBancorp s counsel.

Beginning June 2, 2006, additional meetings were held between Centrue Financial, UnionBancorp and their financial advisors to discuss each organization s respective financial performance, personnel and business plans. The parties also discussed how the two organizations would combine in a merger of equals, and how the transaction and resulting company would be structured. Due diligence began June 5, 2006, and continued through the following week. Over this period, Sandler O Neill and Keefe Bruyette continued discussions with respect to the exchange ratio, and Sandler O Neill recommended to Keefe Bruyette a fixed exchange ratio of 1.2 shares of UnionBancorp common stock for each share of Centrue Financial common stock, with this ratio based on the previously discussed market-to-market methodology. Keefe Bruyette reported to Centrue Financial that UnionBancorp was not receptive to a modification of the exchange ratio methodology.

On June 12, 2006, UnionBancorp held a board meeting which was attended by all but one of its directors, Mr. Stevenson, Chief Financial Officer, and representatives of Howard & Howard and Sandler O Neill. The meeting was called to update the board on the status of negotiations and due diligence. Mr. Yeoman advised that he and Mr. Stevenson met twice with Mr. Daiber prior to the commencement of the due diligence process. The meetings ended on a positive note with all parties agreeing that there would be synergies in a combined organization. Also discussed were preliminary organizational chart items, line of business structure and centralized operations and support functions. Mr. Yeoman discussed the diligence process and reviewed the findings identified by the due diligence team. Representatives of Sandler O Neill then discussed the exchange ratio analysis projecting a 1.20x exchange ratio and their pro forma contribution analysis as of March 31, 2006 supporting a merger of equals transaction. The board briefly discussed a timeline of events should the companies move forward and the prospective need to offer employment contracts to key individuals to ensure the successful integration of the two companies.

On June 13, 2006, Centrue Financial s board of directors held a meeting that included the participation of Keefe Bruyette and Barack Ferrazzano. At this meeting, the Centrue Financial board reviewed the strategic alliance process to date, a summary of the merger-of-equals transaction proposal, and a financial analysis presented by Keefe Bruyette of Centrue Financial, UnionBancorp and the proposed transaction. Management provided the board of directors with the initial due diligence report, which included a discussion of the loan

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review, financial and related areas, insurance and benefit plans, premises and equipment, retail overview, trust and brokerage activities, regulatory matters and personnel. In addition, Barack Ferrazzano delivered its initial legal due diligence report, including addressing securities, contract and benefit matters. The meeting also included a detailed discussion by counsel of the terms of the proposed merger agreement and employment agreements to be entered into with key management personnel of the combined company. Barack Ferrazzano also reviewed with the board its fiduciary obligations and the legal standards applicable to a decision by the board to approve the merger agreement and related transaction and recommend their approval to stockholders. At the conclusion of the meeting, counsel was requested to deliver the agreement to UnionBancorp s counsel and to negotiate a definitive agreement. Barack Ferrazzano delivered the draft agreement to Howard & Howard, counsel for UnionBancorp, later that afternoon.

Management of Centrue Financial and UnionBancorp, along with their respective financial advisors, continued to have discussions regarding the proposed exchange ratio. The two management teams also discussed other key issues such as transaction structure, management, integration risk, systems compatibility and other transitional issues. These discussions continued through June 2006. Concurrently, Barack Ferrazzano and Howard & Howard negotiated, with input from their respective clients, the terms of the merger agreement and related documents, including proposed employment agreements for the top and lower-tier management personnel. Throughout this time period, the boards of directors of Centrue Financial and UnionBancorp were kept advised of the progress made and the issues under discussion. In addition, the Centrue Financial board of directors met on June 21 and June 22 to engage in additional discussions regarding the terms of the proposed transaction, including discussion of the status of the merger agreement and the status of conversations among the parties relating to employment agreement terms and management integration matters.

UnionBancorp s board met on June 22, 2006. Mr. Stevenson, representatives of Howard & Howard, representatives of UnionBancorp s independent auditor, Crowe Chizek and Company LLC, and representatives of Sandler O Neill were also in attendance. Based on the current draft of the merger agreement, a representative of Howard & Howard discussed legal issues associated with the merger agreement and the board s fiduciary duties in considering the merger agreement and answered questions from the board. Messrs. Yeoman and Stevenson presented an assessment of the benefits and risks associated with the proposed merger and provided an overview of Centrue Financial including a historical review and branch location descriptions. The scope and outcome of the due diligence investigation was discussed and board members were provided with executive overviews from the line of business managers who were directly involved in the due diligence process. Discussions also included a review of integration strategies and the proposed organizational chart. Representatives of Sandler O Neill provided a detailed discussion of the analysis of the proposed merger and also answered questions from the board.

On June 26, 2006, Mr. Daiber and an independent director of Centrue Financial met with Mr. Yeoman, an independent director of UnionBancorp and the Chairman of the Board of UnionBancorp, to discuss further specifics with respect to the employment and compensation arrangements, including final identification of the parties who would enter into employment agreements and the compensation and benefit levels for those individuals. The parties continued discussions on these matters as well as board structure over the next several days, while counsel for the respective parties worked to finalize the merger agreement and other documentation, including the disclosure schedules delivered in connection with the merger agreement.

On June 30, 2006, the Centrue Financial board of directors held a special meeting to consider the negotiated terms of the transaction. The meeting included extensive discussion of the proposed transaction, the merger agreement and updated explanatory materials similar to those previously reviewed by the Centrue Financial board at the June 13, 2006 meeting. Barack Ferrazzano again reviewed with the board its fiduciary duties and other legal considerations involved in a decision to approve the contemplated transactions. Keefe Bruyette reviewed the financial terms of the transaction, provided a financial analysis of the proposed transaction and orally expressed an opinion that the exchange ratio was fair to Centrue Financial s stockholders from a financial point of view. Keefe Bruyette confirmed this oral opinion in writing by letter dated June 30, 2006. At the conclusion of this portion of the meeting, the Centrue Financial board determined

that the proposed merger of equals with UnionBancorp was in the best interests of its stockholders and unanimously approved the merger agreement and related transactions.

UnionBancorp also held a special meeting on June 30, 2006 to consider and vote on the proposed merger agreement and the transactions related to the merger agreement. Mr. Stevenson, representatives of Howard & Howard, representatives of Crowe Chizek, and representatives of Sandler O Neill were also in attendance. Mr. Yeoman began by summarizing the activities which had taken place since the last meeting of the board relating to discussions between representatives of UnionBancorp and representatives of Centrue Financial. He also summarized the results of due diligence investigations. A representative of Howard & Howard again discussed the fiduciary duties of the board in considering the merger agreement and reviewed the terms of the merger agreement, voting agreement, employment agreements, and other matters. Finally, Sandler O Neill reviewed the financial terms of the transaction, provided a financial analysis of the proposed transaction and orally expressed an opinion that the exchange ratio was fair to UnionBancorp s stockholders from a financial point of view, which Sandler O Neill subsequently confirmed in writing by letter dated June 30, 2006. After extensive discussion, UnionBancorp s board determined that the proposed merger of equals with Centrue Financial was in the best interests of its stockholders and unanimously approved the merger agreement and related transactions.

The merger agreement was signed by both Centrue Financial and UnionBancorp after the closing of stock markets on June 30, 2006, and was publicly announced on June 30, 2006.

UnionBancorp s Reasons for the Merger and Board Recommendation

The UnionBancorp board believes that the merger is fair to, and in the best interests of, UnionBancorp and the UnionBancorp stockholders. Accordingly, the UnionBancorp board has unanimously approved the merger agreement and unanimously recommends that the UnionBancorp stockholders vote FOR the adoption of the merger agreement.

The UnionBancorp board believes that the consummation of the merger presents a unique opportunity to combine with one of central Illinois leading community banking franchises to create an even stronger Illinois community banking franchise with an enhanced geographic presence and product development capabilities.

In reaching its decision to approve the merger agreement, the UnionBancorp board consulted with UnionBancorp s management, as well as with its financial and legal advisors, and considered a variety of factors, including the following:

- the fact that the exchange ratio represented an at-market transaction based on the ratio of the market price of Centrue Financial common stock to the market price of UnionBancorp common stock, which the UnionBancorp board believed presented a unique and attractive opportunity, and that the exchange ratio would be fixed thereby reducing the risk that the transaction would become dilutive to UnionBancorp s stockholders;

- the potential cost saving opportunities and the related potential positive impact on the combined company s earnings, including, specifically, the elimination of UnionBancorp s current need to upgrade its operating platform by converting to the operating platform currently in use at Centrue Financial;

- the opportunities for revenue enhancements through the development of more extensive product offerings, including cash management and private banking, by a combined company with significantly greater resources than either standing alone, and the ability to leverage UnionBancorp s asset management business over a larger franchise;

- the opportunity to build greater brand recognition and awareness;

- the governance arrangements with respect to the combined company post-merger, including the fact that Mr. McDonnell would serve as Chairman of the combined company, Mr. Yeoman would serve as Chief Operating Officer, and Mr. Stevenson would serve as Chief Financial Officer, as well as, the proposed composition of the board of directors;

the belief of UnionBancorp s senior management that the managements and employees of Centrue Financial and UnionBancorp possess complementary skills and expertise and the potential advantages of a larger institution when pursuing, or seeking to retain, production and management talent;

the benefit and convenience to the combined company s customers resulting from the greater number of retail banking outlets spread over a broader geographic area that would become available to them for the conduct of their banking business, as well as the increased penetration of the northern, central and southwestern Illinois markets;

the opportunity to leverage UnionBancorp s recent success in centralization, standardization, and consolidation of non-sales related operations across Centrue Financial s diverse operations platforms, thereby enhancing revenue-generating activities in all branch locations;

the complementary nature and similarities in the markets served by Centrue Financial and UnionBancorp;

Centrue Financial s community banking philosophy, and stated commitment to local decision-making, and involvement by its leaders in the communities that it serves;

the tax-free nature of the transaction due to the all-stock consideration to be utilized in the merger;

the competence, experience, and integrity of Centrue Financial s senior officers;

the growing accounting, legal and regulatory compliance costs for publicly-traded institutions and the ability to spread such costs over a significantly larger revenue base;

the increasingly high costs of product development and technology and the probability that such costs are likely to continue to increase in the future;

the belief that, following the merger, the combined entity will be well-positioned to continue to grow through possible future acquisitions or expansions while at the same time increasing its attractiveness as a possible merger candidate; and correspondingly, the ability to make strategic divestitures from time-to-time which should have a reduced impact on a larger-sized institution;

the opinion of Sandler O Neill that, as of June 30, 2006, the exchange ratio in the merger was fair from a financial point of view to UnionBancorp stockholders (see Fairness Opinion of UnionBancorp s Financial Advisor);

the anticipated increase in the liquidity of the combined company s stock resulting from a significantly expanded stockholder base and the potential increase in interest from institutional investors and securities analysis; and

the likelihood that the merger will be approved by the appropriate regulatory authorities in a timely manner (see Regulatory Approvals).

The foregoing discussion of the information and factors considered by the UnionBancorp board is not intended to be exhaustive, but includes all material factors considered by the UnionBancorp board. In reaching its determination to approve and recommend the merger, the UnionBancorp board did not assign any relative or specific weights to the foregoing factors, and individual directors may have given differing weights to different factors. The UnionBancorp board is unanimous in its recommendation that UnionBancorp stockholders vote for approval and adoption of the merger agreement.

Centrue Financial s Reasons for the Merger and Board Recommendation

The Centrue Financial board of directors believes that the merger is fair to, and in the best interests of, Centrue Financial and its stockholders. Accordingly, the Centrue Financial board has unanimously approved the merger agreement and unanimously recommends that its stockholders vote ***FOR*** *the approval of the merger agreement and the transactions it contemplates.*

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Centrue Financial s board has concluded that the proposed merger offers stockholders an extremely attractive opportunity to achieve the board s strategic business objectives. These objectives included increasing stockholder value and growing the size of the business to one of the premier financial institutions in central Illinois.

In deciding to approve the merger agreement and the transactions it contemplates, Centrue Financial s board consulted with management, as well as its legal counsel and financial advisors, and considered numerous factors, including the following:

information with respect to the businesses, earnings, operations, financial condition, prospects, capital levels and asset quality of Centrue Financial and UnionBancorp, both individually and as a combined company; in particular, the Centrue Financial board focused on the strategic fit of the business lines and the operating philosophies of the two institutions;

the perceived risks and uncertainties attendant to Centrue Financial s execution of its strategic growth plans as an independent banking organization, including the need to hire and retain management personnel, including a Chief Financial Officer, in order to support and enhance future growth;

the fact that the merger would combine two solid and emerging banking franchises to create a $1.3 billion bank that would have a top 50 deposit share in Illinois;

the consistency of the merger with Centrue Financial s long-term strategic vision to seek profitable future expansion in the far southern and southwestern Chicago suburbs, providing the foundation for advancement into both the Chicago metropolitan and St. Louis metropolitan areas, leading to continued growth in overall stockholder value;

the complementary nature of the businesses of Centrue Financial and UnionBancorp and the anticipated improved stability of the combined company s business and earnings in varying economic and market climates relative to Centrue Financial on a stand-alone basis;

the combination of the significant management talent of both organizations, which would provide for operational synergies and efficiencies;

the belief of Centrue Financial s senior management and the Centrue Financial board that the two companies share a common vision with respect to delivering financial performance and stockholder value and that their executive officers and employees possess complementary skills and expertise;

the advantages of a combination with an institution such as UnionBancorp that already has a significant market share in the northern central Illinois markets and the opportunities for increased efficiencies and significant cost savings resulting from a combination with UnionBancorp s current organization, resulting in increased profitability of the combined entity over time, as compared to a possible combination without a similar market presence;

the fact that the combined company would continue to be publicly held following the merger, providing the combined company s stockholders with continued access to a public trading market, and that stockholders would be expected to have increased liquidity for their shares as a result of the higher market capitalization of the combined company;

the fact that the market capitalization of the combined institution, as compared with Centrue Financial s market capitalization as a stand-alone entity, was expected to provide the company with increased access to capital markets to finance the combined company s capital requirements, and in addition would provide for enhanced market visibility;

the fact that the higher market capitalization of the combined company was expected to enhance the attractiveness of the company s stock going forward, which would make the stock more attractive as consideration to be used in future acquisition opportunities that may allow for increased stockholder value;

the current and prospective economic and competitive environments facing Centrue Financial and other financial institutions, characterized by intensifying competition from both banks and nonbank financial service organizations, and the growing costs associated with regulatory compliance in the industry;

the belief that the market value of UnionBancorp s common stock prior to the execution of the merger agreement offered favorable prospects for future appreciation as a result of the proposed merger and other strategic initiatives that would be implemented by the combined company;

the belief that the merger would result in stockholders of Centrue Financial receiving stock in a high quality combined company that should benefit stockholders through enhanced operating efficiencies and better penetration of commercial and consumer banking markets in Illinois;

the belief that, while no assurances could be given, the business and financial advantages contemplated in connection with the merger were likely to be achieved within a reasonable time frame, particularly in light of the fact that the organizations have transition experience due to recent successfully completed acquisitions, divestitures, charter consolidations and/or data processing conversions;

the opinion of Keefe Bruyette that, as of June 30, 2006, the exchange ratio offered in the merger was fair from a financial point of view to Centrue Financial s stockholders (see Fairness Opinion of Centrue Financial s Financial Advisor); and

the likelihood that the merger will be approved by the relevant bank regulatory authorities (see Regulatory Approval).

The above discussion of the information and factors considered by the Centrue Financial board is not intended to be exhaustive, but includes the material factors they considered. In arriving at its determination to approve the merger agreement and the transactions it contemplates, and recommend that the Centrue Financial stockholders vote to approve them, the Centrue Financial board did not assign any relative or specific weights to the above factors, and individual directors may have given differing weights to different factors. The Centrue Financial board unanimously recommends that its shareholders vote to approve the merger agreement and the related transactions.

Fairness Opinion of UnionBancorp s Financial Advisor

By letter dated May 25, 2006, UnionBancorp retained Sandler O Neill to act as its financial advisor in connection with a possible business combination with Centrue Financial. Sandler O Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O Neill acted as financial advisor to UnionBancorp in connection with the proposed transaction. At the June 30, 2006 meeting at which UnionBancorp s board considered and approved the merger agreement, Sandler O Neill delivered to the board its oral opinion, that, as of such date, the exchange ratio was fair to UnionBancorp and UnionBancorp s shareholders from a financial point of view. **The full text of Sandler O Neill s opinion is attached as Appendix B to this joint proxy statement/ prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Sandler O Neill urges UnionBancorp s shareholders to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O Neill s opinion speaks only as of the date of the opinion. The opinion was directed to UnionBancorp s board and is directed only to the fairness of the Centrue exchange ratio to UnionBancorp and UnionBancorp s shareholders from a financial point of view. It does not address the underlying business decision of UnionBancorp to engage in the merger or any other aspect of the merger and is not a recommendation to any UnionBancorp shareholder as to how such shareholder should vote at the special

meeting with respect to the merger or any other matter.

In connection with rendering its June 30, 2006 opinion, Sandler O Neill reviewed and considered, among other things:

the merger agreement;

certain publicly available financial statements and other historical financial information of UnionBancorp that they deemed relevant;

certain publicly available financial statements and other historical financial information of Centrue Financial that they deemed relevant;

earnings per share estimates for UnionBancorp for the years ending December 31, 2006 through 2009 as provided by, and reviewed with, senior management of UnionBancorp;

internal financial projections for Centrue Financial for the years ending December 31, 2006 through 2008 provided by and reviewed with senior management of Centrue Financial and as reviewed with and adjusted by senior management of UnionBancorp and estimated financial projections for the year ended December 31, 2009 as discussed with senior management of UnionBancorp;

the pro forma financial impact of the Merger on UnionBancorp, based on assumptions relating to transaction expenses, purchase accounting adjustments and cost savings determined by the senior management of UnionBancorp;

the publicly reported historical price and trading activity for UnionBancorp s and Centrue Financial s common stock, including a comparison of certain financial and stock market information for UnionBancorp and Centrue Financial and similar publicly available information for certain other companies the securities of which are publicly traded;

to the extent publicly available, the financial terms of certain recent merger of equals type business combinations in the commercial banking industry;

the current market environment generally and the banking environment in particular; and

such other information, financial studies, analyses and investigations and financial, economic and market criteria as they considered relevant.

Sandler O Neill also discussed with certain members of senior management of UnionBancorp the business, financial condition, results of operations and prospects of UnionBancorp and held similar discussions with certain members of senior management of Centrue Financial regarding the business, financial condition, results of operations and prospects of Centrue Financial.

In performing its reviews and analyses and in rendering its opinion, Sandler O Neill relied upon the accuracy and completeness of all the financial and other information that was available to them from public sources or that was provided to Sandler O Neill by UnionBancorp or Centrue Financial or their respective representatives and have assumed such accuracy and completeness for purposes of such reviews and analysis and in rendering its opinion. Sandler O Neill further relied on the assurances of the managements of each UnionBancorp and Centrue Financial that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Sandler O Neill was not asked to undertake, and did not undertake, an independent verification of any such information and Sandler O Neill assumes no responsibility or liability for the accuracy or completeness thereof. Sandler O Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing the assets or the liabilities (contingent or otherwise) of UnionBancorp or Centrue Financial or any of their subsidiaries, or the collectibility of any such assets, nor was Sandler O Neill furnished with any such evaluations or appraisals. Sandler O Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of UnionBancorp or Centrue Financial nor has Sandler O Neill reviewed any individual credit files relating to UnionBancorp or Centrue Financial. Sandler O Neill assumed, with UnionBancorp s consent, that the respective allowances for loan losses for both UnionBancorp and Centrue Financial were adequate to cover such losses.

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With respect to the earnings estimates for UnionBancorp and Centrue Financial reviewed with the managements of UnionBancorp and Centrue Financial respectively and used by Sandler O Neill in its analyses, UnionBancorp s and Centrue Financial s managements confirmed to Sandler O Neill that they reflected the best currently available estimates and judgments of the respective managements of the respective future financial performances of UnionBancorp and Centrue Financial, respectively. With respect to the projections of transaction expenses and cost savings determined by and reviewed with the senior management of UnionBancorp, such senior management confirmed to Sandler O Neill that they reflected the best currently available estimates and judgments of such senior management and Sandler O Neill assumed that such performances would be achieved. Sandler O Neill expressed no opinion as to such financial projections or the assumptions on which they were based. Sandler O Neill also assumed that there has been no material change in UnionBancorp s and Centrue Financial s assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to Sandler O Neill. Sandler O Neill assumed in all respects material to its analysis that UnionBancorp and Centrue Financial would remain as going concerns for all periods relevant to Sandler O Neill s analyses, that all of the representations and warranties contained in the Agreement and all related agreements were true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the agreements, that the conditions precedent in the agreements are not waived and that the Merger will be a tax-free reorganization for federal income tax purposes. Finally, with Union s consent, Sandler O Neill relied upon the advice UnionBancorp received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the Merger and the other transactions contemplated by the Agreement.

Sandler O Neill s opinion was necessarily based upon financial, economic, market and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Events occurring after the date of its opinion could materially affect Sandler O Neill s opinion. Sandler O Neill has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date of its opinion. Sandler O Neill expressed no opinion as to what the value of UnionBancorp s common stock will be when it is issued to Centrue Financial s shareholders pursuant to the Agreement or the prices at which UnionBancorp s and Centrue Financial s common stock may trade at any time.

In rendering its June 30, 2006 opinion, Sandler O Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O Neill, but is not a complete description of all the analyses underlying Sandler O Neill s opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O Neill s comparative analyses described below is identical to UnionBancorp or Centrue Financial and no transaction is identical to those described in the registration statement. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of UnionBancorp and Centrue Financial and the companies to which they are being compared.

In performing its analyses, Sandler O Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of UnionBancorp, Centrue Financial and Sandler O Neill. The analyses performed by Sandler O Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the UnionBancorp board at the board s

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June 30, 2006 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different.

Summary of Proposal. Sandler O Neill reviewed the financial terms of the proposed transaction. Using a fixed exchange ratio of 1.20 share of UnionBancorp common stock for each share of Centrue Financial common stock and based upon 3,742,651 common shares outstanding, 301,675 options outstanding at a weighted-average exercise price of $15.74 for UnionBancorp, and 2,238,164 common shares outstanding and 204,800 options outstanding at a weighted-average exercise price of $25.28 for Centrue Financial. Sandler O Neill calculated the following pro forma ownership ratios:

Pro Forma Ownership

	UnionBancorp	Centrue Financial
Diluted Ownership(1)	58.7%	41.3%

(1) Based on the estimated dilutive impact of options.

Based upon the closing price of UnionBancorp s common stock on June 29, 2006 of $20.10, Sandler O Neill calculated implied consideration of $24.12 per Centrue Financial share. Based upon financial information for Centrue Financial for the twelve months ended March 31, 2006, Sandler O Neill calculated the following ratios:

Transaction Ratios

Transaction price/last 12 months earnings per share	14.4x(1)
Transaction price/tangible book value per share	125.5%
Transaction price/stated book value per share	201.7%
Tangible book premium/core deposits(2)	6.2%
Premium to market price(3)	5.3%

(1) Excludes $80,000 non-recurring loss.

(2) Assumes 74.7% of Centrue Financial s deposits are core deposits.

(3) Based on Centrue Financial s closing price of $22.91 as of June 29, 2006.

For the purposes of Sandler O Neill s analyses, earnings per share were based on fully diluted earnings per share. The aggregate transaction value was approximately $55.1 million, based upon the share and option information for Centrue Financial noted above.

Contribution Analysis. Sandler O Neill reviewed the relative contributions to be made by UnionBancorp and Centrue Financial to the combined institution based on the financial information of both companies as of March 31, 2006. This analysis indicated that the implied contributions to the combined entity were as follows:

	Contribution Analysis UnionBancorp	Centrue Financial
Assets	51.4%	48.6%
Net loans	48.1%	51.9%
Core deposits(1)	45.7%	54.3%
Tangible equity	68.4%	31.6%

Last 12 months net income(2)	52.6%	47.4%
Budgeted 2006 net income(3)(4)	58.6%	41.4%
Budgeted 2007 net income(4)	59.0%	41.0%
Pro forma diluted ownership(5)	58.7%	41.3%

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(1) For Centrue Financial, assumes 74.7% of deposits are core deposits. For UnionBancorp assumes 61.6% of deposits are core deposits.

(2) For Centrue Financial, last twelve months net income excludes $80,000 of non-recurring loss. For UnionBancorp, it excludes $800,000 of negative provision.

(3) For UnionBancorp, estimated 2006 net income excludes $800,000 of negative provision.

(4) Based upon internal financial projections produced by respective management teams of Centrue Financial and UnionBancorp.

(5) Based upon the 1.20 exchange ratio.

Analysis of Selected Merger of Equals Transactions. Sandler O Neill reviewed 14 merger of equals transactions from across the nation announced from January 1, 2001 through June 29, 2006 involving commercial banks with transaction values less than $1.0 billion. Sandler O Neill reviewed the relative levels of pro forma ownership, pro forma board room representation including board chairman, the composition of the pro forma management team, the relative asset contribution, relative earnings contribution of the merging parties and the market premium offered to the acquired party. The median results were compared with the proposed merger and are displayed in the table below:

	Merger of Equals Median (Surviving Entity Non-Surviving Entity)	UnionBancorp-Centrue Financial
Board representation	50.0%-50.0%	50.0%-50.0%
Pro forma ownership(1)	51.7%-48.3%	58.7%-41.3%
Asset contribution	54.8%-45.2%	51.4%-48.6%
Earnings contribution(2)	52.7%-47.3%	52.6%-47.4%
Market premium	22.3%	5.3%

(1) Based upon diluted pro forma ownership for UnionBancorp/ Centrue Financial.

(2) Based upon last twelve months net income as of 3/31/06. Relative earnings contribution projected to be 51.1%-48.9% and 51.2%-48.8% in 2006 and 2007 respectively for UnionBancorp and Centrue Financial.

Comparable Company Analysis. Sandler O Neill used publicly available information to perform a comparison of selected financial and market trading information for UnionBancorp and Centrue Financial.

Sandler O Neill used publicly available information to compare selected financial and market trading information for UnionBancorp, Centrue Financial and a group of financial institutions selected by Sandler O Neill (the Peer Group). The Peer Group consisted of the following publicly traded commercial banks headquartered in the Midwest (1) with total assets between $550 million and $725 million:

Alerus Financial Corporation
Baraboo Bancorporation, Incorporated
Community Bank Shares of Indiana, Inc.
DCB Financial Corp
Fentura Financial, Inc.
First Banking Center, Inc.
ISB Financial Corporation
Kentucky Bancshares, Inc.
Landmark Bancorp, Inc.
MidWestOne Financial Group, Inc.
NB&T Financial Group, Inc.
O.A.K. Financial Corporation

First Business Financial Services, Inc.	Team Financial, Inc.
Foresight Financial Group, Inc.	Tower Financial Corporation

(1) Midwest region defined with the following states: Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

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The analysis compared publicly available financial information for UnionBancorp, Centrue Financial and the high, low, mean, and median financial and market trading data for the Peer Group as of and for the twelve months ended March 31, 2006. The table below sets forth the data for UnionBancorp, Centrue Financial and the median data for the Peer Group as of and for the twelve months ended March 31, 2006, with pricing data as of June 29, 2006.

Comparable Group Analysis

	Peer Group Median	Centrue Financial	UnionBancorp
Total Assets *(in millions)*	$ 663.8	$ 626.3	$ 661.7
Tangible Equity/ Tangible Assets	7.62%	4.38%	8.85%
Intangible Assets/ Total Equity	6.52%	37.76%	11.40%
Net Loans/ Total Assets	74.42%	68.69%	60.32%
Gross Loans/ Total Deposits	91.54%	88.18%	76.59%
Total Borrowings/ Total Assets	11.11%	10.61%	9.14%
Non-performing Assets/ Assets	0.33%	0.70%	0.50%
Loan Loss Reserve/ Gross Loans	1.22%	1.02%	1.85%
Net Interest Margin	3.71%	3.34%	3.55%
Non-interest Income/ Average Assets	0.97%	1.14%	1.13%
Fees/ Revenues	20.24%	27.84%	26.47%
Non-interest Expense/ Average Assets	2.86%	3.24%	3.40%
Efficiency Ratio	66.23%	78.90%	79.36%
Return on Average Assets	0.99%	0.60%	0.73%
Return on Average Equity	10.72%	8.68%	7.16%
EPS CAGR (2001-Last Twelve Months)	10.31%	5.43%	2.78%
Price/ Book Value	159.73%	119.20%	115.08%
Price/ Tangible Book Value	171.36%	191.52%	129.89%
Price/ Last Twelve Months EPS	14.43x	13.97%	17.03%
Price/ Last Twelve Months Core EPS	14.53x	13.69%	18.26%
Dividend Payout Ratio	26.98%	0.00%	38.14%
Dividend Yield	1.86%	0.00%	2.24%
Market Capitalization *(in millions)*	$ 72.9	$ 51.1	$ 75.2

Net Present Value Analysis. Sandler O Neill performed an analysis that estimated the net present value per share of Centrue Financial common stock through December 31, 2009 under various circumstances and assuming that Centrue Financial performs in accordance with management s financial projections and forecasted growth for the years ended December 31, 2006, 2007 and 2008 and the estimated financial projections for 2009 as discussed with senior management of UnionBancorp. To approximate the terminal value of Centrue Financial common stock at December 31, 2009, Sandler O Neill applied price to last twelve months earnings per share multiples of 14.0x to 18.0x and multiples of tangible book value ranging from 125% to 200%. The terminal values were then discounted to present values using different discount rates ranging from 9.0% to 15.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Centrue Financial common stock. In addition, the terminal value of Centrue Financial s common stock at December 31, 2009 was calculated using the same range of price to last twelve months earnings multiples (14.0x to 18.0x) applied to a range of discounts and premiums to management s projections. The range applied to the projected net income was 25% under projections to 25% over projections, using a discount rate of 12.10% for the tabular analysis. As illustrated in the following tables, this analysis indicated an imputed range of values per share for Centrue Financial common stock of $20.95 to $32.50 when applying the price to earnings multiples to the matched financial projections, $17.18 to $36.82 when applying

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the price to earnings multiples to the -25% to +25% projection range, and $15.33 to $29.58 when applying multiples of tangible book value to the matched financial projections.

Present Value Per Share Based on Price/ Earnings; Net Present Value for the Period Ending 12/31/2009.

Discount Rate	14.0x	15.0x	16.0x	17.0x	18.0x
9.0%	$ 25.27	$ 27.08	$ 28.88	$ 30.69	$ 32.50
10.0	24.48	26.23	27.98	29.72	31.47
11.0	23.72	25.41	27.10	28.80	30.49
12.0	22.98	24.62	26.27	27.91	29.55
13.0	22.28	23.87	25.46	27.05	28.64
14.0	21.60	23.15	24.69	26.23	27.77
15.0	20.95	22.45	23.95	25.44	26.94

Present Value Per Share Based on Price/ Earnings; Net Present Value for the Period Ending 12/31/2009.

Projections Variance	14.0x	15.0x	16.0x	17.0x	18.0x
(25.0)%	$ 17.18	$ 18.41	$ 19.64	$ 20.87	$ 22.09
(20.0)	18.33	19.64	20.95	22.26	23.57
(15.0)	19.47	20.87	22.26	23.65	25.04
(10.0)	20.62	22.09	23.57	25.04	26.51
(5.0)	21.77	23.32	24.87	26.43	27.98
0.0	22.91	24.55	26.18	27.82	29.46
5.0	24.06	25.78	27.49	29.21	30.93
10.0	25.20	27.00	28.80	30.60	32.40
15.0	26.35	28.23	30.11	31.99	33.88
20.0	27.49	29.46	31.42	33.38	35.35
25.0	28.64	30.68	32.73	34.78	36.82

Discount Rate	125%	150%	175%	200%
9.0%	$ 18.49	$ 22.18	$ 25.88	$ 29.58
10.0	17.91	21.49	25.07	28.65
11.0	17.35	20.82	24.29	27.76
12.0	16.81	20.17	23.54	26.90
13.0	16.30	19.56	22.81	26.07
14.0	15.80	18.96	22.12	25.28
15.0	15.33	18.39	21.46	24.52

Sandler O Neill also performed an analysis that estimated the net present value per share of UnionBancorp common stock through December 31, 2009 under various circumstances and assuming that UnionBancorp performs in accordance with management s financial projections for the years ended December 31, 2006, 2007, 2008 and 2009. To approximate the terminal value of UnionBancorp common stock at December 31, 2009, Sandler O Neill applied price to last twelve months earnings per share multiples of 14.0x to 18.0x and multiples of tangible book value ranging from 125% to 200%. The terminal values were then discounted to present values using different discount rates ranging from 9.0% to 15.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of UnionBancorp common stock. In addition, the terminal value of UnionBancorp s common stock at

December 31, 2009 was calculated using the same range of price to last twelve months earnings multiples (14.0x to 18.0x) applied to a range of discounts and premiums to management s projections. The range applied to the projected net income was 25% under projections to 25% over projections, using a discount rate of 12.10% for the tabular analysis. As illustrated in the following tables, this analysis indicated an imputed range of values per share for UnionBancorp common stock of $16.55 to $24.93 when applying the price/earnings multiples to the matched financial projections, $13.95 to $27.90 when applying the price/earnings multiples to the -25% to +25% projection range, and $16.36 to 30.16 when applying multiples of tangible book value to the matched financial projections.

Present Value Per Share Based on Price/ Earnings; Net Present Value for the Period Ending 12/31/2009.

Discount Rate	**14.0x**	**15.0x**	**16.0x**	**17.0x**	**18.0x**
9.0%	$ 19.80	$ 21.08	$ 22.36	$ 23.65	$ 24.93
10.0	19.20	20.44	21.69	22.93	24.17
11.0	18.63	19.83	21.03	22.24	23.44
12.0	18.08	19.24	20.41	21.57	22.74
13.0	17.55	18.68	19.81	20.94	22.07
14.0	17.04	18.13	19.23	20.32	21.42
15.0	16.55	17.61	18.67	19.73	20.80

Present Value Per Share Based on Price/ Earnings; Net Present Value for the Period Ending 12/31/2009.

Projections Variance	**14.0x**	**15.0x**	**16.0x**	**17.0x**	**18.0x**
(25.0)%	$ 13.95	$ 14.83	$ 15.70	$ 16.57	$ 17.44
(20.0)	14.77	15.70	16.63	17.56	18.49
(15.0)	15.58	16.57	17.56	18.54	19.53
(10.0)	16.40	17.44	18.49	19.53	20.58
(5.0)	17.21	18.31	19.42	20.52	21.62
0.0	18.02	19.18	20.35	21.51	22.67
5.0	18.84	20.06	21.28	22.50	23.72
10.0	19.65	20.93	22.21	23.48	24.76
15.0	20.46	21.80	23.13	24.47	25.81
20.0	21.28	22.67	24.06	25.46	26.85
25.0	22.09	23.54	24.99	26.45	27.90

Present Value Per Share Based on Tangible Book Value; Net Present Value for the Period Ending 12/31/2009.

Discount Rate	**125%**	**150%**	**175%**	**200%**
9.0%	$ 19.57	$ 23.10	$ 26.63	$ 30.16
10.0	18.98	22.40	25.82	29.23
11.0	18.41	21.72	25.04	28.35
12.0	17.87	21.08	24.29	27.50
13.0	17.34	20.46	23.57	26.68
14.0	16.84	19.86	22.88	25.89
15.0	16.36	19.28	22.21	25.14

In connection with its analyses, Sandler O Neill considered and discussed with the UnionBancorp board how the present value analyses would be affected by changes in the underlying assumptions. Sandler O Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Stock Trading History. Sandler O Neill reviewed the history of the reported trading prices and volume of Centrue Financial s and UnionBancorp s common stock and the relationship between the movements in the price of Centrue Financial s and UnionBancorp s common stock and the movements in the prices of the Standard & Poor s 500 Index, the NASDAQ Bank Index, the Standard & Poor s Bank Index and the median performance of the Peer Group. The composition of the Peer Group is discussed under the relevant section under Comparable Company Analysis above.

Sandler O Neill analyzed Centrue Financial s and UnionBancorp s common stock for the one year period ended June 28, 2006. During this period, Centrue Financial s common stock generally underperformed UnionBancorp, the indices and the Peer Group to which it was compared. During this same period, UnionBancorp s common stock generally performed in-line with the Peer Group and outperformed Centrue Financial and the indices to which it was compared.

One Year Stock Performance

	Beginning Index Value June 28, 2005	Ending Index Value June 28, 2006
Centrue Financial	100.00%	88.94%
UnionBancorp	100.00	95.13
The Peer Group	100.00	109.21
S&P 500 Index	100.00	103.70
NASDAQ Bank Index	100.00	102.63
S&P Bank Index	100.00	103.21

Sandler O Neill analyzed Centrue Financial s and UnionBancorp s common stock for the three year period ended June 28, 2006. During this period, Centrue Financial s common stock generally underperformed UnionBancorp and the Peer Group, and generally outperformed the indices and to which it was compared. During this same period, UnionBancorp s common stock generally outperformed Centrue Financial, the Peer Group and the indices to which it was compared.

Three Year Stock Performance

	Beginning Index Value June 28, 2003	Ending Index Value June 28, 2006
Centrue Financial	100.00%	98.54%
UnionBancorp	100.00	100.75
The Peer Group	100.00	134.58
S&P 500 Index	100.00	127.64
NASDAQ Bank Index	100.00	127.18
S&P Bank Index	100.00	127.14

Pro Forma Merger Analysis. Sandler O Neill analyzed certain potential pro forma effects of the merger, assuming the following: (1) the merger closes on December 31, 2006; (2) 100.0% of Centrue Financial shares are exchanged for Merger Sub common stock at a fixed exchange ratio of 1.20 and 100% of UnionBancorp shares are exchanged for Merger Sub common stock at a fixed exchange ratio of 1.00; (3) Centrue Financial s 2006, 2007, and 2008 financial and growth projections; (4) UnionBancorp s 2006, 2007, 2008, and 2009 financial projections; (6) purchase accounting adjustments, charges and transaction costs associated with the merger and cost savings determined by the senior managements of UnionBancorp and Centrue Financial. The analyses indicated that for the year ending December 31, 2007 (the first full year of combined operations), the merger would be accretive to UnionBancorp s projected earnings per share and, at December 31, 2006 (the assumed closing date of the merger) the merger would be dilutive to UnionBancorp s tangible book value per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

UnionBancorp has paid Sandler O Neill an initial retainer of $25,000 as well as a fairness opinion fee in connection with the delivery of its opinion of $100,000 and will pay Sandler O Neill an additional fee of $75,000 upon the closing of the transaction. UnionBancorp has also agreed to reimburse certain of Sandler O Neill s reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Sandler O Neill and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under securities laws.

In the ordinary course of its business as a broker-dealer, Sandler O Neill may purchase securities from and sell securities to UnionBancorp and Centrue Financial and their respective affiliates. Sandler O Neill may also actively trade the debt and/or equity securities of UnionBancorp or Centrue Financial or their respective affiliates for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Fairness Opinion of Centrue Financial s Financial Advisor

In May 2006, the Centrue Financial board of directors retained Keefe Bruyette as its financial advisor in connection with Centrue Financial s consideration of a possible merger transaction with a third party and to render an opinion with respect to the fairness from a financial point of view of the consideration to be received by Centrue Financial s stockholders. As Centrue Financial s financial advisor, Keefe Bruyette assisted Centrue Financial in analyzing UnionBancorp s proposal and negotiating certain terms of the merger included in the merger agreement. In connection with Keefe Bruyette s engagement, Centrue Financial asked Keefe Bruyette to evaluate the fairness of the merger consideration to Centrue Financial s stockholders from a financial point of view. On June 13, 2006, Keefe Bruyette delivered its preliminary oral opinion to Centrue Financial s board of directors that, as of June 13, 2006, and based upon and subject to various matters set forth in that opinion, the merger consideration was fair to Centrue Financial s stockholders from a financial point of view. On June 30, 2006, Keefe Bruyette delivered its final oral opinion to Centrue Financial s board of directors, subsequently confirmed in writing, that as of June 30, 2006, and based upon and subject to various matters set forth in that opinion, the merger consideration was fair to Centrue Financial s stockholders from a financial point of view.

With Keefe Bruyette s consent, the full text of Keefe Bruyette s opinion, dated June 30, 2006, which sets forth a description of the procedures followed, assumptions made, matters considered and limits on the review undertaken in connection with such opinion, is attached to this document as *Appendix C* and is incorporated herein by reference. Centrue Financial stockholders are urged to read the opinion in its entirety. Keefe Bruyette s opinion is directed to Centrue Financial s board of directors and relates only to the fairness of the consideration provided in the merger agreement from a financial point of view and does not address any other aspect of the proposed merger or any related transaction, and does not constitute a recommendation to any stockholder as to how such a stockholder should vote with respect to the merger or any other matter. The following summary of the opinion is qualified in its entirety by reference to the full text of the opinion. This summary does not purport to be a complete description of the analysis performed by Keefe Bruyette and should not be construed independent of the other information considered by Keefe Bruyette in rendering its opinion. Selecting portions of Keefe Bruyette s analysis or isolating certain aspects of the comparable transactions without considering all analyses and factors could create an incomplete or potentially misleading view of the evaluation process.

In rendering its opinion, Keefe Bruyette reviewed, analyzed and relied upon the following material relating to the financial and operating condition of Centrue Financial and UnionBancorp:

a draft of the merger agreement;

historical financial and other information concerning UnionBancorp, including UnionBancorp s annual reports to stockholders and annual reports on Form 10-K for the three fiscal years ended December 31, 2005, and certain quarterly reports on Form 10-Q;

historical financial and other information concerning Centrue Financial, including annual reports to stockholders and annual reports on Form 10-K for the three fiscal years ended December 31, 2005, and certain quarterly reports on Form 10-Q;

discussions with senior management of Centrue Financial and UnionBancorp with respect to their past and current business operations, regulatory matters, financial condition and future prospects;

earnings per share estimates for Centrue Financial for the years ending December 31, 2006, 2007 and 2008, as prepared by management and discussed with Centrue Financial management;

earnings per share estimates for UnionBancorp for the years ending December 31, 2006, 2007 and 2008, as prepared by management and discussed with UnionBancorp management;

historical stock prices and trading volumes of the common stock of Centrue Financial and UnionBancorp;

the pro forma financial impact of the merger on UnionBancorp and Centrue Financial, based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings and other synergies determined by the senior management of UnionBancorp and Centrue Financial;

certain publicly available information of other financial institutions that Keefe Bruyette deemed comparable or otherwise relevant to its inquiry, and a comparison of Centrue Financial and UnionBancorp from a financial point of view with certain of those institutions;

financial terms of certain recent business combinations in the banking industry that Keefe Bruyette deemed comparable or otherwise relevant to its inquiry; and

other financial studies, analyses and investigations and such other information as Keefe Bruyette deemed appropriate to enable it to render its opinion.

Keefe Bruyette also considered such financial and other factors as it deemed appropriate under the circumstances and took into account its assessment of general economic, market and financial conditions and its experience in similar transactions, as well as its experience in securities valuation and its knowledge of financial institutions, including banks, bank holding companies, thrifts and other financial services companies generally. Keefe Bruyette s opinion was based upon conditions as they existed on the date of the opinion and could only be evaluated as of such date thereof. In addition, the opinion was based upon information made available to Keefe Bruyette through the date of its opinion. The analyses performed by Keefe Bruyette are not necessarily indicative of actual value or future results, which may be significantly more or less favorable than suggested by such analyses and do not purport to be appraisals or reflect the prices at which a business may be sold.

In conducting its review and arriving at its opinion, Keefe Bruyette relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it or publicly available, and Keefe Bruyette did not attempt to verify such information independently. Keefe Bruyette relied upon the management of Centrue Financial as to the reasonableness and achievability of the financial and operating forecasts (and the assumptions and bases therefor) provided to Keefe Bruyette and assumed that such forecasts reflected the best available estimates and judgments of Centrue Financial and UnionBancorp s management and that such forecasts would be realized in the amounts and in the time periods estimated by management. Keefe Bruyette also assumed, without independent verification, that Centrue Financial s aggregate allowance for loan losses is adequate to cover such losses. Keefe Bruyette did not make or obtain any evaluations or appraisals of the property of Centrue Financial or UnionBancorp, nor did Keefe Bruyette examine any individual loan credit files.

For purposes of rendering its opinion, Keefe Bruyette assumed that, in all respects material to its analyses:

the merger will be completed substantially in accordance with the terms set forth in the merger agreement;

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the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of Centrue Financial, UnionBancorp or the combined entity, as the case may be, or the contemplated benefits of the merger.

The following summary contains the material financial analyses employed by Keefe Bruyette in connection with providing its opinion, including summaries relating to the consideration structure and transaction overview, selected comparable public company analysis for Centrue Financial and UnionBancorp, a pro forma merger analysis, selected merger transactions comparison and discounted cash flow analysis. For purposes of such analyses, the financial information used by Keefe Bruyette for Centrue Financial and UnionBancorp and the comparable companies was as of, and for the quarter and twelve months ended, March 31, 2006, and market price information was as of June 27, 2006, unless otherwise noted. This summary does not purport to be a complete description of all analyses employed by Keefe Bruyette.

Transaction Overview. In providing an overview of the merger, Keefe Bruyette noted that each Centrue Financial stockholder would be receiving $24.06 per share (based on the closing price of UnionBancorp common stock on June 27, 2006) or an implied total consideration of $54.3 million (based on the number of Centrue Financial common shares outstanding on June 27, 2006 of 2,233,939, and an additional 6,789 shares representing 36,800 options based on the treasury method plus an additional 14,750 restricted shares from the management retention program).

Keefe Bruyette calculated the following multiples:

Transaction Multiples Centrue Financial (Data as of 3/31/2006)

Premium/ Market price	4.8%(1)
Price/ Last 12 months earnings per share ($1.64)	14.7x
Price/2006 estimated earnings per share ($1.75)	13.8x
Price/2007 estimated earnings per share ($2.10)	11.5x
Price/ Book value per share ($19.22)	125%
Price/ Tangible book value per share ($11.96)	201%
Tangible premium/ Core deposits	6.6%

(1) Based on Centrue Financial s stock price as of June 27, 2006.

Comparable Public Company Analysis. Keefe Bruyette compared the financial and market performances of Centrue Financial and UnionBancorp to a standalone peer group and a pro forma peer group. Keefe Bruyette reviewed various financial measures, including earnings performance, operating efficiency, capital adequacy and asset quality, and various measures of market performance, including: price to last twelve months operating earnings, price to forward estimated earnings, price to book values, price to tangible book values, core deposit premium, dividend payout ratio and dividend yield. Keefe Bruyette uses these measurements to determine relative value of the respective companies within the financial services industry.

The set of comparable companies selected as Centrue Financial and UnionBancorp s standalone peers was comprised of 13 select public banks located in Iowa, Illinois, Indiana, Missouri and Wisconsin with total

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assets between $500 million and $1 billion. These companies are listed as follows, along with the state in which each is headquartered:

Princeton National Bancorp, Inc. (IL)
First Mid-Illinois Bancshares, Inc. (IL)
Ames National Corporation (IA)
Home Federal Bancorp (IN)
Tri City Bankshares Corporation (WI)
Monroe Bancorp (IN)
Northern States Financial Corp. (IL)
Community Bank Shares of IN, Inc. (IN)
MidWestOne Financial Group, Inc. (IA)
First Business Financial Services, Inc. (WI)
Foresight Financial Group, Inc. (IL)
Tower Financial Corporation (IN)
PSB Holdings, Inc. (WI)

The set of comparable companies selected as pro forma peers for the combined entity was comprised of 23 select public banks located in the Midwest with total assets between $900 million and $2 billion. These companies are listed as follows, along with the state in which each is headquartered:

Macatawa Bank Corporation (MI)
Mercantile Bank Corporation (MI)
MainSource Financial Group, Inc. (IN)
Peoples Bancorp Inc. (OH)
Farmers Capital Bank Corporation (KY)
Lakeland Financial Corporation (IN)
MBT Financial Corporation (MI)
Main Street Trust, Inc. (IL)
Merchants and Manufacturers Bancorp (WI)
S.Y. Bancorp, Inc. (KY)
West Bancorporation, Inc. (IA)
Enterprise Financial Services Corp (MO)
Oak Hill Financial, Inc. (OH)
Exchange National Bancshares (MO)
Mercantile Bancorp, Inc. (IL)
Baylake Corp. (WI)
Horizon Bancorp (IN)
QCR Holdings, Inc. (IL)
Camco Financial Corporation (OH)
Firstbank Corporation (MI)
German American Bancorp, Inc (IN)
Bank of Kentucky Financial Corp. (KY)
Princeton National Bancorp, Inc. (IL)

The following table compares various financial condition measures of Centrue Financial and UnionBancorp to their standalone peer group and pro forma peer group:

Financial Condition Measures	Centrue Financial	Union Bancorp	Standalone Peer Group Median	Pro Forma Company	Pro Forma Peer Group Median
Assets (millions)	$ 626	$ 662	$ 708	$ 1,347	$ 1,258
Loans/ Deposits	88.18%	76.59%	94.95%	82.17%	94.94%
Tangible equity/ Tangible assets	4.38	8.85	7.30	6.46	6.68
Operating EPS CAGR 02 05	24.85	4.75	4.99	NA	6.69
Operating return on average assets	0.43	0.67(1)	0.73	0.84(2)	1.02
Operating return on average equity	6.24	6.90(1)	8.34	9.15(2)	11.57
Net interest margin	3.35	3.46	3.42	3.40	3.46
Efficiency ratio	81.93	74.70	67.08	73.64	62.81

Note: Data as of the three months ended March 31, 2006. Pro forma company data as of close, December 31, 2006.

(1) Removed negative $800,000 pre-tax loan loss provision in 2006Q1 to normalize UnionBancorp s earnings.

(2) Pro forma transaction as of year end 2007.

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The following table compares various capital and asset quality measures of Centrue Financial and UnionBancorp to their standalone peer group and pro forma peer group:

Capital and Asset Quality Measures	Centrue Financial	Union Bancorp	Standalone Peer Group Median	Pro Forma Company	Pro Forma Peer Group Median
Leverage ratio	7.06%	9.18%	8.64%	7.90%	8.40%
Tier 1 capital ratio	10.44	12.20	11.02	11.11	10.48
Total capital ratio	12.72	13.50	11.96	12.36	11.74
NPAs/ Loans & OREO	1.00	0.82	0.59	0.91	0.72
Loan loss reserves/ NPAs	101.8	226.0	183.2	155.5	153.0
Loan loss reserves/ Gross loans	1.02	1.85	1.13	1.42	1.17
Net charge-offs/ Average loans	0.12	0.05	0.04	0.02	0.08
Loan loss provision/ Net charge-offs	58.59	NM	143.27	NM	101.65

Note: Data as of the three months ended March 31, 2006. Pro forma company data as of close, December 31, 2006.

Keefe Bruyette also compared the market performance ratios of the standalone peer group and pro forma peer group on June 27, 2006 to Centrue Financial s and UnionBancorp s market ratios.

Market Performance Ratio	Centrue Financial	Union Bancorp	Standalone Peer Group Median	Pro Forma Peer Group Median
Price to:				
Last 12 months operating EPS	14.0x	16.8x	17.5x	14.8x
2006 estimated earnings per share	13.1x(1)	14.9x(1)	16.2x	14.1x
2007 estimated earnings per share	11.0x(1)	13.7x(1)	15.2x	12.8x
Book value per share	119%	116%	156%	163%
Tangible book value per share	192%	131%	158%	224%
Core deposit premium	5.8%	4.6%	7.1%	11.5%
Dividend payout ratio	0.0%	28.6%	33.3%	38.6%
Dividend yield	0.0%	2.4%	2.7%	2.9%
Average daily volume (1 month)	479	1,326	1,833	11,153

(1) Earnings estimates from management projections.

Implied Exchange Ratio Analysis. Keefe Bruyette performed an implied exchange ratio analysis by comparing the historical relationship between the market prices of Centrue Financial and UnionBancorp. The following table lists the average of this ratio over various periods and compares the percentage premium that these averages represents over an exchange ratio of 1.20 (based on the closing price of UnionBancorp common stock on June 27, 2006 of $20.05).

Implied Exchange

	Ratio	Premium to 1.20x
3-Year average	1.28x	7.0%
Last 12 months average	1.24x	3.2%
Last 6 months average	1.24x	3.1%
Last 90 days average	1.22x	1.9%
Last 30 days average	1.20x	(0.4)%

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Contribution Analysis. Keefe Bruyette analyzed the relative contribution of each of Centrue Financial and UnionBancorp to certain pro forma balance sheet and income statement items of the combined entity. Keefe Bruyette compared the relative contribution of balance sheet and income statement items with the estimated pro forma ownership percentage Centrue Financial stockholders would represent in UnionBancorp pro forma. The results of Keefe Bruyette s analysis are set forth in the following.

Category	**UnionBancorp**	**Centrue Financial**
Assets	51.4	48.6
Gross loans	48.3	51.7
Deposits	51.9	48.1
Core deposits	46.8	53.2
Equity	60.2	39.8
Tangible equity	68.2	31.8
2005 earnings	48.8	51.2
5/31/06 YTD earnings	65.0	35.0
5/31/06 YTD adjusted earnings(1)	59.5	40.5
2006 budgeted earnings	56.8	43.2
2007 budgeted earnings	54.4	45.6
Ownership at transaction consideration mix	58.6	41.4

Note: All earnings are GAAP basis. Does not include purchase accounting adjustments.

(1) UnionBancorp net income adjusted to exclude negative $800,000 pre-tax loan loss provision in first quarter of 2006.

Pro Forma Merger Analysis. Keefe Bruyette performed a pro forma financial analysis for the merger. Assumptions regarding the core deposit intangible amortization, earnings, fair market value adjustments and cost savings were used to calculate the projected financial impact that the merger would have on certain pro forma financial results of Centrue Financial and UnionBancorp stockholders. The following assumptions were made:

2.7 million shares of UnionBancorp common stock issued as stock consideration, based on the number of shares of Centrue Financial common stock outstanding as of June 27, 2006, including shares underlying restricted stock units but excluding shares underlying stock options;

UnionBancorp 2006 and 2007 GAAP earnings per share of $1.34 and $1.46 per UnionBancorp management;

Centrue Financial 2006 and 2007 GAAP earnings per share of $1.75 and $2.10 per Centrue Financial management;

Cost savings of 9.3% of the combined entity s projected non-interest expense; 64% of cost saves achieved in 2007 and 100% achieved in 2008;

Transaction related expenses of $2.7 million after-tax;

Core deposit intangibles equal to 3% of Centrue Financial s core deposits totaling $7.6 million of intangibles, taxed at 35%, amortized using straight-line over 10 years;

$2.8 million in net asset (held-to-maturity and available-for-sale securities) adjustments resulting in $360,000 in after tax GAAP amortization income in 2007 and 2008.

Keefe Bruyette also calculated the year end 2007 and 2008 projected pro forma GAAP and cash earnings per share accretion/(dilution) to UnionBancorp and Centrue Financial, while including the purchase accounting fair market value adjustments estimated by Centrue Financial management.

	Centrue Financial Accretion	UnionBancorp Accretion
2007 GAAP EPS accretion	4.79%	25.05%
2007 Cash EPS accretion	4.35	23.25
2008 GAAP EPS accretion	6.76	37.18
2008 Cash EPS accretion	6.21	35.19

Keefe Bruyette analyzed the pro forma capital impact to UnionBancorp arising from the Centrue Financial merger, while including purchase accounting fair market value adjustments estimated by Centrue Financial management.

Year Ended December 31,	2007	2008
Leverage ratio	8.33%	9.09%
Tier 1 capital ratio	11.70	12.30
Total capital ratio	12.95	13.55
Tangible equity/ Tangible assets	6.97	7.47

Keefe Bruyette also calculated the year end 2007 and 2008 projected pro forma book and tangible book value accretion/(dilution) to UnionBancorp and Centrue Financial, while including the purchase accounting fair market value adjustments estimated by Centrue Financial management.

UnionBancorp Pro Forma Impact For the Year Ended December 31,	2007	2008
Book value	7.69%	10.15%
Tangible book value	(13.60)	(9.11)

Centrue Financial Pro Forma Impact for the Year Ended December 31,	2007	2008
Book value	7.43%	5.19%
Tangible book value	12.94	9.52

Comparable Acquisitions Analysis. Keefe Bruyette analyzed a group of select bank and thrift merger of equals transactions. The analysis compared the announced deal value of these transactions relative to the last twelve months earnings, estimated earnings, stated book value, stated tangible book value, core deposit premium, and one month market premium. The information analyzed was compiled by Keefe Bruyette from internal sources as well as from a data firm that monitors and publishes transaction summaries and descriptions of mergers and acquisitions in the financial services industry.

The merger transaction group included 10 bank and thrift mergers with transaction values ranging from approximately $173.4 million to $1.9 billion announced between October 28, 1991 and June 27, 2006 which were selected based on their merger of equals characteristics.

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Merger Transaction Comparables

Acquiror	Acquiree
UNB Corporation	BancFirst Ohio Corp. (Zanesville, OH)
MB Financial, Inc.	MidCity Financial Corporation (Chicago, IL)
Chemical Financial Corporation	Shoreline Financial Corporation (Benton Harbor, MI)
National Commerce Bancorp	CCB Financial Corporation (Durham, NC)
Santa Barbara Bancorp	Pacific Capital Bancorp (Salinas, CA)
First Hawaiian Inc.	Bank of the West (San Francisco, CA)
Citizens Bancshares Inc.	Mid Am, Inc. (Bowling Green, OH)
Associated Banc-Corp	First Financial Corporation (Stevens Point, WI)(1)
Southern National Corporation	BB&T Financial Corporation (Wilson, NC)
Comerica Incorporated	Manufacturers National Corporation (Detroit, MI)

(1) Indicates thrift transaction.

The following table compares information derived by Keefe Bruyette with respect to the selected transactions and transaction multiples as of their announcement dates. For purposes of this analysis, transaction multiples from the UnionBancorp/ Centrue Financial merger were derived from the assumed $24.06 per Centrue Financial share transaction price for Centrue Financial and from other financial data primarily determined as of March 31, 2006.

	Centrue Financial/ UnionBancorp	Comparable Merger Average
Transaction Price to:		
Last 12 months earnings per share	14.7x	15.6x
Estimated forward earning per share	13.8x	13.8x
Book value per share	125%	225%
Tangible book value per share	201%	244%
Tangible Transaction Premium to:		
Core deposits	6.6%	15.7%
Stock price (1 month prior to announcement)	4.8%(1)	7.8%
Combined cost savings (% of non-interest expense)	9.3%	10.3%

(1) Based on Centrue Financial stock price as of June 27, 2006 close.

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Keefe Bruyette compared the average relative contribution of the comparable transactions to the contribution of Centrue Financial and UnionBancorp to certain pro forma balance sheet and income statement items of the combined entity. Keefe Bruyette also analyzed the net income and equity accretion/(dilution) percentage of the comparable transactions relative to each parties pro forma ownership.

	UnionBancorp	Centrue Financial	Acquiror Average	Acquiree Average
Contribution:				
Ownership	58.6%	41.4%	52.2%	47.8%
Assets	51.4	48.6	50.7	49.3
Loans	48.3	51.7	51.0	49.0
Equity	60.2(1)	39.8(1)	51.1	48.9
Net income	48.8	51.2	51.0	49.0
Accretion/(dilution):				
Equity	(1.5)	1.5	1.1	(1.1)
Net income	9.9	(9.9)	1.2	(1.2)

(1) Based on 2005 actual net income.

No company or transaction used as a comparison in the above analysis is identical to Centrue Financial or the merger. Accordingly, a review of these results is not solely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and transactions examined.

Discounted Cash Flow and Terminal Value Analysis. Keefe Bruyette estimated the present value of Centrue Financial s common stock based on continued independence and Centrue Financial s stake in the combined entity by calculating the present value of Centrue Financial s projected cash flows and the projected cash flows of the combined entity. Keefe Bruyette s analysis assumes that excess capital above a 6.0% tangible equity/tangible assets ratio represents free cash flow available for dividends. For purposes of this analysis, Keefe Bruyette applied a discount rate of 14.0%. Keefe Bruyette relied on financial projections provided by Centrue Financial s management and UnionBancorp s management and assumed terminal values of 14 times projected forward earnings. The analysis resulted in an estimated standalone value of $51.0 million or $22.73 per share representing continued independence, and an estimated pro forma value of $68.1 million or $30.18 per share representing Centrue Financial s portion of the combined entity.

Keefe Bruyette also ran sensitivity analysis on the discounted cash flows using terminal values of 12 to 16 times projected forward earnings. In the standalone scenario for Centrue Financial the three other variables used were discount rates ranging from 13.0% to 15.0%, cost savings ranging from 0.0% to 4.0% and tangible equity/tangible asset targets ranging from 5.0% to 7.0%. The analysis resulted in the standalone values for Centrue Financial ranging from $36.3 million to $69.4 million. In the pro forma scenario for the combined entity the three other variables used were discount rates ranging from 13.0% to 15.0%, cost savings ranging from 7.0% to 11.0% and tangible equity/tangible asset targets ranging from 5.5% to 7.5%. The analysis resulted in values for Centrue Financial s portion of the combined entity ranging from $51.1 million to $78.6 million.

Keefe Bruyette stated that the discounted cash flow present value analysis is widely used valuation methodology, but noted that it relies on numerous assumptions including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Centrue Financial common stock or the common stock of the combined entity.

Keefe Bruyette was selected to act as Centrue Financial s financial advisor based upon its qualifications, expertise and reputation. Keefe Bruyette specializes in rendering a range of investment banking services to financial services companies and regularly engages in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

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As specialists in the securities of banking companies, Keefe Bruyette has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, Keefe Bruyette may, from time to time, purchase securities from, and sell securities to, Centrue Financial and UnionBancorp. As a market maker in securities, Keefe Bruyette may from time to time have a long or short position in, and buy or sell, equity securities of Centrue Financial and UnionBancorp for Keefe Bruyette s own account and for the accounts of its customers.

In May 2006, Centrue Financial executed an engagement letter with Keefe Bruyette relating to the services to be provided by Keefe Bruyette in connection with the merger. Centrue Financial agreed to pay Keefe Bruyette a fee of $100,000 concurrently with the delivery of Keefe Bruyette s opinion (the Opinion Fee). Centrue Financial also has agreed to reimburse Keefe Bruyette for certain reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Keefe Bruyette and Keefe Bruyette s affiliates and their respective directors, officers, employees, agents and controlling persons against certain expenses and liabilities, including liability under the federal securities laws.

Conduct of Business Pending the Merger and Certain Covenants

Under the merger agreement, UnionBancorp and Centrue Financial have each agreed to certain restrictions on their activities until the merger is completed or the merger agreement is terminated. In general, we are required to conduct our operations in the ordinary course of business. The following is a summary of the more significant restrictions and obligations imposed upon us. Subject to the exceptions set forth in the merger agreement, UnionBancorp and Centrue Financial must:

not issue any additional shares of stock;

confer with each other on material operational matters;

make loans only in accordance with sound credit practices and on arms-length terms and obtain the consent of the other before making any new loans greater than $3,000,000;

cause our respective allowances for loan and lease losses to be adequate in all material respects;

file, on a timely basis, all required regulatory filings; and

not take any action that would cause a breach of any of our representation and warranties.

We have also agreed to provide the other with certain documents before the closing date, including:

interim financial statements; and

reasonable notice of any fact or condition creating a breach of the merger agreement.

Centrue Financial has agreed that it will not encourage any third-party proposals to acquire Centrue Financial and will not participate in negotiations regarding a proposal to acquire Centrue Financial. However, Centrue Financial may provide information and negotiate with a third party if Centrue Financial s board of directors determines that failure to do so would be inconsistent with its fiduciary duties. Centrue Financial is required under the merger agreement to provide UnionBancorp notice of any proposal it receives to acquire Centrue Financial.

Correspondingly, UnionBancorp has agreed that it will not encourage any third-party proposals to acquire UnionBancorp and will not participate in negotiations regarding a proposal to acquire UnionBancorp. However, UnionBancorp may provide information and negotiate with a third party if UnionBancorp s board of directors determines that failure to do so would be inconsistent with its fiduciary duties. UnionBancorp is required under the merger agreement to provide Centrue Financial notice of any proposal it receives to acquire UnionBancorp.

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In addition, both parties have agreed:

to use all reasonable efforts and to cooperate in the preparation and filing of all applications, notices and documents required to obtain regulatory approval and/or consents from governmental authorities for the merger and the merger agreement;

to use reasonable and diligent good faith efforts to satisfy the conditions required to close the merger and to complete the merger as soon as practicable;

that neither will intentionally act in a manner that would cause a breach of the merger agreement or that would cause a representation made in the merger agreement to become untrue;

to provide the other party with reasonable access to information under the condition that the information be kept confidential; and

to coordinate publicity of the transactions contemplated by the merger agreement with the media and their respective stockholders.

Centrue Financial has agreed to file all applications and notices to obtain the necessary regulatory approvals for the transactions contemplated by the merger agreement.

Each of us has agreed to cooperate with the other in connection with obtaining the requisite regulatory and Securities and Exchange Commission approvals.

The foregoing is an outline of the types of covenants made by UnionBancorp and Centrue Financial contained in the merger agreement, a copy of which is included at Appendix A. You should carefully review the entire agreement and in particular Articles 6, 7 and 8, containing the detailed covenants of the parties.

Conditions to Completion of the Merger

Each of UnionBancorp and Centrue Financial is required to complete the merger only after the satisfaction of various conditions. UnionBancorp is only required to complete the merger if the following conditions are satisfied:

Centrue Financial s representations and warranties in the merger agreement must be accurate as of the date of the merger agreement and as of the date the merger becomes effective, except for any untrue or incorrect representations and warranties that do not have a material adverse effect on Centrue Financial on a consolidated basis or on UnionBancorp s rights under the merger agreement;

Centrue Financial must have performed and complied with all of its covenants and obligations under the merger agreement, except where any non-performance or non-compliance would not have a material adverse effect on Centrue Financial on a consolidated basis or on UnionBancorp s rights under the merger agreement;

all proceedings to be taken by Centrue Financial in connection with the merger, and all documents relating to these proceedings, must be reasonably satisfactory in form and substance to counsel for UnionBancorp;

the merger agreement and the transactions it contemplates must have been approved by UnionBancorp s and Centrue Financial s stockholders;

there must not be pending any proceeding involving any challenge to, or seeking damages or other relief in connection with, the merger, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with the merger, in either case that would reasonably be expected to have a material adverse effect on Centrue Financial or its stockholders or on UnionBancorp s rights under the merger agreement;

there must not have been since the date of the merger agreement any event or occurrence that would be reasonably likely to have a material adverse effect on Centrue Financial or any of its subsidiaries;

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all consents and approvals required in connection with the merger must have been obtained (except to the extent that the failure to obtain such consents or approvals would not have a material adverse effect);

the completion of the merger must not conflict with or result in a violation of any applicable laws or legal requirements;

the Securities and Exchange Commission must have declared the registration statement registering the shares of UnionBancorp common stock to be issued to Centrue Financial s stockholders in the merger, of which this joint proxy statement-prospectus is a part, effective under the Securities Act of 1933, as amended;

an opinion from Sandler O Neill & Partners, L.P. to the effect that the merger is fair to UnionBancorp s stockholders from a financial point of view must have been received and not withdrawn;

the employment agreements between each of Thomas A. Daiber, Scott A. Yeoman and Kurt R. Stevenson and UnionBancorp must be in full force and effect; and

the written opinion as to the tax-free nature of the merger must have been received.

Centrue Financial is only required to complete the merger if the following conditions are satisfied:

UnionBancorp s representations and warranties in the merger agreement must be accurate as of the date of the merger agreement and as of the date the merger becomes effective, except for any untrue or incorrect representations and warranties that do not have a material adverse effect on UnionBancorp on a consolidated basis or on Centrue Financial s rights under the merger agreement;

UnionBancorp must have performed and complied with all of its covenants and obligations under the merger agreement, except where any non-performance or non-compliance would not have a material adverse effect on UnionBancorp on a consolidated basis or on Centrue Financial s rights under the merger agreement;

all proceedings to be taken by UnionBancorp in connection with the merger, and all documents relating to these proceedings, must be reasonably satisfactory in form and substance to counsel for Centrue Financial;

the merger agreement and the transactions it contemplates must have been approved by UnionBancorp s and Centrue Financial s stockholders;

there must not be pending any proceeding involving any challenge to, or seeking damages or other relief in connection with, the merger, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with the merger, in either case that would reasonably be expected to have a material adverse effect on UnionBancorp or its stockholders or on Centrue Financial s rights under the merger agreement;

there must not have been since the date of the merger agreement any event or occurrence that would be reasonably likely to have a material adverse effect on UnionBancorp or any of its subsidiaries;

all consents and approvals required in connection with the merger must have been obtained (except to the extent that the failure to obtain such consents or approvals would not have a material adverse effect);

the completion of the merger must not conflict with or result in a violation of any applicable laws or legal requirements;

the Securities and Exchange Commission must have declared the registration statement registering the shares of UnionBancorp common stock to be issued to Centrue Financial s stockholders in the merger effective under the

Securities Act;

- an opinion from Keefe Bruyette & Woods, Inc. to the effect that the merger is fair to Centrue Financial s stockholders from a financial point of view must have been received and not withdrawn;

- the employment agreements between each of Thomas A. Daiber, Scott A. Yeoman and Kurt R. Stevenson and UnionBancorp must be in full force and effect; and

- the written opinion as to the tax-free nature of the merger must have been received.

Neither party can be certain as to when or if all of the conditions to the merger can or will be satisfied or waived by the party permitted to do so. If the merger is not completed by March 1, 2007 or such later date as the parties may agree, either of our boards of directors may terminate the merger agreement and abandon the merger; provided, however, that the party responsible for a condition not being met prior to March 1, 2007 or such later date as the parties may agree, may not terminate the merger agreement if the merger is not completed by March 1, 2007 or such later date as the parties may agree. *See* Description of Transaction Waiver, Amendment and Termination.

The foregoing is an outline of the types of conditions precedent to the obligations of UnionBancorp and Centrue Financial contained in the merger agreement, a copy of which is included at Appendix A. You should carefully review the entire agreement and in particular Articles 9 and 10, containing the detailed conditions to each party s obligation to close.

Termination and Termination Fees

Ability to Terminate the Merger Agreement. At any time before the merger becomes effective, the boards of directors of Centrue Financial and UnionBancorp may mutually agree to terminate the merger agreement. In addition, the merger agreement may be terminated as follows:

- by UnionBancorp, if any of the conditions to its obligation to complete the merger, as described above, has not been satisfied or has become impossible, and UnionBancorp has not waived the condition;

- by Centrue Financial, if any of the conditions to its obligation to consummate the merger, as described above, has not been satisfied or has become impossible, and Centrue Financial has not waived the condition;

- by either UnionBancorp or Centrue Financial, if the closing of the merger has not occurred, other than through the failure of the party seeking to terminate the merger agreement to perform any of its required obligations under the merger agreement, by March 1, 2007 or such later date as the parties may agree, except that, in general, the termination date can be extended for up to ninety days if the sole reason that the closing has not occurred is due to the fact that the regulatory approvals have not been received;

- by Centrue Financial, but subject to the special termination fee described below, if Centrue Financial receives an acquisition proposal that is determined by the Centrue Financial board of directors to be on terms that are more favorable to the stockholders of Centrue Financial than the merger, and prior written notice, together with a summary of the terms of, and the identity of the person making, the proposal are provided to UnionBancorp (a Superior Centrue Financial Proposal); and

- by UnionBancorp, but subject to the special termination fee described below, if UnionBancorp receives an acquisition proposal that is determined by the UnionBancorp board of directors to be on terms that are more favorable to the stockholders of UnionBancorp than the merger, and prior written notice, together with a summary of the terms of, and the identity of the person making, the proposal are provided to Centrue Financial (a Superior UnionBancorp Proposal).

Effect of Termination. If the merger is terminated, the merger agreement will become void and have no effect, except that certain provisions of the merger agreement, including those relating to the obligation to pay expenses and maintain the confidentiality of certain information obtained in connection with the merger and the merger agreement, will survive, and except that either party may be required to make certain payments upon termination as described below.

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Centrue Financial Termination Payments.

If the merger agreement is terminated by UnionBancorp because Centrue Financial has not satisfied its conditions or the closing has not occurred by March 1, 2007 and, in either case, Centrue Financial knowingly breached its covenants, agreements, representations or warranties under the merger agreement (unless such breach is a result of the failure by UnionBancorp to perform and comply with any of its obligations) then, provided UnionBancorp is in compliance with its obligations under the merger agreement, Centrue Financial must pay $2,700,000 to UnionBancorp. (Notwithstanding the foregoing, the termination date can be extended for up to ninety days if the sole reason that the closing has not occurred is due to the fact that the regulatory approvals have not been received.)

If the merger agreement is terminated by Centrue Financial or UnionBancorp because Centrue Financial s stockholders fail to approve the merger (a Centrue Financial Stockholder Termination); then, provided UnionBancorp is in compliance with its obligations under the merger agreement, Centrue Financial must pay $500,000 to UnionBancorp.

In addition to the $500,000 payment described above (if any), if there is a Centrue Financial Stockholder Termination and, within twelve months after such Centrue Financial Stockholder Termination, Centrue Financial enters into an agreement with any party other than UnionBancorp providing for the acquisition of Centrue Financial, then, provided UnionBancorp was in compliance with its obligations under the merger agreement, Centrue Financial must pay $2,200,000 to UnionBancorp.

If Centrue Financial terminates the merger agreement as a result of a Superior Centrue Financial Proposal, then Centrue Financial must pay $2,700,000 to UnionBancorp.

UnionBancorp Termination Payments.

If the merger agreement is terminated by Centrue Financial because UnionBancorp has not satisfied its conditions or the closing has not occurred by March 1, 2007 and, in either case, UnionBancorp knowingly breached its covenants, agreements, representations or warranties under the merger agreement (unless such breach is a result of the failure by Centrue Financial to perform and comply with any of its obligations) then, provided Centrue Financial is in compliance with its obligations under the merger agreement, UnionBancorp must pay $2,700,000 to Centrue Financial. (Notwithstanding the foregoing, the termination date can be extended for up to ninety days if the sole reason that the closing has not occurred is due to the fact that the regulatory approvals have not been received.)

If the merger agreement is terminated by UnionBancorp or Centrue Financial because UnionBancorp s stockholders fail to approve the merger (a UnionBancorp Stockholder Termination); then, provided Centrue Financial is in compliance with its obligations under the merger agreement, UnionBancorp must pay $500,000 to Centrue Financial.

In addition to the $500,000 payment described above (if any), if there is a UnionBancorp Stockholder Termination and, within twelve months after such UnionBancorp Stockholder Termination, UnionBancorp enters into an agreement with any party other than Centrue Financial providing for the acquisition of UnionBancorp, then, provided Centrue Financial was in compliance with its obligations under the merger agreement, UnionBancorp must pay $2,200,000 to Centrue Financial.

If UnionBancorp terminates the merger agreement as a result of a Superior UnionBancorp Proposal, then UnionBancorp must pay $2,700,000 to Centrue Financial.

The foregoing is an outline of the termination provisions contained in the merger agreement, a copy of which is included at Appendix A. You should carefully review the entire agreement and in particular Article 11, containing the detailed termination provisions.

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Waiver and Amendment

To the extent permitted by law, our boards of directors may agree in writing to amend the merger agreement, whether before or after our stockholders have approved the merger agreement. However, no amendment agreed to after the merger agreement has been approved by our stockholders may materially and adversely affect the rights of UnionBancorp s or Centrue Financial s stockholders. In addition, before or at the time the merger becomes effective, either UnionBancorp or Centrue Financial, or both, may waive any default in the performance of any term of the merger agreement by the other or may waive or extend the time for the compliance or fulfillment by the other of any of its obligations under the merger agreement. Either of UnionBancorp or Centrue Financial may also waive any of the conditions precedent to their respective obligations under the merger agreement, unless a violation of any law or governmental regulation would result. To be effective, a waiver must be in writing and signed by one of UnionBancorp s or Centrue Financial s duly authorized officers.

Regulatory Approvals

It is a condition to the completion of the merger that the parties receive all necessary regulatory approvals of the merger. Neither UnionBancorp nor Centrue Financial is aware of any material governmental approvals or actions that are required to complete the merger, except as described below. If any other approval or action is required, UnionBancorp will also seek this approval or action.

As a result of the merger, UnionBancorp will own directly all of the outstanding stock of Centrue Bank. UnionBancorp intends to merge Centrue Bank with and into UnionBank simultaneous with the merger between UnionBancorp and Centrue Financial. The merger of Centrue Financial into UnionBancorp is subject to the prior approval or waiver of such approval by the Board of Governors of the Federal Reserve (the Federal Reserve) and the merger of Centrue Bank with and into UnionBank is subject to the prior approval of the Federal Reserve and the Illinois Department of Financial and Professional Regulation (the DFPR).

On July 28, 2006, UnionBank filed applications with the Federal Reserve and the DFPR for prior approval of the merger of Centrue Bank and UnionBank. It is expected that both the Federal Reserve and the DFPR will approve the merger of Centrue Bank and UnionBank in the 4th calendar quarter of 2006. On , 2006, UnionBancorp received a waiver of the requirement for filing an application for approval of the merger under the federal Bank Holding Company Act from the Federal Reserve.

The merger may not be completed until 30 days following the date of the Federal Reserve approval, although the U.S. Department of Justice may reduce that period to 15 days. During this period, the U.S. Department of Justice is given the opportunity to challenge the transaction on antitrust grounds. The commencement of any antitrust action would stay the effectiveness of the approval of the agencies, unless a court of competent jurisdiction specifically ordered otherwise.

We are not aware of any other regulatory approvals required for completion of the merger, and there can be no assurance that any approvals will be obtained. The approval of any application merely implies the satisfaction of regulatory criteria for approval, which does not include review of the merger from the standpoint of the adequacy of the consideration to be received by Centrue Financial stockholders.

There can be no assurances that the requisite regulatory approvals or waivers will be received in a timely manner, in which event the consummation of the merger may be delayed. If the merger is not consummated on or before May 30, 2007, either UnionBancorp or Centrue Financial may terminate the merger agreement. We can give you no assurance as to the receipt or timing of these approvals or waivers.

Management and Operations After the Merger

We specifically negotiated and named in the merger agreement those individuals who will serve as the combined company s directors and executive officers following the merger.

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Directors of the Combined Company

The following persons will serve as the directors of the combined company after the merger:

Directors of Combined UnionBancorp/ Centrue Financial

(UnionBancorp Designees)	*(Centrue Financial Designees)*
Dennis J. McDonnell *	Thomas A. Daiber
Scott C. Sullivan	Mark L. Smith
Richard J. Berry	Randall E. Ganim
Walter E. Breipohl	Michael A. Griffith
John A. Shinkle	Michael J. Hejna

* Chairman of the board of the directors.

The following table contains biographical information on UnionBancorp s director designees for the combined company after the merger:

Name (Age)	UnionBancorp Director Since	Position with UnionBancorp and Principal Occupation
Dennis J. McDonnell (Age 64)	2000	Chairman of the Board and Director of UnionBancorp; Chairman, McDonnell Investment Management, LLC
Scott C. Sullivan (Age 51)	1996	Director of UnionBancorp; Attorney, Williams & McCarthy
Richard J. Berry (Age 54)	1985	Director of UnionBancorp; Attorney, Myers, Berry, O Conor & Kuzma, Ltd.
Walter E. Breipohl (Age 53)	1993	Director of UnionBancorp; Broker/Owner, Kaszynski-Breipohl Realtors
John A. Shinkle (Age 54)	1997	Director of UnionBancorp; Senior Vice President, Stifel Nicolaus & Company, Inc.

The following table contains biographical information on Centrue Financial s director designees for the combined company after the merger:

Name (Age)	Centrue Financial Director Since	Position with Centrue Financial and Principal Occupation
Thomas A. Daiber (Age 48)	2003	Director of Centrue Financial; President and Chief Executive Officer of Centrue Financial since 2003
Mark L. Smith (Age 56)	2001	Director or Centrue Financial; President of Smith, Koelling, Dykstra and Ohm, P.C.
Randall E. Ganim (Age 52)	2006	Director of Centrue Financial; Founder and President of Ganim, Meder, Childers & Hoering, P.C.
Michael A. Griffith (Age 47)	2002	Chairman of the Board and Director of Centrue Financial; Founder and Chief Executive Officer of Aptuit, Inc.
Michael J. Hejna (Age 52)	2003	

	Director of Centrue Financial; President and Chief Executive Officer of Gundaker Commercial Group, Inc.

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Executive Officers of the Combined Company

The following persons will serve as executive officers of the combined company after the merger:

Executive Officers of Combined UnionBancorp/ Centrue

Thomas A. Daiber	President and Chief Executive Officer
Scott A. Yeoman	Chief Operating Officer
Kurt R. Stevenson	Chief Financial Officer

*Thomas A. Daiber, 48***,** was named President and Chief Executive Officer of Centrue Financial and Chief Executive Officer of Centrue Bank in October of 2003. Prior to joining Centrue Financial, Mr. Daiber had served as Chairman, President and Chief Executive Officer of Aviston Financial Corporation and Chairman and Chief Executive Officer of the State Bank of Aviston, headquartered in Aviston, Illinois, from October, 2002 to October, 2003. Mr. Daiber served as Allegiant Bancorp, Inc. s Chief Financial Officer from May, 1999 until March, 2003. Mr. Daiber was employed by Allegiant Bancorp in St. Louis, Missouri beginning in March, 1997 and served as its Director of Internal Auditing prior to becoming Chief Financial Officer.

Scott A. Yeoman, 48, was named President and Chief Executive Officer of UnionBancorp in June of 2005. Prior to joining UnionBancorp, Mr. Yeoman served as the President and Chief Executive Officer of Associated Bank Lakeshore, a subsidiary of Associated Banc Corp, in Manitowoc, Wisconsin from 1998 through 2004. Mr. Yeoman joined the organization with over 20 years of commercial banking experience.

Kurt R. Stevenson, 39, was promoted to Senior Executive Vice President and Chief Financial Officer in the first quarter of 2006. He had previously served as UnionBancorp s Senior Vice President and Chief Financial Officer since 2003. Prior to that, Mr. Stevenson served as UnionBancorp s Vice President and Chief Financial Officer since June of 2000. Also in 2000 and 2001, Mr. Stevenson served on the Board of Directors of UnionFinancial Services, Inc., prior to its integration with UnionTrust Corporation. Before stepping into his new role, he had been acting as UnionBancorp s Vice President and Controller since 1996 and had served in various operational capacities since joining the organization. In 2002, Mr. Stevenson was also named Cashier of UnionBank, in addition to his corporate responsibilities. He first started employment with the Ottawa National Bank in 1987 and, subsequently, began work with UnionBancorp following the acquisition of Ottawa National Bank by UnionBancorp in 1991.

See Where You Can Find More Information. For additional information regarding the interests of certain persons in the merger, *see* Description of Transaction Interests of Certain Persons in the Merger.

Interests of Certain Persons in the Merger

General. Some members of our respective management and boards of directors may be deemed to have interests in the merger that are in addition to their interests as stockholders generally. The board of directors of each of UnionBancorp and Centrue Financial were aware of these interests and considered them, together with the other matters described in this joint proxy statement-prospectus, in adopting the merger agreement and approving the merger.

Stay Bonuses. The merger agreement allows UnionBancorp and Centrue Financial to pay special stay bonuses to employees of UnionBancorp or Centrue Financial who enter into a Stay Bonus Agreement in a form that is mutually agreed upon by UnionBancorp and Centrue Financial. UnionBancorp may also make new grants of employee stock options to employees of UnionBancorp or Centrue Financial, as mutually agreed upon. UnionBancorp and Centrue Financial implemented this stay bonus program (a) to help maintain their respective franchises in the event the proposed merger is not completed, (b) to deliver value to the combined company and (c) to minimize the likelihood that valued employees would leave immediately prior to or shortly after the closing of the merger.

Existing UnionBancorp Employment Agreements. UnionBancorp has change of control agreements with a number of its senior officers, including Scott A. Yeoman, who serves as President and Chief Executive Officer of UnionBancorp and Kurt R. Stevenson, who serves as Chief Financial Officer of UnionBancorp. The agreements provide that if, within two years after a change of control occurs, the executive s employment is terminated without good cause or the executive voluntarily terminates employment with good reason, then the executive shall receive a cash payment equal to two times the executive s salary. In Mr. Yeoman s case, if, at any time during the two year period, he obtains employment, payments will be reduced by the amount of compensation being earned in the new position. The pending merger of Centrue Financial and UnionBancorp would constitute a change of control for purposes of these agreements, which could entitle the respective executive to the severance amount in the event his employment later terminates. However, Mr. Yeoman and Mr. Stevenson have each entered into an employment agreement with UnionBancorp, which will become effective upon the completion of the merger, and the agreement contains a provision stating that the existing employment agreement with UnionBancorp will terminate when the new agreement becomes effective. These new employment agreements are described further below.

Existing Centrue Financial Employment Agreements. Centrue Financial has employment agreements with a number of its senior officers, including Thomas A. Daiber, who serves as President and Chief Executive Officer of Centrue Financial. The agreement provides that Mr. Daiber will receive a severance payment if his employment terminates under certain circumstances after a change of control of Centrue Financial. The pending merger of Centrue Financial and UnionBancorp would constitute a change of control for purposes of his agreement, which could result in his being entitled to the severance amount in the event his employment later terminates. Mr. Daiber has entered into an employment agreement with UnionBancorp, which will become effective upon the completion of the merger. The agreement contains a provision stating that the existing employment agreement with Centrue Financial will terminate when the new agreement becomes effective. This new employment agreement is described further below.

New Employment Agreements with Thomas A. Daiber, Scott A. Yeoman and Kurt R. Stevenson. UnionBancorp has entered into employment agreements with Thomas A. Daiber, Scott A. Yeoman and Kurt R. Stevenson. These agreements will become effective as of the effective time of the merger. Except as described below, each agreement is substantially identical. Initially the agreements are effective for a three-year term. On the second anniversary of the agreements effective date, the term will be extended an additional day so that the term is always one year, unless either party gives written notice of non-renewal to the other party. The agreements provide for annual base salary of not less than $290,000 for Mr. Daiber, $220,000 for Mr. Yeoman and $170,000 for Mr. Stevenson. The executives will have the opportunity to receive annual performance bonuses of up to 50% of base salary in the case of Mr. Daiber and Mr. Yeoman and up to 30% of base salary in the case of Mr. Stevenson. The agreements provide for the award of incentive stock options to each executive on July 7, 2006. Mr. Daiber is being awarded options to purchase 10,417 shares of Centrue Financial stock, which will convert into the right to purchase 12,500 shares of UnionBancorp stock after the merger. Mr. Yeoman is being awarded options to purchase 10,000 shares of UnionBancorp stock and Mr. Stevenson is being awarded options to purchase 7,500 shares of UnionBancorp stock. One-fifth of the options will become exercisable on the first anniversary of the employment agreements and an additional one-fifth will become exercisable on each successive anniversary. The options shall become fully exercisable upon a change of control, other than the merger of Centrue Financial and UnionBancorp, the executive s death, disability, termination of executive s employment by the employer without cause, or the executive s termination of employment due to a constructive discharge. Each executive will be entitled to not less than twenty-three days of paid time off as well as benefits at least as favorable to the benefits provided to all other employees of UnionBancorp and UnionBank.

Each agreement provides that in the event of a termination of the executive s employment by UnionBancorp without cause or by the executive due to constructive discharge prior to the end of the term of the agreement, the executive will be entitled to certain severance benefits including payments of the executive s annual compensation for the greater of twenty-four months or the remaining period left in the employment agreement s term. Annual compensation is the executive s base salary plus the performance bonus for the most recent performance period. The executive would also be entitled to receive reimbursement for premiums the executive pays for the continuation of medical benefits for the executive and the executive s dependents. During the twelve months following a change of control of UnionBancorp other than the merger of Centrue Financial and UnionBancorp, if the executive voluntarily terminates his employment due to

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constructive discharge or if UnionBancorp terminates the executive s employment for any reason other than cause, the executive will be entitled to receive a lump sum payment equal to three times the executive s annual compensation, which is the sum of the executive s base salary and the performance bonus for the most recent performance period, plus reimbursement for premiums the executive pays for the continuation of medical benefits for the executive and the executive s dependents.

The employment agreements include customary provisions prohibiting the executive from competing with UnionBancorp and other activities that would be harmful to UnionBancorp. Payments under the employment agreements will be reduced to the extent necessary to prevent any portion of the payments from being treated as a nondeductible excess parachute payment under the federal tax laws.

New Employment Agreements with Senior Officers. UnionBancorp and Centrue Financial are entering into additional employment agreements with up to twelve additional senior officers of Centrue Financial and UnionBancorp. These agreements will become effective as of the effective time of the merger. Except as described below, each agreement is substantially identical. Initially the agreements are effective for a one-year term. On the first anniversary of the date the agreements become effective, the term will be extended an additional year, unless either party gives written notice of non-renewal to the other party. The agreements specify a minimum annual base salary for each senior officer ranging from $100,000 to $135,000. Each senior officer will have the opportunity to receive annual performance bonuses of up to 25% of base salary. The agreements provide for the award of incentive stock options to each senior officer on July 7, 2006. Taking into account the adjustment to the number of shares subject to stock options that will occur as a result of the merger of Centrue Financial with UnionBancorp, a total 73,000 shares will be subject to options awarded to these senior officers. One-fifth of the options will become exercisable on the first anniversary of the effective date of the merger and an additional one-fifth will become exercisable on each successive anniversary. The options shall become fully exercisable upon a change of control of UnionBancorp other than the merger of Centrue Financial with UnionBancorp, the senior officer s death, disability, termination of senior officer s employment by the employer without cause, or, during the first twelve months the agreements are effective, the senior officer s termination of employment due to a constructive discharge. Each senior officer will be entitled to not less than twenty-three days of paid time off as well as benefits at least as favorable to the benefits provided to all other employees of UnionBancorp and UnionBank.

Each agreement provides that in the event of a termination of the senior officer s employment by UnionBancorp without cause during such period, during the first twelve months of the agreement, or by the senior officer due to constructive discharge during such period, the senior officer will be entitled to certain severance benefits including payments of the senior officer s annual compensation for twelve months. Annual compensation is the senior officer s base salary and the performance bonus for the most recent performance period. The senior officer would also be entitled to receive reimbursement for premiums the senior officer pays for the continuation of medical benefits for the senior officer and the senior officer s dependents. During the twelve months following a change of control of UnionBancorp, not including the merger of Centrue Financial and UnionBancorp, if the senior officer voluntarily terminates his employment due to constructive discharge or if UnionBancorp terminates the senior officer s employment for any reason other than cause, the senior officer will be entitled to receive a lump sum payment equal to the senior officer s annual compensation, which is the sum of the senior officer s base salary and the performance bonus for the most recent performance period, plus reimbursement for premiums the senior officer pays for the continuation of medical benefits for the senior officer and the senior officer s dependents.

The employment agreements include customary provisions prohibiting the senior officer from competing with UnionBancorp and other activities that would be harmful to UnionBancorp. Payments under the employment agreements will be reduced to the extent necessary to prevent any portion of the payments from being treated as a nondeductible excess parachute payment under the federal tax laws.

Treatment of Centrue Financial Stock Options. The Centrue Financial stock option plan and the stock option agreements with plan participants provide that all options that were not previously exercisable will become immediately exercisable upon a change of control. The merger of Centrue Financial and UnionBancorp will constitute a change of control under the Centrue Financial stock option plan. Accordingly,

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the options to purchase shares of Centrue Financial common stock which are currently not exercisable will become exercisable no later than the effective date of the merger. The options awarded to executives and senior officers pursuant to the employment agreements described above will not become exercisable as a result of the merger. Centrue Financial stock options will be converted into UnionBancorp stock options in the merger, with the number of shares and exercise price adjusted for the exchange ratio.

Treatment of UnionBancorp Stock Options. The merger agreement provides that options to purchase UnionBancorp common stock will become immediately exercisable upon the merger becoming effective. Accordingly, the options to purchase shares of UnionBancorp common stock which are currently not exercisable will become exercisable no later than the effective date of the merger. The options awarded to executives and senior officers pursuant to the employment agreements described above will not become exercisable as a result of the merger.

Director s Deferred Compensation Plan. Each of Centrue Financial s independent directors participates in the Centrue Financial Non-Employee Directors Deferred Compensation Plan pursuant to which such directors have been allocated shares of Centrue Financial common stock in connection with their services. At the effective time of the merger, each director participant will become vested in all shares allocated to him under the plan, and these shares will be converted into shares of UnionBancorp common stock at the 1.2 exchange ratio. As of the date of this document, 15,990 shares of Centrue Financial common stock have been allocated under the plan, and it is expected that an aggregate of 2,375 additional shares will be allocated per fiscal quarter to the director participants.

Indemnification for Directors and Officers; Insurance. UnionBancorp has agreed to honor for at least six years from the effective date of the merger all of Centrue Financial s obligations with respect to indemnification currently provided by Centrue Financial in its certificate of incorporation or bylaws in favor of the current and former officers and directors with respect to matters occurring prior to the effective time. In addition, UnionBancorp has agreed to acquire and maintain for a period of six years extended coverage of acts or omissions occurring at or prior to the effective time with respect to those persons who are currently covered by Centrue Financial s director and officer liability policies of insurance on terms that are substantially similar to those contained in the director and officer liability policies in effect on the date of the merger agreement.

Consulting Agreement. Effective July 25, 2006, Centrue Bank entered into a consulting agreement with UnionBank, whereby UnionBank has agreed to consult and advise Centrue Bank with respect to the preparation and maintenance of certain of Centrue Bank s accounting, tax and financial reports, including Centrue Bank s general ledger system. UnionBank receives an hourly fee of $75.00 plus out of pocket expenses in connection with the engagement and has been indemnified by Centrue Bank against any liabilities incurred by UnionBank as a result of the engagement.

Additional Agreements

UnionBancorp Voting Agreement. Each of the directors of Centrue Financial has entered into a voting agreement with UnionBancorp. Under this agreement, these stockholders have agreed to vote their respective shares of Centrue Financial common stock:

in favor of the merger and the transactions contemplated by the merger agreement;

against any merger with Centrue Financial by a party other than UnionBancorp;

against any action or agreement that would result in a material breach of any term or any other obligation of Centrue Financial under the merger agreement; and

against any action or agreement which would impede or interfere with the transactions contemplated by the merger agreement.

Furthermore, each of these stockholders has also agreed not to solicit, initiate or encourage any inquiries or proposals for a merger or other business combination involving Centrue Financial. The shares subject to the voting agreement represent approximately *[ ]%* of the outstanding shares of Centrue Financial

common stock on the record date. The voting agreement will terminate upon the earlier of the consummation of the merger or termination of the merger agreement in accordance with its terms.

Centrue Financial Voting Agreement. Each of the directors of UnionBancorp has entered into a voting agreement with Centrue Financial. Under this agreement, these stockholders have agreed to vote their respective shares of UnionBancorp common stock:

- in favor of the merger and the transactions contemplated by the merger agreement;
- against any merger with UnionBancorp by a party other than Centrue Financial;
- against any action or agreement that would result in a material breach of any term or any other obligation of UnionBancorp under the merger agreement; and
- against any action or agreement which would impede or interfere with the transactions contemplated by the merger agreement.

Furthermore, each of these stockholders has also agreed not to solicit, initiate or encourage any inquiries or proposals for a merger or other business combination involving UnionBancorp. The shares subject to the voting agreement represent approximately *[ ]%* of the outstanding shares of UnionBancorp common stock on the record date. The voting agreement will terminate upon the earlier of the consummation of the merger or termination of the merger agreement in accordance with its terms.

Accounting Treatment

The merger will be accounted for using the purchase method of accounting under U.S. generally accepted accounting principles. Under this method of accounting, UnionBancorp will record the assets acquired and liabilities assumed of Centrue Financial at their fair market values. Any difference between the purchase price and the fair market value of the net tangible and identifiable intangible assets and liabilities is recorded as goodwill, which, in accordance with Statement of Financial Accounting Standard No. 142, will not be amortized for financial accounting purposes, but will be evaluated annually for impairment.

Expenses

Each of UnionBancorp and Centrue Financial will pay its own expenses in connection with the merger, including filing, registration and application fees, printing fees and fees and expenses of its own financial or other consultants, accountants and counsel. UnionBancorp is responsible for the payment of the expenses for the tax opinion to be rendered in connection with the merger.

Resales of UnionBancorp Common Stock

UnionBancorp common stock to be issued to Centrue Financial stockholders in the merger will be registered under the Securities Act. All shares of UnionBancorp common stock received by Centrue Financial stockholders in the merger will be freely transferable after the merger by persons who are not considered to be affiliates of either UnionBancorp or Centrue Financial. These affiliates would generally include any persons or entities who control, are controlled by or are under common control with either Centrue Financial or UnionBancorp at the time of the special meeting (generally, executive officers, directors and 10% or greater stockholders).

Rule 145 promulgated under the Securities Act restricts the sale of UnionBancorp common stock received in the merger by affiliates of Centrue Financial and certain of their family members and related entities. Under the rule, until the first anniversary of the effective date of the merger, affiliates of Centrue Financial may publicly resell the UnionBancorp common stock they receive in the merger, but only within certain limitations as to the amount of UnionBancorp common stock they can sell in any three-month period and as to the manner of sale. After this first anniversary, affiliates of Centrue Financial who are not affiliates of UnionBancorp may resell their shares without restriction. UnionBancorp must continue to satisfy its reporting requirements under the Securities Exchange Act of 1934, as amended, for affiliates to continue to be able to resell under Rule 145 the shares of UnionBancorp common stock they received in the merger.

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Affiliates would also be permitted to resell UnionBancorp common stock received in the merger pursuant to an effective registration statement under the Securities Act or an available exemption from the registration requirements. This joint proxy statement-prospectus does not cover any resales of UnionBancorp common stock received by persons who may be deemed to be affiliates of Centrue Financial.

EFFECT OF THE MERGER ON RIGHTS OF STOCKHOLDERS

General

UnionBancorp is a Delaware corporation governed by Delaware law and UnionBancorp s certificate of incorporation and bylaws. Centrue Financial is a Delaware corporation governed by Delaware law and Centrue Financial s certificate of incorporation and bylaws.

In the merger, stockholders of Centrue Financial will receive shares of UnionBancorp common stock that will include all rights attaching to shares of UnionBancorp common stock. By approving the merger, UnionBancorp stockholders are also approving the adoption of an amended and restated certificate of incorporation attached as Exhibit A to the merger agreement, the provisions of which are discussed below.

There are significant differences between the rights of UnionBancorp s stockholders and the rights of Centrue Financial s stockholders. The following is a summary of the principal differences between those rights.

The following summary is not intended to be complete and is qualified in its entirety by reference to the Delaware General Corporation Law, as well as UnionBancorp s certificate of incorporation and bylaws and Centrue Financial s certificate of incorporation and bylaws.

Anti-Takeover Provisions Generally

UnionBancorp s certificate of incorporation and bylaws contain provisions designed to assist UnionBancorp s board of directors in playing a role in any attempt by a group or person to acquire control of UnionBancorp. These provisions are intended to enable UnionBancorp s board of directors to protect the interests of UnionBancorp and its stockholders under certain circumstances. Aided by these provisions, UnionBancorp may determine that a sale of control is in the best interests of UnionBancorp s stockholders or will enhance the board s ability to maximize the value to be received by the stockholders upon a sale of control of UnionBancorp.

Although UnionBancorp s management believes that these provisions are beneficial to UnionBancorp s stockholders, they may also tend to discourage some takeover bids. As a result, UnionBancorp s stockholders may be deprived of opportunities to sell some or all of their shares at prices that represent a premium over prevailing market prices. On the other hand, defeating undesirable acquisition offers can be a very expensive and time-consuming process. To the extent that these provisions discourage undesirable proposals, UnionBancorp may be able to avoid those expenditures of time and money.

These provisions may also discourage open market purchases of UnionBancorp common stock by a company that may desire to acquire UnionBancorp. Those purchases may increase the market price of UnionBancorp common stock temporarily and enable stockholders to sell their shares at a price higher than they might otherwise obtain. In addition, these provisions may decrease the market price of UnionBancorp common stock by making the stock less attractive to persons who invest in securities in anticipation of price increases from potential acquisition attempts. The provisions may also make it more difficult and time consuming for a potential acquirer to obtain control of UnionBancorp through replacing the board of directors and management. Furthermore, the provisions may make it more difficult for UnionBancorp s stockholders to replace the board of directors or management, even if a majority of the stockholders believe that replacing the board of directors or management is in the best interests of UnionBancorp. Because of these factors, these provisions may tend to perpetuate the incumbent board of directors and management.

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Authorized Capital Stock

UnionBancorp. Under UnionBancorp s current certificate of incorporation, it is authorized to issue 10,000,000 shares of common stock, $1.00 par value per share, and 200,000 shares of preferred stock, no par value per share. As of *[ ]*, 2006, *[ ]* shares of UnionBancorp common stock were issued, including *[ ]* shares that are held by UnionBancorp as treasury shares. 2,762.24 shares of UnionBancorp Series A convertible preferred stock and 831 shares of Series B preferred stock are issued and outstanding. If the merger is approved, as part of the merger, UnionBancorp s certificate of incorporation will be amended and restated as more fully described below to, among other things and to increase the number of authorized shares of common stock from 10,000,000 up to 15,000,000. The increase in the number of authorized common shares will give the board of the combined company greater flexibility to declare common stock splits or stock dividends when considered desirable and still leave sufficient shares available for issuance in connection with future acquisitions, financings, and for other general corporate purposes.

The ability of the board to issue additional shares of common stock without additional stockholder approval may be deemed to have an anti-takeover effect. The combined company could use the additional shares of common stock to oppose a hostile takeover attempt or to delay or prevent changes of control or changes in or removal of its management. Any issuance of additional shares also could have the effect of diluting the earnings per share and book value per share of the outstanding shares of the combined company s common stock as well as stock ownership and voting rights of stockholders.

Under UnionBancorp s certificate of incorporation, UnionBancorp s board of directors is authorized to issue preferred stock from time to time in one or more series, subject to applicable provisions of law. The board of directors is authorized to fix the designations, voting powers, preferences and relative participating, optional and other special rights qualifications, limitations or restrictions of such shares. In the event of a proposed merger, tender offer or other attempt to gain control of UnionBancorp that the board of directors does not approve, it may be possible for the board of directors to authorize the issuance of a series of preferred stock with rights and preferences that would impede the completion of such a transaction. Under the current certificate of incorporation, UnionBancorp s board of directors designated 2,765 shares of UnionBancorp preferred stock as Series A Convertible Preferred Stock (2,762.24 shares outstanding), 1,092 shares as Series B Preferred Stock (831 of which are outstanding), and 4,500 shares as Series C Junior Participating Preferred Stock (none of which are outstanding). The 2,762.24 shares of Series A Convertible Preferred Stock that are outstanding, are currently convertible into 172,140 shares of UnionBancorp common stock.

Centrue Financial. Centrue Financial is authorized to issue 5,500,000 shares of common stock, $0.01 par value per share, and 500,000 shares of preferred stock, $0.01 par value per share. As of *[ ]*, 2006, shares of Centrue Financial common stock were issued and outstanding, and shares were held by Centrue Financial as treasury shares. No shares of Centrue Financial preferred stock are issued and outstanding.

Centrue Financial s board of directors has substantially the same powers with respect to the issuance of preferred stock as does UnionBancorp s board of directors. Under a certificate of designation, 3,500 shares of Centrue Financial preferred stock have been designated as Series A Junior Participating preferred stock. These shares are reserved for issuance under the Centrue Financial rights plan. *See* Rights Plan below.

Voting Rights

UnionBancorp. Generally, holders of UnionBancorp common stock are entitled to one vote per share on all matters submitted to a vote of stockholders.

As stated above, UnionBancorp s board of directors is authorized to issue up to 200,000 shares of preferred stock and may designate various characteristics and rights of UnionBancorp preferred stock including, among other things, the voting powers of such series. UnionBancorp s board of directors may also authorize the conversion of shares of other classes of UnionBancorp preferred stock into any number of shares of UnionBancorp common stock and thus dilute the voting power of the outstanding shares of UnionBancorp common stock. Therefore, subject to the board s fiduciary duties, UnionBancorp could issue convertible preferred stock with the purpose or effect of deterring or preventing a takeover of UnionBancorp.

The holders of each share of Series A Preferred Stock are not entitled to vote, except as required by law or to approve the authorization or issuance of any shares of any class or series of stock ranking senior to or on parity with such Series A Preferred Stock in respect of dividends and distributions upon the dissolution, liquidation or winding up of UnionBancorp. Where the Series A Preferred Stockholders vote to approve such issuance or authorization of new shares, the holders of Series A Preferred Stock shall vote as a class. In addition, holders of Series A Preferred Stock have full voting rights (a) if two dividend payments on such shares have accrued but remain unpaid; (b) upon conversion of the preferred shares into shares of common stock; or (c) if the holders of common stock vote on a proposal to merge or otherwise enter a transaction with a third party where UnionBancorp is not the surviving entity.

The holder of each share of Series B Preferred Stock are not entitled to vote except as required by law. Holders of shares of Series B Preferred Stock are entitled to vote, as a class, to approve the authorization or issuance of any shares of any class or series of stock ranking senior to, or on parity with the Series B Preferred Stock in respect of dividends and distribution upon the dissolution, liquidation or winding up of UnionBancorp.

UnionBancorp s certificate of incorporation does not provide for cumulative voting rights in the election of directors. Thus, the owners of a majority of the shares of common stock outstanding may elect all of the directors up for election in any given year, if they choose to do so, and the owners of the balance of such shares would not be able to elect any directors.

Centrue Financial. Generally, holders of Centrue Financial common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. However, Centrue Financial s certificate of incorporation provides that in no event will any record owner of any outstanding Centrue Financial common stock that is beneficially owned, directly or indirectly, by any person who beneficially owns more than 10% of the then-outstanding shares of common stock, be entitled or permitted to any vote in respect of the shares held in excess of 10%. This limit does not inhibit any person from soliciting or voting proxies from other beneficial owners for more than 10% of the common stock. This provision may be enforced by Centrue Financial s board of directors to limit the voting rights of persons owning more than 10% of Centrue Financial s common stock, and thus could be used in a proxy contest or other solicitation to defeat a proposal that is desired by a majority of the stockholders.

As stated above, Centrue Financial s board of directors is authorized to issue up to 500,000 shares of preferred stock and may designate various characteristics and rights of Centrue Financial preferred stock, including voting and conversion rights. Centrue Financial s board of directors may also authorize the conversion of shares of other classes of Centrue Financial preferred stock into any number of shares of Centrue Financial common stock and thus dilute the voting power of the outstanding shares of Centrue Financial common stock. Therefore, subject to the board s fiduciary duties, Centrue Financial could issue convertible preferred stock with the purpose or effect of deterring or preventing a takeover of Centrue Financial.

Centrue Financial s certificate of incorporation also does not provide for cumulative voting rights in the election of directors.

Classification of Board of Directors

UnionBancorp. UnionBancorp s certificate of incorporation provides for the division of its board of directors into three classes of approximately equal size. UnionBancorp s directors are elected for three-year terms, and the terms of office of approximately one-third of the members of the classified board of directors expire each year. This board classification may make it more difficult for a stockholder to acquire immediate control of UnionBancorp and remove management by means of a proxy contest. Because the terms of approximately one-third of the incumbent directors expire each year, at least two annual elections would be

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necessary for stockholders to replace a majority of UnionBancorp s directors, while a majority of directors of a non-classified board could be replaced in one annual meeting.

Centrue Financial. Centrue Financial s certificate of incorporation also provides for a classified board, with the same effects.

Size of the Board of Directors; Vacancies; Removal

UnionBancorp. UnionBancorp s certificate of incorporation provide that the size of the board of directors shall consist of fifteen directors but may be increased or decreased by the affirmative vote of the holders of at least 70% of all shares of UnionBancorp then entitled to vote in the election of directors, or by a two-thirds vote of the directors then in office. The certificate of incorporation and bylaws also provide that any vacancy occurring on the board of directors may be filled for the remainder of the unexpired term by a majority vote of the directors then in office even though less than a quorum of the board of directors.

As noted above, under the Delaware General Corporation Law, if a board is classified, a director may be removed only for cause unless the certificate of incorporation provides otherwise. UnionBancorp s certificate of incorporation and bylaws provide that a director may be removed only for cause and only by the affirmative vote of at least 70% of the outstanding shares of capital stock of UnionBancorp entitled to vote generally in the election of directors, subject to the right of any holders of preferred stock to elect directors. UnionBancorp s certificate of incorporation does not contain a definition of cause. The purpose of this provision is to prevent a majority stockholder from circumventing the classified board system by removing directors and filling the vacancies with new individuals selected by that stockholder. This provision may have the effect of impeding efforts to gain control of the board of directors by anyone who obtains a controlling interest in UnionBancorp s common stock.

Centrue Financial. Centrue Financial s certificate of incorporation and bylaws contain provisions that may impede changes in majority control of the board of directors. Centrue Financial s bylaws provide that the size of the board of directors may be increased or decreased only by a majority vote of the whole board or by a vote of holders of at least 80% of the shares eligible to be voted at a duly constituted meeting of stockholders called for such purpose. The bylaws also provide that any vacancy occurring in the number of directors may be filled for the remainder of the unexpired term by a majority vote of the directors then in office.

As discussed above, under the Delaware General Corporation Law, members of a classified board of directors may only be removed for cause, unless the certificate of incorporation provides otherwise. Centrue Financial s certificate of incorporation provides that a director may only be removed for cause, and then only by the affirmative vote of holders of at least 80% of the shares eligible to vote. Centrue Financial s certificate of incorporation does not include a definition of cause. This provision has the same effect as the comparable provision in UnionBancorp s certificate of incorporation.

Stockholder Nominations and Proposals

UnionBancorp. Under UnionBancorp s bylaws, the only business that may be conducted at an annual meeting of stockholders is the business brought before the meeting by the board of directors or by any stockholder who is entitled to vote and who complies with the notice procedures set forth in UnionBancorp s bylaws. For business to be brought before an annual meeting by a stockholder, the stockholder must have given timely notice in writing to the secretary of UnionBancorp. To be timely, a stockholder s notice must be given to the secretary of UnionBancorp not less than 30 days prior to the anniversary date of the previous year s meeting.

UnionBancorp s bylaws provide that nominations for election to UnionBancorp s board of directors may be made only by a majority of the Corporate Governance and Nominating Committee of the Board, or if there is no such committee at the time, by a majority of the board, or by any stockholder entitled to vote for the election of directors who complies with the notice procedures set forth in the bylaws. The stockholder s notice must set forth, as to each person the stockholder proposes to nominate for election or re-election as a director, such person s name, address, qualifications, beneficial ownership of UnionBancorp stock, any other

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information relating to such person required to be disclosed on Schedule 13D pursuant to Regulation 13D-G under the Securities Exchange Act of 1934, as amended (the Exchange Act), in connection with the acquisition of stock, and pursuant to Regulation 14A under the Exchange Act, in connection with the solicitation of proxies with respect to nominees for election of directors and, as to the stockholder giving the notice, and any other beneficial stockholders known by such stockholder to support such nominees his or her name and address, and the class and number of shares of UnionBancorp s capital stock owned by such stockholder.

Centrue Financial. Under Centrue Financial s bylaws, the only business that may be conducted at an annual meeting of stockholders is the business brought before the meeting by the board of directors or by any stockholder who is entitled to vote and who complies with the notice procedures set forth in Centrue Financial s bylaws. For business to be brought before an annual meeting by a stockholder, the stockholder must have given timely notice in writing to the secretary of Centrue Financial. To be timely, a stockholder s notice must be delivered or mailed and received at the principal executive offices of Centrue Financial not less than 30 days prior to the date of the meeting; provided, however, that in the event that less than 40 days notice or prior public disclosure of the meeting date is given or made to stockholders, such notice by the stockholder to be timely must be delivered no later than 10 days after the earlier of the date of the notice of the meeting or public disclosure of the date of the meeting.

A stockholder s notice to the secretary must set forth as to each matter the stockholder proposes to bring before the annual meeting:

- a brief description of the matter the stockholder desires to present;
- the name and record address of the stockholder who proposed the matter;
- the class and number of shares of Centrue Financial s capital stock that are beneficially owned by the stockholder; and
- any material interest of the stockholder in the matter.

Centrue Financial s bylaws provide that nominations for election to Centrue Financial s board of directors may be made only by the board of directors or by any stockholder entitled to vote for the election of directors who complies with the notice procedures set forth in the bylaws and described above. The stockholder s notice must set forth, as to each person the stockholder proposes to nominate for election or re-election as a director, such person s name and qualifications and, as to the stockholder giving the notice, his or her name and address, and the class and number of shares of Centrue Financial s capital stock owned by the nominated stockholder.

Special Meetings of Stockholders

UnionBancorp. UnionBancorp s bylaws provide that special meetings may be called at any time by at least 66 2/3% of the board of directors then in office. Stockholders are not authorized to call special meetings.

Centrue Financial. Centrue Financial s certificate of incorporation and bylaws provide that a special meeting of stockholders may be called only by a resolution of the board of directors adopted by a majority of the total number of directors Centrue Financial would have if there were no vacancies. Stockholders are not authorized to call special meetings.

Action by Written Consent

UnionBancorp. UnionBancorp s certificate of incorporation prohibits its stockholders from taking action by written consent. This prohibition could be used to delay the taking of any action requiring stockholder approval which is not approved by the board of directors, whether or not a majority of the stockholders believes such action may be desirable.

Centrue Financial. Centrue Financial s certificate of incorporation also prohibits its stockholders from taking action by written consent.

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Dividends

UnionBancorp. UnionBancorp s ability to pay dividends on its common stock is governed by Delaware corporate law. Under Delaware corporate law, unless there are restrictions in the corporation s certificate of incorporation, dividends may be declared from the corporation s surplus, or if there is no surplus, from its net profits for the fiscal year in which the dividend is declared and the preceding years. Dividends may not be declared, however, if the corporation s capital is less than the amount of all capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. In addition, UnionBancorp s ability to pay dividends on its common stock is subject to the rights of holders of Series A Convertible Preferred Stock to annual cumulative dividends of $75.00 per share and to the rights of holders of Series B Preferred Stock to annual cumulative dividends of $60.00 per share.

Centrue Financial. Generally, Centrue Financial s ability to pay dividends is also governed by Delaware corporate law. Centrue Financial stockholders are entitled to dividends as and when declared by the board of directors. In April of 2004, Centrue Financial s board of directors voted to eliminate its quarterly dividend. The reinstatement and declaration of dividends by the Centrue Financial board of directors is discretionary, and depends on Centrue Financial s earnings and financial condition, regulatory limitations, tax considerations and other factors, including limitations imposed by the terms of Centrue Financial s outstanding junior subordinated debentures.

Centrue Financial issued approximately $10.3 million of these debentures in April of 2002 to Kankakee Capital Trust I, which contemporaneously issued $10.0 million of preferred securities to MM Community Funding III, Ltd. in a private placement. In April of 2004, Centrue Financial issued approximately $10.3 million of additional debentures to Centrue Statutory Trust II, which contemporaneously issued $10.0 million of preferred securities to First Tennessee Bank National Association in a private placement. All of the common stock of Kankakee Capital Trust I and Centrue Statutory Trust II is owned by Centrue Financial and the debentures are the only assets of the trusts. When the debentures mature, the preferred securities must be redeemed. The debentures issued to Kankakee Capital Trust I mature on April 7, 2032, and the debenture issued to Centrue Statutory Trust II mature on April 22, 2034. The debentures and preferred securities pay interest and dividends, respectively, quarterly. Under the terms of the debentures, Centrue Financial may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. None of these circumstances currently exist.

Evaluation of Proposals

UnionBancorp. UnionBancorp s certificate of incorporation and bylaws do not include any provisions regarding the board of directors evaluation of tender or exchange offers, business combinations or sales of the assets of UnionBancorp.

Centrue Financial. Centrue Financial s certificate of incorporation provides that the board, when evaluating any offer by another person to: (a) make a tender or exchange offer for any equity security; (b) merge or consolidate Centrue Financial with another corporation or entity; or (c) purchase or otherwise acquire all or substantially all of the properties and assets of Centrue Financial, may, in connection with the exercise of its judgment in determining what is in the best interests of Centrue Financial and its stockholders, give consideration to all relevant factors, including the social and economic effect of acceptance of the offer on Centrue Financial s present and future employees and those of its subsidiaries, on the communities in which Centrue Financial and its subsidiaries operate or are located, on the ability of Centrue Financial to fulfill its corporate objectives and on the ability of its subsidiary financial institution to fulfill its objectives under applicable rules and regulations.

Special Voting Requirements; Business Combinations

UnionBancorp. UnionBancorp s certificate of incorporation requires that any merger or consolidation of UnionBancorp into another company, sale of all or substantially all of UnionBancorp s assets, or dissolution of UnionBancorp must be approved by the holders of at least 70% of the outstanding shares entitled to vote, unless such merger, sale or dissolution is approved by a majority vote of outstanding shares and the action has

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been approved by two-thirds of all directors, or unless the provision is applicable to a merger or consolidation of UnionBancorp with another corporation of which UnionBancorp is the owner of at least 80% of the outstanding shares of each class of stock.

In addition, UnionBancorp s certificate of incorporation expressly adopted Section 203(d) of the Delaware General Corporation Law which prohibits UnionBancorp from engaging in a business combination, as defined by the Delaware General Corporation Law, with an interested stockholder, defined as a person who owns, directly or indirectly, 15% or more of UnionBancorp voting stock, for a three year period from the date the person became an interested stockholder, referred to as the acquisition date, unless:

prior to the acquisition date the UnionBancorp board approved the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon completion of the transaction in which the stockholder became an interested stockholder, the stockholder owns at least 85% of UnionBancorp s voting stock, excluding stock held by officers and directors and employee stock plans in which the participants do not have the right to determine confidentially whether shares held by the plan will be tendered in an exchange offer or a tender offer; or

on or after the acquisition date, the business combination is approved by the UnionBancorp board and by the UnionBancorp stockholders, at a meeting duly called for that purpose, provided that stockholders owning at least two-thirds of UnionBancorp s voting stock approve the business combination. When determining whether this two-thirds vote requirement has been satisfied, voting stock held by the interested stockholder is not included.

Upon approval of the merger, UnionBancorp s amended and restated certificate of incorporation will no longer include a provision expressly adopting Section 203(d) of the Delaware General Corporation Law, however, such statute will nevertheless apply as provided therein.

Centrue Financial. Centrue Financial is also subject to Section 203(d) of the Delaware General Corporation Law.

Centrue Financial s certificate of incorporation requires that certain business combinations between Centrue Financial (or any majority-owned subsidiary) and a 10% or more stockholder either:

be approved by holders of at least 80% of the total number of outstanding voting shares, voting as a single class, of Centrue;

be approved by at least two-thirds of the continuing board of directors, meaning persons serving prior to the 10% stockholder becoming a 10% stockholder, and be approved by holders of a majority of the total number of outstanding voting shares; or

meet certain price conditions, and be approved by holders of a majority of the total number of outstanding voting shares.

Amendment of Governing Documents

UnionBancorp. Generally, UnionBancorp may amend it certificate of incorporation in the manner permitted by Delaware law. The Delaware General Corporation law provides that amendments to a corporation s certificate must be approved by holders of a majority of the issued and outstanding shares of a corporation s voting stock. However, amending certain provisions of UnionBancorp s certificate of incorporation, relating to the powers and composition of the board of directors and the stockholder vote required to amend the certificate of incorporation or approve certain business combinations requires the affirmative vote of 70% of the outstanding shares, unless the amendment of such provision is approved by a majority vote of outstanding shares and the action has been approved by two-thirds of all directors, or unless the provision is applicable to a merger or consolidation of UnionBancorp with another corporation of which UnionBancorp is the owner at least 80% of the outstanding shares of each class of stock.

UnionBancorp s bylaws provide that they may be amended only in the manner provided for in the certificate of incorporation. Upon approval of the merger, UnionBancorp s amended and restated certificate of

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incorporation will authorize the amendment of UnionBancorp s bylaws by a majority of the board of directors. UnionBancorp s bylaws provide that the bylaws may be amended in either of the following ways:

by holders of 66^{2}/3% of the outstanding shares of stock of UnionBancorp; or

by a vote of a majority of the board of directors.

Centrue Financial. Centrue Financial s certificate of incorporation may be amended in the manner prescribed by the Delaware General Corporation Law unless a proposed amendment is approved by a resolution of less than two-thirds of the number of directors, in which case the amendment must be approved by holders of at least 80% of the then-outstanding shares.

Centrue Financial s bylaws may be amended by a majority vote of the board of directors or the affirmative vote of holders of at least 80% of the then-outstanding shares.

Limitations on Director Liability

UnionBancorp. The certificate of incorporation of UnionBancorp provides that no director will be liable to UnionBancorp or its stockholders for monetary damages for breach of fiduciary duty as a director, except:

for any breach of the director s duty of loyalty to UnionBancorp or its stockholders;

for acts or omissions not in good faith that involve intentional misconduct or knowing violation of the law;

under Section 174 of the Delaware General Corporation Law, which relates to unlawful payment of dividends or unlawful stock purchase or redemption and expressly sets forth a negligence standard with respect to such liability; and

for any transaction from which the director derived any improper benefit.

Centrue Financial. Centrue Financial s certificate of incorporation provides that a director will not be personally liable to Centrue Financial or its stockholders for any breach of fiduciary duty as a director, except for liability:

for any breach of the director s duty of loyalty;

for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law;

under Section 174 of the Delaware General Corporation Law, which relates to unlawful payment of dividends or unlawful stock purchase or redemption and expressly sets forth a negligence standard with respect to such liability; and

for any transaction from which the director derived an improper personal benefit.

If the Delaware General Corporation Law is amended to further limit or eliminate the personal liability of directors, then the liability of directors of Centrue Financial will be limited or eliminated to the fullest extent permitted by the Delaware General Corporation Law as so amended.

Indemnification

UnionBancorp. UnionBancorp s bylaws provide indemnification generally consistent with Delaware Law. Under Delaware law, a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or

she reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

UnionBancorp s certificate of incorporation provides that UnionBancorp must indemnify all persons who it may indemnify pursuant to Section 145 of the Delaware General Corporation Law to the fullest extent permitted thereby.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling UnionBancorp under the provisions described above, UnionBancorp has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Centrue Financial. The certificate of incorporation of Centrue Financial provides that Centrue Financial must indemnify, to the fullest extent permitted by the Delaware General Corporation Law, but subject to the limits of federal law applicable to bank holding companies, any person made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or officer of Centrue Financial or is or was serving at Centrue Financial s request as a director, officer, employee or agent of another corporation or other enterprise, against liabilities and expenses reasonably incurred or paid by such person in connection with any such action, suit or proceeding.

Centrue Financial may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of Centrue Financial or another corporation or enterprise against any expense or loss, whether or not Centrue Financial would have the power to indemnify such person under the Delaware General Corporation Law.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling Centrue Financial under the provisions described above, Centrue Financial has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Dissenters Rights

UnionBancorp and Centrue. Under Section 262 of the Delaware General Corporation Law, stockholders of a Delaware corporation generally are entitled to dissent from a merger or consolidation and receive payment in cash of the fair value of their stock, as determined by the Delaware Court of Chancery. However, dissenters rights are not granted under Delaware law with respect to any transaction involving the sale, lease or exchange of substantially all of the assets of a corporation. In addition, dissenters rights are not available in certain circumstances with respect to shares of stock that are listed on a national securities exchange, such as the shares of UnionBancorp or Centrue Financial common stock. Neither UnionBancorp s nor Centrue Financial s certificate of incorporation and bylaws provide for any additional dissenters rights.

See Special Meeting Dissenters Rights for additional information.

Rights Plan

UnionBancorp. UnionBancorp s Rights Agreement expired on August 4, 2006.

Centrue Financial. The board of directors of Centrue Financial adopted a Rights Plan in 1999 which created one preferred share purchase right that is attached to each share of Centrue Financial common stock. Each right entitles the holder, under certain limited circumstances, to purchase from Centrue Financial one one-thousandth of a share of Series A Junior Participating preferred stock of Centrue Financial at a price of $95.00.

Until the earlier to occur of: (a) 10 days following a public announcement that a person or group of affiliated persons (with certain exceptions, an acquiring person) has acquired beneficial ownership of 15% or more of the outstanding shares of common stock; or (b) 10 business days (or such later date as may be determined by action of the board of directors prior to such time as any person or group of affiliated persons becomes an acquiring person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the completion of which would result in the beneficial ownership by a person or group of 15% or more of the outstanding shares of common stock (the earlier of such dates being called the distribution date), the rights will be evidenced, with respect to any common stock certificate outstanding as of the record date, by that common stock certificate together with a summary of rights.

The rights are not exercisable until the distribution date. The rights will expire on May 11, 2009, unless the expiration date is advanced or extended or unless the rights are earlier redeemed or exchanged by Centrue Financial.

Because of the nature of the preferred stock s dividend, liquidation and voting rights, the value of the one one-thousandth interest in a share of preferred stock purchasable upon exercise of each right should approximate the value of one share of common stock.

If any person or group of affiliated or associated persons becomes an acquiring person, each holder of a right, other than rights beneficially owned by the acquiring person (which will thereupon become void), will thereafter have the right to receive upon exercise of a right and the payment of $95.00 per right, that number of shares of common stock having a market value of $190.00.

If after a person or group has become an acquiring person Centrue Financial is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provisions will be made so that each holder of a right (other than rights beneficially owned by an acquiring person, which will become void) will thereafter have the right to receive upon the exercise of a right and the payment of $95.00 per right, that number of shares of common stock of the person with whom Centrue Financial has engaged in the foregoing transaction (or its parent) that at the time of such transaction have a market value of $190.00.

At any time after any person or group becomes an acquiring person and prior to the earlier of one of the events described in the previous paragraph or the acquisition by this acquiring person of 50% or more of the outstanding shares of common stock, the board of directors of Centrue Financial may exchange the rights (other than rights owned by acquiring person, which will become void), in whole or in part, for shares of common stock or preferred stock (or a series of Centrue Financial s preferred stock having equivalent rights, preferences and privileges), at an exchange ratio of one share of common stock, or a fractional share of preferred stock (or other preferred stock) equivalent in value thereto, per right.

With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in the purchase price. No fractional shares of preferred stock or common stock will be issued (other than fractions of preferred stock that are integral multiples of one one-thousandth of a share of preferred stock, which may, at the election of Centrue Financial, be evidenced by depositary receipts), and in lieu thereof an adjustment in cash will be made based on the current market price of the preferred stock or the common stock.

At any time prior to the time an acquiring person becomes such, the board of directors of Centrue Financial may redeem the rights in whole, but not in part, at a price of $0.01 per right (the redemption price). Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

For so long as the rights are then redeemable, Centrue Financial may, except with respect to the redemption price, amend the rights agreement in any manner. After the rights are no longer redeemable, Centrue Financial may, except with respect to the redemption price, amend the rights agreement in any manner that does not adversely affect the interests of holders of the rights.

Until a right is exercised or exchanged, the holder thereof, as such, will have no rights as a stockholder of Centrue Financial, including, without limitation, the right to vote or to receive dividends. Centrue Financial amended its right agreement immediately prior to the execution of the merger agreement in order to specifically exclude the merger from the terms of Centrue Financial s rights plan.

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Summary of Amendments to UnionBancorp s Certificate of Incorporation

General. By approving the merger agreement, UnionBancorp stockholders will also be approving and adopting the certificate of incorporation attached as Exhibit A to the merger agreement which provides for the following amendments to UnionBancorp s current certificate of incorporation:

- a change in UnionBancorp s corporate name from UnionBancorp, Inc. to Centrue Financial Corporation;
- an increase in the number of authorized shares of UnionBancorp common stock from 10 million to 15 million;
- elimination of subsection (ii) of Article VI s requirement that certain amendments to the bylaws be approved by a supermajority vote of the stockholders; and
- elimination of Article XV of the certificate of incorporation which expressly adopted Section 203 of the Delaware General Corporation Law concerning business combinations with interested persons, which was described in detail above.

Change in Corporate Name. By approving the merger agreement, UnionBancorp s board of directors has approved a proposal to change UnionBancorp s corporate name to Centrue Financial Corporation. Following the merger, the combined company will work on transforming the combined company (including its subsidiary bank) into the premier financial institution in the northern and central Illinois markets between Chicago and St. Louis. If the merger is approved and the name is changed, the combined company will also change the name of UnionBank to Centrue Bank.

Increase in Authorized Common Stock. UnionBancorp is currently authorized to issue 10 million shares of common stock. As of , 2006, the record date for the special meeting:

- shares of UnionBancorp common stock were issued and outstanding;
- shares of UnionBancorp common stock were reserved for issuance under UnionBancorp s stock incentive plans;
- shares of UnionBancorp common stock were reserved for issuance to Centrue Financial s stockholders upon completion of the merger; and
- shares were held in the treasury of UnionBancorp.

Following the completion of the merger, shares will be issued and outstanding, shares will be reserved for issuance pursuant to UnionBancorp s stock incentive plans, and shares will be held in treasury. UnionBancorp also intends to reserve a sufficient number of shares for issuance upon exercise of the Centrue Financial options currently outstanding. An increase in the number of authorized shares of UnionBancorp common stock is therefore not necessary so that UnionBancorp will have a sufficient number of shares available for issuance upon completion of the merger.

The UnionBancorp board believes that the authorization of additional shares of UnionBancorp common stock is advisable to provide the combined company with the flexibility to issue additional shares of common stock through stock splits and stock dividends in appropriate circumstances, and to take advantage of opportunities to issue stock to raise additional capital to fund possible acquisitions or for other purposes. Currently there are no plans, understandings, agreements or arrangement concerning the issuance of additional shares of common stock, except for the shares to be issued (1) as a result of the merger and (2) upon the exercise of stock options.

Uncommitted authorized but unissued shares of the combined company s common stock may be issued from time to time to those persons and for consideration as the board of directors as then-comprised may determine, and holders of then-outstanding shares of common stock of the combined company may or may not be given the opportunity to vote with respect to the issuance, depending upon the nature of any transaction, applicable law, NASDAQ s rules and regulations and the judgment of the combined company s board regarding the submission of the issuance to a vote of the stockholders of the combined company.

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Elimination of Subsection (ii) of Article VI and Article XV. Currently, subsection (ii) of Article VI of UnionBancorp s certificate of incorporation requires the affirmative vote of the holders of at least seventy percent of all shares of the corporation to amend Article II, Section 5 of the bylaws (referenced section does not exist), Sections 1, 2, and 3, of Article III (concerning Place of Meetings, Annual Meetings , and Notice, respectively), and Section 1 of Article VIII (concerning Records). The board believes that the provisions requiring a supermajority vote of the stockholders to amend these bylaws sections are not necessary.

Likewise, the UnionBancorp board has proposed the elimination of Article XV of the certificate of incorporation which expressly adopts Section 203 of the Delaware General Corporation Law, which is described in detail above. Because UnionBancorp s common stock is traded on the NASDAQ Global Market, by the terms of Section 203 itself, the statute applies to UnionBancorp. Therefore, the UnionBancorp board has determined that a provision expressly opting in to Section 203 is no longer necessary.

BUSINESS OF UNIONBANCORP

General

UnionBancorp, a Delaware corporation, is a regional financial services organization based in Ottawa, Illinois, which wholly-owns one bank subsidiary. UnionBancorp serves customers at nineteen locations from the far western suburbs of the Chicago metropolitan area across central and northern Illinois, and offers banking, trust, insurance, investment and electronic services and products.

UnionBancorp originally was formed in 1982 as the bank holding company for UnionBank, an Illinois state bank with its main office located in Streator, Illinois. UnionBancorp s operating strategy is to provide customers with the business sophistication and breadth of products of a regional financial services company, while retaining the special attention to personal service and the local appeal of a community establishment. In each of UnionBancorp s nineteen locations, customers have access to a wide range of products and services aimed at meeting the demands of a diverse market base. Geographically, UnionBancorp serves the financial needs of contiguous counties located in north central Illinois. In recent years, UnionBancorp has expanded its activities from north central Illinois into markets surrounding the Chicago metropolitan area, as well as into additional areas of northern Illinois. UnionBank offers a wide range of commercial and retail lending services to businesses and individuals, including, but not limited to, commercial business loans, commercial and residential real estate construction and mortgage loans, loan participations, consumer loans, revolving lines of credit and letters of credit.

UnionBank makes direct and indirect installment loans to consumers and commercial customers, originates and services residential mortgages and handles the secondary marketing of those mortgages. Agricultural loans also play a role in UnionBancorp s overall lending portfolio, although most of this lending activity is based in the north central portion of UnionBancorp s market area. UnionBank also offers a full range of depository services including traditional savings, checking and money market accounts. Credit and debit cards, as well as home banking and bill pay options, target those customers who seek the convenience of electronic services. UnionBank s financial services division provides a variety of additional financial solutions, namely trust and asset management alternatives, a full line of personal and commercial insurance products and personalized investment options. UnionBancorp continues to devote special attention to these financial services areas, as the demands of customers steadily move towards non-traditional financial offerings.

At June 30, 2006, UnionBancorp reported, on a consolidated basis, total assets of approximately $657 million, deposits of approximately $523 million and stockholders equity of approximately $65 million. UnionBancorp s address is 122 West Madison Street, Ottawa, Illinois 61350 and its telephone number is (815) 431-2720.

Properties

At June 30, 2006, UnionBancorp operated 19 offices in Illinois. The principal offices of UnionBancorp are located in Ottawa, Illinois. All of UnionBancorp s offices are owned by UnionBank and are not subject to any mortgage or material encumbrance, with the exception of two offices that are leased and are located in LaSalle County. UnionBancorp believes that its current facilities are adequate for its existing business.

Affiliate	Markets Served	Property/Type Location
UnionBancorp		Administrative Office: Ottawa, IL
UnionBank	Bureau, DeKalb, Grundy, Jo Daviess, Kane, Kendall, LaSalle, Livingston and Whiteside Counties	Main Office: Streator, IL Sixteen banking offices and three non-banking offices located in markets served.

In addition to the banking locations listed above, UnionBank owns twenty automated teller machines, some of which are housed within banking offices and some of which are independently located.

At June 30, 2006, the properties and equipment of UnionBancorp had an aggregate net book value of approximately $13.8 million.

Management s Discussion and Analysis

Comparison of Operating Results for the Years Ended December 31, 2005, 2004, and 2003.

The following discussion provides an analysis of the results of operations and financial condition of UnionBancorp and subsidiary for the three years ended December 31, 2005. Management s discussion and analysis (MD&A) should be read in conjunction with Selected Consolidated Financial Data, the consolidated financial statements of UnionBancorp, and the accompanying notes thereto. Unless otherwise stated, all earnings per share data included in this section and throughout the remainder of this discussion are presented on a fully diluted basis. All financial information is in thousands (000 s), except per share data.

Critical Accounting Policies and Estimates. Note 1 to our Consolidated Financial Statements for the year ended December 31, 2005 contains a summary of our significant accounting policies. Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Our policy with respect to the methodologies used to determine the allowance for loan losses is our most critical accounting policy. The policy is important to the presentation of our financial condition and results of operations, and it involves a higher decree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in our results of operations or financial condition.

The following is a description of our critical accounting policy and an explanation of the methods and assumptions underlying its application.

Allowance for Loan Losses: The allowance for loan losses represents management s estimate of probable credit losses inherent in the loan portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management s periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses is based on an estimation computed pursuant to the requirements of Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies and FASB Statements Nos. 114 and 118, Accounting by Creditors for Impairment of a Loan, the analysis of the allowance for loan losses consists of three components: (i) specific credit allocation established for expected losses resulting from analysis developed through specific credit allocations on individual loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan

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loss experience for each loan category; and (iii) subjective reserves based on general economic conditions as well as specific economic factors in markets in which UnionBancorp operates.

The specific credit allocation component of the allowances for loan losses is based on an analysis of individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values.

The general portfolio allocation component of the allowance for loan losses is determined statistically using a loss analysis that examines historical loan loss experience. The loss analysis is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. The process for determining the allowance (which management believes adequately considers all of the potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differs from management estimates, additional provision for credit losses could be required that could adversely affect Union s earnings or financial position in future periods.

General

UnionBancorp is a bank holding company organized under the laws of the State of Delaware. UnionBancorp derives most of its revenues and income from the banking operations of its bank subsidiary, but also derives revenue from the Financial Services Division of its bank subsidiary. UnionBancorp provides a full range of services to individual and corporate customers located in the north central and northwest Illinois areas. These services include demand, time, and savings deposits; lending; mortgage banking; insurance products; brokerage services; asset management; and trust services. UnionBancorp is subject to competition from other financial institutions, including banks, thrifts and credits unions, as well as nonfinancial institutions providing financial services. Additionally, UnionBancorp and UnionBank are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

Results of Operations

<u>Net Income</u>

2005 compared to 2004. Net income equaled $4,173 or $0.99 per diluted share for the year ended December 31, 2005 as compared to net income of $4,803 or $1.12 per diluted share for the year ended December 31, 2004. This represents a 13.1% decrease in net income and an 11.6% decrease in diluted per share earnings in the current fiscal year over fiscal 2004.

Union s annual results were lower in 2005 versus 2004 due to the $1,700 net gain on sale (after allocating a portion of the intangible assets and goodwill, taxes and applicable expenses) associated with Union s divestiture of five western Illinois sales and service center locations recorded in the third quarter of 2004. Also contributing to the change were volume related decreases in net interest income and other fee based revenue largely related to the sale of the West region. Positively impacted earnings were decreases in the provision for loan losses due to continued improvement in asset quality levels and volume related decreases in noninterest expense categories due to the sale of the West region.

Return on average assets was 0.63% for the year ended December 31, 2005 compared to 0.65% for the same period in 2004. Return on average stockholders equity was 6.06% for the year ended December 31, 2005 compared to 7.06% for the same period in 2004.

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2004 compared to 2003. Net income equaled $4,803 or $1.12 per diluted share for the year ended December 31, 2004 as compared to net income of $2,130 or $0.48 per diluted share for the year ended December 31, 2003. This represents a 125.5% increase in net income and a 133.3% increase in diluted per share earnings in the current fiscal year over fiscal 2003.

Union s annual results were positively impacted by the net gain on sale (after allocating a portion of the intangible assets and goodwill, taxes and applicable expenses) and volume related decreases in most noninterest expense categories as a result of the sale of the West region. Also contributing to the improvement in net income was a decrease in the provision for loan losses and gains taken in as a result of the sale of its credit card portfolio and one additional branch office. These positive variances were partially offset by decreases in mortgage banking revenue due to the slowdown in refinancing opportunities and volume related decreases in net interest income and other fee based revenue due to the sale of the West region s branches.

Return on average assets was 0.65% for the year ended December 31, 2004 compared to 0.28% for the same period in 2003. Return on average stockholders equity was 7.06% for the year ended December 31, 2004 compared to 3.16% for the same period in 2003.

Net Interest Income/ Margin

Net interest income is the difference between income earned on interest-earning assets and the interest expense incurred for the funding sources used to finance these assets. Changes in net interest income generally occur due to fluctuations in the volume of earning assets and paying liabilities and rates earned and paid, respectively, on those assets and liabilities. The net yield on total interest-earning assets, also referred to as net interest margin, represents net interest income divided by average interest-earning assets. Net interest margin measures how efficiently UnionBancorp uses its earning assets and underlying capital. Union s long-term objective is to manage those assets and liabilities to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risks. For purposes of this discussion, both net interest income and margin have been adjusted to a fully tax equivalent basis for certain tax-exempt securities and loans.

2005 compared to 2004. Net interest income, on a tax equivalent basis, was $21,587 for the year ended December 31, 2005, compared with $22,376 earned during the same period in 2004. This represented a decrease of $789 or 3.5%. The decrease in net interest income is attributable to the year-over-year reduction of income earned on interest earning assets totaling $328 combined with the year-over-year increase of interest expense paid on interest bearing liabilities totaling $461.

The $328 reduction in interest income resulted from a decrease of $3,748 related to volume partially offset by $3,420 improvement due to rates. The majority of the change in interest income was related to a decline in the average loan balance caused by the sale of the West region as well as the loan portfolio declining due to normal paydowns, softening of loan demand, and exiting of high-balance, high-risk credits from portfolio. This loss in volume overcame a 44 basis point increase in yields earned on average loans.

The $461 increase in interest expense resulted from an increase of $2,055 associated with rate partially offset by a $1,594 decrease due to volume. The majority of the change was attributable to a 34 basis point increase in rates paid on deposits due to the higher interest rate environment. This increase was slightly offset by the lower expense caused by a decline in average deposit balances related to the sale of the West region s branches.

The net interest margin increased 22 basis points to 3.56% for the year ended December 31, 2005 from 3.34% during the same period in 2004. The increase resulted primarily from the result of the overall rising interest rate environment and a more disciplined approach to pricing.

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2004 compared to 2003. Net interest income, on a tax equivalent basis, was $22,376 for the year ended December 31, 2004, compared with $26,066 earned during the same period in 2003. This represented a decrease of $3,690 or 14.2%. The decrease in net interest income is attributable to the year-over-year reduction of income earned on interest earning assets totaling $6,336 exceeding the year-over-year reduction of interest expense paid on interest bearing liabilities totaling $2,646.

The $6,336 reduction in interest income resulted from decreases of $3,756 related to rate and $2,580 due to volume. The majority of the change in interest income was related to a 60 basis point decline in yields earned on average loans as competitive pricing on new and refinanced loans put downward pressure on loan yields. Also contributing to the decrease was a decline in average loan balances due to the sale of the West region.

The $2,646 reduction in interest expense resulted from decreases of $1,633 associated with rate and $1,013 associated with volume. The majority of the change was attributable to a reduction in rates paid on time deposits due to the repricing of maturing time deposits at a lower rate. Also contributing to the decrease was a decline in average loan balances due to the sale of the West region.

The net interest margin decreased 31 basis points to 3.34% for the year ended December 31, 2004 from 3.65% during the same period in 2003. The decline resulted primarily from a decrease in yields earned on average loans as competitive pricing on new and refinanced loans, as well as the repricing of variable rate loans in a relative lower interest rate environment, put downward pressure on loan yields.

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The following table sets forth for each category of interest-earning assets and interest-bearing liabilities the average amounts outstanding, the interest earned or paid on such amounts, and the average rate paid during 2004, 2003 and 2002. The table also sets forth the average rate earned on all interest-earning assets, the average rate paid on all interest-bearing liabilities, and the net yield on average interest-earning assets for the same period. For purposes of this discussion, both net interest income and margin have been adjusted to a fully tax equivalent basis for certain tax-exempt securities and loans.

AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME

	For the Years Ended December 31,								
	2005			2004			2003		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS									
Interest-earning assets									
Interest-earning deposits	$ 147	$ 7	4.65%	$ 137	$ 2	1.46%	$ 237	$ 5	2.11%
Securities(1)									
Taxable	169,468	6,331	3.73	192,835	5,925	3.06	196,195	6,805	3.47
Nontaxable(2)	21,076	1,504	7.14	26,066	1,848	7.07	31,239	2,323	7.44
Total securities (tax equivalent)	190,544	7,835	4.11	218,901	7,773	3.54	227,434	9,128	4.01
Federal funds sold	3,785	115	3.23	3,433	46	1.39	4,442	50	1.13
Loans(3)(4)									
Commercial	117,571	8,131	6.92	130,436	7,467	5.71	133,543	8,148	6.10
Real estate	277,267	17,640	6.36	286,280	17,499	6.10	303,777	20,373	6.71
Installment and other	16,945	1,571	9.27	30,889	2,840	9.17	45,023	4,259	9.46
Gross loans (tax equivalent)	411,783	27,342	6.64	447,605	27,806	6.20	482,343	32,780	6.80
Total interest-earning assets	606,259	35,299	5.82	670,076	35,627	5.30	714,456	41,963	5.87
Noninterest-earning assets									
Cash and cash equivalents	18,874			21,497			21,735		
	13,782			15,533			14,923		

Premises and equipment, net									
Other assets	24,138			24,879			30,604		
Total non-interest-earning assets	56,794			61,909			67,262		
Total assets	$ 663,053			$ 731,985			$ 781,718		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities									
NOW accounts	$ 72,722	$ 915	1.26%	$ 57,887	$ 319	0.55%	$ 53,917	$ 295	0.55%
Money market accounts	59,160	1,080	1.83	94,074	1,166	1.24	109,700	1,544	1.41
Savings deposits	42,122	212	0.50	47,337	265	0.56	49,334	373	0.76
Time $100,000 and over	148,238	4,522	3.05	148,701	3,836	2.57	157,824	4,703	2.98
Other time deposits	136,745	4,181	3.06	156,198	4,323	2.76	174,921	5,538	3.17
Federal funds purchased and repurchase agreements	6,243	197	3.16	5,099	98	1.92	6,776	122	1.80
Advances from FHLB	54,571	2,128	3.91	70,359	2,887	4.09	70,019	2,997	4.28
Notes payable	9,176	477	5.20	8,033	357	4.43	7,912	325	4.11
Total interest-bearing liabilities	528,977	13,712	2.59	587,688	13,251	2.25	630,403	15,897	2.52
Noninterest-bearing liabilities									
Non-interest-bearing deposits	61,040			71,912			74,855		
Other liabilities	4,133			4,503			7,084		
Total non-interest-bearing liabilities	65,173			76,415			81,939		
Stockholders equity	68,903			67,882			69,376		
Total liabilities and stockholders equity	$ 663,053			$ 731,985			$ 781,718		
Net interest income (tax equivalent)		$ 21,587			$ 22,376			$ 26,066	

Net interest income (tax equivalent) to total earning assets		3.56%		3.34%		3.65%
Interest-bearing liabilities to earning assets	87.25%		87.70%		88.24%	

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(1) Average balance and average rate on securities classified as available-for-sale are based on historical amortized cost balances.

(2) Interest income and average rate on non-taxable securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.

(3) Nonaccrual loans are included in the average balances.

(4) Overdraft loans are excluded in the average balances.

Union s net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as volume change. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds referred to as rate change. The following table reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

RATE/ VOLUME ANALYSIS OF NET INTEREST INCOME

	For the Years Ended December 31,					
	2005 Compared to 2004			2004 Compared to 2003		
	Change Due to			Change Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Interest-earning deposits	$	$ 5	$ 5	$ (2)	$ (1)	$ (3)
Investment securities:						
Taxable	(778)	1,184	406	(110)	(770)	(880)
Nontaxable	(310)	(34)	(344)	(219)	(256)	(475)
Federal funds sold	5	65	69	(14)	10	(2)
Loans	(2,664)	2,200	(464)	(2,235)	(2,739)	(4,974)
Total interest income	(3,748)	3,420	(328)	(2,580)	(3,756)	(6,334)
Interest expense:						
NOW accounts	99	497	596	24		24
Money market accounts	(524)	438	(86)	(205)	(173)	(378)
Savings deposits	(27)	(26)	(53)	(14)	(94)	(108)
Time, $100,000 and over	(12)	698	686	(256)	(611)	(867)
Other time	(576)	434	(142)	(550)	(665)	(1,215)
Federal funds purchased and repurchase agreements	26	73	99	(32)	8	(24)
Advances from FHLB	(634)	(125)	(759)	15	(125)	(110)
AG & Comm Participations						

Notes payable	54	66	120	5	27	32
Total interest expense	(1,594)	2,055	461	(1,013)	(1,633)	(2,646)
Net interest income	$ (2,154)	$ 1,365	$ (789)	$ (1,567)	$ (2,123)	$ (3,690)

Provision for Loan Losses. The amount of the provision for loan losses is based on management s evaluations of the loan portfolio, with particular attention directed toward nonperforming, impaired and other potential problem loans. During these evaluations, consideration is also given to such factors as management s evaluation of specific loans, the level and composition of impaired loans, other nonperforming loans, other

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identified potential problem loans, historical loss experience, results of examinations by regulatory agencies, results of the independent asset quality review process, the market value of collateral, the estimate of discounted cash flows, the strength and availability of guarantees, concentrations of credits, and various other factors, including concentration of credit risk in various industries and current economic conditions.

2005 compared to 2004. The 2005 provision for loan losses charged to operating expense totaled $250, a decrease of $1,674 in comparison to the $1,924 recorded during the same period for 2004. The decrease in the provision for loan losses was due to the continued improvement in the management of the nonperforming and action/watch list loans from year-end 2004 to year-end 2005, including improved problem asset identification. Furthermore, this was positively impacted by loan resolutions, either through charge-off of nonbankable assets or through successful workout strategies that were executed throughout 2005. Net charge-offs for the year ended December 31, 2005 were $1,620 compared with $1,029 in the same period of 2004. Annualized net charge-offs increased to 0.39% of average loans for 2005 compared to 0.23% in the same period in 2004.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

2004 compared to 2003. The 2004 provision for loan losses charged to operating expense totaled $1,924, a decrease of $6,312 in comparison to the $8,236 recorded during the same period for 2003. The decrease in the provision for loan losses was due to an improvement in nonperforming and action/watch list loans from year-end 2003 to year-end 2004, as well as resolutions, either through charge-off of nonbankable assets or through successful workout strategies that were executed throughout 2004. Union s 2003 provisions were largely attributable to the deterioration of two impaired commercial credits identified in Union s 10-Q report filed for the quarter ended June 20, 2003. As a result of the deterioration of these two loan relationships, UnionBancorp specifically provided $3,500 to its allowance for loan losses during the third quarter of 2003 for the losses incurred on these two credits. Net charge-offs for the year ended December 31, 2004 were $1,029 compared with $5,675 in the same period of 2003. Annualized net charge-offs decreased to 0.23% of average loans for 2004 compared to 1.18% in the same period in 2003.

Noninterest Income. Noninterest income consists of a wide variety of fee-based revenues from bank-related service charges on deposits and mortgage revenues. Also included in this category are revenues generated by Union s insurance, brokerage, trust and asset management services as well as increases in cash surrender value on bank-owned life insurance. The following table summarizes Union s noninterest income:

NONINTEREST INCOME

	Years Ended December 31,		
	2005	**2004**	**2003**
	(Dollars in thousands)		
Service charges	$ 1,996	$ 2,866	$ 3,090
Merchant fee income		56	60
Trust income	811	740	701
Mortgage banking income	1,350	2,020	3,947
Insurance commissions and fees	1,818	2,234	2,318
Bank owned life insurance (BOLI)	545	573	681
Securities gains (losses), net	(79)	123	281
Gain on sale of assets	4	4,263	
Other income	1,157	1,227	2,141
Total noninterest income	$ 7,602	$ 14,102	$ 13,719

2005 compared to 2004. Noninterest income totaled $7,602 for the year ended December 31, 2005, as compared to $14,102 for the same timeframe in 2004. This represented a decrease of $6,500 or 46.1% in 2005 over the prior period. Excluding net securities gains and the gains on sale of branches and Union s credit card portfolio, noninterest income shows a year-over-year decrease of $2,039 or 21.0%.

Excluding net securities gains and gains on sale of the branches and the credit card portfolio, the decrease in noninterest income was related to a $670 decline in mortgage banking income, an $870 decrease in service charges and $416 decline in insurance commissions. Decreases in service charges and other fee based revenue were largely due to volume associated with the sale of the West region s branches in 2004. The decrease in insurance commission fees was due to account retention issues and lower than anticipated new account production. The remaining categories remained relatively stable with only slight year-over-year changes.

Mortgage banking income, which includes gains generated from the sale of loans and net servicing revenue (after amortization of mortgage servicing rights), was lower in 2005 due to a decrease in mortgage origination volume slightly offset by an increase in revenue generated by the servicing rights portfolio due to the slowdown in refinancing activity.

2004 compared to 2003. Noninterest income totaled $14,102 for the year ended December 31, 2004, as compared to $13,719 for the same timeframe in 2003. This represented an increase of $383 or 2.8% in 2004 over the prior period. Excluding net securities gains and the gains on sale of the West region, Union s credit card portfolio and Blandinsville, noninterest income shows a year-over-year decrease of $3,722 or 27.7%.

Excluding net securities gains and gains on sale of the West region, Blandinsville and the credit card portfolio, the majority of the change to noninterest income was related to a $1,927 decline in mortgage banking income. Mortgage banking income, which includes gains generated from the sale of loans and net servicing revenue (after amortization of mortgage servicing rights), was lower in 2004 due to a decrease in mortgage origination volume partially offset by an increase in revenue generated by the servicing rights portfolio due to the slowdown in refinancing activity.

Also contributing to the change was a decrease in merchant fee income due to the sale of the credit card portfolio and volume related decreases in service charges, nsf fees, and other fee based revenue related to the sale of the West region. The remaining categories remained relatively stable with only slight year-over-year changes.

Noninterest Expense. Noninterest expense is comprised primarily of compensation and employee benefits, occupancy and other operating expense. The following table summarizes Union s noninterest expense:

NONINTEREST EXPENSE

	Years Ended December 31,		
	2005	**2004**	**2003**
	(Dollars in thousands)		
Salaries and employee benefits	$ 13,789	$ 15,410	$ 16,020
Occupancy expense, net	1,571	2,461	2,138
Furniture and equipment expenses	1,935	2,215	2,094
Marketing	496	615	709
Supplies and printing	359	435	541
Telephone	430	546	874
Other real estate expense	59	8	178
Amortization of intangible assets	170	337	247
Other expense	4,156	4,954	5,806
Total noninterest expense	$ 22,965	$ 26,981	$ 28,607

2005 compared to 2004. Noninterest expense totaled $22,965 for the year ended December 31, 2005, as compared to $26,981 for the same timeframe in 2004. This represented a decrease of $4,016 or 14.9% in 2005 from 2004. Approximately 40% of the improvement in noninterest expense levels was due to $1,621 in cost

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savings from salaries and employee benefits expense related to the sale of the West region s branches. Also contributing to the change were volume related decreases in occupancy expense of $890, furniture and equipment of $280 and other expense of $798 related to the branch sales in 2004.

2004 compared to 2003. Noninterest expense totaled $26,981 for the year ended December 31, 2004, as compared to $28,607 for the same timeframe in 2003. This represented a decrease of $1,626 or 5.7% in 2004 from 2003. A majority of the savings in noninterest expense was due to $724 in cost savings associated with the divestiture of the credit card portfolio (included in other expenses) and a $610 decline in salaries and employee benefits expense due to the sale of the West region and other reductions in staffing levels. Also contributing to the change were decreases in telephone costs related to the reduction of the number of data lines utilized in Union s infrastructure and savings in other real estate expense related to the resolution of certain other real estate properties.

These cost savings were partially offset by increases in occupancy and equipment expense related to a full year of expenses from our Yorkville branch that was opened in December of 2003 and the write-down of one of Union s sales and service center buildings in association with its anticipated closing. The remaining categories remained relatively stable with only slight year-over-year changes.

Applicable Income Taxes. Income tax expense for the periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. The following table shows Union s income before income taxes, as well as applicable income taxes and the effective tax rate for each of the past three years:

	Years Ended December 31,		
	2005	**2004**	**2003**
Income before income taxes	$ 5,372	$ 6,859	$ 2,001
Applicable income taxes	1,199	2,056	(129)
Effective tax rates	22.3%	30.0%	(6.45)%

UnionBancorp recorded income tax expense of $1,199 and $2,056 for 2005 and 2004, respectively. Effective tax rates equaled 22.3% and 30.0% respectively, for such periods. During the second quarter of 2005, UnionBancorp recorded a $251 reduction in state income taxes due to the receipt of a tax refund related to amended tax returns outstanding from prior years. Excluding this refund, the effective tax rate would have been 27.0%.

Union s effective tax rate was lower than statutory rates due to several factors. First, UnionBancorp derives interest income from municipal securities and loans, which are exempt from federal tax and certain U.S. government agency securities, which are exempt from Illinois State tax. Second, the level of tax-exempt income has increased as a percentage of taxable income. Third, state income taxes were lower due to a refund from amended tax returns for prior years. Finally, UnionBancorp has reduced tax expense through various tax planning initiatives.

Preferred Stock Dividends. UnionBancorp paid $207 of preferred stock dividends in 2005, $207 of preferred stock dividends in 2004 and $193 of preferred stock dividends in 2003.

Interest Rate Sensitivity Management

The business of UnionBancorp and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans and securities) which are primarily funded by interest-bearing liabilities (deposits and borrowings). All of the financial instruments of UnionBancorp are for other than trading purposes. Such financial instruments have varying levels of sensitivity to changes in market rates of interest. The operating income and net income of UnionBank depends, to a substantial extent, on rate differentials, i.e., the differences between the income UnionBank receives from loans, securities, and other earning assets and the interest expense they pay to obtain deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of UnionBank, including general economic conditions and the policies of various governmental and regulatory authorities.

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UnionBancorp measures its overall interest rate sensitivity through a net interest income analysis. The net interest income analysis measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of changes in net interest income in the event of a sudden and sustained 100 to 200 basis point increase in market interest rates or a 100 to 200 basis point decrease in market rates. The interest rates scenarios are used for analytical purposes and do not necessarily represent management s view of future market movements.

The tables below present Union s projected changes in net interest income for 2005 and 2004 for the various rate shock levels.

	Net Interest Income		
December 31, 2005	**Amount**	**Change**	**Change**
	(Dollars in thousands)		
+200 bp	$ 23,043	$ 959	4.34%
+100 bp	22,629	545	2.47
Base	22,084		
100 bp	21,314	(770)	(3.49)
200 bp	19,744	(2,340)	(10.59)

Based on Union s model at December 31, 2005, the effect of an immediate 200 basis point increase in interest rates would increase Union s net interest income by 4.34% or approximately $959. The effect of an immediate 200 basis point decrease in rates would decrease Union s net interest income by $2,340 or 10.59%.

	Net Interest Income		
December 31, 2004	**Amount**	**Change**	**Change**
	(Dollars in thousands)		
+200 bp	$ 21,070	$ 996	4.96%
+100 bp	20,635	560	2.79
Base	20,074		
100 bp	19,048	(1,026)	(5.11)
200 bp	17,559	(2,516)	(12.53)

Based on Union s model at December 31, 2004, the effect of an immediate 200 basis point increase in interest rates would increase Union s net interest income by 4.96% or approximately $996. However, if this had been presented the impact of a 200 basis point reduction would have been a decrease of $2,516 or 12.53% to net interest income.

Financial Condition

General. As of December 31, 2005, UnionBancorp had total assets of $676,222, gross loans of $417,525, total deposits of $543,841, and total stockholders equity of $66,075. Total assets as of December 31, 2005 increased by $6,676 or 1.0% from year-end 2004. Total gross loans as of December 31, 2005 decreased $1,750 or 0.4% from year-end 2004. Total deposits as of December 31, 2005 increased by $31,364 or 6.1% from year-end 2004.

Loans and Asset Quality. UnionBancorp offers a broad range of products, including agribusiness, commercial, residential, and installment loans, designed to meet the credit needs of its borrowers. Union s loans are diversified by borrower and industry group.

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The following table describes the composition of loans by major categories outstanding:

LOAN PORTFOLIO

	Aggregate Principal Amount December 31,				
	2005	2004	2003	2002	2001
	(Dollars in Thousands)				
Commercial	$ 91,537	$ 91,941	$ 105,767	$ 100,189	$ 107,382
Agricultural	26,694	28,718	33,766	36,467	40,563
Real estate:					
Commercial mortgages	126,503	129,597	134,985	147,253	150,878
Construction	68,508	38,882	30,674	24,486	23,676
Agricultural	33,033	30,601	37,092	34,688	34,611
1-4 family mortgages	57,920	77,566	94,163	87,411	94,368
Installment	12,747	21,502	37,415	49,949	50,961
Other	583	468	2,950	2,786	2,529
Total loans	417,525	419,275	476,812	483,229	504,968
Allowance for loan losses	(8,362)	(9,732)	(9,011)	(6,450)	(6,295)
Loans, net	$ 409,163	$ 409,543	$ 467,801	$ 476,779	$ 498,673

	Aggregate Principal Amount Percentage of Total Loan Portfolio December 31,				
	2005	2004	2003	2002	2001
Commercial	21.92%	21.93%	22.18%	20.73%	21.27%
Agricultural	6.39	6.85	7.08	7.55	8.03
Real estate:					
Commercial mortgages	30.31	30.91	28.31	30.47	29.88
Construction	16.41	9.27	6.43	5.07	4.69
Agricultural	7.91	7.30	7.78	7.18	6.85
1-4 family mortgages	13.87	18.50	19.75	18.08	18.69
Installment	3.05	5.13	7.85	10.34	10.09
Other loans	0.14	0.11	0.62	0.58	0.50
Gross loans	100.00%	100.00%	100.00%	100.00%	100.00%

As of December 31, 2005 and 2004, commitments of UnionBank (and its predecessors) under standby letters of credit and unused lines of credit totaled approximately $87,510 and $94,346, respectively.

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Stated loan maturities (including rate loans reset to market interest rates) of the total loan portfolio, net of unearned income, at December 31, 2005 were as follows:

STATED LOAN MATURITIES(1)

	Within 1 Year	1 to 5 Years	After 5 Years	Total
		(Dollars in thousands)		
Commercial	$ 76,006	$ 14,475	$ 1,056	$ 91,537
Agricultural	20,624	5,880	190	26,694
Real estate	153,568	114,406	18,178	286,152
Installment	6,036	7,010	96	13,142
Total	$ 256,234	$ 141,771	$ 19,520	$ 417,525

(1) Maturities based upon contractual maturity dates

The maturities presented above are based upon contractual maturities. Many of these loans are made on a short-term basis with the possibility of renewal at time of maturity. All loans, however, are reviewed on a continuous basis for creditworthiness.

Rate sensitivities of the total loan portfolio, net of unearned income, at December 31, 2005 were as follows:

LOAN REPRICING

	Within 1 Year	1 to 5 Years	After 5 Years	Total
		(Dollars in thousands)		
Fixed rate	$ 54,226	$ 54,933	$ 15,501	$ 124,660
Variable rate	201,334	86,135	2,314	289,783
Nonaccrual	674	703	1,705	3,082
Total	$ 256,234	$ 141,771	$ 19,520	$ 417,525

Nonperforming Assets. Union s financial statements are prepared on the accrual basis of accounting, including the recognition of interest income on its loan portfolio, unless a loan is placed on nonaccrual status. Loans are placed on nonaccrual status when there are serious doubts regarding the collectibility of all principal and interest due under the terms of the loans. Amounts received on nonaccrual loans generally are applied first to principal and then to interest after all principal has been collected. It is the policy of UnionBancorp not to renegotiate the terms of a loan because of a delinquent status. Rather, a loan is generally transferred to nonaccrual status if it is not in the process of collection and is delinquent in payment of either principal or interest beyond 90 days. Loans which are 90 days delinquent but are well secured and in the process of collection are not included in nonperforming assets. Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions.

The classification of a loan as nonaccrual does not necessarily indicate that the principal is uncollectible, in whole or in part. UnionBank makes a determination as to collectibility on a case-by-case basis. UnionBank considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. The final determination as to the steps taken is made based upon the specific facts of each situation. Alternatives that are typically considered to collect nonaccrual loans are foreclosure, collection under guarantees, loan restructuring, or judicial collection actions.

Each of Union s loans is assigned a rating based upon an internally developed grading system. A separate credit administration department also reviews grade assignments on an ongoing basis. Management continuously monitors nonperforming, impaired, and past due loans to prevent further deterioration of these loans.

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UnionBancorp has an independent loan review function which is separate from the lending function and is responsible for the review of new and existing loans.

The following table sets forth a summary of nonperforming assets:

NONPERFORMING ASSETS

	December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(Dollars in thousands)				
Nonaccrual loans	$ 3,082	$ 3,649	$ 8,149	$ 3,931	$ 7,259
Loans 90 days past due and still accruing interest	922	553	328	829	1,616
Total nonperforming loans	4,004	4,202	8,477	4,760	8,875
Other real estate owned	203	420	227	1,557	1,886
Total nonperforming assets	$ 4,207	$ 4,622	$ 8,704	$ 6,317	$ 10,761
Nonperforming loans to total loans	0.96%	1.00%	1.78%	0.99%	1.76%
Nonperforming assets to total loans	1.01	1.10	1.83	1.31	2.13
Nonperforming assets to total assets	0.62	0.69	1.10	0.80	1.44

The level of nonperforming loans at December 31, 2005 decreased to $4,004 versus the $4,202 that existed as of December 31, 2004. The level of nonperforming loans to total end of period loans was 0.96% at December 31, 2005, as compared to 1.00% at December 31, 2004. The reserve coverage ratio (allowance to nonperforming loans) was reported at 208.84% as of December 31, 2005 as compared to 231.6% as of December 31, 2004.

Subsequent to December 31, 2005, a loan relationship that was classified as impaired as of year end paid off. The loan relationship had an outstanding balance of $4,400 and Union s allowance for loan loss calculation had a specific reserve allocation of $1,500 on this relationship as of year end.

Other Potential Problem Loans. UnionBancorp has other potential problem loans that are currently performing and do not meet the criteria for impairment, but where some concern exists. Excluding nonperforming loans and loans that management has classified as impaired, these other potential problem loans totaled $2,879 at December 31, 2005 as compared to $4,570 at December 31, 2004. The classification of these loans, however, does not imply that management expects losses on each of these loans. Rather, management believes that a higher level of scrutiny and close monitoring is prudent under the circumstances. Such classifications relate to specific concerns for each individual borrower and do not relate to any concentration risk common to all loans in this group.

The following table sets forth a summary of other real estate owned and other collateral acquired at December 31, 2005:

OTHER REAL ESTATE OWNED

	Number of Parcels	Net Book Carrying Value
	(Dollars in thousands)	
Developed property	1	$ 47
Vacant land or unsold lots	2	156
Total other real estate owned	3	$ 203

Allowance for Loan Losses. At December 31, 2005, the allowance for loan losses was $8,362 or 2.00% of total loans as compared to $9,732 or 2.32% at December 31, 2004. In originating loans, UnionBancorp recognizes that credit losses will be experienced and the risk of loss will vary with, among other things: general economic conditions; the type of loan being made; the creditworthiness of the borrower over the term of the loan; and, in the case of a collateralized loan, the quality of the collateral for such a loan. The allowance for loan losses represents Union s estimate of the allowance necessary to provide for probable incurred losses in the loan portfolio. In making this determination, UnionBancorp analyzes the ultimate collectibility of the loans in its portfolio, feedback provided by internal loan staff, the independent loan review function, and information provided by examinations performed by regulatory agencies. UnionBancorp makes an ongoing evaluation as to the adequacy of the allowance for loan losses.

On a quarterly basis, management reviews the adequacy of the allowance for loan losses. Commercial credits are graded by the loan officers and the loan review function validates the officers grades. In the event that the loan review function downgrades the loan, it is included in the allowance analysis at the lower grade. The grading system is in compliance with the regulatory classifications and the allowance is allocated to the loans based on the regulatory grading, except in instances where there are known differences (i.e., collateral value is nominal, etc.). To establish the appropriate level of the allowance, a sample of loans (including impaired and nonperforming loans) are reviewed and classified as to potential loss exposure.

Based on an estimation computed pursuant to the requirements of Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies, and FASB Statements Nos. 114 and 118, Accounting by Creditors for Impairment of a Loan, the analysis of the allowance for loan losses consists of three components: (i) specific credit allocation established for expected losses resulting from analysis developed through specific credit allocations on individual loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan loss experience for each loan category; and (iii) subjective reserves based on general economic conditions as well as specific economic factors in the markets in which UnionBancorp operates.

The specific credit allocation component of the allowance for loan losses is based on a regular analysis of loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The fair value of the loan is determined based on either the present value of expected future cash flows discounted at the loan s effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less cost of sale.

The general portfolio allocation component of the allowance for loan losses is determined statistically using a loss analysis that examines historical loan loss experience. The loss analysis is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed quarterly, and as adjustments, either positive or negative, become necessary, a corresponding increase or decrease is made in the provision for loan losses. The composition of the loan portfolio has not significantly changed since year-end 2003. The methodology used to determine the adequacy of the allowance for loan losses is consistent with prior years, and there were no reallocations.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

The following table presents a detailed analysis of Union s allowance for loan losses:

ALLOWANCE FOR LOAN LOSSES

	December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(Dollars in thousands)				
Beginning balance	$ 9,732	$ 9,011	$ 6,450	$ 6,295	$ 6,414
Charge-offs:					
Commercial	342	1,497	4,791	2,561	3,202
Real estate mortgages	1,611	389	626	683	977
Installment and other loans	367	578	812	634	496
Total charge-offs	2,320	2,464	6,229	3,878	4,675
Recoveries:					
Commercial	394	1,021	415	354	312
Real estate mortgages	208	230	46	41	10
Installment and other loans	98	184	93	64	73
Total recoveries	700	1,435	554	459	395
Net charge-offs	1,620	1,029	5,675	3,419	4,280
Provision for loan losses	250	1,924	8,236	3,574	4,161
Reduction due to sale of loans		174			
Ending balance	$ 8,362	$ 9,732	$ 9,011	$ 6,450	$ 6,295
Period end total loans	$ 417,525	$ 419,275	$ 476,812	$ 483,229	$ 504,968
Average loans	$ 411,783	$ 447,605	$ 482,343	$ 490,360	$ 504,648
Ratio of net charge-offs to average loans	0.39%	0.23%	1.18%	0.70%	0.85%
Ratio of provision for loan losses to average loans	0.06	0.43	1.71	0.73	0.82
Ratio of allowance for loan losses to ending total loans	2.00	2.32	1.89	1.33	1.25
Ratio of allowance for loan losses to total nonperforming loans	208.84	231.60	106.30	135.50	70.93
Ratio of allowance at end of period to average loans	2.03	2.17	1.87	1.32	1.25

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The following table sets forth an allocation of the allowance for loan losses among the various loan categories:

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	December 31,									
	2005		2004		2003		2002		2001	
	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans
	(Dollars in thousands)									
Commercial	$ 7,386	28.32%	$ 6,035	28.78%	$ 4,935	29.26%	$ 2,863	28.28%	$ 3,499	29.30%
Real estate	773	68.49	3,311	65.98	2,846	62.27	2,110	60.80	1,786	60.11
Installment and other loans	203	3.19	386	5.24	593	8.47	719	10.92	537	10.59
Unallocated					637		758		473	
Total	$ 8,362	100.00%	$ 9,732	100.00%	$ 9,011	100.00%	$ 6,450	100.00%	$ 6,295	100.00%

In years prior to 2004, management considered the unallocated portion of the allowance necessary to allow for inherent subjective reserves that are needed based on general economic conditions and specific economic factors. Since 2004, management has included the subjective portion of the allowance as a part of the allocation process to the respective loan categories. Management does not deem this process to be a change in methodology, but rather a refinement in their loan loss calculation. Management believes that there would be no change in the balance of the allowance for loan losses if this approach was used in all of the years presented.

Securities Activities. Union s consolidated securities portfolio, which represented 31.4% of Union s average earning asset base as of December 31, 2005, as compared to 32.7% as of December 31, 2004, is managed to minimize interest rate risk, maintain sufficient liquidity, and maximize return. The portfolio includes several callable agency debentures, adjustable rate mortgage pass-throughs, and collateralized mortgage obligations. Corporate bonds consist of investment grade obligations of public corporations. Equity securities consist of Federal Reserve stock, Federal Home Loan Bank stock, and trust preferred stock. Union s financial planning anticipates income streams generated by the securities portfolio based on normal maturity and reinvestment. Securities classified as available-for-sale, carried at fair value, were $196,440 at December 31, 2005 compared to $191,661 at December 31, 2004. UnionBancorp does not have any securities classified as trading or held-to-maturity.

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The following table describes the composition of securities by major category and maturity:

SECURITIES PORTFOLIO

	December 31,					
	2005		2004		2003	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio